

MINNESOTA HISTORICAL SOCIETY

Financial Statements and Supplementary Information

June 30, 2016

(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, 2016, 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

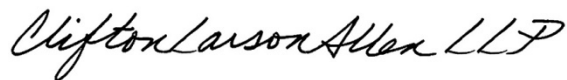
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses is the responsibility of management is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has 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 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 26, 2016, 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 26, 2016

MINNESOTA HISTORICAL SOCIETY
BALANCE SHEET
JUNE 30, 2016
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2015)

Assets	Unrestricted			Temporarily restricted			2016 Total	2015 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Permanently restricted		
Cash and cash equivalents	\$ 3,662,206	-	(5,402)	(1,996,963)	5,106,106	106,320	6,872,267	13,017,950
Total cash and cash equivalents	3,662,206	-	(5,402)	(1,996,963)	5,106,106	106,320	6,872,267	13,017,950
Investments (at cost)	759,582	-	8,897,559	-	11,353,695	58,783,951	79,794,787	74,981,246
Unrealized gain (loss) on investments	22,060	-	730,344	-	1,848,505	(828,826)	1,772,083	2,926,768
Total investments (at fair value)	781,642	-	9,627,903	-	13,202,200	57,955,125	81,566,870	77,908,014
Receivables:								
Nonstate support and contributions, net	512,776	-	-	-	5,411,944	220,278	6,144,998	5,028,059
Contribution receivable in remainder trusts	-	-	-	-	-	219,432	219,432	205,688
State legacy appropriation	-	-	-	6,413,184	-	-	6,413,184	7,742,800
State capital appropriation	-	-	-	10,005,649	-	-	10,005,649	16,425,511
Contracts	274,885	-	-	-	-	-	274,885	285,910
Publication sales	329,153	-	-	-	-	-	329,153	237,929
Other	846,365	-	-	-	-	-	846,365	776,473
Total receivables	1,963,179	-	-	16,418,833	5,411,944	439,710	24,233,666	30,702,370
Museum shop inventories	1,075,469	-	-	-	-	-	1,075,469	1,071,600
Property and equipment, net	-	88,069,898	-	-	-	-	88,069,898	77,708,180
Total assets	\$ 7,482,496	88,069,898	9,622,501	14,421,870	23,720,250	58,501,155	201,818,170	200,408,114
Liabilities and Net Assets								
Liabilities:								
Accounts payable and accrued expenses	\$ 2,701,946	-	-	3,012,649	199,529	-	5,914,124	5,565,183
Accrued vacation and sick liability	2,263,690	-	-	-	-	-	2,263,690	2,184,287
Due to/from other funds	(4,649,616)	-	4,649,616	-	-	-	-	-
Split-interest agreements liability	-	-	-	-	9,033	339,470	348,503	366,829
Total liabilities	316,020	-	4,649,616	3,012,649	208,562	339,470	8,526,317	8,116,299
Net assets:								
Unrestricted:								
Operating	7,166,476	88,069,898	-	-	-	-	95,236,374	84,077,939
Board-designated endowment	-	-	4,972,885	-	-	-	4,972,885	9,885,207
Total unrestricted	7,166,476	88,069,898	4,972,885	-	-	-	100,209,259	93,963,146
Temporarily restricted	-	-	-	11,409,221	23,511,688	-	34,920,909	42,607,547
Permanently restricted	-	-	-	-	-	58,161,685	58,161,685	55,721,122
Total net assets	7,166,476	88,069,898	4,972,885	11,409,221	23,511,688	58,161,685	193,291,853	192,291,815
Total liabilities and net assets	\$ 7,482,496	88,069,898	9,622,501	14,421,870	23,720,250	58,501,155	201,818,170	200,408,114

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2015)

	Unrestricted			Temporarily restricted		Permanently restricted	2016 Total	2015 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other			
Support and revenue:								
Support:								
Private contributions	\$ 3,788,530	-	-	-	3,550,478	3,661,881	11,000,889	8,224,832
Sale of Collection Item (See Note 11)	-	-	-	-	-	-	-	22,591
Federal grants	-	-	-	-	1,592,364	-	1,592,364	1,006,640
County and other grants	-	-	-	-	62,000	-	62,000	93,000
State operating appropriation	-	-	-	21,576,000	-	-	21,576,000	21,335,000
State legacy appropriation	-	-	-	12,985,000	-	-	12,985,000	13,950,000
State capital appropriation	-	-	-	-	-	-	-	500,000
Total support	<u>3,788,530</u>	<u>-</u>	<u>-</u>	<u>34,561,000</u>	<u>5,204,842</u>	<u>3,661,881</u>	<u>47,216,253</u>	<u>45,132,063</u>
Revenue:								
Admission fees	2,623,232	-	-	-	-	-	2,623,232	2,678,006
Museum store sales	2,165,989	-	-	-	-	-	2,165,989	2,087,346
Publication sales	1,250,455	-	-	-	-	-	1,250,455	1,277,685
Program fees	1,518,782	-	-	-	-	-	1,518,782	1,437,826
Contract service fees	2,268,510	-	-	-	600	-	2,269,110	2,660,942
Library sales and fees	307,214	-	-	-	-	-	307,214	345,448
Investment return	23,948	-	(10,534)	-	(85,837)	(68,768)	(141,191)	3,251,168
Endowment payout	771,381	-	(252,172)	-	633,341	(1,152,550)	-	-
Rental, parking, food services	1,377,520	-	-	-	-	-	1,377,520	1,214,045
Other sales, fees, and memberships	704,385	-	-	-	2,444	-	706,829	722,018
Total revenue	<u>13,011,416</u>	<u>-</u>	<u>(262,706)</u>	<u>-</u>	<u>550,548</u>	<u>(1,221,318)</u>	<u>12,077,940</u>	<u>15,674,484</u>
Total support and revenue	<u>16,799,946</u>	<u>-</u>	<u>(262,706)</u>	<u>34,561,000</u>	<u>5,755,390</u>	<u>2,440,563</u>	<u>59,294,193</u>	<u>60,806,547</u>
Net assets released from program restrictions	40,726,627	11,926,017	(4,649,616)	(44,072,078)	(3,930,950)	-	-	-
Total support, revenue, and net assets released from program restrictions	<u>\$ 57,526,573</u>	<u>11,926,017</u>	<u>(4,912,322)</u>	<u>(9,511,078)</u>	<u>1,824,440</u>	<u>2,440,563</u>	<u>59,294,193</u>	<u>60,806,547</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	Unrestricted			Temporarily restricted			2016 Total	2015 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Permanently restricted		
Expenses:								
Program services:								
Library & Collections	\$ 7,282,014	198,616	-	-	-	-	7,480,630	7,697,086
Publications	1,923,956	7,812	-	-	-	-	1,931,768	2,045,649
Historic Sites	11,977,170	750,735	-	-	-	-	12,727,905	12,523,869
History Center Museum & Education	14,014,243	548,326	-	-	-	-	14,562,569	14,282,333
Education Outreach and preservation	9,977,755	5,474	-	-	-	-	9,983,229	9,691,827
Total program services	45,175,138	1,510,963	-	-	-	-	46,686,101	46,240,764
Supporting services:								
Management and General	9,370,363	52,106	-	-	-	-	9,422,469	9,296,659
Development and Membership	2,184,355	1,230	-	-	-	-	2,185,585	2,041,549
Total supporting services	11,554,718	53,336	-	-	-	-	11,608,054	11,338,208
Total expenses	56,729,856	1,564,299	-	-	-	-	58,294,155	57,578,972
Increase (decrease) in net assets	796,717	10,361,718	(4,912,322)	(9,511,078)	1,824,440	2,440,563	1,000,038	3,227,575
Changes in net assets:								
Unrestricted	796,717	10,361,718	(4,912,322)	-	-	-	6,246,113	(571,233)
Temporarily restricted	-	-	-	(9,511,078)	1,824,440	-	(7,686,638)	1,161,721
Permanently restricted	-	-	-	-	-	2,440,563	2,440,563	2,637,087
Net changes in net assets	796,717	10,361,718	(4,912,322)	(9,511,078)	1,824,440	2,440,563	1,000,038	3,227,575
Net assets at beginning of year	6,369,759	77,708,180	9,885,207	20,920,299	21,687,248	55,721,122	192,291,815	189,064,240
Net assets at end of year	\$ 7,166,476	88,069,898	4,972,885	11,409,221	23,511,688	58,161,685	193,291,853	192,291,815

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 1,000,038	3,227,575
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Depreciation	1,564,299	1,505,641
Net realized and unrealized loss on investments	1,204,193	(1,945,906)
Adjustment of actuarial liability for split-interest agreements liability	25,272	51,736
Gain on sale of collection items	-	(22,591)
Contributions restricted for endowment	(3,661,881)	(1,561,143)
Changes in assets and liabilities:		
Receivables	7,297,923	316,137
Museum shop inventories	(3,869)	4,328
Accounts payable and accrued expenses	(797,477)	845,993
Accrued vacation and sick liability	79,403	68,841
Net cash provided by operating activities	<u>6,707,901</u>	<u>2,490,611</u>
Cash flows from investing activities:		
Purchase of property and equipment	(10,779,600)	(471,255)
Purchase of investments	(70,361,780)	(30,616,076)
Proceeds from sale of investments	65,498,731	23,081,932
Proceeds from sale of collection items	-	22,591
Net cash used in investing activities	<u>(15,642,649)</u>	<u>(7,982,808)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(43,597)	(41,852)
Proceeds from contributions restricted for:		
Investment in endowment	<u>2,832,662</u>	<u>731,924</u>
Net cash provided by financing activities	<u>2,789,065</u>	<u>690,072</u>
Net change in cash and cash equivalents	(6,145,683)	(4,802,125)
Cash and cash equivalents at beginning of year	<u>13,017,950</u>	<u>17,820,075</u>
Cash and cash equivalents at end of year	<u>\$ 6,872,267</u>	<u>13,017,950</u>
Non-cash purchase of property and equipment	<u>\$ 1,146,418</u>	<u>131,955</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(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/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, 2016**

(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, 2016**

(2) Summary of Accounting Policies (Continued)

(d) *Receivables*

The Society provides an allowance for bad debts using the allowance method. An account is individually analyzed for collectability. When all collection efforts have been exhausted, the balance is written off against the related allowance. In addition, an allowance is provided for accounts when a significant pattern of uncollectibility has occurred. Due to the strong history of collections of appropriations, contracts and individual contribution receivables, there was no allowance recorded for the year ended June 30, 2016. A discount of \$49,599 was recorded in the year ended June 30, 2016 for the receivables that are expected to be collected over one year from June 30, 2016.

(e) *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 2016 mortality tables.

(f) *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. Develops Minnesota history curriculum and coordinates the Minnesota History Day program.

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(2) Summary of Accounting Policies (Continued)

(e) Program and Supporting Services (Continued)

- **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.

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.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(2) Summary of Accounting Policies (Continued)

(i) Property and Equipment (Continued)

- 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.

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) 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 \$258,346 begins to expire in 2023. The Society follows the financial accounting standards relating to uncertainty in income taxes. The Society had no uncertain tax positions.

(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.

(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.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(2) Summary of Accounting Policies (Continued)

(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 2015 financial statements from which the summarized information was derived.

(o) Reclassifications

Certain reclassifications have been made to the June 30, 2015 summarized information in order to present them in conformity with the June 30, 2016 financial statements. These reclassifications had no effect on net assets as previously reported.

(3) Cash and Investments

Cash and investments consist of the following at June 30, 2016:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 6,872,267	6,872,267
Mutual Funds:		
Equity	39,156,284	39,065,641
Fixed Income	17,240,019	17,671,972
Total Mutual Funds	<u>56,396,303</u>	<u>56,737,613</u>
Common Stocks:		
Domestic	84,810	122,416
Total Common Stock	<u>84,810</u>	<u>122,416</u>
Common Collective Trusts:		
Domestic	2,575,085	4,170,152
Foreign	254,678	412,433
Private Equity	20,483,911	20,124,256
Total Common Collective Trusts	<u>23,313,674</u>	<u>24,706,841</u>
Total investments	<u>79,794,787</u>	<u>81,566,870</u>
Total cash, cash equivalents and investments	<u>\$ 86,667,054</u>	<u>88,439,137</u>

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(3) Cash and Investments (Continued)

As of June 30, 2016, 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, 2016 consisted of the following:

Dividends and interest	\$ 1,063,002
Net realized loss on investments	(57,691)
Net unrealized loss on investments	<u>(1,146,502)</u>
Investment return	<u>\$ (141,191)</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 \$584,350 of investments under split-interest agreements.

Investment expenses, including custodial and management fees for all funds, totaled \$202,228 for the year ended June 30, 2016.

(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, 2016**

(4) Fair Value Measurements (Continued)

The following table summarizes the Society's investments that were accounted for at fair value, as of June 30, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equity	\$ 39,065,641	-	-	39,065,641
Fixed Income	17,671,972	-	-	17,671,972
Total Mutual Funds	<u>56,737,613</u>	<u>-</u>	<u>-</u>	<u>56,737,613</u>
Common Stocks:				
Domestic	122,416	-	-	122,416
Total Common Stock	<u>122,416</u>	<u>-</u>	<u>-</u>	<u>122,416</u>
Investments Valued at Net Asset Value	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,706,841</u>
	<u>\$ 56,860,029</u>	<u>-</u>	<u>-</u>	<u>81,566,870</u>

The following table summarizes the Society's contribution receivable in remainder trusts that were accounted for at fair value, as of June 30, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contribution receivable in remainder trusts	<u>\$ -</u>	<u>219,432</u>	<u>-</u>	<u>219,432</u>

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(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, 2016:

<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	\$ 4,582,585	-	Daily	10 Days
Grosvenor	7,290,364	-	Quarterly	70 Days
SIT Dividend Growth Fund II	5,548,645	-	Monthly	30 Days
Lighthouse Partners	<u>7,285,247</u>	<u>-</u>	Monthly	90 Days
 Total	 <u>\$ 24,706,841</u>	 <u>-</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, 2016.

Grosvenor Institutional Partners, Ltd. includes investments in commodities, equities, and multi-strategy funds. 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, 2016.

SIT Dividend Group Fund II includes investments in equity securities. 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, 2016.

Lighthouse Partners includes investments in investment funds, which are valued based on observable data such as ongoing redemption and subscription activity. 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, 2016.

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2016:

Land	\$ 5,384,986
Property and improvement	107,118,987
Equipment	<u>5,783,970</u>
	118,287,943
Accumulated depreciation	<u>(30,218,045)</u>
	<u>\$ 88,069,898</u>

(6) Nonstate Support and Contributions Receivable

Nonstate support and contributions receivable are discounted at rates ranging from 1.01% to 1.63% and summarized as follows at June 30, 2016:

Federal Grants Receivable	\$ 1,791,700
Donor Pledges Receivable	<u>4,353,298</u>
	<u>\$ 6,144,998</u>

Unconditional promises expected to be collected in:

Less than one year	\$ 3,675,568
One year to five years	2,519,029
More than five years	-
Less discount	<u>(49,599)</u>
	<u>\$ 6,144,998</u>

At June 30, 2016, three pledges made up 40% of the total donor pledges receivable.

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(7) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2016:

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

Programs	\$ 5,070,517
Operations	4,354,187
	<u>9,424,704</u>

Gifts and other unexpended support and revenue available for:

Programs	14,086,984
Programs and operations from state appropriation	11,409,221
	<u>\$ 34,920,909</u>

Permanently restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2016:

Endowment funds for:

Programs	\$ 44,698,112
Operations	13,013,774
	<u>57,711,886</u>

Split-interest agreements	230,367
Contributions receivable in remainder trust restricted for program	219,432
	<u>\$ 58,161,685</u>

(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.

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(8) Endowment Funds (Continued)

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.

Endowment Net Assets Composition by Type of Fund

Endowment net assets consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	9,424,704	58,161,685	67,586,389
Board designated endowment funds	4,972,885	-	-	4,972,885
Total endowed net assets	<u>\$ 4,972,885</u>	<u>9,424,704</u>	<u>58,161,685</u>	<u>72,559,274</u>

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(8) Endowment Funds (Continued)

Changes in Endowment Net Assets

Changes in Endowment Net Assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 9,885,207	9,832,653	55,225,093	74,942,953
Investment return	(10,534)	(61,996)	(62,851)	(135,381)
Contributions	-	-	3,702,194	3,702,194
Appropriation of endowment assets for expenditure	<u>(4,901,788)</u>	<u>(345,953)</u>	<u>(1,152,550)</u>	<u>(6,400,291)</u>
Endowment net assets, June 30, 2016	<u>\$ 4,972,885</u>	<u>9,424,704</u>	<u>57,711,886</u>	<u>72,109,475</u>

Investments not included in endowments total \$3,520,490, bringing the total to \$75,629,965.

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, 2016.

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 ongoing Society activities. It is set by the Council upon consideration of recommendations by the Committee and the Finance Committee. The annual spending rate will not exceed five percent including fees. The actual amount to be paid out each fiscal year from the endowment is calculated at the end of the previous calendar year by multiplying the spending rate times the average quarterly market value of the endowment over the preceding five-year period. The annual spending rate for the fiscal year ended June 30, 2016 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 (70%), fixed income (20%), and alternative investments (10%).

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(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 \$1,131,468 for the year ended June 30, 2016.

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, 2015. The plan is 88.32% funded as of June 30, 2015. The Society's portion of the plan is .215% and contributions for fiscal year 2015 were \$314,363. The Society's portion of the unfunded liability is \$3.3 million. The Society has no collective bargaining agreements. As of July 1, 2015, 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, 2016 through October 26, 2016, which was the date the financial statements were available to be issued.

(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. No sales occurred in the fiscal year ended June 30, 2016. Additional sales are expected in fiscal years ending June 30, 2017 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.

SUPPLEMENTARY INFORMATION

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	Library & Collections	Publications	Historic Sites	History Center Museum and Education	Education, Outreach, and Preservation	Total Program Services	Management and General	Development and Membership	2016 Total Expenses	2015 Total Expenses
Salaries	\$ 3,123,379	739,587	4,746,675	4,811,827	2,019,547	15,441,015	4,440,092	1,264,653	21,145,760	20,712,432
Benefits	1,067,600	251,148	1,628,420	1,619,747	716,969	5,283,884	1,466,763	429,077	7,179,724	6,975,172
	<u>4,190,979</u>	<u>990,735</u>	<u>6,375,095</u>	<u>6,431,574</u>	<u>2,736,516</u>	<u>20,724,899</u>	<u>5,906,855</u>	<u>1,693,730</u>	<u>28,325,484</u>	<u>27,687,604</u>
Rental fees	27,941	3,236	17,223	162,373	7,148	217,921	10,767	9,335	238,023	252,833
Advertising	1,993	16,744	33,156	17,300	120	69,313	770,153	101	839,567	971,925
Repairs	20,403	838	353,168	71,900	22,941	469,250	138,302	29,093	636,645	686,262
Insurance	-	-	-	-	-	-	152,098	1,741	153,839	192,571
Printing	21,285	368,707	32,212	54,074	1,688	477,966	181,120	96,737	755,823	851,584
Professional and technical services	764,917	122,104	499,914	743,817	1,229,105	3,359,857	1,126,300	121,437	4,607,594	4,959,015
Purchased services	3,805	165,307	1,029,725	1,273,680	30,969	2,503,486	237,204	95,921	2,836,611	2,982,460
Speakers' fees	26,679	1,200	47,490	405,728	1,575	482,672	4,288	2,413	489,373	444,184
Communications/postage	16,806	44,884	91,994	127,316	10,000	291,000	123,356	45,098	459,454	464,560
Employee travel	39,738	8,160	70,679	139,716	140,453	398,746	76,784	28,613	504,143	538,573
Utility service	-	-	353,825	31,107	-	384,932	-	-	384,932	436,695
Fees and other expenses	38,282	108,813	23,913	64,317	15,199	250,524	95,350	9,209	355,083	426,952
Supplies	163,206	24,183	259,096	388,641	9,242	844,368	312,389	38,292	1,195,049	1,053,345
Equipment	85,880	86	25,261	79,865	5,746	196,838	196,769	1,775	395,382	588,384
Collections acquisition	121,373	-	200	-	-	121,573	-	-	121,573	172,133
Buildings and improvements	-	-	1,948,978	230,474	-	2,179,452	-	-	2,179,452	1,054,342
Grants	5,422	-	1,728	80,000	5,718,727	5,805,877	(72,684)	-	5,733,193	5,821,444
Cost of goods sold	-	-	775,504	313,262	-	1,088,766	-	-	1,088,766	1,053,629
Depreciation	198,616	7,812	750,735	548,326	5,474	1,510,963	52,106	1,230	1,564,299	1,505,641
History Center building services	1,753,305	68,959	38,009	3,399,099	48,326	5,307,698	111,312	10,860	5,429,870	5,434,836
	<u>\$ 7,480,630</u>	<u>1,931,768</u>	<u>12,727,905</u>	<u>14,562,569</u>	<u>9,983,229</u>	<u>46,686,101</u>	<u>9,422,469</u>	<u>2,185,585</u>	<u>58,294,155</u>	<u>57,578,972</u>