

MINNESOTA HISTORICAL SOCIETY

Financial Statements and Supplementary Information

June 30, 2020

(With Independent Auditors' Report Thereon)

**MINNESOTA HISTORICAL SOCIETY
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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, 2020, 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. 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 auditors' 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 organization'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 organization'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.

Audit Committee
Minnesota Historical Society

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, 2020, 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 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 8, 2020

MINNESOTA HISTORICAL SOCIETY
BALANCE SHEET
JUNE 30, 2020
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2019)

Assets	Without Donor Restrictions			With Donor Restrictions			2020 Total	2019 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Perpetually restricted		
Cash and cash equivalents	\$ 3,269,495	\$ -	\$ -	\$ (1,639,850)	\$ 5,344,109	\$ 2,297,519	\$ 9,271,273	\$ 9,760,073
Investments	9,359,467	-	7,147,263	-	26,236,683	73,958,416	116,701,829	113,247,227
Receivables:								
Nonstate support and contributions, net	165,130	-	-	-	1,606,386	471,125	2,242,641	2,289,756
Contribution receivable in remainder trusts	-	-	-	-	-	307,274	307,274	236,976
Federal reimbursement for Covid-19	1,030,878	-	-	-	-	-	1,030,878	-
State legacy appropriation	-	-	-	11,535,980	-	-	11,535,980	10,716,438
State capital appropriation	-	-	-	21,665,125	-	-	21,665,125	26,131,855
Contracts	187,041	-	-	-	-	-	187,041	203,770
Publication sales	207,602	-	-	-	-	-	207,602	132,372
Other	1,151,529	-	-	-	-	-	1,151,529	1,114,280
Total receivables	2,742,180	-	-	33,201,105	1,606,386	778,399	38,328,070	40,825,447
Museum shop inventories	1,074,485	-	-	-	-	-	1,074,485	1,130,571
Property and equipment, net	-	90,596,344	-	4,878,452	830,578	-	96,305,374	95,231,208
Total assets	<u>\$ 16,445,627</u>	<u>\$ 90,596,344</u>	<u>\$ 7,147,263</u>	<u>\$ 36,439,707</u>	<u>\$ 34,017,756</u>	<u>\$ 77,034,334</u>	<u>\$ 261,681,031</u>	<u>\$ 260,194,526</u>
Liabilities and Net Assets								
Liabilities:								
Accounts payable and accrued expenses	\$ 2,018,497	\$ -	\$ -	\$ 1,959,285	\$ 549,972	\$ -	\$ 4,527,754	\$ 4,496,797
Accrued vacation and sick liability	2,278,998	-	-	-	-	-	2,278,998	2,066,706
Split-interest agreements liability	-	-	-	-	-	300,879	300,879	296,113
Total liabilities	4,297,495	-	-	1,959,285	549,972	300,879	7,107,631	6,859,616
Net assets:								
Without Donor Restrictions:								
Operating	12,148,132	90,596,344	-	-	-	-	102,744,476	100,289,175
Board-designated endowment	-	-	7,147,263	-	-	-	7,147,263	7,183,117
Total without donor restrictions	12,148,132	90,596,344	7,147,263	-	-	-	109,891,739	107,472,292
With Donor Restrictions	-	-	-	34,480,422	33,467,784	76,733,455	144,681,661	145,862,618
Total net assets	12,148,132	90,596,344	7,147,263	34,480,422	33,467,784	76,733,455	254,573,400	253,334,910
Total liabilities and net assets	<u>\$ 16,445,627</u>	<u>\$ 90,596,344</u>	<u>\$ 7,147,263</u>	<u>\$ 36,439,707</u>	<u>\$ 34,017,756</u>	<u>\$ 77,034,334</u>	<u>\$ 261,681,031</u>	<u>\$ 260,194,526</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions			With Donor Restrictions			2020 Total	2019 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other	Perpetually restricted		
Support and revenue:								
Support:								
Private contributions	\$ 3,047,613	\$ -	\$ -	\$ -	\$ 1,789,157	\$ 801,947	\$ 5,638,717	\$ 8,147,079
Federal grants	-	-	-	-	341,314	-	341,314	-
Federal reimbursement for Covid-19	1,030,878	-	-	-	-	-	1,030,878	-
County and other grants	-	-	-	-	124,000	-	124,000	91,670
State operating appropriation	22,647,000	-	-	-	-	-	22,647,000	23,247,000
State legacy appropriation	-	-	-	14,798,448	-	-	14,798,448	16,105,034
State capital appropriation return	-	-	-	(201,562)	-	-	(201,562)	-
Total support	<u>26,725,491</u>	<u>-</u>	<u>-</u>	<u>14,596,886</u>	<u>2,254,471</u>	<u>801,947</u>	<u>44,378,795</u>	<u>47,590,783</u>
Revenue:								
Admission fees	2,000,596	-	-	-	-	-	2,000,596	2,736,657
Museum store sales	1,833,906	-	-	-	-	-	1,833,906	2,331,571
Publication sales	1,388,402	-	-	-	-	-	1,388,402	1,472,522
Program fees	768,130	-	-	-	-	-	768,130	1,597,870
Contract service fees	1,483,828	-	-	-	-	-	1,483,828	1,989,703
Library sales and fees	224,254	-	-	-	-	-	224,254	256,458
Investment return	1,653,020	-	266,213	-	732,330	2,125,019	4,776,582	5,487,718
Endowment payout	1,039,415	-	(302,067)	-	1,626,917	(2,364,265)	-	-
Change in value of split-interest agreements	-	-	-	-	-	24,977	24,977	(18,887)
Rental, parking, food services	892,094	-	-	-	-	-	892,094	1,294,843
Other sales, fees, and memberships	704,549	-	-	-	100	-	704,649	688,942
Total revenue	<u>11,988,194</u>	<u>-</u>	<u>(35,854)</u>	<u>-</u>	<u>2,359,347</u>	<u>(214,269)</u>	<u>14,097,418</u>	<u>17,837,397</u>
Total support and revenue	38,713,685	-	(35,854)	14,596,886	4,613,818	587,678	58,476,213	65,428,180
Net assets released from program restrictions	<u>18,748,071</u>	<u>2,231,268</u>	<u>-</u>	<u>(16,781,552)</u>	<u>(4,197,787)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from program restrictions	<u>\$ 57,461,756</u>	<u>\$ 2,231,268</u>	<u>\$ (35,854)</u>	<u>\$ (2,184,666)</u>	<u>\$ 416,031</u>	<u>\$ 587,678</u>	<u>\$ 58,476,213</u>	<u>\$ 65,428,180</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions			With Donor Restrictions			2020 Total	2019 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Perpetually restricted		
Expenses:								
Program services:								
Library and Collections	\$ 9,420,248	\$ 299,995	\$ -	\$ -	\$ -	\$ -	\$ 9,720,243	\$ 9,732,492
Historic Sites and Museums	14,391,266	1,133,722	-	-	-	-	15,524,988	15,976,106
Education, Outreach, and Content Development	11,211,282	474,186	-	-	-	-	11,685,468	12,739,787
Historic Preservation	7,471,937	5,388	-	-	-	-	7,477,325	7,140,648
Total program services	<u>42,494,733</u>	<u>1,913,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,408,024</u>	<u>45,589,033</u>
Supporting services:								
Management and General	10,822,891	103,482	-	-	-	-	10,926,373	11,371,546
Development and Membership	1,902,115	1,211	-	-	-	-	1,903,326	2,168,441
Total supporting services	<u>12,725,006</u>	<u>104,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,829,699</u>	<u>13,539,987</u>
Total expenses	<u>55,219,739</u>	<u>2,017,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,237,723</u>	<u>59,129,020</u>
Increase (decrease) in net assets	2,242,017	213,284	(35,854)	(2,184,666)	416,031	587,678	1,238,490	6,299,160
Changes in net assets:								
Without donor restriction	2,242,017	213,284	(35,854)	-	-	-	2,419,447	558,615
With donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,184,666)</u>	<u>416,031</u>	<u>587,678</u>	<u>(1,180,957)</u>	<u>5,740,545</u>
Net changes in net assets	2,242,017	213,284	(35,854)	(2,184,666)	416,031	587,678	1,238,490	6,299,160
Net assets at beginning of year	<u>9,906,115</u>	<u>90,383,060</u>	<u>7,183,117</u>	<u>36,665,088</u>	<u>33,051,753</u>	<u>76,145,777</u>	<u>253,334,910</u>	<u>247,035,750</u>
Net assets at end of year	<u>\$ 12,148,132</u>	<u>\$ 90,596,344</u>	<u>\$ 7,147,263</u>	<u>\$ 34,480,422</u>	<u>\$ 33,467,784</u>	<u>\$ 76,733,455</u>	<u>\$ 254,573,400</u>	<u>\$ 253,334,910</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	Library and Collections	Historic Sites and Museums	Education, Outreach, and Content Development	Historic Preservation	Total Program Services	Management and General	Development and Membership	2020 Total Expenses	2019 Total Expenses
Salaries	\$ 4,069,170	\$ 6,634,732	\$ 3,574,101	\$ 494,697	\$ 14,772,700	\$ 5,194,799	\$ 1,078,499	\$ 21,045,998	\$ 21,948,012
Benefits	1,820,278	2,862,979	1,448,508	204,330	6,336,095	2,181,496	465,311	8,982,902	8,214,990
	<u>5,889,448</u>	<u>9,497,711</u>	<u>5,022,609</u>	<u>699,027</u>	<u>21,108,795</u>	<u>7,376,295</u>	<u>1,543,810</u>	<u>30,028,900</u>	<u>30,163,002</u>
Rental fees	15,831	23,796	18,043	175	57,845	10,611	-	68,456	156,012
Advertising	1,409	12,319	33,827	331	47,886	702,049	899	750,834	745,600
Repairs	150,330	273,564	3,138	26,664	453,696	373,353	3,495	830,544	890,324
Insurance	-	-	-	-	-	151,341	1,565	152,906	188,565
Printing	6,543	42,932	478,792	1,067	529,334	98,631	59,687	687,652	870,825
Professional and technical services	883,383	616,030	542,969	827,025	2,869,407	946,811	51,510	3,867,728	3,818,889
Purchased services	29,347	1,103,515	775,537	4,970	1,913,369	219,746	135,932	2,269,047	3,280,369
Speakers' fees	770	93,653	224,162	-	318,585	4,598	10,943	334,126	368,336
Communications/postage	30,147	140,788	87,765	3,392	262,092	208,815	41,844	512,751	577,233
Employee travel	84,122	49,076	75,261	12,341	220,800	41,846	9,586	272,232	447,871
Utility service	28,774	400,393	-	-	429,167	51,263	-	480,430	533,560
Fees and other expenses	84,262	22,467	144,312	15,428	266,469	139,036	5,745	411,250	564,935
Supplies	84,387	257,261	325,103	175	666,926	115,216	24,692	806,834	1,272,235
Equipment	20,951	129,152	11,696	-	161,799	262,679	1,547	426,025	745,772
Collections acquisition	354,059	-	-	-	354,059	-	-	354,059	247,607
Buildings and improvements	3,175	838,528	-	-	841,703	9,288	-	850,991	21,350
Grants	-	-	-	5,833,016	5,833,016	-	-	5,833,016	5,874,496
Cost of goods sold	-	852,072	-	-	852,072	-	-	852,072	1,103,125
Depreciation	299,995	1,133,722	474,186	5,388	1,913,291	103,482	1,211	2,017,984	1,829,028
History Center building services	1,753,310	38,009	3,468,068	48,326	5,307,713	111,313	10,860	5,429,886	5,429,886
	<u>\$ 9,720,243</u>	<u>\$ 15,524,988</u>	<u>\$ 11,685,468</u>	<u>\$ 7,477,325</u>	<u>\$ 44,408,024</u>	<u>\$ 10,926,373</u>	<u>\$ 1,903,326</u>	<u>\$ 57,237,723</u>	<u>\$ 59,129,020</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 1,238,490	\$ 6,299,160
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Depreciation	2,017,984	1,829,028
Net realized and unrealized gain on investments	(2,774,395)	(3,633,136)
Adjustment of actuarial liability for split-interest agreements liability	(24,977)	18,887
Perpetually restricted contributions	(801,947)	(3,133,368)
Changes in assets and liabilities:		
Receivables	2,497,377	1,180,454
Museum shop inventories	56,086	(115,605)
Accounts payable and accrued expenses	(508,947)	(1,292,395)
Accrued vacation and sick liability	212,292	(30,982)
Net cash provided by operating activities	<u>1,911,963</u>	<u>1,122,043</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,473,428)	(3,990,231)
Purchase of investments	(15,417,763)	(4,754,753)
Proceeds from sale of investments	<u>14,737,555</u>	<u>5,194,717</u>
Net cash used in investing activities	<u>(3,153,636)</u>	<u>(3,550,267)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(49,074)	(38,024)
Proceeds from contributions restricted for:		
Investment in perpetually restricted	<u>801,947</u>	<u>3,133,368</u>
Net cash provided by financing activities	<u>752,873</u>	<u>3,095,344</u>
Net change in cash and cash equivalents	(488,800)	667,120
Cash and cash equivalents at beginning of year	<u>9,760,073</u>	<u>9,092,953</u>
Cash and cash equivalents at end of year	<u>\$ 9,271,273</u>	<u>\$ 9,760,073</u>
Noncash purchase of property and equipment	<u>\$ 618,722</u>	<u>\$ 237,683</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(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 categories:

- Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Certain of these amounts have been designated by the board to act as endowment.
- Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. State appropriations are considered by the Society to be temporary in nature because the appropriations are made to support programs as approved through the legislative process. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(b) Support and Revenue

Support and revenue are reported as increases in without donor-restricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in without donor-restricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in without donor-restricted 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 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, 2020

(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 and contributions are not recognized until the conditions are met. A contribution is considered conditional when there is both a barrier to payment as well as a right of return. 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 with donor-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 without donor-restricted 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 with donor-restricted net assets class; the restrictions are considered to be released when the asset is placed into service.

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.

Appropriations are recognized as revenue in the year in which the Society is awarded the funding, as they are considered unconditional with no barriers.

Federal and county and other grants are recognized as revenue when conditions are met.

Program revenue is recognized as revenue when the performance obligation is satisfied. Admission fees, museum store sales, library sales and fees, and parking fee revenue are recognized as revenue when sales are made. Program fees, publication sales, and rental income are recognized as revenue when earned when services are performed and events occur. Contract service fees are recognized as revenue when services are performed according to the related contract. Membership fees include a contribution, which is recognized upon when the membership is entered into, and program fees, which is recognized over the life of the membership. Investment returns, net of fees, 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, 2020

(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 collectibility. 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, 2020 related to the author advances. A discount of \$13,342 was recorded in the year ended June 30, 2020 for the receivables that are expected to be collected over one year from June 30, 2020. At June 30, 2020, one receivable made up 12% of other receivable on the balance sheet. At June 30, 2020, the Society has a \$1,030,878 federal reimbursement for COVID-19 receivable on the balance sheet. The Society applied for the employee retention credit for \$813,256 and a reimbursement for unemployment compensation for \$217,622.

(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 2020 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, 2020

(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.

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, 2020

(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.

(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, 2020, the Society estimated \$58,000, as its unrelated business income taxes and, accordingly, has made provision for the taxes.

(m) Statement of Cash Flows

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

(n) Use of Estimates

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

(o) Functional Expenses

Accounting principles generally accepted in the United States of America require the presentation of information about expenses reported by their functional classification, such as major classes of program services and supporting activities. Expenses are direct coded where applicable and costs that are allocated are based on time and use estimates across the functional categories.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(3) Summary of Accounting Policies (Continued)

(p) *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. With respect to the statement of functional expenses, such prior year information is not presented by function. Accordingly, such information should be read in conjunction with the Society's fiscal year 2019 financial statements from which the summarized information was derived.

(q) *Change in Accounting Principle*

In June 2018, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in the update assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Society's financial statements reflect the application of ASU 2018-08 guidance beginning in fiscal year 2020. The adoption of ASU 2018-08 did not impact the Society's reported revenue.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Society early adopted the ASU and had a prospective adoption to the ASU beginning in fiscal year 2020. The adoption of Topic 606 did not impact the Society's reported revenue.

(4) Liquidity and Availability

Minnesota Historical Society regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the return on investment of its available funds. The Society has various sources of liquidity at its disposal, including cash, cash equivalents, marketable debt, and equity securities.

For purposes of analyzing resources available to meet general operating expenditures over a 12-month period, the Society considers expenditures related to its mission, as well as the conduct of services undertaken to support those activities to be general operating expenditures. Financial assets without donor restrictions are considered available. Financial assets with donor restrictions are not included in the analysis as these assets are used as specifically directed by donors and are, therefore, not generally available to meet current operating needs.

In addition to financial assets available to meet general operating expenditures over the next 12 months, the Society operates with a balanced budget, plans, and control expenditures with general revenue constraints.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(3) Liquidity and Availability (Continued)

The Society's governing board has designated a portion of its resources without donor restrictions for endowment purposes; those amounts are identified as board-designated in the financial statements. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board. As of June 30, 2020, the following financial assets could readily be made available to meet general operating expenditures within one year of the balance sheet date:

Cash and Cash Equivalents	\$ 3,269,495
Nonstate Support and Contributions, Net	165,130
Federal reimbursement for Covid-19	1,030,878
Contract Receivables	187,041
Publication Sale Receivables	207,602
Operating Investments	16,506,730
Total	<u><u>\$ 21,366,876</u></u>

(5) Cash and Investments

Investment return for the year ended June 30, 2020 consisted of the following:

Dividends and Interest	\$ 2,163,931
Net Realized Gain on Investments	3,432,624
Net Unrealized Loss on Investments	(658,229)
Investment Expense	(161,744)
Investment Return	<u><u>\$ 4,776,582</u></u>

The Society's endowment (with donor-restricted and board-designated) funds are managed by independent investment advisors in compliance with established board investment policies. In addition, included in investments is \$489,186 of investments under split-interest agreements.

(6) 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, without donor-restricted 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, 2020

(5) Fair Value Measurements (Continued)

The following table summarizes the Society's investments that were accounted for at fair value, as of June 30, 2020:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equity	\$ 45,963,875	\$ -	\$ -	\$ 45,963,875
Fixed Income	49,326,864	-	-	49,326,864
Total Mutual Funds	<u>95,290,739</u>	<u>-</u>	<u>-</u>	<u>95,290,739</u>
Domestic Common Stock	74,298	-	-	74,298
Investments Valued at Net Asset Value	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,336,792</u>
	<u>\$ 95,365,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,701,829</u>

The following table summarizes the Society's contribution receivable in remainder trusts that were accounted for at fair value, as of June 30, 2020:

<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>\$ 307,274</u>	<u>\$ -</u>	<u>\$ 307,274</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, 2020:

<u>Investment Category</u>	<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common Collective Trusts				
Grosvenor	\$ 8,566,346	\$ -	Quarterly	70 Days
SIT Dividend Growth Fund II	5,158,908	-	Monthly	30 Days
Lighthouse Partners	<u>7,611,538</u>	<u>-</u>	Monthly	90 Days
Total	<u>\$ 21,336,792</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, 2020.

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, 2020.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(5) 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, 2020.

(6) Property and Equipment

Property and equipment consist of the following at June 30, 2020:

Land	\$ 5,384,986
Property and improvement	116,177,026
Construction in progress	5,709,030
Equipment	6,635,273
	<u>133,906,315</u>
Accumulated depreciation	(37,600,941)
	<u><u>\$ 96,305,374</u></u>

(7) Nonstate Support and Contributions Receivable

Nonstate support and contributions receivable are discounted at rates ranging from .29% to 2.73% and summarized as follows at June 30, 2020:

Federal Grants Receivable	\$ 308,320
Donor Pledges Receivable	1,934,321
	<u><u>\$ 2,242,641</u></u>

Unconditional promises expected to be collected in:

Less than one year	\$ 1,165,915
One year to five years	1,090,068
Less discount	(13,342)
	<u><u>\$ 2,242,641</u></u>

At June 30, 2020, three pledges totaling \$930,000 made up 48% of donor pledges receivable totaling \$1,934,321.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(8) Net Assets with Donor Restrictions

State appropriation and other restricted net assets are available for the following purposes as of June 30, 2020:

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

Programs	\$ 5,519,758
Operations	<u>6,392,444</u>
	11,912,202

Gifts and other unexpended support and revenue available for:

Programs	21,555,582
Programs and operations from state appropriation	<u>34,480,422</u>
	<u>\$ 67,948,206</u>

Perpetually restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2020:

Endowment funds for:

Programs	\$ 60,323,845
Operations	<u>15,914,030</u>
	76,237,875

Split-interest agreements

	188,306
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Contributions receivable in remainder trust restricted for program

	<u>307,274</u>
	<u>\$ 76,733,455</u>

(9) Endowment Funds

The Society's endowment consists of approximately 169 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 perpetually restricted net assets (a) the original value of the gifts donated to the with donor-restricted endowment, (b) the original value of subsequent gifts to the with donor-restricted endowment, and (c) accumulations to the with donor-restricted 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, 2020

(9) Endowment Funds (Continued)

Interpretation of Relevant Law (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restriction is classified as net assets without donor restriction until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed 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, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 88,150,077	\$ 88,150,077
Board-designated endowment funds	7,147,263	-	7,147,263
Total endowed net assets	<u>\$ 7,147,263</u>	<u>\$ 88,150,077</u>	<u>\$ 95,297,340</u>

Changes in Endowment Net Assets

Changes in Endowment Net Assets for the year ended June 30, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2019	\$ 7,183,117	\$ 87,663,298	\$ 94,846,415
Investment Return	266,213	2,713,686	2,979,899
Contributions	-	792,707	792,707
Appropriation of Endowment Assets for Expenditure	<u>(302,067)</u>	<u>(3,019,614)</u>	<u>(3,321,681)</u>
Endowment Net Assets, June 30, 2020	<u>\$ 7,147,263</u>	<u>\$ 88,150,077</u>	<u>\$ 95,297,340</u>

Investments not included in endowments total \$3,828,902 bringing the total to \$99,126,242.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(9) Endowment Funds (Continued)

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 with donor-restricted net assets were \$-0- as of June 30, 2020.

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, 2020 was 4.5%, including investment management fees.

Strategies Employed for Achieving Objectives

To satisfy its rate of return objective, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places emphasis on investments in equities (70%), fixed income (20%), and alternative investments (10%).

(10) 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 \$1,274,315 for the year ended June 30, 2020.

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, 2019. The plan was 90.73% funded as of June 30, 2019. The Society's portion of the plan was 0.172% as of June 30, 2019.

Contributions for the fiscal year 2019 were \$314,444. The Society's portion of the unfunded liability was \$2.4 million as of June 30, 2019. The Society has no collective bargaining agreements. As of July 1, 2019, the employer contribution rate was 6.25% of pay.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

(11) Commitments and Contingencies

The Society entered into agreements with various parties in connection with the Fort Snelling visitor's center and the Fort Snelling revitalization project for a total of \$21,336,438. As of June 30, 2020, there was \$4,947,239 of Construction in Process related to these projects.

(12) COVID-19 Impact

As a result of the Governor's stay at home order, the Society closed to the public in March 2020 and the Society's employees began to work at home wherever possible. Social distancing guidelines made it impossible to operate many of our programs safely and the institution moved wherever possible to a digital program format. The Society's historic sites remained closed to the public in the fourth quarter and the Society maintained essential operations and security with core staff.

Recognizing a \$3M reduction in fourth quarter earned revenue (admissions, program fees, store sales, etc.), the Society furloughed roughly half of its staff in May. The Society recognized \$0.8M from the federal CARES Act's Employee Retention Credit, as well as \$217k for unemployment benefit reimbursements, which is included in the federal reimbursement for Covid-19 on the balance sheet. The Society began a fundraising campaign, called Help History, to help offset the reduction in earned revenue. Management also implemented an expense freeze to reduce non-payroll expenses wherever possible. The Society's state general fund and restricted funding was generally unaffected by COVID and supported the lower level of operations. The Society used reserves as needed to support operations in April and May but ended the year with a net operating surplus and has reduced ongoing expenses in line with projected revenue reductions.

(13) Subsequent Events

In connection with the preparation of the financial statements the Society evaluated subsequent events after the balance sheet date of June 30, 2020 through October 8, 2020, which was the date the financial statements were available to be issued.