

**MINNESOTA HISTORICAL SOCIETY**

Financial Statements and Supplementary Information

June 30, 2011

(With Independent Auditors' Report Thereon)

**MINNESOTA HISTORICAL SOCIETY  
TABLE OF CONTENTS**

	<b>Page</b>
Independent auditors' report	1
Financial statements	
Balance sheets	2
Statements of activities	3
Statements of cash flows	5
Notes to financial statements	6
Independent auditors' report on supplementary information	20
Supplementary information	
Statements of functional expenses	21

## INDEPENDENT AUDITORS' REPORT

Executive Council  
Minnesota Historical Society  
St. Paul, Minnesota

We have audited the accompanying balance sheet of the Minnesota Historical Society (the Society) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2010 financial statements and, in our report dated October 20, 2010, we expressed an unqualified opinion on those financial statements.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
October 26, 2011

**MINNESOTA HISTORICAL SOCIETY**  
**BALANCE SHEET**  
**JUNE 30, 2011**  
**(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2010)**

Assets	Unrestricted			Temporarily restricted		Permanently restricted	2011 Total	2010 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other			
Cash and cash equivalents	\$ 2,928,442	—	93,976	4,902,769	3,586,023	399,732	11,910,942	6,927,572
Total cash and cash equivalents	2,928,442	—	93,976	4,902,769	3,586,023	399,732	11,910,942	6,927,572
Investments (at cost)	—	—	6,749,025	—	7,704,177	24,215,024	38,668,226	34,712,289
Unrealized gain (loss) on investments	—	—	1,058,201	—	2,426,035	831,463	4,315,699	(1,574,021)
Total investments (at fair value)	—	—	7,807,226	—	10,130,212	25,046,487	42,983,925	33,138,268
Receivables:								
Nonstate support and contributions, net	45,012	—	—	—	3,311,030	5,053,160	8,409,202	5,409,646
Contribution receivable in remainder trusts	—	—	—	—	—	176,834	176,834	157,998
State operating appropriation	—	—	—	45,000	—	—	45,000	—
State legacy appropriation	—	—	—	1,820,000	—	—	1,820,000	5,850,000
State capital appropriation	—	—	—	9,257,475	—	—	9,257,475	12,160,390
Cash on deposit with the State Treasurer	155,823	—	—	—	—	—	155,823	173,898
Contracts	704,847	—	—	—	—	—	704,847	469,025
Publication sales	246,055	—	—	—	—	—	246,055	262,898
Other	441,238	—	—	73,236	—	—	514,474	413,142
Total receivables	1,592,975	—	—	11,195,711	3,311,030	5,229,994	21,329,710	24,896,997
Museum shop inventories	1,059,317	—	—	—	—	—	1,059,317	961,163
Property and equipment, net	—	83,992,539	—	—	—	—	83,992,539	85,510,696
Total assets	\$ 5,580,734	83,992,539	7,901,202	16,098,480	17,027,265	30,676,213	161,276,433	151,434,696
<b>Liabilities and Net Assets</b>								
Liabilities:								
Accounts payable and accrued expenses	\$ 1,311,581	—	—	5,057,733	241,817	3,485	6,614,616	3,384,346
Accrued vacation and sick liability	2,060,064	—	—	—	—	—	2,060,064	2,155,116
Split-interest agreements liability	—	—	—	—	12,391	286,785	299,176	277,207
Total liabilities	3,371,645	—	—	5,057,733	254,208	290,270	8,973,856	5,816,669
Net assets:								
Unrestricted:								
Operating	2,209,089	83,992,539	—	—	—	—	86,201,628	86,867,602
Board-designated endowment	—	—	7,901,202	—	—	—	7,901,202	6,478,444
Total unrestricted	2,209,089	83,992,539	7,901,202	—	—	—	94,102,830	93,346,046
Temporarily restricted	—	—	—	11,040,747	16,773,057	—	27,813,804	31,213,641
Permanently restricted	—	—	—	—	—	30,385,943	30,385,943	21,058,340
Total net assets	2,209,089	83,992,539	7,901,202	11,040,747	16,773,057	30,385,943	152,302,577	145,618,027
Total liabilities and net assets	\$ 5,580,734	83,992,539	7,901,202	16,098,480	17,027,265	30,676,213	161,276,433	151,434,696

See accompanying Notes to Financial Statements.

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

	Unrestricted			Temporarily restricted		Permanently restricted	2011 Total	2010 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other			
Support and revenue:								
Support:								
Private contributions	\$ 2,082,374	—	—	—	1,067,018	6,320,452	9,469,844	3,903,287
Federal grants	—	—	—	—	1,972,108	—	1,972,108	1,348,208
County and other grants	—	—	—	—	48,000	—	48,000	76,305
State operating appropriation	—	—	—	22,139,209	—	—	22,139,209	22,226,587
State legacy appropriation	—	—	—	11,420,134	—	—	11,420,134	9,750,000
State capital appropriation	—	—	—	(30,673)	—	—	(30,673)	4,250,000
Total support	<u>2,082,374</u>	<u>—</u>	<u>—</u>	<u>33,528,670</u>	<u>3,087,126</u>	<u>6,320,452</u>	<u>45,018,622</u>	<u>41,554,387</u>
Revenue:								
Admission fees	2,388,813	—	—	—	—	—	2,388,813	2,268,348
Museum store sales	1,930,556	—	—	—	—	—	1,930,556	1,734,037
Publication sales	1,118,496	—	—	—	—	—	1,118,496	1,205,542
Program fees	855,555	—	—	—	—	—	855,555	815,185
Contract service fees	1,915,641	—	—	—	—	—	1,915,641	1,306,653
Digital product fees	405,367	—	—	—	—	—	405,367	367,474
Investment return	688,703	—	1,422,758	—	3,567,739	3,001,629	8,680,829	4,121,101
Auxiliary services	1,067,013	—	—	—	—	—	1,067,013	987,853
Other sales, fees, and memberships	456,404	—	—	—	—	—	456,404	592,201
Total revenue	<u>10,826,548</u>	<u>—</u>	<u>1,422,758</u>	<u>—</u>	<u>3,567,739</u>	<u>3,001,629</u>	<u>18,818,674</u>	<u>13,398,394</u>
Total support and revenue	<u>12,908,922</u>	<u>—</u>	<u>1,422,758</u>	<u>33,528,670</u>	<u>6,654,865</u>	<u>9,322,081</u>	<u>63,837,296</u>	<u>54,952,781</u>
Net assets released from program restrictions	<u>43,577,850</u>	<u>—</u>	<u>—</u>	<u>(39,679,259)</u>	<u>(3,904,113)</u>	<u>5,522</u>	<u>—</u>	<u>—</u>
Total support, revenue, and net assets released from program restrictions	<u>\$ 56,486,772</u>	<u>—</u>	<u>1,422,758</u>	<u>(6,150,589)</u>	<u>2,750,752</u>	<u>9,327,603</u>	<u>63,837,296</u>	<u>54,952,781</u>

*See accompanying Notes to Financial Statements.*

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

	Unrestricted		Board- designated endowment	Temporarily restricted		Permanently restricted	2011 Total	2010 Total
	Operating	Plant fund		State appropriations	Other			
Expenses:								
Program services:								
Library collections and archival services	\$ 9,376,844	198,593	—	—	—	—	9,575,437	7,420,399
Publications	1,687,164	7,795	—	—	—	—	1,694,959	1,674,196
History Center Museum	11,021,864	501,194	—	—	—	—	11,523,058	9,932,564
Historic sites	10,746,957	764,620	—	—	—	—	11,511,577	14,187,518
Outreach and preservation	13,150,052	5,488	—	—	—	—	13,155,540	6,599,562
Total program services	<u>45,982,881</u>	<u>1,477,690</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,460,571</u>	<u>39,814,239</u>
Supporting services:								
Management and general	7,924,521	39,247	—	—	—	—	7,963,768	6,948,664
Development and membership	1,727,187	1,220	—	—	—	—	1,728,407	1,704,883
Total supporting services	<u>9,651,708</u>	<u>40,467</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,692,175</u>	<u>8,653,547</u>
Total expenses	<u>55,634,589</u>	<u>1,518,157</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>57,152,746</u>	<u>48,467,786</u>
Increase (decrease) in net assets	852,183	(1,518,157)	1,422,758	(6,150,589)	2,750,752	9,327,603	6,684,550	6,484,995
Changes in net assets:								
Unrestricted	852,183	(1,518,157)	1,422,758	—	—	—	756,784	(297,875)
Temporarily restricted	—	—	—	(6,150,589)	2,750,752	—	(3,399,837)	5,146,285
Permanently restricted	—	—	—	—	—	9,327,603	9,327,603	1,636,585
Net changes in net assets before changes related to collection items not capitalized	852,183	(1,518,157)	1,422,758	(6,150,589)	2,750,752	9,327,603	6,684,550	6,484,995
Changes in net assets related to collection items not capitalized								
Proceeds from sale of collection items	—	—	—	—	—	—	—	1,523,064
Net assets at beginning of year	<u>1,356,906</u>	<u>85,510,696</u>	<u>6,478,444</u>	<u>17,191,336</u>	<u>14,022,305</u>	<u>21,058,340</u>	<u>145,618,027</u>	<u>137,609,968</u>
Net assets at end of year	<u>\$ 2,209,089</u>	<u>83,992,539</u>	<u>7,901,202</u>	<u>11,040,747</u>	<u>16,773,057</u>	<u>30,385,943</u>	<u>152,302,577</u>	<u>145,618,027</u>

*See accompanying Notes to Financial Statements.*

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 6,684,550	8,008,059
Adjustments to reconcile net changes in net assets to net cash provided (used) by operating activities:		
Depreciation	1,518,157	1,512,838
Net realized and unrealized gains on investments	(8,111,465)	(3,637,163)
Adjustment of actuarial liability for split-interest agreements liability	54,974	(25,460)
Contributions restricted for financing activities	(6,320,452)	(2,168,398)
Changes in assets and liabilities:		
Receivables	6,881,800	(2,145,792)
Museum shop inventories	(98,154)	(39,415)
Accounts payable and accrued expenses	3,230,270	(1,531,068)
Accrued vacation and sick liability	(95,052)	(80,553)
Amounts held for others	—	(24,299)
Net cash provided (used) by operating activities	<u>3,744,628</u>	<u>(131,251)</u>
Cash flows from investing activities:		
Purchase of property and equipment	—	(194,434)
Purchase of investments	(24,816,668)	(22,713,417)
Proceeds from sale of investments	23,082,476	21,334,062
Proceeds from sale of collection items	—	1,523,064
Net cash used in investing activities	<u>(1,734,192)</u>	<u>(50,725)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(33,005)	(33,251)
Proceeds from contributions restricted for:		
Investment in endowment	3,005,939	850,530
Net cash provided by financing activities	<u>2,972,934</u>	<u>817,279</u>
Net increase in cash and cash equivalents	4,983,370	635,303
Cash and cash equivalents at beginning of year	<u>6,927,572</u>	<u>6,292,269</u>
Cash and cash equivalents at end of year	<u>\$ 11,910,942</u>	<u>6,927,572</u>

*See accompanying Notes to Financial Statements.*

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(1) Description of the Society**

The Minnesota Historical Society (the Society) is an independent, nonprofit corporation created by the Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44. The Society receives significant support from the State of Minnesota in the form of legislative appropriations and grants, as well as from the federal government and the private sector. The balance of the Society's support and revenue is derived from grants, investment return, auxiliary enterprises, memberships, admissions, publications sales, bequests, gifts, and endowments.

The mission of the Society is to connect people with history to help them gain perspective on their lives. The Society preserves the evidence of the past and tells the stories of Minnesota's people. To achieve this objective, the Society provides opportunities for people of all ages to learn about the history of Minnesota, collects and cares for materials that document human life in Minnesota, makes them known and accessible to people in Minnesota and beyond, and encourages and executes research in Minnesota history.

The Society is governed by its officers and an Executive Council, elected by the membership. The Executive Council appoints the director and chief executive officer, who has the responsibility of directing the Society in accordance with its policies.

**(2) Summary of Accounting Policies**

**(a) Basis of Presentation**

Net assets, support and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Society and changes therein are classified into the following three categories:

- Unrestricted net assets represent the portion of expendable funds that is available for support of the operations of the Society. Certain of these amounts have been designated by the board to act as endowment.
- Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are not available for use until a specific time. State appropriations are considered by the Society to be temporarily restricted because the appropriations are made to support programs as approved through the legislative process.
- Permanently restricted net assets consist of contributions the donor has stipulated be maintained permanently, but permit the Society to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

**(b) Support and Revenue**

Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or pursuant to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Expirations of temporary restrictions on net assets (e.g., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.



**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(2) Summary of Accounting Policies (Continued)**

***(b) Support and Revenue (Continued)***

Contributions, including unconditional promises to give, are recognized as revenue in the period that the contribution is received or that the promise is made. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of noncollection assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted using discount rates consistent with the general principles of present value measurement. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions with donor-imposed restrictions that are met in the same year as the gifts are received are reported as revenue of the temporarily restricted net asset class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor restrictions are reported as revenue of the temporarily restricted net assets class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

The Society receives appropriations from the State Legislature in accordance with Minnesota Statute 138.01. The State Legislature may place specific restrictions on such funds. These appropriations are of three types:

- Biennial funding, accounting for the majority of the Society's appropriations.
- Biennial funding from the Legacy funding from the Arts and Cultural Heritage fund
- Appropriations of a capital nature for projects that have indefinite expiration dates. These funds are available until the project is completed or abandoned.

Federal and County and other grants are recorded upon receipt of the grant award letter in accordance with the terms of the award.

All other earned revenue is recorded when sales are made. Investment returns include dividends, interest, realized and unrealized gain or loss, recorded monthly.

***(c) Investments***

Investments are recorded at fair value. Mutual funds and common stocks are valued based on quoted market prices in active exchanges. Investments in common collective trusts are valued using a unit share price as determined monthly by fund managers based on the fair values of the underlying securities in the trusts. The fair values of the underlying securities held by the common collective trusts are based on quoted market prices in the exchange of the country in which the security is registered.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(2) Summary of Accounting Policies (Continued)**

**(d) *Split-Interest Agreements***

The split-interest agreements include charitable remainder trusts and charitable gift annuities. The Society recognizes the contribution from charitable trusts when the trust is established and recognizes the contribution from the charitable annuity gifts when the agreement is executed. The contribution amount is the difference between the fair value of assets received and the present value of the future cash flows expected to be paid to the designated beneficiaries. The significant assumptions used to estimate the present value of the future cash flows include discount rates of 3.0% to 6.0% commensurate with the risks involved and the 2011 mortality tables.

**(e) *Program and Supporting Services***

The cost of providing the various program and supporting services has been summarized on a functional basis in the schedule of functional expenses.

The program services of the Society fall into five major groups:

- **Library Collections and Archival Services** – Maintains and makes available to the public the Society's collection of books, newspapers, maps, photographs, works of art, oral history tapes, private manuscripts, and periodicals on Minnesota history; and catalogs, restores, and microfilms documents and records to make them available for public use. This program includes the acquisition, preservation, and cataloging of public records, as well as the Society's responsibilities as State Archivist.
- **Publications** – Publishes books and other media related to Minnesota history.
- **History Center Museum** – Maintains the collections used for exhibit purposes in the Society's museums and at county historical societies; plans, fabricates, and installs exhibits at Society interpretive facilities and museums throughout the state; and orients visitors and tells them the stories of important events and persons of Minnesota's past. It also includes auxiliary activities and services at the History Center, such as the museum shops, parking, cafe, and building rental.
- **Historic Sites** – Administers historic sites throughout the state for public benefit through educational and entertaining reenactments of key events and historical characters, and participation in living history programs about the people who lived and worked at these historic places; operates the Capitol tour program; administers the State Historic Sites Act.
- **Outreach and Preservation** – Provides technical assistance and grants for historic preservation; conducts historic and archaeological surveys, as required by law; administers a grant-in-aid program supporting projects in preservation and interpretation of Minnesota history; administers the National Historic Preservation Act in Minnesota.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(2) Summary of Accounting Policies (Continued)**

**(e) Program and Supporting Services (Continued)**

Supporting services include the following:

- **Management and General** – Provides necessary support services, such as institutional leadership, legislative programs and priorities, budget and accounting control, personnel administration, facility planning, establishment of institutional policies, board liaison, information technology coordination, public information services, and membership support services.
- **Development and Membership** – Manages development and membership functions for the institution and develops programs to ensure ongoing nonstate support for the Society.

**(f) Contributed Services**

Many members and other volunteers have made significant contributions of their time to develop and promote the programs of the Society. The value of these contributed services is not included in the accompanying financial statements, as such services do not create or enhance nonfinancial assets or require specialized skills.

**(g) Museum Shop Inventories**

Merchandise-for-resale inventories at museum shops are stated at the lower of cost (first-in, first-out) or net realizable value.

**(h) Collections, Historic Sites, and Publications**

The Society's collection of artifacts, documents, newspapers, pictures, paintings, tapes, and books is not capitalized because donated values are not readily determinable. Items purchased for the collection are expensed as acquired.

Similarly, historic sites and publication copyrights owned by the Society are not included in the financial statements. Costs of producing publications for resale are expensed as incurred. However, in the opinion of management, the effects of expensing publication costs do not have a material effect on the Society's financial statements taken as a whole.

**(i) Property and Equipment**

Constructed and purchased property and equipment are carried at cost and noncollection contributed assets are carried at fair value at date of donation, less accumulated depreciation.

The Society's capitalization policy includes the following provisions:

- Purchases of buildings and leasehold improvements that have an initial cost of more than \$100,000 are capitalized.
- Purchases of program-designated equipment that have an initial cost of more than \$100,000 are capitalized.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(2) Summary of Accounting Policies (Continued)**

**(i) Property and Equipment (Continued)**

- Purchases of auxiliary service-designated equipment that have an initial cost of more than \$10,000 are capitalized.

Depreciation is provided in amounts sufficient to relate the cost of property and equipment to operations over their estimated useful lives by straight-line methods. A summary of estimated service lives follows:

History Center and improvements	100 years
Other property and improvements	50 years
Equipment	6 – 10 years

**(j) Fair Value of Financial Instruments**

The carrying amount of cash and cash equivalents, receivables other than nonstate support and contributions, and accounts payable and accrued liabilities approximates fair value because of the short maturity of those instruments. Nonstate support and contributions receivable are recorded at fair value when initially recognized using present value techniques, which approximate fair value. They are not subsequently revalued at fair value, as the discounts calculated at initial recognition are amortized in years subsequent to initial recognition. Investments are carried at fair value as described in note 2 (c). Split-interest agreements liability are carried at the present value of the estimated future cash flows using discount rate assumptions established upon initial recognition of the liabilities, which approximated fair value. Split interest agreements liability is not subsequently revalued at fair value, as the discounts calculated at initial recognition are amortized in years subsequent to initial recognition.

**(k) Income Taxes**

The Society has received a determination letter indicating that it is exempt from federal and state income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and corresponding State of Minnesota Statutes. The Society monitors its activities and it considers the potential for income taxes if any activities are not related to its exempt purpose. The Society engages in activities that are considered as unrelated to its exempt purpose. These activities are subject to federal and state income taxes. However, the Society has a net operating loss carry-forward available to offset future taxable income from these unrelated activities. Accordingly, no federal or state tax provision is required in the current year. The net operating loss carry-forward of \$260,246 begins to expire in 2020. The Society has adopted financial accounting standards relating to uncertainty in income taxes. The Society had no uncertain tax positions and accordance with regulations the Society's federal and state tax returns are open for examinations for the years 2008-2011.

**(l) Statement of Cash Flows**

For purposes of the statement of cash flows, the Society considers all highly liquid securities purchased with a maturity of three months or less to be cash equivalents.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(2) Summary of Accounting Policies (Continued)**

**(m) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**(n) Prior Year Summarized Information**

The financial statements include certain prior year summarized information in total, but not by net asset class. With respect to the statement of activities, such prior year information is not presented by net asset class. Accordingly, such information should be read in conjunction with the Society's fiscal year 2010 financial statements from which the summarized information was derived.

**(3) Cash and Investments**

Cash and investments consist of the following at June 30, 2011:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Cash & Cash Equivalents	\$ 11,910,942	11,910,942
Investments:		
Equity	6,909,633	8,114,733
Fixed Income	7,977,256	8,316,144
Real Estate	5,938	9,000
Total Mutual Funds	<u>14,892,827</u>	<u>16,439,877</u>
Common Stocks:		
Domestic	10,192,325	11,424,223
Foreign	1,064,378	1,223,898
Total Common Stock	<u>11,256,702</u>	<u>12,648,121</u>
Common Collective Trusts:		
Domestic	5,980,252	6,873,473
Foreign	4,580,167	5,002,032
Private Equity	1,958,278	2,020,422
Total Common Collective Trusts	<u>12,518,697</u>	<u>13,895,927</u>
Total investments	<u>38,668,226</u>	<u>42,983,925</u>
Total cash, cash equivalents & investments	<u>\$ 50,579,168</u>	<u>54,894,867</u>

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(3) Cash and Investments (Continued)**

Investment return for the year consisted of the following:

Dividends and interest	\$ 569,364
Net realized gain on investments	2,251,657
Net unrealized gain on investments	<u>5,859,808</u>
Investment return	<u><u>\$ 8,680,829</u></u>

The Society's endowment (permanently restricted, temporarily restricted, and board-designated) funds are managed by independent investment advisors in compliance with established board investment policies.

Investment expenses, including custodial and management fees for all funds, totaled \$241,747 for the year ended June 30, 2011. In addition, included in investments is \$487,723 of investments under split-interest agreements.

**(4) Fair Value Measurements**

The Society measures fair value using a three-level 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 lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 includes situations where there is little, if any, market activity for the financial instrument.

Valuation levels are not necessarily an indication of the risk associated with investing in those securities.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(4) Fair Value Measurements (Continued)**

The following table summarizes the Society's investments that were accounted for at fair value, as of June 30, 2011:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equity	\$ 8,114,733	—	—	8,114,733
Fixed Income	8,316,144	—	—	8,316,144
Real Estate	9,000	—	—	9,000
Total Mutual Funds	<u>16,439,877</u>	<u>—</u>	<u>—</u>	<u>16,439,877</u>
Common Stocks:				
Domestic	11,424,223	—	—	11,424,223
Foreign	1,223,898	—	—	1,223,898
Total Common Stock	<u>12,648,121</u>	<u>—</u>	<u>—</u>	<u>12,648,121</u>
Common Collective Trusts:				
Domestic	—	6,873,473	—	6,873,473
Foreign	—	5,002,032	—	5,002,032
Private Equity	—	—	2,020,422	2,020,422
Total Common Collective Trusts	<u>—</u>	<u>11,875,505</u>	<u>2,020,422</u>	<u>13,895,927</u>
	<u>\$ 29,087,998</u>	<u>11,875,505</u>	<u>2,020,422</u>	<u>42,983,925</u>

The following table summarizes the Society's contribution receivable in remainder trusts that were accounted for at fair value, as of June 30, 2011:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contribution receivable in remainder trusts	\$ 176,834	—	—	176,834
	<u>\$ 176,834</u>	<u>—</u>	<u>—</u>	<u>176,834</u>

The Society values certain investment holdings at fair value using their net asset value and has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(4) Fair Value Measurements (Continued)**

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2011:

<u>Investment Category</u>	<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common Collective Trusts:				
Speece Thorson Capital Group	\$ 2,079,379	—	Daily	10 Days
Bernstein Global Style Blend	9,796,126	—	Quarterly	90 Days
Total	<u>\$ 11,875,505</u>			

Speece Thorson Capital Group includes investments in mid and small cap common stocks. The fair value of the investment in this category is based on the funds audited net asset value per share multiplied by the Society's units owned as of June 30, 2011.

Bernstein Global Style Blend includes investments in large cap US common stock and International large cap common stocks. The fair value of the investment in this category is based on the funds audited net asset value per share multiplied by the Society's units owned as of June 30, 2011.

Changes in Private Equity for the year ended June 30, 2011 are as follows:

Private Equity Balance July 1, 2010	\$ —
Purchases	1,771,589
Distributions	—
	<u>1,771,589</u>
Change in Market Value	248,833
Private Equity Balance June 30, 2011	<u>\$ 2,020,422</u>

**(5) Property and Equipment**

Property and equipment consist of the following at June 30, 2011:

Land	\$ 4,684,986
Property and improvement	97,220,362
Equipment	5,033,181
	<u>106,938,529</u>
Accumulated depreciation	(22,945,990)
	<u>\$ 83,992,539</u>



**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(6) Nonstate Support and Contributions Receivable**

Nonstate support and contributions receivable are discounted at rates ranging from 0.98% to 5.07% and summarized as follows at June 30, 2011:

Federal Grants Receivable	\$	2,895,182
Donor Pledges Receivable		5,514,020
		8,409,202
	\$	8,409,202

Unconditional promises expected to be collected in:

Less than one year	\$	2,547,444
One year to five years		3,081,738
More than five years		1,250
Less discount		(116,412)
		5,514,020
	\$	5,514,020

At June 30, 2011, one pledge made up 45% of the total donor pledges receivable.

**(7) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of June 30, 2011:

The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA consist of:

Programs	\$	3,111,032
Operations		3,920,720
		7,031,752

Gifts and other unexpended support and revenue available for:

Programs		9,741,305
Programs and operations from state appropriation		11,040,747
		27,813,804
	\$	27,813,804

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(7) Temporarily and Permanently Restricted Net Assets (Continued)**

Permanently restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2011:

Endowment funds for:		
Programs	\$	17,478,356
Operations		7,485,480
		24,963,836
Receivables for endowment fund		5,053,160
Split-interest agreements		192,113
Contributions receivable in remainder trust restricted for program		176,834
	\$	30,385,943

**(8) Endowment Funds**

The Society's endowment consists of approximately 112 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

Effective August 1, 2008, the State of Minnesota enacted UPMIFA. The Society has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence described by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Society and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and appreciation of investments;
6. Other resources of the Society; and
7. The investment policies of the Society.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(8) Endowment Funds (Continued)**

*Endowment Net Assets Composition by Type of Fund*

Endowment net assets consist of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ —	7,031,752	24,963,836	31,995,588
Board designated endowment funds	7,901,202	—	—	7,901,202
Total endowed net assets	<u>\$ 7,901,202</u>	<u>7,031,752</u>	<u>24,963,836</u>	<u>39,896,790</u>

**Changes in Endowment Net Assets**

Changes in Endowment Net Assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2010	\$ 6,478,444	4,807,359	18,992,126	30,277,929
Investment return	2,135,575	2,825,916	2,963,510	7,925,001
Contributions	—	—	3,008,200	3,008,200
Appropriation of endowment assets for expenditure	<u>(712,817)</u>	<u>(601,523)</u>	<u>—</u>	<u>(1,314,340)</u>
Endowment net assets, June 30, 2011	<u>\$ 7,901,202</u>	<u>7,031,752</u>	<u>24,963,836</u>	<u>39,896,790</u>

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$ -0- as of June 30, 2011.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**(8) Endowment Funds (Continued)**

**Return Objectives and Risk Parameters**

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce an annual return that equals or exceeds 7.50%, comprised of the Society's Annual Spending Rate plus inflation. The annual spending rate is the percentage of the endowment paid out each year to support the purposes of the endowment funds. The actual amount paid out is determined by multiplying the spending rate by the average quarterly market value of the endowment for the previous five calendar years. The annual spending rate for the fiscal year ended June 30, 2011 was 4.5%, including investment management fees.

**Strategies Employed for Achieving Objectives**

To satisfy its rate of return objective, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places emphasis on investments in equities (80%) and fixed income (20%).

**(9) Retirement Plan**

The Society participates in the Minnesota State Retirement System (MSRS), a multi-employer defined benefit plan, and Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), a defined contribution plan, on behalf of all nonstudent employees meeting age and length of service requirements. New employees have the option of choosing either plan. MSRS covers certain employees of the State of Minnesota, the University of Minnesota, and certain other entities, including the Society, not covered by other pension funds. The Society's liability for each plan is limited to the contribution rates and amounts as determined by statute. The Society has made all required contributions totaling \$920,575 for the year ended June 30, 2011.

**(10) Subsequent Events**

In connection with the preparation of the financial statements the Society evaluated subsequent events after the balance sheet date of June 30, 2011 through October 26, 2011, which was the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Executive Council  
Minnesota Historical Society  
St. Paul, Minnesota

Our report on the audit of the basic financial statements of Minnesota Historical Society as of June 30, 2011 appears on page 3. This audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of program functional expenses for the year ended June 30, 2011 is presented on the following page for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
October 26, 2011

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2011**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2010)**

	<b>Library collections and archival services</b>	<b>Publications</b>	<b>History Center Museum</b>	<b>Historic sites</b>	<b>Outreach and preservation</b>	<b>Total program services</b>	<b>Management and general</b>	<b>Development and membership</b>	<b>2011 total expenses</b>	<b>2010 total expenses</b>
Salaries	\$ 3,399,984	468,991	2,966,568	4,469,190	3,000,180	14,304,913	3,890,466	1,021,484	19,216,863	17,474,716
Benefits	1,100,404	161,509	974,904	1,413,842	905,668	4,556,327	1,173,606	279,282	6,009,215	5,635,856
	<u>4,500,388</u>	<u>630,500</u>	<u>3,941,472</u>	<u>5,883,032</u>	<u>3,905,848</u>	<u>18,861,240</u>	<u>5,064,072</u>	<u>1,300,766</u>	<u>25,226,078</u>	<u>23,110,572</u>
Rental fees	23,302	7,280	156,001	24,275	30,667	241,525	10,001	3,571	255,097	207,349
Advertising	54	25,729	3,429	37,615	1,107	67,934	482,738	250	550,922	594,594
Repairs	27,238	1,033	224,153	407,792	10,045	670,261	107,600	16,665	794,526	608,717
Insurance	9,500	2,967	6,917	1,025	—	20,409	113,969	851	135,229	134,258
Printing	40,174	379,192	77,536	41,032	32,589	570,523	250,993	69,192	890,708	718,668
Professional and technical services	2,124,385	173,169	407,795	922,810	1,093,842	4,722,001	796,585	123,098	5,641,684	3,275,133
Purchased services	35,745	221,784	883,346	799,926	262,849	2,203,650	212,882	86,240	2,502,772	1,816,295
Speakers' fees	1,822	700	108,369	21,100	108,584	240,575	5,100	2,000	247,675	189,408
Communications/postage	22,056	42,730	160,961	93,969	22,108	341,824	128,257	44,456	514,537	453,163
Employee travel	52,090	10,199	82,531	85,483	337,578	567,881	55,191	18,667	641,739	468,731
Utility service	—	—	32,239	401,742	—	433,981	—	—	433,981	392,896
Fees and other expenses	13,625	98,210	54,640	24,009	45,100	235,584	53,091	12,892	301,567	344,242
Supplies	134,017	20,069	534,184	254,375	161,972	1,104,617	203,821	35,807	1,344,245	959,647
Equipment	200,118	1,682	102,911	61,701	49,029	415,441	221,901	1,474	638,816	397,664
Collections acquisition	229,149	—	—	5,896	5,000	240,045	—	—	240,045	255,523
Buildings and improvements	110,800	—	107,378	907,612	—	1,125,790	—	—	1,125,790	3,718,250
Grants	20,000	—	239,804	122,800	7,033,094	7,415,698	102,020	—	7,517,718	2,496,931
Cost of goods sold	—	—	344,910	611,115	—	956,025	—	—	956,025	887,472
Depreciation	198,593	7,795	501,194	764,620	5,488	1,477,690	39,247	1,220	1,518,157	1,512,838
History Center building services	1,832,381	71,920	3,553,288	39,648	50,640	5,547,877	116,300	11,258	5,675,435	5,925,435
	<u>\$ 9,575,437</u>	<u>1,694,959</u>	<u>11,523,058</u>	<u>11,511,577</u>	<u>13,155,540</u>	<u>47,460,571</u>	<u>7,963,768</u>	<u>1,728,407</u>	<u>57,152,746</u>	<u>* 48,467,786</u>

\* Increased expenses largely due to Arts and Cultural Heritage funding

*See independent auditors' report on supplemental schedule of functional expenses.*