

MINNESOTA HISTORICAL SOCIETY

Financial Statements and Supplementary Information

June 30, 2018

(With Independent Auditors' Report Thereon)

**MINNESOTA HISTORICAL SOCIETY
TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Activities	4
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8



INDEPENDENT AUDITORS' REPORT

Audit Committee
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, 2018, and the related statements of activities, functional expenses, 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, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the Society's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 15, 2018, 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 solely 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 the effectiveness of Minnesota Historical Society's 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 15, 2018

MINNESOTA HISTORICAL SOCIETY
BALANCE SHEET
JUNE 30, 2018
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2017)

Assets	Unrestricted			Temporarily restricted			2018 Total	2017 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Permanently restricted		
Cash and cash equivalents	\$ 5,341,373	\$ -	\$ (1,380)	\$ 437,630	\$ 3,304,995	\$ 10,335	\$ 9,092,953	\$ 8,172,946
Investments	6,417,803	-	5,617,339	-	26,239,834	71,779,078	110,054,054	102,370,938
Receivables:								
Nonstate support and contributions, net	136,634	-	1,500,000	-	4,063,604	485,180	6,185,418	6,080,119
Contribution receivable in remainder trusts	-	-	-	-	-	229,267	229,267	228,597
State legacy appropriation	-	-	-	6,292,938	-	-	6,292,938	8,123,550
State capital appropriation	-	-	-	28,223,466	-	-	28,223,466	8,026,578
Contracts	248,169	-	-	-	-	-	248,169	178,222
Publication sales	123,525	-	-	-	-	-	123,525	158,104
Other	703,118	-	-	-	-	-	703,118	768,074
Total receivables	1,211,446	-	1,500,000	34,516,404	4,063,604	714,447	42,005,901	23,563,244
Museum shop inventories	1,014,966	-	-	-	-	-	1,014,966	1,086,070
Property and equipment, net	-	92,832,323	-	-	-	-	92,832,323	91,343,700
Total assets	<u>\$ 13,985,588</u>	<u>\$ 92,832,323</u>	<u>\$ 7,115,959</u>	<u>\$ 34,954,034</u>	<u>\$ 33,608,433</u>	<u>\$ 72,503,860</u>	<u>\$ 255,000,197</u>	<u>\$ 226,536,898</u>
Liabilities and Net Assets								
Liabilities:								
Accounts payable and accrued expenses	\$ 2,823,402	\$ -	\$ -	\$ 2,317,751	\$ 444,598	\$ -	\$ 5,585,751	\$ 6,195,712
Accrued vacation and sick liability	2,097,688	-	-	-	-	-	2,097,688	2,206,252
Split-interest agreements liability	-	-	-	-	-	281,008	281,008	294,522
Total liabilities	4,921,090	-	-	2,317,751	444,598	281,008	7,964,447	8,696,486
Net assets:								
Unrestricted:								
Operating	9,064,498	92,832,323	-	-	-	-	101,896,821	101,274,511
Board-designated endowment	-	-	7,115,959	-	-	-	7,115,959	5,291,858
Total unrestricted	9,064,498	92,832,323	7,115,959	-	-	-	109,012,780	106,566,369
Temporarily restricted	-	-	-	32,636,283	33,163,835	-	65,800,118	44,893,681
Permanently restricted	-	-	-	-	-	72,222,852	72,222,852	66,380,362
Total net assets	9,064,498	92,832,323	7,115,959	32,636,283	33,163,835	72,222,852	247,035,750	217,840,412
Total liabilities and net assets	<u>\$ 13,985,588</u>	<u>\$ 92,832,323</u>	<u>\$ 7,115,959</u>	<u>\$ 34,954,034</u>	<u>\$ 33,608,433</u>	<u>\$ 72,503,860</u>	<u>\$ 255,000,197</u>	<u>\$ 226,536,898</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2017)

	Unrestricted			Temporarily restricted		Permanently restricted	2018 Total	2017 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other			
Support and revenue:								
Support:								
Private contributions	\$ 3,177,336	\$ -	\$ 1,508,390	\$ -	\$ 3,503,316	\$ 1,521,262	\$ 9,710,304	\$ 15,050,581
Federal grants	-	-	-	-	858,352	-	858,352	1,780,357
County and other grants	-	-	-	-	71,890	-	71,890	186,867
State operating appropriation	-	-	-	22,963,667	-	-	22,963,667	21,822,000
State legacy appropriation	-	-	-	12,147,722	-	-	12,147,722	14,532,406
State capital appropriation	-	-	-	23,000,000	-	-	23,000,000	6,500,000
State refund	-	-	-	-	-	-	-	2,000,000
Total support	<u>3,177,336</u>	<u>-</u>	<u>1,508,390</u>	<u>58,111,389</u>	<u>4,433,558</u>	<u>1,521,262</u>	<u>68,751,935</u>	<u>61,872,211</u>
Revenue:								
Admission fees	2,801,816	-	-	-	-	-	2,801,816	2,779,479
Museum store sales	2,250,490	-	-	-	-	-	2,250,490	2,173,528
Publication sales	1,431,453	-	-	-	-	-	1,431,453	1,273,975
Program fees	1,712,893	-	-	-	-	-	1,712,893	1,634,791
Contract service fees	1,944,333	-	-	-	-	-	1,944,333	2,714,404
Library sales and fees	288,841	-	-	-	-	-	288,841	311,319
Investment return	45,977	-	548,748	-	1,798,029	5,629,440	8,022,194	11,038,584
Endowment payout	1,018,090	-	(233,037)	-	1,499,377	(2,284,430)	-	-
Change in value of split-interest agreements	-	-	-	-	-	(23,782)	(23,782)	13,606
Rental, parking, food services	1,366,498	-	-	-	-	-	1,366,498	1,511,388
Other sales, fees, and memberships	715,394	-	-	-	-	-	715,394	742,458
Total revenue	<u>13,575,785</u>	<u>-</u>	<u>315,711</u>	<u>-</u>	<u>3,297,406</u>	<u>3,321,228</u>	<u>20,510,130</u>	<u>24,193,532</u>
Total support and revenue	16,753,121	-	1,824,101	58,111,389	7,730,964	4,842,490	89,262,065	86,065,743
Fund transfers	-	-	-	-	(1,000,000)	1,000,000	-	-
Net assets released from program restrictions	<u>40,675,334</u>	<u>3,260,582</u>	<u>-</u>	<u>(38,326,084)</u>	<u>(5,609,832)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from program restrictions	<u>\$ 57,428,455</u>	<u>\$ 3,260,582</u>	<u>\$ 1,824,101</u>	<u>\$ 19,785,305</u>	<u>\$ 1,121,132</u>	<u>\$ 5,842,490</u>	<u>\$ 89,262,065</u>	<u>\$ 86,065,743</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	Unrestricted		Temporarily restricted				2018 Total	2017 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Permanently restricted		
Expenses:								
Program services:								
Library and Collections	\$ 9,151,548	\$ 211,250	\$ -	\$ -	\$ -	\$ -	\$ 9,362,798	\$ 9,678,423
Historic Sites and Museums	14,434,591	985,665	-	-	-	-	15,420,256	16,103,542
Education, Outreach, and Content								
Development	12,214,037	470,017	-	-	-	-	12,684,054	14,536,053
Historic Preservation	9,015,859	5,474	-	-	-	-	9,021,333	8,170,197
Total program services	<u>44,816,035</u>	<u>1,672,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,488,441</u>	<u>48,488,215</u>
Supporting services:								
Management and General	11,247,311	98,323	-	-	-	-	11,345,634	10,736,284
Development and Membership	2,231,422	1,230	-	-	-	-	2,232,652	2,292,685
Total supporting services	<u>13,478,733</u>	<u>99,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,578,286</u>	<u>13,028,969</u>
Total expenses	<u>58,294,768</u>	<u>1,771,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,066,727</u>	<u>61,517,184</u>
Increase (decrease) in net assets	(866,313)	1,488,623	1,824,101	19,785,305	1,121,132	5,842,490	29,195,338	24,548,559
Changes in net assets:								
Unrestricted	(866,313)	1,488,623	1,824,101	-	-	-	2,446,411	6,357,110
Temporarily restricted	-	-	-	19,785,305	1,121,132	-	20,906,437	9,972,772
Permanently restricted	-	-	-	-	-	5,842,490	5,842,490	8,218,677
Net changes in net assets	<u>(866,313)</u>	<u>1,488,623</u>	<u>1,824,101</u>	<u>19,785,305</u>	<u>1,121,132</u>	<u>5,842,490</u>	<u>29,195,338</u>	<u>24,548,559</u>
Net assets at beginning of year	<u>9,930,811</u>	<u>91,343,700</u>	<u>5,291,858</u>	<u>12,850,978</u>	<u>32,042,703</u>	<u>66,380,362</u>	<u>217,840,412</u>	<u>193,291,853</u>
Net assets at end of year	<u>\$ 9,064,498</u>	<u>\$ 92,832,323</u>	<u>\$ 7,115,959</u>	<u>\$ 32,636,283</u>	<u>\$ 33,163,835</u>	<u>\$ 72,222,852</u>	<u>\$ 247,035,750</u>	<u>\$ 217,840,412</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	Library and Collections	Historic Sites and Museums	Education, Outreach, and Content Development	Historic Preservation	Total Program Services	Management and General	Development and Membership	2018 Total Expenses	2017 Total Expenses
Salaries	\$ 3,843,425	\$ 6,919,607	\$ 3,612,733	\$ 790,103	\$ 15,165,868	\$ 5,144,148	\$ 1,282,061	\$ 21,592,077	\$ 22,248,430
Benefits	1,424,241	2,536,567	1,317,903	314,050	5,592,761	1,849,988	475,788	7,918,537	7,783,980
	<u>5,267,666</u>	<u>9,456,174</u>	<u>4,930,636</u>	<u>1,104,153</u>	<u>20,758,629</u>	<u>6,994,136</u>	<u>1,757,849</u>	<u>29,510,614</u>	<u>30,032,410</u>
Rental fees	11,027	20,280	24,451	8,107	63,865	6,835	8,238	78,938	310,165
Advertising	144	28,432	64,984	64	93,624	708,595	360	802,579	945,150
Repairs	58,710	367,514	28,917	24,290	479,431	285,479	3,446	768,356	603,728
Insurance	-	-	-	-	-	145,470	1,741	147,211	171,369
Printing	10,677	43,076	523,340	180	577,273	178,122	93,204	848,599	919,613
Professional and technical services	1,122,519	666,322	900,987	827,447	3,517,275	1,231,418	103,914	4,852,607	5,045,402
Purchased services	33,812	1,331,730	1,211,648	19,401	2,596,591	308,393	124,506	3,029,490	3,583,778
Speakers' fees	4,650	90,955	307,430	1,900	404,935	5,072	7,594	417,601	502,031
Communications/postage	35,881	171,321	108,744	7,553	323,499	169,698	52,238	545,435	561,020
Employee travel	89,749	78,923	133,054	40,633	342,359	81,597	20,021	443,977	552,816
Utility service	31,638	441,632	-	-	473,270	50,652	-	523,922	437,193
Fees and other expenses	32,207	21,521	228,594	467,408	749,730	230,660	10,392	990,782	442,177
Supplies	132,764	376,568	248,373	3,033	760,738	376,589	35,429	1,172,756	1,375,026
Equipment	211,702	110,136	34,811	161	356,810	320,559	1,630	678,999	1,121,646
Collections acquisition	353,837	-	-	-	353,837	-	-	353,837	145,373
Buildings and improvements	1,255	100,297	-	-	101,552	42,723	-	144,275	615,611
Grants	-	-	-	6,463,203	6,463,203	-	-	6,463,203	5,892,969
Cost of goods sold	-	1,091,701	-	-	1,091,701	-	-	1,091,701	1,065,914
Depreciation	211,250	985,665	470,017	5,474	1,672,406	98,323	1,230	1,771,959	1,763,923
History Center building services	1,753,310	38,009	3,468,068	48,326	5,307,713	111,313	10,860	5,429,886	5,429,870
	<u>\$ 9,362,798</u>	<u>\$ 15,420,256</u>	<u>\$ 12,684,054</u>	<u>\$ 9,021,333</u>	<u>\$ 46,488,441</u>	<u>\$ 11,345,634</u>	<u>\$ 2,232,652</u>	<u>\$ 60,066,727</u>	<u>\$ 61,517,184</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 29,195,338	\$ 24,548,559
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Depreciation	1,771,959	1,763,923
Net realized and unrealized gain on investments	(6,450,570)	(9,912,399)
Adjustment of actuarial liability for split-interest agreements liability	23,782	(13,606)
Contributions restricted for endowment	(1,521,262)	(2,354,390)
Changes in assets and liabilities:		
Receivables	(18,442,657)	670,422
Museum shop inventories	71,104	(10,601)
Accounts payable and accrued expenses	(1,307,472)	(161,325)
Accrued vacation and sick liability	(108,564)	(57,438)
Net cash provided by operating activities	<u>3,231,658</u>	<u>14,473,145</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,563,071)	(4,594,811)
Purchase of investments	(41,986,015)	(13,093,508)
Proceeds from sale of investments	40,753,469	2,201,840
Net cash used in investing activities	<u>(3,795,617)</u>	<u>(15,486,479)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(37,296)	(40,377)
Proceeds from contributions restricted for:		
Investment in endowment	1,521,262	2,354,390
Net cash provided by financing activities	<u>1,483,966</u>	<u>2,314,013</u>
Net change in cash and cash equivalents	920,007	1,300,679
Cash and cash equivalents at beginning of year	<u>8,172,946</u>	<u>6,872,267</u>
Cash and cash equivalents at end of year	<u>\$ 9,092,953</u>	<u>\$ 8,172,946</u>
Noncash purchase of property and equipment	<u>\$ 697,511</u>	<u>\$ 442,913</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(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, 2018

(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 stock 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, 2018

(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. An allowance of \$40,000 was recorded for the year ended June 30, 2018 related to the author advances. A discount of \$47,407 was recorded in the year ended June 30, 2018 for the receivables that are expected to be collected over one year from June 30, 2018.

(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 0.9% to 6.0% commensurate with the risks involved and the 2018 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 four major groups:

- **Library and Collections** – Maintains and makes available to the public the Society’s collection of books, newspapers, maps, photographs, works of art, oral history recordings, private manuscripts, and periodicals on Minnesota history; and catalogs, restores, and digitizes 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. Conducts historic and archaeological surveys, as required by law.
- **Historic Sites and Museums** – Administers historic sites and museums throughout the state for public benefit through programming and exhibits, 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; includes museum programs, activities and services at the History Center and the museum shops, parking, food service, and building rental at all facilities. Provides preservation and construction services; operates the Capitol tour program; administers the State Historic Sites Act.
- **Education, Outreach, and Content Development** – Develops Minnesota history curriculum, provides teacher education and coordinates the Minnesota History Day program. Plans, fabricates, and installs exhibits at Society interpretive facilities and museums throughout the state. Develops educational programming and outreach, including diversity and inclusion and Native American initiatives. Publishes books and other media related to Minnesota history.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(2) Summary of Accounting Policies (Continued)

(f) Program and Supporting Services (Continued)

- **Historic Preservation** – Provides technical assistance and grants for historic preservation; administers grant programs 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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, 2018

(2) Summary of Accounting Policies (Continued)

(j) 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

(k) 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.

(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. Notwithstanding, income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

The Society engages in activities that are considered as unrelated to its exempt purpose and these activities are subject to federal and state income taxes. For the fiscal year ended June 30, 2018, the Society estimated \$65,000 as its unrelated business income taxes and accordingly, has made provision for the taxes. The Society did not have any unrelated business income tax for the fiscal year ended June 30, 2017.

(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.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(2) Summary of Accounting Policies (Continued)

(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 2017 financial statements from which the summarized information was derived.

(p) Reclassifications

Certain reclassifications have been made to the June 30, 2017 summarized information in order to present them in conformity with the June 30, 2018 financial statements. These reclassifications had no effect on net assets as previously reported.

(3) Cash and Investments

Investment return for the year ended June 30, 2018 consisted of the following:

Dividends and interest	\$ 1,571,624
Net realized gain on investments	12,304,083
Net unrealized loss on investments	<u>(5,853,513)</u>
Investment return	<u>\$ 8,022,194</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 \$461,886 of investments under split-interest agreements.

Investment expenses, including custodial and management fees for all funds, totaled \$114,798 for the year ended June 30, 2018.

(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.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(4) Fair Value Measurements (Continued)

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

The following table summarizes the Society's investments that were accounted for at fair value, as of June 30, 2018:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equity	\$ 52,551,482	\$ -	\$ -	\$ 52,551,482
Fixed Income	<u>35,325,815</u>	<u>-</u>	<u>-</u>	<u>35,325,815</u>
Total Mutual Funds	87,877,297	-	-	87,877,297
Domestic Common Stock	100,017	-	-	100,017
Investments Valued at Net Asset Value	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,076,740</u>
	<u>\$ 87,977,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,054,054</u>

The following table summarizes the Society's contribution receivable in remainder trusts that were accounted for at fair value, as of June 30, 2018:

<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>\$ 229,267</u>	<u>\$ -</u>	<u>\$ 229,267</u>

The Society values certain investment holdings at fair value using their net asset value and has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date. Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2018:

<u>Investment Category</u>	<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common Collective Trusts				
Grosvenor	\$ 8,361,404	\$ -	Quarterly	70 Days
SIT Dividend Growth Fund II	5,223,580	-	Monthly	30 Days
Lighthouse Partners	<u>8,491,756</u>	<u>-</u>	Monthly	90 Days
Total	<u>\$ 22,076,740</u>	<u>\$ -</u>		

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, 2018.

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, 2018.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(4) Fair Value Measurements (Continued)

Lighthouse Partners includes investments in investment funds, including investments in U.S. and international equities. 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, 2018.

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2018:

Land	\$ 5,384,986
Property and improvement	115,041,482
Equipment	6,159,782
	<u>126,586,250</u>
Accumulated depreciation	<u>(33,753,927)</u>
	<u><u>\$ 92,832,323</u></u>

(6) Nonstate Support and Contributions Receivable

Nonstate support and contributions receivable are discounted at rates ranging from 1.01% to 2.73% and summarized as follows at June 30, 2018:

Federal Grants Receivable	\$ 935,547
Government Grants Receivable	9,890
Donor Pledges Receivable	5,239,981
	<u>\$ 6,185,418</u>

Unconditional promises expected to be collected in:

Less than one year	\$ 4,826,854
One year to five years	1,405,971
Less discount	<u>(47,407)</u>
	<u><u>\$ 6,185,418</u></u>

At June 30, 2018, one pledge in the amount of \$1,500,000 made up 29% of donor pledges receivable totaling \$5,239,981.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(7) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2018:

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

Programs	\$ 5,523,106
Operations	6,385,331
	<u>11,908,437</u>

Gifts and other unexpended support and revenue available for:

Programs	21,255,398
Programs and operations from state appropriation	32,636,283
	<u>\$ 65,800,118</u>

Permanently restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2018:

Endowment funds for:

Programs	\$ 56,565,806
Operations	15,246,902
	<u>71,812,708</u>

Split-interest agreements

180,877

Contributions receivable in remainder trust restricted for program

229,267

\$ 72,222,852

(8) Endowment Funds

The Society's endowment consists of approximately 157 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.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(8) Endowment Funds (Continued)

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, 2018:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 11,908,437	\$ 71,812,708	\$ 83,721,145
Board-designated endowment funds	7,115,959	-	-	7,115,959
Total endowed net assets	<u>\$ 7,115,959</u>	<u>\$ 11,908,437</u>	<u>\$ 71,812,708</u>	<u>\$ 90,837,104</u>

Changes in Endowment Net Assets

Changes in Endowment Net Assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 5,291,858	\$ 11,059,325	\$ 65,986,503	\$ 82,337,686
Investment return	548,748	1,454,606	5,612,991	7,616,345
Contributions	1,508,390	-	1,497,644	3,006,034
Appropriation of endowment assets for expenditure	(233,037)	(605,494)	(2,284,430)	(3,122,961)
Transfers	-	-	1,000,000	1,000,000
Endowment net assets, June 30, 2018	<u>\$ 7,115,959</u>	<u>\$ 11,908,437</u>	<u>\$ 71,812,708</u>	<u>\$ 90,837,104</u>

Investments not included in endowments total \$4,326,861 bringing the total to \$95,163,965.

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, 2018.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(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 7.5%, 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 Executive Council upon consideration of recommendations by the Executive Committee and the Finance Committee. The annual spending rate will not exceed 5% 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, 2018 was 5.0%, 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%).

(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 \$1,158,756 for the year ended June 30, 2018.

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, 2017. The plan was 62.73% funded as of June 30, 2017. The Society's portion of the plan was .206% as of June 30, 2017.

Contributions for the fiscal year 2017 were \$325,551. The Society's portion of the unfunded liability was \$15.3 million as of June 30, 2017. The Society has no collective bargaining agreements. As of July 1, 2017, the employer contribution rate was 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, 2018 through October 15, 2018, which was the date the financial statements were available to be issued.