

**MINNESOTA HISTORICAL SOCIETY**

Financial Statements and Supplementary Information

June 30, 2015

(With Independent Auditors' Report Thereon)

**MINNESOTA HISTORICAL SOCIETY  
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## INDEPENDENT AUDITORS' REPORT

Executive Council  
Minnesota Historical Society  
St. Paul, Minnesota

We have audited the accompanying financial statements of Minnesota Historical Society (the Society), which comprise the balance sheet as of June 30, 2015, and the related statements of activities and cash flows for the year 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 Society'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 Society'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, 2015, and the results of its operations and its cash flows for the year 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 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 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, 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**

St. Cloud, Minnesota  
October 22, 2015

**MINNESOTA HISTORICAL SOCIETY**  
**BALANCE SHEET**  
**JUNE 30, 2015**  
**(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2014)**

Assets	Unrestricted			Temporarily restricted		Permanently restricted	2015 Total	2014 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other			
Cash and cash equivalents	\$ 8,936,623	-	-	(703,839)	3,489,127	1,296,039	13,017,950	17,820,075
Total cash and cash equivalents	8,936,623	-	-	(703,839)	3,489,127	1,296,039	13,017,950	17,820,075
Investments (at cost)	66,464	-	9,009,364	-	11,545,485	54,359,933	74,981,246	61,670,626
Unrealized gain (loss) on investments	-	-	875,843	-	2,156,765	(105,840)	2,926,768	6,757,338
Total investments (at fair value)	66,464	-	9,885,207	-	13,702,250	54,254,093	77,908,014	68,427,964
Receivables:								
Nonstate support and contributions, net	4,588	-	-	-	4,701,009	322,462	5,028,059	3,604,338
Contribution receivable in remainder trusts	-	-	-	-	-	205,688	205,688	205,486
State operating appropriation	-	-	-	-	-	-	-	105,327
State legacy appropriation	-	-	-	7,742,800	-	-	7,742,800	7,425,140
State capital appropriation	-	-	-	16,425,511	-	-	16,425,511	17,570,536
Contracts	285,910	-	-	-	-	-	285,910	188,815
Publication sales	237,929	-	-	-	-	-	237,929	277,205
Other	776,473	-	-	-	-	-	776,473	812,441
Total receivables	1,304,900	-	-	24,168,311	4,701,009	528,150	30,702,370	30,189,288
Museum shop inventories	1,071,600	-	-	-	-	-	1,071,600	1,075,928
Property and equipment, net	-	77,708,180	-	-	-	-	77,708,180	78,610,611
Total assets	\$ 11,379,587	77,708,180	9,885,207	23,464,472	21,892,386	56,078,282	200,408,114	196,123,866
<b>Liabilities and Net Assets</b>								
Liabilities:								
Accounts payable and accrued expenses	\$ 2,825,541	-	-	2,544,173	195,469	-	5,565,183	4,587,235
Accrued vacation and sick liability	2,184,287	-	-	-	-	-	2,184,287	2,115,446
Split-interest agreements liability	-	-	-	-	9,669	357,160	366,829	356,945
Total liabilities	5,009,828	-	-	2,544,173	205,138	357,160	8,116,299	7,059,626
Net assets:								
Unrestricted:								
Operating	6,369,759	77,708,180	-	-	-	-	84,077,939	84,892,493
Board-designated endowment	-	-	9,885,207	-	-	-	9,885,207	9,641,886
Total unrestricted	6,369,759	77,708,180	9,885,207	-	-	-	93,963,146	94,534,379
Temporarily restricted	-	-	-	20,920,299	21,687,248	-	42,607,547	41,445,826
Permanently restricted	-	-	-	-	-	55,721,122	55,721,122	53,084,035
Total net assets	6,369,759	77,708,180	9,885,207	20,920,299	21,687,248	55,721,122	192,291,815	189,064,240
Total liabilities and net assets	\$ 11,379,587	77,708,180	9,885,207	23,464,472	21,892,386	56,078,282	200,408,114	196,123,866

See accompanying Notes to Financial Statements.

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**  
**(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2014)**

	Unrestricted			Temporarily restricted		Permanently restricted	2015 Total	2014 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other			
Support and revenue:								
Support:								
Private contributions	\$ 2,752,844	-	-	-	3,910,845	1,561,143	8,224,832	14,953,105 *
Sale of Collection Item (See Note 11)	-	-	-	-	-	22,591	22,591	125,867
Federal grants	-	-	-	-	1,006,640	-	1,006,640	1,163,869
County and other grants	-	-	-	-	93,000	-	93,000	92,000
State operating appropriation	-	-	-	21,335,000	-	-	21,335,000	21,335,000
State legacy appropriation	-	-	-	13,950,000	-	-	13,950,000	13,675,000
State capital appropriation	-	-	-	500,000	-	-	500,000	13,402,000 *
Total support	<u>2,752,844</u>	<u>-</u>	<u>-</u>	<u>35,785,000</u>	<u>5,010,485</u>	<u>1,583,734</u>	<u>45,132,063</u>	<u>64,746,841</u>
Revenue:								
Admission fees	2,678,006	-	-	-	-	-	2,678,006	2,612,313
Museum store sales	2,087,346	-	-	-	-	-	2,087,346	1,911,691
Publication sales	1,277,685	-	-	-	-	-	1,277,685	1,876,122
Program fees	1,437,826	-	-	-	-	-	1,437,826	1,124,397
Contract service fees	2,660,942	-	-	-	-	-	2,660,942	2,640,627
Library sales and fees	345,448	-	-	-	-	-	345,448	327,921
Investment return	3,662	-	512,053	-	722,604	2,012,849	3,251,168	11,070,987 *
Endowment payout	850,650	-	(268,732)	-	377,578	(959,496)	-	-
Rental, parking, food services	1,214,045	-	-	-	-	-	1,214,045	1,168,309
Other sales, fees, and memberships	722,018	-	-	-	-	-	722,018	659,771
Total revenue	<u>13,277,628</u>	<u>-</u>	<u>243,321</u>	<u>-</u>	<u>1,100,182</u>	<u>1,053,353</u>	<u>15,674,484</u>	<u>23,392,138</u>
Total support and revenue	<u>16,030,472</u>	<u>-</u>	<u>243,321</u>	<u>35,785,000</u>	<u>6,110,667</u>	<u>2,637,087</u>	<u>60,806,547</u>	<u>88,138,979</u>
Net assets released from program restrictions	<u>40,130,736</u>	<u>603,210</u>	<u>-</u>	<u>(37,605,018)</u>	<u>(3,128,928)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from program restrictions	<u>\$ 56,161,208</u>	<u>603,210</u>	<u>243,321</u>	<u>(1,820,018)</u>	<u>2,981,739</u>	<u>2,637,087</u>	<u>60,806,547</u>	<u>88,138,979</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, 2015**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	<u>Unrestricted</u>			<u>Temporarily restricted</u>			<u>2015 Total</u>	<u>2014 Total</u>
	<u>Operating</u>	<u>Plant fund</u>	<u>Board- designated endowment</u>	<u>State appropriations</u>	<u>Other</u>	<u>Permanently restricted</u>		
Expenses:								
Program services:								
Library & Collections	\$ 7,498,470	198,616	-	-	-	-	7,697,086	7,293,897
Publications	2,037,837	7,812	-	-	-	-	2,045,649	1,983,672
Historic Sites	11,787,447	736,422	-	-	-	-	12,523,869	12,375,250
History Center Museum & Education	11,343,602	530,155	-	-	-	-	11,873,757	11,939,572
Education Outreach and preservation	12,094,929	5,474	-	-	-	-	12,100,403	11,965,759
Total program services	<u>44,762,285</u>	<u>1,478,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,240,764</u>	<u>45,558,150</u>
Supporting services:								
Management and General	9,270,727	25,932	-	-	-	-	9,296,659	8,921,741
Development and Membership	2,040,319	1,230	-	-	-	-	2,041,549	1,782,727
Total supporting services	<u>11,311,046</u>	<u>27,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,338,208</u>	<u>10,704,468</u>
Total expenses	<u>56,073,331</u>	<u>1,505,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,578,972</u>	<u>56,262,618</u>
Increase (decrease) in net assets	87,877	(902,431)	243,321	(1,820,018)	2,981,739	2,637,087	3,227,575	31,876,361
Changes in net assets:								
Unrestricted	87,877	(902,431)	243,321	-	-	-	(571,233)	1,650,225
Temporarily restricted	-	-	-	(1,820,018)	2,981,739	-	1,161,721	14,910,432
Permanently restricted	-	-	-	-	-	2,637,087	2,637,087	15,315,704
Net changes in net assets	<u>87,877</u>	<u>(902,431)</u>	<u>243,321</u>	<u>(1,820,018)</u>	<u>2,981,739</u>	<u>2,637,087</u>	<u>3,227,575</u>	<u>31,876,361</u>
Net assets at beginning of year	6,281,882	78,610,611	9,641,886	22,740,317	18,705,509	53,084,035	189,064,240	157,187,879
Net assets at end of year	<u>\$ 6,369,759</u>	<u>77,708,180</u>	<u>9,885,207</u>	<u>20,920,299</u>	<u>21,687,248</u>	<u>55,721,122</u>	<u>192,291,815</u>	<u>189,064,240</u>

See accompanying Notes to Financial Statements.

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2015**  
**(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 3,227,575	31,876,361
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Depreciation	1,505,641	1,492,329
Net realized and unrealized gain on investments	(1,945,906)	(10,029,105)
Adjustment of actuarial liability for split-interest agreements liability	51,736	52,520
Gain on sale of collection items	(22,591)	(125,867)
Contributions restricted for endowment	(1,561,143)	(9,738,958)
Changes in assets and liabilities:		
Receivables	316,137	(12,118,112)
Museum shop inventories	4,328	69,994
Accounts payable and accrued expenses	845,993	(808,687)
Accrued vacation and sick liability	68,841	50,484
Net cash provided by operating activities	<u>2,490,611</u>	<u>720,959</u>
Cash flows from investing activities:		
Purchase of property and equipment	(471,255)	(142,215)
Purchase of investments	(30,616,076)	(35,968,452)
Proceeds from sale of investments	23,081,932	32,627,311
Proceeds from sale of collection items	22,591	125,867
Net cash used in investing activities	<u>(7,982,808)</u>	<u>(3,357,489)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(41,852)	(37,226)
Proceeds from contributions restricted for:		
Investment in endowment	731,924	8,909,739
Net cash provided by financing activities	<u>690,072</u>	<u>8,872,513</u>
Net change in cash and cash equivalents	(4,802,125)	6,235,983
Cash and cash equivalents at beginning of year	<u>17,820,075</u>	<u>11,584,092</u>
Cash and cash equivalents at end of year	<u>\$ 13,017,950</u>	<u>17,820,075</u>
Non-cash purchase of property and equipment	<u>\$ 131,955</u>	<u>-</u>

*See accompanying Notes to Financial Statements.*

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(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 funding from the State of Minnesota in the form of legislative appropriations, grants from the federal government, and membership revenue as well as donations from the private sector. The Society's earned revenue is derived from investment return, store sales and admissions, publications sales, rental, parking, and food service, and other sales and fees.

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, 2015**

**(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 and is recorded as necessary.

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 for capital bond projects. These funds are available until the project is completed or abandoned, within specified sunset dates.

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 or sales are earned based on time of delivery of goods or services. 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, 2015**

(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 0.7% to 4.3% commensurate with the risks involved and the 2015 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 & Education** – 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, including school groups, 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.
- **Education, 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. Develops Minnesota history curriculum and coordinates the Minnesota History Day program.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

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

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) Grants Payable**

The Society awards grants through a review process which varies based on the size of the grant. After final approval, certain grants are paid out immediately and other grants are paid out based on certain milestones. Grants are recorded as grants payable at the time the amounts are due to the grantee based on these milestones, therefore, although grants may have been approved in the current period, some amounts are not recorded as grants payable until future periods.

**(k) 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.

**(l) 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 \$201,384 begins to expire in 2022. The Society follows the financial accounting standards relating to uncertainty in income taxes. The Society had no uncertain tax positions.

**MINNESOTA HISTORICAL SOCIETY**  
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**(2) Summary of Accounting Policies (Continued)**

*(m) 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.

*(n) 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.

*(o) 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 2014 financial statements from which the summarized information was derived.

**(3) Cash and Investments**

Cash and investments consist of the following at June 30, 2015:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 13,017,950	13,017,950
Mutual Funds:		
Equity	27,102,569	30,103,258
Fixed Income	11,695,093	11,609,644
Total Mutual Funds	<u>38,797,662</u>	<u>41,712,902</u>
Common Stocks:		
Domestic	16,266,066	19,285,218
Foreign	556,089	700,040
Total Common Stock	<u>16,822,155</u>	<u>19,985,258</u>
Common Collective Trusts:		
Domestic	8,577,686	7,685,418
Foreign	6,604,471	4,607,244
Private Equity	4,179,272	3,917,192
Total Common Collective Trusts	<u>19,361,429</u>	<u>16,209,854</u>
Total investments	<u>74,981,246</u>	<u>77,908,014</u>
Total cash, cash equivalents and investments	<u>\$ 87,999,196</u>	<u>90,925,964</u>

**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**(3) Cash and Investments (Continued)**

As of June 30, 2015, state appropriation cash on the balance sheet is negative due to timing of cash draw requests from the State of Minnesota.

Investment return for the year ended June 30, 2015 consisted of the following:

Dividends and interest	\$ 1,305,262
Net realized gain on investments	5,767,044
Net unrealized loss on investments	<u>(3,821,138)</u>
Investment return	\$ <u><u>3,251,168</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. In addition, included in investments is \$640,489 of investments under split-interest agreements.

Investment expenses, including custodial and management fees for all funds, totaled \$355,004 for the year ended June 30, 2015.

**(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.

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

The following table summarizes the Society's investments that were accounted for at fair value, as of June 30, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equity	\$ 30,103,258	-	-	30,103,258
Fixed Income	11,609,644	-	-	11,609,644
Total Mutual Funds	<u>41,712,902</u>	<u>-</u>	<u>-</u>	<u>41,712,902</u>
Common Stocks:				
Domestic	19,285,218	-	-	19,285,218
Foreign	700,040	-	-	700,040
Total Common Stock	<u>19,985,258</u>	<u>-</u>	<u>-</u>	<u>19,985,258</u>
Common Collective Trusts:				
Domestic	-	7,685,418	-	7,685,418
Foreign	-	4,607,244	-	4,607,244
Private Equity	-	-	3,917,192	3,917,192
Total Common Collective Trusts	<u>-</u>	<u>12,292,662</u>	<u>3,917,192</u>	<u>16,209,854</u>
	<u>\$ 61,698,160</u>	<u>12,292,662</u>	<u>3,917,192</u>	<u>77,908,014</u>

The following table summarizes the Society's contribution receivable in remainder trusts that were accounted for at fair value, as of June 30, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contribution receivable in remainder trusts	\$ -	205,688	-	205,688

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**(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, 2015:

<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	\$ 3,946,376	-	Daily	10 Days
Bernstein Global Style Blend	<u>8,346,286</u>	-	Quarterly	90 Days
Total	<u>\$ 12,292,662</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, 2015.

Bernstein Global Style Blend includes investments in large cap U.S. common stock and International large 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, 2015.

Changes in Private Equity for the year ended June 30, 2015 are as follows:

Private Equity Balance July 1, 2014	\$ 3,672,080
Purchases	-
Distributions	-
	<u>3,672,080</u>
Change in Market Value	<u>245,112</u>
Private Equity Balance June 30, 2015	<u>\$ 3,917,192</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, 2015.

**MINNESOTA HISTORICAL SOCIETY  
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**(5) Property and Equipment**

Property and equipment consist of the following at June 30, 2015:

Land	\$ 4,684,986
Property and improvement	96,050,287
Equipment	<u>5,626,653</u>
	106,361,926
Accumulated depreciation	<u>(28,653,746)</u>
	<u>\$ 77,708,180</u>

On June 22, 2015, the Society entered into a construction contract with KUE Contractors for work to be performed on the Oliver Kelley Farm revitalization. The total construction cost in the contract is expected to be approximately \$8,830,000 and be completed by June 30, 2016.

**(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, 2015:

Federal Grants Receivable	\$ 1,256,769
Donor Pledges Receivable	<u>3,771,290</u>
	<u>\$ 5,028,059</u>
Unconditional promises expected to be collected in:	
Less than one year	\$ 3,260,452
One year to five years	1,805,405
More than five years	20,000
Less discount	<u>(57,798)</u>
	<u>\$ 5,028,059</u>

At June 30, 2015, five pledges made up 88% of the total donor pledges receivable.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

Temporarily restricted net assets are available for the following purposes as of June 30, 2015:

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

Programs	\$ 4,551,595
Operations	5,281,058
	<u>9,832,653</u>

Gifts and other unexpended support and revenue available for:

Programs	11,854,595
Programs and operations from state appropriation	20,920,299
	<u>42,607,547</u>

Permanently restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2015:

Endowment funds for:

Programs	\$ 42,251,221
Operations	12,973,872
	<u>55,225,093</u>

Split-interest agreements	290,341
Contributions receivable in remainder trust restricted for program	205,688
	<u>55,721,122</u>

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(8) Endowment Funds**

The Society's endowment consists of approximately 138 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, 2015**

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

*Endowment Net Assets Composition by Type of Fund*

Endowment net assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	9,832,653	55,225,093	65,057,746
Board designated endowment funds	9,885,207	-	-	9,885,207
Total endowed net assets	<u>\$ 9,885,207</u>	<u>9,832,653</u>	<u>55,225,093</u>	<u>74,942,953</u>

*Changes in Endowment Net Assets*

Changes in Endowment Net Assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 9,641,886	9,616,811	52,549,885	71,808,582
Investment return	512,053	574,584	2,012,420	3,099,057
Contributions	-	-	1,622,284	1,622,284
Appropriation of endowment assets for expenditure	<u>(268,732)</u>	<u>(358,742)</u>	<u>(959,496)</u>	<u>(1,586,970)</u>
Endowment net assets, June 30, 2015	<u>\$ 9,885,207</u>	<u>9,832,653</u>	<u>55,225,093</u>	<u>74,942,953</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, 2015.

**MINNESOTA HISTORICAL SOCIETY  
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**(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, 2015 was 4%, 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 Plans**

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 \$1,109,251 for the year ended June 30, 2015.

MNHS participates in the Minnesota State Retirement System (MSRS) a multi-employer defined benefit pension plan. The most recent available data is for fiscal year ended June 30, 2014. The plan is 87.64% funded as of June 30, 2014. The Society's portion of the plan is 0.213% and contributions for fiscal year 2014 were \$272,476. The Society's portion of the unfunded liability is \$3.4 million. The Society has no collective bargaining agreements. As of July 1, 2014, the employer contribution rate is 5.5% of pay.

**(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, 2015 through October 22, 2015, which was the date the financial statements were available to be issued.

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**(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, 2014 of \$119,197, in fiscal year ended June 30, 2015 of \$22,591, and additional sales are expected in fiscal years ending June 30, 2016 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  
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**(12) Statement of Activities – Notable items for the year ended June 30, 2015 compared to 2014**

	<u>2015 Total</u>	<u>2014 Total</u>	<u>Change</u>
Private Contributions Support	\$ 8,224,832	\$ 14,953,105	\$ (6,728,273)
State Capital Appropriation Support	\$ 500,000	\$ 13,402,000	\$ (12,902,000)
Investment Return	\$ 3,251,168	\$ 11,070,987	\$ (7,819,819)

Private Contributions Support – The majority of this decrease is a result of a large donor endowment bequest that was recorded during the fiscal year ended June 30, 2014 and reflected on last year’s financial statements. Contribution levels for the fiscal year ended June 30, 2015 are consistent with the prior year with the exception of the large donor bequest.

State Capital Appropriation Support – The legislature normally appropriates bonding funds in even numbered years, therefore, there was no amount shown in fiscal year ended June 30, 2015 other than a special bonding appropriation for the Fort Snelling Project. The last major bonding bill was approved by the Minnesota state legislature in May 2014 and was recorded in the fiscal year ended June 30, 2014.

Investment Return Revenue – These amounts are from dividends, interest, and net realized and unrealized gains and losses on investments from the Society’s endowment portfolios. The decrease in investment income from the prior year is due in part to market conditions affecting the individual investments, and more specifically, includes a large amount of unrealized losses during the fiscal year ended June 30, 2015.

**SUPPLEMENTARY INFORMATION**

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2015**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)**

	<u>Library &amp; Collections</u>	<u>Publications</u>	<u>Historic Sites</u>	<u>History Center Museum and Education</u>	<u>Education, Outreach, and Preservation</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Development and Membership</u>	<u>2015 Total Expenses</u>	<u>2014 Total Expenses</u>
Salaries	\$ 3,150,406	680,914	4,799,242	3,386,872	3,192,098	15,209,532	4,313,503	1,189,397	20,712,432	19,789,723
Benefits	1,091,053	233,637	1,630,279	1,144,971	1,055,021	5,154,961	1,424,996	395,215	6,975,172	6,635,076
	4,241,459	914,551	6,429,521	4,531,843	4,247,119	20,364,493	5,738,499	1,584,612	27,687,604	26,424,799
Rental fees	19,405	8,512	32,627	151,409	15,501	227,454	9,331	16,048	252,833	260,078
Advertising	102	35,238	34,659	29,141	1,669	100,809	870,966	150	971,925	848,724
Repairs	34,234	1,383	371,839	98,790	28,295	534,541	127,404	24,317	686,262	629,215
Insurance	-	-	-	500	500	1,000	191,571	-	192,571	166,301
Printing	16,939	406,928	23,483	39,589	116,148	603,087	169,811	78,686	851,584	1,016,101
Professional and technical services	897,411	243,873	1,202,622	650,168	821,374	3,815,448	1,055,164	88,403	4,959,015	4,788,525
Purchased services	9,681	155,239	973,613	1,035,539	438,322	2,612,394	274,089	95,977	2,982,460	2,959,488
Speakers' fees	60,100	875	41,681	128,978	204,157	435,791	3,135	5,258	444,184	476,308
Communications/postage	16,178	46,487	94,247	121,830	19,137	297,879	121,490	45,191	464,560	469,962
Employee travel	50,495	10,555	86,304	97,765	192,725	437,844	66,140	34,589	538,573	523,262
Utility service	-	-	400,828	35,867	-	436,695	-	-	436,695	475,997
Fees and other expenses	32,237	106,446	52,003	56,688	50,649	298,023	122,223	6,706	426,952	441,277
Supplies	87,867	35,513	264,404	303,922	135,582	827,288	183,154	42,903	1,053,345	1,214,030
Equipment	105,320	3,215	45,092	156,939	50,873	361,439	220,336	6,609	588,384	350,749
Collections acquisition	172,133	-	-	-	-	172,133	-	-	172,133	118,007
Buildings and improvements	-	-	931,554	122,788	-	1,054,342	-	-	1,054,342	1,659,456
Grants	-	-	1,936	89,000	5,724,508	5,815,444	6,000	-	5,821,444	5,518,905
Cost of goods sold	-	-	762,990	290,639	-	1,053,629	-	-	1,053,629	994,269
Depreciation	198,616	7,812	736,422	530,155	5,474	1,478,479	25,932	1,230	1,505,641	1,492,329
History Center building services	1,754,909	69,022	38,044	3,402,207	48,370	5,312,552	111,414	10,870	5,434,836	5,434,836
	\$ 7,697,086	2,045,649	12,523,869	11,873,757	12,100,403	46,240,764	9,296,659	2,041,549	57,578,972	56,262,618