

MINNESOTA HUMANITIES CENTER

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
OCTOBER 31, 2015**

MINNESOTA HUMANITIES CENTER
FINANCIAL STATEMENTS
For The Year Ended October 31, 2015
With Comparative Totals for the Year Ended October 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7



Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

10 River Park Plaza, Suite 800 | Saint Paul, MN 55107

Phone: 651.227.6695 Fax: 651.227.9796 | www.mucr.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota Humanities Center
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Minnesota Humanities Center (a nonprofit corporation), which comprise the statement of financial position as of October 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Humanities Center as of October 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Report on Summarized Comparative Information

We have previously audited Minnesota Humanities Center's 2014 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated April 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2016, on our consideration of Minnesota Humanities Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Minnesota Humanities Center's internal control over financial reporting and compliance.

*Mahoney Ulbich
Christiansen Russ P.A.*

Saint Paul, Minnesota
March 16, 2016

MINNESOTA HUMANITIES CENTER
STATEMENT OF FINANCIAL POSITION
October 31, 2015
With Comparative Totals for October 31, 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$433,274	\$79,107
Accounts receivable, net	88,113	58,775
Current portion of contributions receivable	3,640,911	10,000
Government grants receivable	5,379,587	1,603,318
Prepaid expense	13,676	3,521
Total current assets	<u>9,555,561</u>	<u>1,754,721</u>
Land, building and equipment:		
Land lease	235,000	235,000
Building	2,582,741	2,563,702
Office equipment and furniture	755,576	726,867
Total land, building and equipment	<u>3,573,317</u>	<u>3,525,569</u>
Less accumulated depreciation and amortization	<u>(2,023,717)</u>	<u>(1,903,139)</u>
Net land, building and equipment	<u>1,549,600</u>	<u>1,622,430</u>
Other assets:		
Contributions receivable, net of current portion	3,652,683	-
Investments	4,339,367	4,108,250
Total other assets	<u>7,992,050</u>	<u>4,108,250</u>
Total assets	<u><u>\$19,097,211</u></u>	<u><u>\$7,485,401</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$184,494	\$131,670
Current maturities of long-term debt	15,456	15,445
Deferred revenue	2,878	4,055
Accrued expenses	134,924	121,113
Total current liabilities	<u>337,752</u>	<u>272,283</u>
Long-term debt, net of current maturities	10,543	12,098
Total liabilities	<u>348,295</u>	<u>284,381</u>
Net assets:		
Unrestricted net assets:		
Unrestricted - undesignated	1,222,861	1,094,343
Unrestricted - designated	1,523,601	1,608,111
Total unrestricted net assets	<u>2,746,462</u>	<u>2,702,454</u>
Temporarily restricted	16,002,454	4,498,566
Total net assets	<u>18,748,916</u>	<u>7,201,020</u>
Total liabilities and net assets	<u><u>\$19,097,211</u></u>	<u><u>\$7,485,401</u></u>

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF ACTIVITIES

For the Year Ended October 31, 2015

With Comparative Totals for the Year Ended October 31, 2014

	2015			2014
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Support:				
Contributions	\$31,332	\$10,781,803	\$10,813,135	\$195,749
Event sponsorship	-	34,000	34,000	18,800
In-kind	-	10,000	10,000	10,007
Grants from governmental agencies:				
Federal grants	701,810	-	701,810	628,822
Other governmental agencies	-	5,890,000	5,890,000	225,000
Revenue:				
Conference center rental income - program related	281,393	-	281,393	292,387
Conference center rental income - non-program related	39,863	-	39,863	96,485
Conference center rental costs - non-program related	(48,168)	-	(48,168)	(116,257)
Program income	78,314	-	78,314	47,592
Investment income (loss)	(3,122)	-	(3,122)	7,976
Miscellaneous	3,140	-	3,140	2,551
Subtotal	1,084,562	16,715,803	17,800,365	1,409,112
Net assets released from restrictions	5,211,915	(5,211,915)	-	-
Total support and revenue	6,296,477	11,503,888	17,800,365	1,409,112
Expenses:				
Program services:				
MHC educational programs	5,135,891	-	5,135,891	4,805,655
Conference center rental costs - program related	374,489	-	374,489	341,446
Total program services	5,510,380	-	5,510,380	5,147,101
Supporting services:				
Management and general	614,358	-	614,358	620,193
Fundraising	127,731	-	127,731	105,688
Total supporting services	742,089	-	742,089	725,881
Total expenses	6,252,469	-	6,252,469	5,872,982
Change in net assets	44,008	11,503,888	11,547,896	(4,463,870)
Net assets at beginning of year	2,702,454	4,498,566	7,201,020	11,664,890
Net assets at end of year	\$2,746,462	\$16,002,454	\$18,748,916	\$7,201,020

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended October 31, 2015
With Comparative Totals for the Year Ended October 31, 2014

	2015											
	Program Services				Supporting Services				Totals			
	MHC Educational Programs	Conference Center Rental Costs-Program Related	Total Program Services	Management and General	Fundraising	Total Supporting Services	Conference Center Rental Costs - Non-Program	2015	2014			
Expenses:												
Salaries and temporary help	\$905,238	\$171,091	\$1,076,329	\$351,841	\$81,555	\$433,396	\$24,237	\$1,533,962	\$1,426,214			
Payroll taxes	76,973	12,759	89,732	25,860	5,982	31,842	1,808	123,382	112,425			
Employee benefits and HR Admin fees	209,318	49,122	258,440	57,509	26,461	83,970	6,959	349,369	368,551			
Grant expense	903,911	-	903,911	-	-	-	-	903,911	905,478			
Contract services	1,739,705	7,075	1,746,780	75,507	2,157	77,664	1,002	1,825,446	1,841,684			
Site fees	363,032	-	363,032	-	-	-	-	363,032	290,076			
Participant stipends	315,922	-	315,922	-	-	-	-	315,922	204,463			
Staff development	9,851	358	10,209	3,260	499	3,759	51	14,019	19,292			
Insurance and bonding	8,402	5,285	13,687	1,615	849	2,464	749	16,900	17,598			
Equipment rental and maintenance/bldg maint	8,985	14,551	23,536	7,810	261	8,071	2,061	33,668	45,650			
Accounting and legal	-	-	-	19,792	-	19,792	-	19,792	21,700			
Memberships and subscriptions	6,595	1,299	7,894	16,522	25	16,547	184	24,625	21,078			
Postage	23,377	1,187	24,564	1,824	-	1,824	168	26,556	12,865			
Printing and mailing services	40,591	1,085	41,676	54	-	54	154	41,884	17,546			
Supplies -office and programs/off-site program meals	62,665	9,976	72,641	6,269	60	6,329	1,413	80,383	52,425			
Telephone and internet	12,143	2,238	14,381	4,445	1,073	5,518	317	20,772	20,772			
Travel	322,925	477	323,402	6,954	154	7,108	68	330,578	319,419			
Advertising and marketing	4,465	3,458	7,923	1,408	-	1,408	490	9,821	11,634			
License and permits	-	2,388	2,388	-	-	-	338	2,726	1,863			
Interest and investment exp, cr card exp	91	1,689	1,780	4,366	384	4,750	239	6,769	6,554			
Food services, conference center housekeeping	-	53,683	53,683	-	-	-	7,605	61,288	69,574			
Internal use of conference center	57,201	(57,201)	-	12,894	93	12,987	(12,987)	-	-			
Utilities	13,457	26,484	39,941	3,178	1,484	4,662	3,752	48,355	53,289			
Minor furnishings	1,839	1,512	3,351	250	-	250	214	3,815	8,477			
Payment in lieu of real estate tax	-	208	208	315	-	315	29	552	552			
In-kind expenses - donated space	10,000	-	10,000	-	-	-	-	10,000	-			
Miscellaneous	5,202	252	5,454	123	1,433	1,556	36	7,046	8,646			
Total expenses before depreciation and amortization	5,101,888	308,976	5,410,864	601,796	122,470	724,266	38,887	6,174,017	5,857,825			
Depreciation and amortization	34,003	65,513	99,516	12,562	5,261	17,823	9,281	126,620	131,414			
Total expenses before removal of nonprogram conference center rental costs	5,135,891	374,489	5,510,380	614,358	127,731	742,089	48,168	6,300,637	5,989,239			
Conference center rental costs-nonprogram	-	-	-	-	-	-	(48,168)	(48,168)	(116,257)			
Total expenses as reported on the statement of activities	5,135,891	374,489	5,510,380	614,358	127,731	742,089	-	6,252,469	5,872,982			
Allocation of mortgage principal payments	4,363	8,198	12,561	(14,202)	481	(13,721)	1,160	-	-			
Total expenses after allocation of principal payments	\$5,140,254	\$382,687	\$5,522,941	\$600,156	\$128,212	\$728,368	\$1,160	\$6,252,469	\$5,872,982			

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER

STATEMENT OF CASH FLOWS

For the Year Ended October 31, 2015

With Comparative Totals for the Year Ended October 31, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$11,547,896	(\$4,463,870)
Adjustments to reconcile the change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	126,620	131,414
Realized and unrealized (gains) losses, net	12,878	(164)
Reinvestment of interest and dividends	(9,001)	(7,038)
In-kind software	-	(9,957)
(Increase) decrease in accounts receivable	(29,338)	(25,021)
(Increase) decrease in contributions receivable	(7,283,594)	2,804,046
(Increase) decrease in grants receivable	(3,776,269)	1,123,698
(Increase) decrease in prepaid expense	(10,155)	17,412
Increase (decrease) in accounts payable	52,824	(195)
Increase (decrease) in deferred revenue	(1,177)	3,705
Increase (decrease) in accrued expenses	13,811	13,242
Net cash provided (used) by operating activities	<u>644,495</u>	<u>(412,728)</u>
Cash flows from investing activities:		
Purchase of land, building and equipment	(53,790)	(37,414)
Purchase of investments	(3,385,144)	(2,824,698)
Sale and maturity of investments	3,150,150	3,150,150
Net cash provided (used) by investing activities	<u>(288,784)</u>	<u>288,038</u>
Cash flows from financing activities:		
Proceeds from issuance of debt	17,572	-
Payments on debt	(19,116)	(15,147)
Net cash provided (used) by financing activities	<u>(1,544)</u>	<u>(15,147)</u>
Net increase (decrease) in cash and cash equivalents	354,167	(139,837)
Cash and cash equivalents at beginning of year	<u>79,107</u>	<u>218,944</u>
Cash and cash equivalents at end of year	<u>\$433,274</u>	<u>\$79,107</u>
Interest paid	<u>\$419</u>	<u>\$1,270</u>

The accompanying notes are an integral part of these financial statements.

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2015
With Comparative Totals for the Year Ended October 31, 2014

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Minnesota Humanities Center (the Humanities Center) is an independent, not-for-profit organization that conducts and supports cultural and educational programs throughout Minnesota. The Humanities Center supports and encourages exemplary teaching and partners with other organizations to provide meaningful and engaging public humanities programming in communities state-wide. Financial support for the programs and services of the Humanities Center comes primarily from the National Endowment for the Humanities, the Minnesota State Legislature, foundation grants, corporation gifts, donations from individuals, and conference center rental.

MHC Educational Programs: The Minnesota Humanities Center educational programs prepare schools, cultural organizations, state agencies, and other professional and community based organizations to meet the complicated needs of the 21st century. Through its Absent Narratives approach and strategy the Humanities Center puts the under-represented and untold stories and experiences of marginalized communities at the heart of school, community and organizational planning for the future of Minnesota. Whether these marginalized communities are ethnic minorities, veterans, or immigrants and refugees the Humanities Center's programs work to guarantee that the wisdom and knowledge in these communities is seen and represented as essential to creating a successful future together; a future founded on expanding economic and social opportunity.

The Absent Narratives approach has brought work which was traditionally considered separate programs under one program entity; it permeates all activities – whether programs for teachers, development of resources for educators and communities or community programming. The Humanities Center was also responsible for administering Legacy Funding for the Minnesota Children's Museum, the Duluth Children's Museum, the Children's Museum of Southern Minnesota, the Grand Rapids Children's Museum, the Council on Disabilities, Ramsey County Parks, KaJoog Fanka, City of Saint Paul Cultural Garden, and an open competitive grant process. In addition, the Humanities Center managed a Healthy Eating program for the State of Minnesota.

Conference Center Rental: In addition to the Absent Narratives programming, the Humanities Center operates a full-service event center, as created by the State Legislature in 1996. In addition to housing programs of the Humanities Center, this restored architectural landmark serves educators, social service providers, other non-profits, state colleges and universities, and state agencies and community groups seeking to improve both their individual work and the quality of life for all Minnesotans, by providing high-quality, cost effective meeting and event space for educational and public programs, and staff education and development.

B. FINANCIAL STATEMENT PRESENTATION

Net assets, support and revenue and gains and losses are classified based on donor imposed restrictions.

(Continued)

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

Accordingly, net assets of the Humanities Center and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Humanities Center or passage of time.

Permanently Restricted – Those resources subject to donor imposed restrictions in which the donor has specified they must be maintained in perpetuity. The Humanities Center does not have any permanently restricted net assets at this time.

C. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Humanities Center considers highly liquid securities purchased with an original maturity of three months or less to be cash equivalents. Cash and liquid securities held in its investment brokerage accounts are not considered cash equivalents.

D. CONCENTRATION OF CREDIT RISK

The Humanities Center places its cash with multiple financial institutions. At times the amount on deposit exceeds the insured limit of an institution and exposes the Humanities Center to a credit risk. The Humanities Center believes it is not exposed to any significant risk on these funds.

E. ACCOUNTS RECEIVABLE

Accounts receivable are stated at net realizable value. Accordingly, bad debts are provided for on the reserve method based on management's evaluation of outstanding receivables at the end of each year. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of October 31, 2014, an allowance of \$2,570 has been recorded. Management believes no allowance is necessary at October 31, 2015.

F. CONTRIBUTIONS AND GRANTS RECEIVABLE

Pledges and grants that are expected to be collected within one year are recorded at their net realizable value. Pledges and grants that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge or grant is received. Amortization of the discount is included in contribution or grant revenue. Conditional pledges are not included in support until such time as the conditions are substantially met.

(Continued)

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

G. INVESTMENTS

The Humanities Center carries its investments at fair value. Realized and unrealized gains and losses are included in investment income in the statement of activities.

H. LAND, BUILDING AND EQUIPMENT

All major expenditures for building improvements, furniture and equipment are capitalized at cost. Depreciation is provided through the use of the straight-line method over the estimated useful lives of the assets. The estimated life of the building is 40 years, 80 years for the land lease, and three to ten years for the office equipment and furniture. All donated property and equipment is recorded at its fair market value. The capitalization threshold is \$5,000. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted.

I. DEFERRED REVENUE

Deferred revenue includes revenues that will be recognized in a future period such as prepayment of program services, advances on contracts and exchange transactions received prior to the incurrence of the related costs. Deferred revenue was \$2,878 and \$4,055 at October 31, 2015 and 2014.

J. GRANTS FROM GOVERNMENTAL AGENCIES

Federal government grants and contract funds are recorded as revenue when earned. For reimbursement grants, revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as deferred revenue. Expenditures under government contracts are subject to review by the granting authority.

State government grants are awarded at the beginning of the State of Minnesota's budget cycle, which operates on a two-year cycle. Funding for the Humanities Center from the State is not reimbursement based and therefore is accounted for like contributions. Under generally accepted accounting principles, contributions are recognized as revenue when a donor makes an unconditional commitment. As a result, revenue from state funding fluctuates year-to-year depending on the year in which the state budget is adopted. Thus, two years of funding are recognized in the year the state budget is adopted.

In 2015, multi-year grants of \$5,890,000 were awarded by the State of Minnesota, recorded in revenue, and the unspent portion included in temporarily restricted net assets at the end of the year. These funds are for work from July 1, 2015, through June 30, 2018, as the legislation permits an additional twelve months past the end of the state fiscal year (June 30, 2017) for grant close-outs.

(Continued)

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

K. CONTRIBUTIONS

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received which are designated for future periods or restricted in use or as to purposes by the donor are recorded as temporarily restricted until the appropriate future period or the donor restriction is satisfied, respectively.

L. FUNCTIONAL ALLOCATION OF EXPENSE

The Humanities Center allocates expenses among its programs and support services. Salaries and related expenses are allocated based on job descriptions and time studies. Other expenses are either directly identifiable with a function or allocated based primarily on personnel costs or space utilization.

M. ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expenses were \$9,821 and \$11,634 for the years ended October 31, 2015 and 2014.

N. UNEMPLOYMENT COMPENSATION

The Humanities Center has elected to self-insure unemployment tax claims. Any amounts incurred are recorded as expense when liable and estimable. Unemployment claims expense was \$12,823 and \$9,567 for the years ended October 31, 2015 and 2014.

O. TAX EXEMPT STATUS

The Humanities Center is classified as a tax-exempt organization under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code, is exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code and is subject to income taxes only on net unrelated business income. A portion of rental activities from the conference center is subject to unrelated business income tax; however losses have been incurred so no tax has been due. The Humanities Center believes that it has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

The Humanities Center has significant net operating loss carryforwards from rental activities that begin to expire in 2018. It is expected that most or all of the carryforwards will expire without being fully utilized.

Federal and state tax authorities generally have the right to examine the current and prior three years returns. The Humanities Center is not currently under examination by any taxing jurisdiction.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2015
With Comparative Totals for the Year Ended October 31, 2014

Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont.

P. ESTIMATES

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Q. CONTRIBUTED MATERIALS

Contributed materials are recorded in the financial statements at their estimated fair value at the date of donation. The Humanities Center received for contributed space valued at \$10,000 for the year ended October 31, 2015, and software and miscellaneous program supplies of \$10,007 for the year ended October 31, 2014.

Note 2 CONTRIBUTIONS AND GRANTS RECEIVABLE

As of October 31, 2015, contributions receivable of \$3,640,911 are due within one year and \$3,652,683 are due in the year ended October 31, 2017. Certain government grants receivable are available to be drawn over a two-year period and do not have a detailed payout schedule. Because of the uncertain timing of future receipts, no discount has been calculated. All receivables are expected to be collected; therefore, no allowance has been recorded.

Note 3 LAND LEASE

The Humanities Center leases both land and a building from the City of Saint Paul. The portion of the lease related to the building is for 30 years beginning in August 1995 with the option to renew for five periods of ten years each. Rent is \$100 per year. The Humanities Center is responsible for insuring the building. Due to the poor condition of the building and the extensive amount of rehabilitation costs paid by the Humanities Center, the fair market value of the portion of the bargain lease relating to the building was valued at \$0. The Humanities Center renovated the building as part of their capital campaign with the stipulation that the building be used for their day-to-day administration and programs. The portion of the lease attributed to the land had an appraised market value of \$235,000 and was recorded as a contribution when the lease was signed. The use of the land is amortized over the expected 80-year term of the lease. Amortization expense was \$2,938 for the years ended October 31, 2015 and 2014.

The Humanities Center has agreed to make payments in lieu of taxes to the City of Saint Paul Housing and Redevelopment Authority. Commencing August 1, 1996, and continuing thereafter, a total amount of \$552 in lieu of taxes must be paid annually. This agreement terminates August 1, 2016; the City has indicated that no payment will be required after that date.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2015
With Comparative Totals for the Year Ended October 31, 2014

Note 4 INVESTMENTS

Investments were comprised of the following at October 31:

	<u>2015</u>	<u>2014</u>
Brokerage bank account and AG deposit account	\$ 2,344,065	\$ 681,723
Mutual fund money market	385,577	385,349
Common stock	1,208,538	-
Negotiable certificates of deposit	<u>401,187</u>	<u>3,041,178</u>
Total investments	<u>\$ 4,339,367</u>	<u>\$4,108,250</u>

Investment income consisted of the following for the years ended October 31:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 9,756	\$ 7,812
Realized and unrealized gains (losses)	<u>(12,878)</u>	<u>164</u>
Total investment income (loss)	<u>\$ (3,122)</u>	<u>\$ 7,976</u>

Note 5 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Humanities Center has the ability to access.

Level 2 Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used.

Cash, AG Deposit account, Common stock and Mutual funds: (Level 1) Carried at fair value based on quoted prices.

Certificates of deposit: (Level 2) All certificate of deposit values are derived using a computerized valuation model and therefore represent an estimated market value. Estimated market values are obtained from statements provided by the broker.

(Continued)

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2015
With Comparatative Totals for the Year Ended October 31, 2014

Note 5 FAIR VALUE MEASUREMENTS Cont.

Significant assets that are measured at fair value on a recurring basis were as follows as of October 31:

<u>2015:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
AG deposit account	2,094,065	-	2,094,065
Mutual fund money market	385,577	-	385,577
Common stock	1,208,538	-	1,208,538
Negotiable certificates of deposit	<u>-</u>	<u>401,187</u>	<u>401,187</u>
Total investments	\$ <u>3,938,180</u>	\$ <u>401,187</u>	\$ <u>4,339,367</u>

<u>2014:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Brokerage bank account	\$ 250,000	\$ -	\$ 250,000
AG deposit account	431,723	-	431,723
Mutual fund money market	385,349	-	385,349
Negotiable certificates of deposit	<u>-</u>	<u>3,041,178</u>	<u>3,041,178</u>
Total investments	\$ <u>1,067,072</u>	\$ <u>3,041,178</u>	\$ <u>4,108,250</u>

Funds deposited in AG deposit accounts are not federally insured or protected by the Securities Investor Protection Corporation (SIPC).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Humanities Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 6 LONG-TERM DEBT

Long-term debt consisted of the following at October 31:

	<u>2015</u>	<u>2014</u>
Note payable to the City of Saint Paul Housing and Redevelopment Authority for building and renovation in the original amount of \$170,000 dated August 15, 1995. Payments are due monthly in the amount of \$860, including interest at a stated rate of 2%, with the final payment due August 1, 2016. The note is secured by a mortgage on the property and all assets of the Humanities Center.	\$ 7,792	\$ 17,845

(Continued)

MINNESOTA HUMANITIES CENTER
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended October 31, 2015
 With Comparative Totals for the Year Ended October 31, 2014

Note 6 LONG-TERM DEBT Cont.

	<u>2015</u>	<u>2014</u>
Note payable to the City of Saint Paul Housing and Redevelopment Authority for building and renovation in the original amount of \$100,000 dated August 15, 1995. Payments are due monthly in the amount of \$460, including interest at a stated rate of 1%, with the final payment due August 1, 2016. The note is secured by a mortgage on the property and all assets of the Humanities Center.	4,150	9,698
Note payable to Phalen Shores, LLC for parking lot repairs in the original amount of \$17,582 dated October 2015. Payments are due annually in the amount of \$3,514 with no interest, with the final payment due November 1, 2019.	<u>14,057</u>	<u>-</u>
Total long-term debt	25,999	27,543
Less: current maturities	<u>(15,456)</u>	<u>(15,445)</u>
Long-term portion	<u>\$ 10,543</u>	<u>\$ 12,098</u>

Annual principal maturities of long-term debt are as follows:

<u>Year ending</u> <u>October 31</u>	<u>Amount</u>
2016	\$15,456
2017	3,514
2018	3,514
2019	<u>3,515</u>
Total	<u>\$25,999</u>

Note 7 NET ASSETS

A. UNRESTRICTED

The Board of Directors has made the following designations of unrestricted net assets as of October 31:

	<u>2015</u>	<u>2014</u>
Property and equipment	\$1,523,601	\$1,608,111

(Continued)

MINNESOTA HUMANITIES CENTER
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended October 31, 2015
 With Comparative Totals for the Year Ended October 31, 2014

Note 7 NET ASSETS Cont.

B. TEMPORARILY RESTRICTED

Temporarily restricted net assets consisted of the following as of October 31:

	<u>2015</u>	<u>2014</u>
State of Minnesota operating grant	\$ 583,333	\$ 167,333
State of Minnesota arts and cultural heritage funds	1,686,835	434,179
Civics Education arts and cultural heritage funds	299,644	-
Healthy Eating arts and cultural heritage funds	649,412	-
Children's Museums arts and cultural heritage funds	1,886,335	599,367
Council of Disabilities arts and cultural heritage funds	91,254	277,489
Veteran's Voices arts and cultural heritage funds	-	107,085
Ramsey County Parks cultural games	149,662	-
KaJoog Fanka program	237,087	-
City of Saint Paul Cultural Garden	49,459	-
Competitive grants	95,918	-
Women Veterans Initiative	20,443	-
Veteran's Voices programming	28,250	25,872
Water Ways project	33,085	-
Other	54	2,592
Absent Narratives program work/professional development programs for teachers and school districts	<u>10,191,683</u>	<u>2,884,649</u>
Total	<u>\$ 16,002,454</u>	<u>\$ 4,498,566</u>

Restricted amounts are classified above according to their primary restriction. Some of the restricted amounts have components of both time and purpose restrictions.

C. RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2015</u>	<u>2014</u>
Program expenditures	\$ 4,927,915	\$ 4,617,248
Elapsed time restriction	<u>284,000</u>	<u>251,000</u>
Total	<u>\$ 5,211,915</u>	<u>\$ 4,868,248</u>

Note 8 OPERATING LEASES

The Humanities Center leases a copier. Total leased equipment expenses were \$10,905 and \$9,791 for the years ended October 31, 2015 and 2014. This amount includes the base lease costs, fees for copies above the minimums and one time rental costs. The lease for the copier expires August 2016. The minimum payments include a base number of copies and maintenance; overages are also recorded in the lease expense account. Future minimal rental payments for 2016 are \$2,004.

(Continued)

MINNESOTA HUMANITIES CENTER
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended October 31, 2015
 With Comparative Totals for the Year Ended October 31, 2014

Note 9 RETIREMENT PLAN

The Humanities Center provides an employee retirement plan through a Safe Harbor 401K plan. The Humanities Center changed to this plan effective November 1, 2011. Employees eligible to participate in the plan receive a 1:1 match on the first 3% of contributions, and a 0.5 to 1 match on the next 2%. The plan also provides for a discretionary employer contribution for eligible employees, to be made after the end of the plan year (but expense is accrued in the fiscal year). For the year ended October 31, 2015, the Board approved a 4% discretionary contribution. Total matching contributions were \$49,658; accrued discretionary contributions were \$55,548; for a total expense of \$105,206 for the year ended October 31, 2015. Contributions were \$105,205 for the year ended October 31, 2014.

Note 10 COMMITMENTS

In 1995, the Humanities Center began a capital campaign to renovate the west wing of Gillette Hospital to be used for its administrative and program operations. The Humanities Center received several significant governmental grants and loans. The Humanities Center received a \$1,200,000 grant from the City of Saint Paul which requires the Humanities Center to repay all or a portion of the grant if the Humanities Center does not occupy the renovated space for a specified period of time. If the Humanities Center had vacated the renovated space within 10 years, they would have been required to repay 100% of the grant proceeds. If the vacancy occurs within the time frame of 10 to 20 years, the Humanities Center will be required to repay the grant funds minus 10% for each full year after the first 10 years. The money for this grant was raised through state general obligation bonds.

The Humanities Center received additional funding for the capital campaign through two loans from the City of Saint Paul (Note 6). In order to retain these funds, the Humanities Center must comply with certain provisions and conditions specified in both the grant and loan agreements.

Note 11 MAJOR SOURCES OF SUPPORT AND REVENUE

Major sources of support and revenue were as follows for the years ended October 31:

	<u>2015</u>	<u>2014</u>
National Endowment for the Humanities	\$ 701,810	\$ 628,822
State of Minnesota	\$ 5,890,000	\$ 225,000
Anonymous foundation	\$ 10,678,738	-

Note 12 CONTINGENCIES

The Humanities Center receives financial assistance from federal and state governmental agencies in the form of grants. These programs generally require compliance with the terms and conditions specified in the grant agreements, which are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Humanities Center. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the Humanities Center.

MINNESOTA HUMANITIES CENTER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended October 31, 2015
With Comparatative Totals for the Year Ended October 31, 2014

Note 13 SUMMARIZED PRIOR YEAR FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Humanities Center's financial statements as of and for the year ended October 31, 2014, from which the summarized information was derived.

Note 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the Independent Auditor's Report and concluded that there are no additional subsequent events that require disclosure.