

**MINNESOTA HISTORICAL SOCIETY**

Financial Statements and Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

**MINNESOTA HISTORICAL SOCIETY  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Minnesota Historical Society  
St. Paul, Minnesota

We have audited the accompanying financial statements of Minnesota Historical Society, which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the 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.

### ***Auditors' 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 Historical Society as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses fund columns is the responsibility of management is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Report on Summarized Comparative Information**

We have previously audited the Organization's 2012 financial statements, and we expressed an unqualified opinion on those audited financial statements in our report dated October 24, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, 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 October 14, 2013, on our consideration of the Minnesota Historical Society'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 result 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 Historical Society's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 14, 2013

**MINNESOTA HISTORICAL SOCIETY**  
**BALANCE SHEET**  
**JUNE 30, 2013**  
**(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2012)**

Assets	Unrestricted			Temporarily restricted			2013 Total	2012 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Permanently restricted		
Cash and cash equivalents	\$ 6,185,116	-	50,903	1,210,119	3,549,026	588,928	11,584,092	10,955,336
Total cash and cash equivalents	6,185,116	-	50,903	1,210,119	3,549,026	588,928	11,584,092	10,955,336
Investments (at cost)	28,453	-	7,198,326	-	8,508,392	35,424,699	51,159,870	42,919,084
Unrealized gain (loss) on investments	-	-	937,123	-	2,225,959	734,766	3,897,848	678,491
Total investments (at fair value)	28,453	-	8,135,449	-	10,734,351	36,159,465	55,057,718	43,597,575
Receivables:								
Nonstate support and contributions, net	75,000	-	-	-	1,827,531	1,152,518	3,055,049	4,746,032
Contribution receivable in remainder trusts	-	-	-	-	-	198,138	198,138	192,581
State operating appropriation	-	-	-	105,327	-	-	105,327	15,000
State legacy appropriation	-	-	-	5,955,000	-	-	5,955,000	6,270,000
State capital appropriation	-	-	-	6,675,908	-	-	6,675,908	11,233,266
Cash on deposit with the State Treasurer	-	-	-	-	-	-	-	316,003
Contracts	147,779	-	-	-	-	-	147,779	823,524
Publication sales	339,022	-	-	-	-	-	339,022	283,607
Other	765,734	-	-	-	-	-	765,734	412,947
Total receivables	1,327,535	-	-	12,736,235	1,827,531	1,350,656	17,241,957	24,292,960
Museum shop inventories	1,145,922	-	-	-	-	-	1,145,922	1,127,545
Property and equipment, net	-	79,960,725	-	-	-	-	79,960,725	81,423,317
Total assets	\$ 8,687,026	79,960,725	8,186,352	13,946,354	16,110,908	38,099,049	164,990,414	161,396,733
<b>Liabilities and Net Assets</b>								
Liabilities:								
Accounts payable and accrued expenses	\$ 1,884,987	-	-	3,301,604	209,331	-	5,395,922	5,738,716
Accrued vacation and sick liability	2,064,962	-	-	-	-	-	2,064,962	1,893,707
Split-interest agreements liability	-	-	-	-	10,933	330,718	341,651	343,312
Total liabilities	3,949,949	-	-	3,301,604	220,264	330,718	7,802,535	7,975,735
Net assets:								
Unrestricted:								
Operating	4,737,077	79,960,725	-	-	-	-	84,697,802	84,629,299
Board-designated endowment	-	-	8,186,352	-	-	-	8,186,352	7,309,816
Total unrestricted	4,737,077	79,960,725	8,186,352	-	-	-	92,884,154	91,939,115
Temporarily restricted	-	-	-	10,644,750	15,890,644	-	26,535,394	29,570,914
Permanently restricted	-	-	-	-	-	37,768,331	37,768,331	31,910,969
Total net assets	4,737,077	79,960,725	8,186,352	10,644,750	15,890,644	37,768,331	157,187,879	153,420,998
Total liabilities and net assets	\$ 8,687,026	79,960,725	8,186,352	13,946,354	16,110,908	38,099,049	164,990,414	161,396,733

See accompanying Notes to Financial Statements.

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2013**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	Unrestricted			Temporarily restricted			2013 Total	2012 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Permanently restricted		
Support and revenue:								
Support:								
Private contributions	\$ 2,296,976	-	-	-	1,227,382	2,770,702	6,295,060	3,604,327 *
Sale of Collection Item (See Note 11)	-	-	-	-	-	70,620	70,620	1,487,662
Federal grants	-	-	-	-	958,797	-	958,797	1,926,727 *
County and other grants	-	-	-	-	62,000	-	62,000	217,000
State operating appropriation	-	-	-	20,501,327	-	-	20,501,327	20,407,944
State legacy appropriation	-	-	-	12,950,000	-	-	12,950,000	12,050,000
State capital appropriation	-	-	-	-	-	-	-	5,300,000 *
Total support	<u>2,296,976</u>	<u>-</u>	<u>-</u>	<u>33,451,327</u>	<u>2,248,179</u>	<u>2,841,322</u>	<u>40,837,804</u>	<u>44,993,660</u>
Revenue:								
Admission fees	2,487,791	-	-	-	-	-	2,487,791	2,336,025
Museum store sales	1,867,432	-	-	-	-	-	1,867,432	1,770,292
Publication sales	1,211,179	-	-	-	-	-	1,211,179	992,907
Program fees	1,009,992	-	-	-	-	-	1,009,992	872,818
Contract service fees	1,908,637	-	-	-	-	-	1,908,637	1,737,024
Library sales and fees	365,334	-	-	-	-	-	365,334	367,776
Investment return	1,221	-	1,218,728	-	2,323,030	3,875,743	7,418,722	(1,674,184) *
Endowment payout	914,861	-	(342,192)	-	287,034	(859,703)	-	-
Rental, parking, food services	1,136,301	-	-	-	-	-	1,136,301	1,142,126
Other sales, fees, and memberships	621,920	-	-	-	-	-	621,920	526,079
Total revenue	<u>11,524,668</u>	<u>-</u>	<u>876,536</u>	<u>-</u>	<u>2,610,064</u>	<u>3,016,040</u>	<u>18,027,308</u>	<u>8,070,863</u>
Total support and revenue	<u>13,821,644</u>	<u>-</u>	<u>876,536</u>	<u>33,451,327</u>	<u>4,858,243</u>	<u>5,857,362</u>	<u>58,865,112</u>	<u>53,064,523</u>
Net assets released from program restrictions	<u>41,315,488</u>	<u>29,602</u>	<u>-</u>	<u>(37,818,840)</u>	<u>(3,526,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from program restrictions	<u>\$ 55,137,132</u>	<u>29,602</u>	<u>876,536</u>	<u>(4,367,513)</u>	<u>1,331,993</u>	<u>5,857,362</u>	<u>58,865,112</u>	<u>53,064,523</u>

\* See Note 12 for explanation of comparison to prior year.

See accompanying Notes to Financial Statements.

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2013**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	Unrestricted		Board- designated endowment	Temporarily restricted		Permanently restricted	2013 Total	2012 Total
	Operating	Plant fund		State appropriations	Other			
Expenses:								
Program services:								
Library & Collections	\$ 6,954,060	198,616	-	-	-	-	7,152,676	7,504,947
Publications	1,998,684	7,812	-	-	-	-	2,006,496	1,616,827
Historic sites	11,942,762	734,175	-	-	-	-	12,676,937	14,461,158
History Center Museum	11,537,466	505,635	-	-	-	-	12,043,101	10,904,468
Outreach and preservation	11,315,379	5,474	-	-	-	-	11,320,853	8,712,410
Total program services	<u>43,748,351</u>	<u>1,451,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,200,063</u>	<u>43,199,810</u>
Supporting services:								
Management and general	8,187,962	39,252	-	-	-	-	8,227,214	7,132,838
Development and membership	1,669,724	1,230	-	-	-	-	1,670,954	1,613,454
Total supporting services	<u>9,857,686</u>	<u>40,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,898,168</u>	<u>8,746,292</u>
Total expenses	<u>53,606,037</u>	<u>1,492,194</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,098,231</u>	<u>51,946,102</u>
Increase (decrease) in net assets	1,531,095	(1,462,592)	876,536	(4,367,513)	1,331,993	5,857,362	3,766,881	1,118,421
Changes in net assets:								
Unrestricted	1,531,095	(1,462,592)	876,536	-	-	-	945,039	(2,163,715)
Temporarily restricted	-	-	-	(4,367,513)	1,331,993	-	(3,035,520)	2,624,473
Permanently restricted	-	-	-	-	-	5,857,362	5,857,362	657,663
Net changes in net assets	<u>1,531,095</u>	<u>(1,462,592)</u>	<u>876,536</u>	<u>(4,367,513)</u>	<u>1,331,993</u>	<u>5,857,362</u>	<u>3,766,881</u>	<u>1,118,421</u>
Net assets at beginning of year	<u>3,205,982</u>	<u>81,423,317</u>	<u>7,309,816</u>	<u>15,012,263</u>	<u>14,558,651</u>	<u>31,910,969</u>	<u>153,420,998</u>	<u>152,302,577</u>
Net assets at end of year	<u>\$ 4,737,077</u>	<u>79,960,725</u>	<u>8,186,352</u>	<u>10,644,750</u>	<u>15,890,644</u>	<u>37,768,331</u>	<u>157,187,879</u>	<u>153,420,998</u>

See accompanying Notes to Financial Statements.

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2013**  
**(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 3,766,881	1,118,421
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Depreciation	1,492,194	1,494,673
Collection Expenses	-	1,119,466
Net realized and unrealized loss (gain) on investments	(6,415,296)	2,484,224
Adjustment of actuarial liability for split-interest agreements liability	33,155	78,888
Gain on sale of collection items	(70,620)	(1,487,662)
Contributions restricted for financing activities	(2,770,702)	(688,584)
Changes in assets and liabilities:		
Receivables	8,278,281	(581,365)
Museum shop inventories	(18,377)	(68,228)
Accounts payable and accrued expenses	(342,794)	(875,900)
Accrued vacation and sick liability	171,255	(166,357)
Net cash provided by operating activities	<u>4,123,977</u>	<u>2,427,576</u>
Cash flows from investing activities:		
Purchase of property and equipment	(29,602)	(44,916)
Purchase of investments	(25,558,955)	(23,947,092)
Proceeds from sale of investments	20,514,108	20,849,217
Proceeds from sale of collection items	70,620	1,487,662
Net cash used in investing activities	<u>(5,003,829)</u>	<u>(1,655,129)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(34,816)	(34,752)
Proceeds (Payments) from contributions restricted for:		
Investment in endowment	1,543,424	(1,693,301)
Net cash provided (used) by financing activities	<u>1,508,608</u>	<u>(1,728,053)</u>
Net increase (decrease) in cash and cash equivalents	628,756	(955,606)
Cash and cash equivalents at beginning of year	<u>10,955,336</u>	<u>11,910,942</u>
Cash and cash equivalents at end of year	<u>\$ 11,584,092</u>	<u>10,955,336</u>

*See accompanying Notes to Financial Statements.*



**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**(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 using the power of history to transform lives by preserving, sharing and connecting. 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, 2013**

**(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 in 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 in 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, 2013**

**(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 0.9% to 6.0% commensurate with the risks involved and the 2013 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** – 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.
- **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.
- **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.
- **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, 2013**

**(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, 2013**

**(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 \$173,579 begins to expire in 2021. The Society follows the 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 examination for the fiscal years ended June 30, 2010-2012.

**(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, 2013**

**(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 2012 financial statements from which the summarized information was derived.

**(3) Cash and Investments**

Cash and investments consist of the following at June 30, 2013:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Cash & Cash Equivalents	\$ 11,584,092	11,584,092
Investments:		
Equity	12,595,514	14,777,277
Fixed Income	10,925,685	11,079,578
Balanced	3,141,179	3,597,662
Total Mutual Funds	<u>26,662,378</u>	<u>29,454,517</u>
Common Stocks:		
Domestic	11,236,610	13,063,988
Foreign	663,611	748,352
Total Common Stock	<u>11,900,221</u>	<u>13,812,340</u>
Common Collective Trusts:		
Domestic	5,615,454	5,468,625
Foreign	4,215,368	3,270,756
Private Equity	2,766,449	3,051,480
Total Common Collective Trusts	<u>12,597,271</u>	<u>11,790,861</u>
Total investments	<u>51,159,870</u>	<u>55,057,718</u>
Total cash, cash equivalents & investments	<u>\$ 62,743,962</u>	<u>66,641,810</u>

**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

Investment return for the year ended June 30, 2013 consisted of the following:

Dividends and interest	\$ 1,003,426
Net realized gain on investments	3,208,274
Net unrealized gain on investments	<u>3,207,022</u>
Investment return	\$ <u><u>7,418,722</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 \$270,924 for the year ended June 30, 2013. In addition, included in investments is \$593,396 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, 2013**

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

The following table summarizes the Society's investments that were accounted for at fair value, as of June 30, 2013:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equity	\$ 14,777,277	-	-	14,777,277
Fixed Income	11,079,578	-	-	11,079,578
Balanced	3,597,662	-	-	3,597,662
Total Mutual Funds	<u>29,454,517</u>	<u>-</u>	<u>-</u>	<u>29,454,517</u>
Common Stocks:				
Domestic	13,063,988	-	-	13,063,988
Foreign	748,352	-	-	748,352
Total Common Stock	<u>13,812,340</u>	<u>-</u>	<u>-</u>	<u>13,812,340</u>
Common Collective Trusts:				
Domestic	-	5,468,625	-	5,468,625
Foreign	-	3,270,756	-	3,270,756
Private Equity	-	-	3,051,480	3,051,480
Total Common Collective Trusts	<u>-</u>	<u>8,739,381</u>	<u>3,051,480</u>	<u>11,790,861</u>
	<u>\$ 43,266,857</u>	<u>8,739,381</u>	<u>3,051,480</u>	<u>55,057,718</u>

The following table summarizes the Society's contribution receivable in remainder trusts that were accounted for at fair value, as of June 30, 2013:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contribution receivable in remainder trusts	\$ -	198,138	-	198,138
	<u>\$ -</u>	<u>198,138</u>	<u>-</u>	<u>198,138</u>



**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

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. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2013:

<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	\$ 2,442,077	-	Daily	10 Days
Bernstein Global Style Blend	6,297,304	-	Quarterly	90 Days
Total	<u>\$ 8,739,381</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 fund's audited net asset value per share multiplied by the Society's units owned as of June 30, 2013.

Bernstein Global Style Blend includes investments in large cap US common stock and International large cap common stocks. The fund's audited net asset value per share multiplied by the Society's units owned as of June 30, 2013.

Changes in Private Equity for the year ended June 30, 2013 are as follows:

Private Equity Balance July 1, 2012	\$ 2,299,368
Purchases	279,372
Distributions	-
	<u>2,578,740</u>
Change in Market Value	<u>472,740</u>
Private Equity Balance June 30, 2013	<u>\$ 3,051,480</u>

The unobservable inputs used to determine the fair value of the investment in this category is based on the fund's audited net asset value per share multiplied by the Society's units owned as of June 30, 2013.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(5) Property and Equipment**

Property and equipment consist of the following at June 30, 2013:

Land	\$ 4,684,986
Property and improvement	95,823,815
Equipment	<u>5,107,700</u>
	105,616,501
Accumulated depreciation	<u>(25,655,776)</u>
	<u>\$ 79,960,725</u>

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

Nonstate support and contributions receivable are discounted at rates ranging from 0.72% to 4.35% and summarized as follows at June 30, 2013:

Federal Grants Receivable	\$ 1,540,192
Government Grants Receivable	31,000
Donor Pledges Receivable	<u>1,483,857</u>
	<u>\$ 3,055,049</u>

Unconditional promises expected to be collected in:

Less than one year	\$ 2,559,939
One year to five years	509,210
More than five years	-
Less discount	<u>(14,100)</u>
	<u>\$ 3,055,049</u>

At June 30, 2013, one pledge made up 33% of the total donor pledges receivable.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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

Temporarily restricted net assets are available for the following purposes as of June 30, 2013:

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

Programs	\$ 3,409,579
Operations	4,069,143
	<u>7,478,722</u>

Gifts and other unexpended support and revenue available for:

Programs	8,411,922
Programs and operations from state appropriation	10,644,750
	<u>26,535,394</u>

Permanently restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2013:

Endowment funds for:

Programs	\$ 27,560,350
Operations	9,767,969
	<u>37,328,319</u>

Split-interest agreements  
Contributions receivable in remainder trust restricted for program

	241,874
	<u>198,138</u>
	<u>\$ 37,768,331</u>

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(8) Endowment Funds**

The Society's endowment consists of approximately 128 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, 2013**

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

***Endowment Net Assets Composition by Type of Fund***

Endowment net assets consist of the following at June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	7,478,722	37,328,319	44,807,041
Board designated endowment funds	8,186,352	-	-	8,186,352
Total endowed net assets	<u>\$ 8,186,352</u>	<u>7,478,722</u>	<u>37,328,319</u>	<u>52,993,393</u>

***Changes in Endowment Net Assets***

Changes in Endowment Net Assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2012	\$ 7,309,816	6,081,246	31,509,489	44,900,551
Investment return	1,218,728	1,861,875	3,841,858	6,922,461
Contributions	-	-	2,836,675	2,836,675
Appropriation of endowment assets for expenditure	<u>(342,192)</u>	<u>(464,399)</u>	<u>(859,703)</u>	<u>(1,666,294)</u>
Endowment net assets, June 30, 2013	<u>\$ 8,186,352</u>	<u>7,478,722</u>	<u>37,328,319</u>	<u>52,993,393</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, 2013.

**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**(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. Endowments 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, 2013 was 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 \$931,289 for the year ended June 30, 2013. The Society's share of the underfunded amount for the MSRS plan is not readily available.

**(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, 2013 through October 14, 2013, which was the date the financial statements were available to be issued.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(11) Sale of Collection Item**

*Sale of the Allyn K. Ford Manuscript Collection*

During the fiscal year ended June 30, 2011 the Society's governing board approved the de-accessioning of the Allyn K. Ford Collection. The most valuable portion of the collection was sold at auction during the fiscal year ended June 30, 2012 for \$1,487,524. Sales occurred in fiscal year ending June 30, 2013 of \$70,620 and additional sales are expected in fiscal years ending June 30, 2014 and later.

The Allyn K. Ford collection was donated to the Society by Mr. Ford in 1965 and 1972. The collection contains 1,575 items that include a variety of materials spanning two centuries of American history. Some items are purely of autograph value including letters from American presidents through the 1960s. The majority of the manuscript items, however, contain substantive research and collectible value, especially about the Revolutionary War and early federal periods. At least 155 items in this collection are of Minnesota significance and will not be sold.

The Society is bound by both its charter and professional museum practice in the use of funds resulting from the sale of collections materials. The Society's charter requires that the organization retain the value of the materials in perpetuity. Accredited museums must use the proceeds of the sale of deaccessioned items for either purchase of items for the collection or direct care of the collection. Accordingly, after these items are sold, the Society will place the proceeds of the sale of these materials in an endowment to support future purchase of collections items.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**(12) Statement of Activities – Notable items for the year ended June 30, 2013 compared to 2012**

	2013 Total	2012 Total	Change
Private Contributions Support	\$ 6,295,060	\$ 3,604,327	\$ 2,690,733
Federal Grants	\$ 958,797	\$ 1,926,727	\$ (967,930)
State Capital Appropriation Support	\$ -	\$ 5,300,000	\$ (5,300,000)
Investment Return	\$ 7,418,722	\$ (1,674,184)	\$ 9,092,906
Total Expenses	\$ 55,098,231	\$ 51,946,102	\$ 3,152,129

Private Contributions Support - The majority of this increase related to a large donor endowment bequest received during the fiscal year ended June 30, 2013.

Federal Grants – In addition to the ongoing National Park Service grant the Society had received several federal grants for one time projects during the fiscal year ended June 30, 2012. These grants were recorded during the fiscal year ended June 30, 2012 and not repeated for fiscal year ended June 30, 2013.

State Capital Appropriation Support - The Minnesota state legislature approved bonding bills in July 2011 (delayed due to shutdown) and in May 2012 to the Society for capital preservation projects. The legislature normally appropriates bonding funds in even numbered years, therefore, there was no additional amount shown in the fiscal year ended June 30, 2013.

Investment Return Revenue - These amounts are from dividends, interest, and net realized and unrealized gain/(loss) on investments from the Society's endowment portfolio. This increase is related to market conditions affecting the individual investments and, more specifically, includes a significant amount of unrealized gain during the fiscal year ended June 30, 2013.

Total Expenses - Much of this increase in expense is related to the timing of expenses for the Legacy funding from the Arts and Cultural Heritage funds from the State of Minnesota. The biennial cycle provides an appropriation for two years and allows for funds to be carried forward from the first year to the second year of the biennium. Since these funds can carry forward to the second year of the biennium, and there are delays in start up for implementing Legacy funded programs and grants during the first year, these funds are typically spent in a higher proportion during the second year, which was the case during the fiscal year ended June 30, 2013. There was also a decrease in expenses for Historic sites related to capital bond funds and during the fiscal year ended June 30, 2012 there were amounts reclassified as expense for Fort Snelling that were previously capitalized. This expense is not present in the fiscal year ended June 30, 2013.



**SUPPLEMENTARY INFORMATION**

**MINNESOTA HISTORICAL SOCIETY  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2013**

**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	<b>Library &amp; Collections</b>	<b>Publications</b>	<b>Historic sites</b>	<b>History Center Museum</b>	<b>Outreach and preservation</b>	<b>Total program services</b>	<b>Management and general</b>	<b>Development and membership</b>	<b>2013 total expenses</b>	<b>2012 total expenses</b>
Salaries	\$ 2,937,956	585,541	4,485,148	3,346,464	2,921,450	14,276,559	3,900,743	951,043	19,128,345	18,039,401
Benefits	953,882	185,554	1,448,024	1,084,588	945,123	4,617,171	1,231,040	298,283	6,146,494	5,883,603
	<u>3,891,838</u>	<u>771,095</u>	<u>5,933,172</u>	<u>4,431,052</u>	<u>3,866,573</u>	<u>18,893,730</u>	<u>5,131,783</u>	<u>1,249,326</u>	<u>25,274,839</u>	<u>23,923,004</u>
Rental fees	21,394	7,277	15,778	29,785	12,605	86,839	13,215	5,489	105,543	150,027
Advertising	199	33,706	32,137	8,460	738	75,240	745,346	-	820,586	569,054
Repairs	41,103	841	303,456	106,934	35,600	487,934	120,295	24,948	633,177	754,494
Insurance	10,000	1,467	-	25	1,500	12,992	158,302	-	171,294	166,315
Printing	27,922	415,889	35,407	65,566	36,214	580,998	204,012	100,691	885,701	737,002
Professional and technical services	786,772	298,794	789,732	317,592	810,404	3,003,294	956,026	60,585	4,019,905	3,461,215
Purchased services	20,677	198,032	847,038	2,011,355	325,464	3,402,566	178,117	76,153	3,656,836	2,158,903
Speakers' fees	700	500	19,491	178,048	171,261	370,000	2,050	4,797	376,847	265,032
Communications/postage	18,900	53,802	91,088	108,510	20,006	292,306	124,665	66,667	483,638	466,123
Employee travel	38,794	13,136	114,520	83,757	182,625	432,832	63,021	25,119	520,972	550,763
Utility service	-	-	364,149	35,312	-	399,461	-	-	399,461	388,791
Fees and other expenses	14,663	112,477	37,189	37,527	49,985	251,841	53,132	8,756	313,729	297,425
Supplies	97,806	14,109	262,746	520,025	193,369	1,088,055	153,654	34,580	1,276,289	1,011,601
Equipment	102,991	12,795	78,418	93,376	35,105	322,685	178,804	2,415	503,904	404,247
Collections acquisition	225,963	-	-	-	-	225,963	-	-	225,963	127,301
Buildings and improvements	-	-	2,304,253	5,159	-	2,309,412	-	-	2,309,412	4,486,197
Grants	7,700	-	-	71,499	5,528,544	5,607,743	1,000	-	5,608,743	4,039,943
Cost of goods sold	-	-	678,491	241,179	-	919,670	-	-	919,670	894,464
Depreciation	198,616	7,812	734,175	505,635	5,474	1,451,712	39,252	1,230	1,492,194	1,494,673
History Center building services	1,646,638	64,764	35,697	3,192,305	45,386	4,984,790	104,540	10,198	5,099,528	5,599,528
	<u>\$ 7,152,676</u>	<u>2,006,496</u>	<u>12,676,937</u>	<u>12,043,101</u>	<u>11,320,853</u>	<u>45,200,063</u>	<u>8,227,214</u>	<u>1,670,954</u>	<u>55,098,231</u>	<u>51,946,102</u>

\* See Note 12 for explanation of comparison to prior year.