



MINNESOTA HISTORICAL SOCIETY

Financial Statements and Supplementary Information

June 30, 2009

(With Independent Auditors' Report Thereon)

MINNESOTA HISTORICAL SOCIETY

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MINNESOTA HISTORICAL SOCIETY

Organization

Officers

Edward C. Stringer, President	St. Paul
Sharon Avent, Vice President	Hastings
William R. Stoeri, Vice President	Minneapolis
Nina M. Archabal, Secretary	St. Paul
Missy Staples Thompson, Treasurer	St. Paul

Executive Council

Abbot Apter	Duluth
Nina Archabal	St. Paul
Sharon Avent	Hastings
Brenda Child	St. Paul
Judith S. Corson	Minnetonka
Mark Davis	Le Sueur
Luz Maria Frias	Roseville
Ram Gada	New Brighton
James T. Hale	Medina
Ruth S. Huss	St. Paul
Martha Kaemmer	St. Paul
Elliot S. Kaplan	Edina
David M. Larson	Wayzata
Mary Mackbee	Bloomington
Charles Mahar	St. Paul
Susan B. McCarthy	White Bear Lake
Bob Nelson	Wayzata
Dean M. Nelson	St. Paul
Richard Nicholson	St. Paul
Peter Reis	White Bear Lake
Simon Stevens	Minneapolis
William R. Stoeri	Minneapolis
Edward C. Stringer	St. Paul
Missy Staples Thompson	St. Paul
Kathy Tunheim	Stillwater
Paul Verret	Mendota Heights
Eleanor Winston	Wayzata

Ex-Officio Council Members

Tim Pawlenty, Governor
Carol Molnau, Lieutenant Governor
Mark Ritchie, Secretary of State
Lori Swanson, Attorney General
Rebecca Otto, State Auditor

MINNESOTA HISTORICAL SOCIETY

Organization

Appointed Management

Nina Archabal, Director and Chief Executive Officer

Michael Fox, Deputy Director, Historical Programs and Education

Andrea Hart Kajer, Deputy Director, External Relations

Robert Horton, Director, Library, Publications, and Collections

John Crippen, Acting Director, Historic Sites and Museums

Pat Gaarder, Director, Human Resources and Volunteer Services

Cassie Cramer, Director, Development

Chuck Irrgang, Chief Financial Officer, Finance and Administration

David Kelliher, Director, Government Relations

Rose Sherman, Director, Enterprise Tech and Business Development

Dan Spock, Director, History Center Museum

Lory Sutton, Director, Marketing and Communications



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Executive Council
Minnesota Historical Society:

We have audited the accompanying balance sheet of the Minnesota Historical Society (the Society) as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on the financial statements based on our audit. The prior year summarized comparative information has been derived from the Society's 2008 financial statements and, in our report dated October 9, 2008, we expressed an unqualified opinion on those financial statements.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Minnesota Historical Society as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2 and 4 to the financial statements, the Society adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, as of July 1, 2008. Additionally, as discussed in notes 2 and 8 to the financial statements, the Society adopted FASB Staff Position No. FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, and *Enhanced Disclosures for All Endowment Funds*, as of August 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2009 on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Our audit for the year ended June 30, 2009 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, shown in schedules 1–5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

Minneapolis, Minnesota
October 20, 2009

MINNESOTA HISTORICAL SOCIETY

Balance Sheet

June 30, 2009

(with summarized information as of June 30, 2008)

Assets	Unrestricted		Board-designated endowment	Temporarily restricted			Permanently restricted	2009 Total	2008 Total
	Operating	Plant fund		State appropriations	Other				
Cash and cash equivalents	\$ 2,399,026	—	138,798	(24,238)	3,656,859		121,824	6,292,269	13,043,857
Investments (at cost)	13,212	—	6,624,065	—	7,676,030		18,800,077	33,113,384	37,176,995
Unrealized gain (loss) on investments	—	—	(831,067)	—	(1,373,714)		(2,786,853)	(4,991,634)	(842,774)
Total investments (at fair value)	13,212	—	5,792,998	—	6,302,316		16,013,224	28,121,750	36,334,221
Receivables:									
Nonstate support and contributions, net	58,125	—	—	—	4,122,554		2,010,953	6,191,632	4,957,104
Contribution receivable in remainder trusts	—	—	—	—	—		152,928	152,928	167,190
State operating appropriation	—	—	—	2,480,000	—		—	2,480,000	663,240
State capital appropriation	—	—	—	13,067,831	—		—	13,067,831	13,644,242
Amounts due from the State Treasurer	167,490	—	—	—	—		—	167,490	162,642
Contracts	269,386	—	—	—	—		—	269,386	507,526
Publication sales	267,760	—	—	—	—		—	267,760	405,474
Other	359,367	—	1	—	6		1	359,375	414,266
Total receivables	1,122,128	—	1	15,547,831	4,122,560		2,163,882	22,956,402	20,921,684
Museum shop inventories	921,747	—	—	—	—		—	921,747	980,198
Property and equipment, net	—	86,829,100	—	—	—		—	86,829,100	88,075,064
Total assets	\$ 4,456,113	86,829,100	5,931,797	15,523,593	14,081,735		18,298,930	145,121,268	159,355,024
Liabilities and Net Assets									
Liabilities:									
Accounts payable and accrued expenses	\$ 1,337,420	—	—	2,951,309	626,685		—	4,915,414	5,142,891
Split-interest agreements liability	—	—	—	—	—		335,918	335,918	372,474
Amounts held for others	—	—	—	—	24,299		—	24,299	616,339
Total liabilities	1,337,420	—	—	2,951,309	650,984		335,918	5,275,631	6,131,704
Commitments and contingencies									
Net assets:									
Unrestricted:									
Operating	3,239,887	86,829,100	—	—	—		—	90,068,987	91,855,869
Special projects	(121,194)	—	—	—	—		—	(121,194)	673,078
Board-designated endowment	—	—	5,931,797	—	—		—	5,931,797	13,280,124
Total unrestricted	3,118,693	86,829,100	5,931,797	—	—		—	95,879,590	105,809,071
Temporarily restricted	—	—	—	12,572,284	13,430,751		—	26,003,035	27,745,300
Permanently restricted	—	—	—	—	—		17,963,012	17,963,012	19,668,949
Total net assets	3,118,693	86,829,100	5,931,797	12,572,284	13,430,751		17,963,012	139,845,637	153,223,320
Total liabilities and net assets	\$ 4,456,113	86,829,100	5,931,797	15,523,593	14,081,735		18,298,930	145,121,268	159,355,024

See accompanying notes to financial statements.

MINNESOTA HISTORICAL SOCIETY

Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008)

	Unrestricted		Board-designated endowment	Temporarily restricted			Permanently restricted	2009 Total	2008 Total
	Operating	Plant fund		State appropriations	Other				
Support and revenue:									
Support:									
Private contributions	\$ 1,868,725	—	—	—	1,839,708		1,460,118	5,168,551	5,991,688
Federal grants	—	—	—	—	2,087,683		—	2,087,683	2,402,698
County and other grants	—	—	—	—	62,000		—	62,000	—
State operating appropriation	—	—	—	23,655,410	—		—	23,655,410	26,216,096
State capital appropriation	—	—	—	2,065,000	—		—	2,065,000	9,192,170
Total support	1,868,725	—	—	25,720,410	3,989,391		1,460,118	33,038,644	43,802,652
Revenue:									
Admission fees	2,610,042	—	—	—	—		—	2,610,042	2,145,777
Museum store sales	1,814,485	—	—	—	—		—	1,814,485	1,881,971
Membership	415,710	—	—	—	—		—	415,710	626,409
Publication sales	1,166,130	—	—	—	—		—	1,166,130	1,602,233
Program fees	678,712	—	—	—	—		—	678,712	624,532
Contract service fees	789,631	—	—	—	—		—	789,631	890,774
Digital product fees	384,478	—	—	—	—		—	384,478	412,440
Investment return	88,172	—	(2,126,137)	—	(3,586,069)		(3,166,055)	(8,790,089)	(4,653,408)
Auxiliary services	1,182,758	—	—	—	—		—	1,182,758	1,046,911
Other sales and fees	493,045	—	—	—	—		—	493,045	342,422
Total revenue	9,623,163	—	(2,126,137)	—	(3,586,069)		(3,166,055)	744,902	4,920,061
Total support and revenue	11,491,888	—	(2,126,137)	25,720,410	403,322		(1,705,937)	33,783,546	48,722,713
Net assets released from program restrictions	32,835,598	239,832	—	(27,961,711)	(5,113,719)		—	—	—
Total support, revenue, and net assets released from program restrictions	44,327,486	239,832	(2,126,137)	(2,241,301)	(4,710,397)		(1,705,937)	33,783,546	48,722,713

MINNESOTA HISTORICAL SOCIETY

Statement of Activities

Year ended June 30, 2009

(with summarized information for the year ended June 30, 2008)

	Unrestricted		Board-	Temporarily restricted			Permanently	2009	2008
	Operating	Plant fund	designated endowment	State appropriations	Other	restricted	restricted	Total	Total
Expenses:									
Program services:									
Library collections and archival services	\$ 7,409,273	192,315	—	—	—	—	—	7,601,588	7,318,440
Publications	2,044,457	7,548	—	—	—	—	—	2,052,005	2,348,577
History Center Museum	10,175,348	485,022	—	—	—	—	—	10,660,370	10,254,093
Historic sites	12,578,126	768,887	—	—	—	—	—	13,347,013	13,766,621
Outreach and preservation	5,092,142	5,315	—	—	—	—	—	5,097,457	4,482,183
Total program services	37,299,346	1,459,087	—	—	—	—	—	38,758,433	38,169,914
Supporting services:									
Management and general	6,553,764	25,527	—	—	—	—	—	6,579,291	7,125,543
Development and membership	1,822,323	1,182	—	—	—	—	—	1,823,505	1,728,182
Total supporting services	8,376,087	26,709	—	—	—	—	—	8,402,796	8,853,725
Total expenses	45,675,433	1,485,796	—	—	—	—	—	47,161,229	47,023,639
Increase (decrease) in net assets before reclassifications	(1,347,947)	(1,245,964)	(2,126,137)	(2,241,301)	(4,710,397)	(1,705,937)	(1,705,937)	(13,377,683)	1,699,074
Reclassification of board-designated endowment	12,757	—	(131,980)	—	119,223	—	—	—	—
Reclassification due to implementation of FSP 117-1	—	—	(5,090,210)	—	5,090,210	—	—	—	—
Changes in net assets:									
Unrestricted	(1,335,190)	(1,245,964)	(7,348,327)	—	—	—	—	(9,929,481)	(5,137,034)
Temporarily restricted	—	—	—	(2,241,301)	499,036	—	—	(1,742,265)	8,439,609
Permanently restricted	—	—	—	—	—	(1,705,937)	(1,705,937)	(1,705,937)	(1,603,501)
Net changes in net assets	(1,335,190)	(1,245,964)	(7,348,327)	(2,241,301)	499,036	(1,705,937)	(1,705,937)	(13,377,683)	1,699,074
Net assets at beginning of year	4,453,883	88,075,064	13,280,124	14,813,585	12,931,715	19,668,949	19,668,949	153,223,320	151,524,246
Net assets at end of year	\$ 3,118,693	\$ 86,829,100	\$ 5,931,797	\$ 12,572,284	\$ 13,430,751	\$ 17,963,012	\$ 17,963,012	\$ 139,845,637	\$ 153,223,320

See accompanying notes to financial statements.

MINNESOTA HISTORICAL SOCIETY

Statement of Cash Flows

Year ended June 30, 2009

(with comparative information for the year ended June 30, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net changes in net assets	\$ (13,377,683)	1,699,074
Adjustments to reconcile net changes in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,485,796	1,470,683
Net realized and unrealized losses on investments	9,435,000	5,616,684
Adjustment of actuarial liability for split-interest agreements liability	3,904	40,779
Contributions and income restricted for financing activities	(1,460,118)	(689,377)
Changes in assets and liabilities:		
Receivables	(1,183,313)	(8,564,234)
Museum shop inventories	58,451	(21,075)
Accounts payable and accrued expenses	(227,477)	461,491
Amounts held for others	(592,040)	388,781
Net cash (used in) provided by operating activities	<u>(5,857,480)</u>	<u>402,806</u>
Cash flows from investing activities:		
Purchase of property and equipment	(239,832)	—
Purchase of investments	(13,868,913)	(77,097,461)
Proceeds from sale of investments	<u>12,646,384</u>	<u>74,457,885</u>
Net cash used in investing activities	<u>(1,462,361)</u>	<u>(2,639,576)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(40,460)	(43,057)
Proceeds from contributions and income restricted for: Investment in endowment	<u>608,713</u>	<u>1,018,519</u>
Net cash provided by financing activities	<u>568,253</u>	<u>975,462</u>
Net decrease in cash and cash equivalents	(6,751,588)	(1,261,308)
Cash and cash equivalents at beginning of year	<u>13,043,857</u>	<u>14,305,165</u>
Cash and cash equivalents at end of year	<u>\$ 6,292,269</u>	<u>13,043,857</u>

See accompanying notes to financial statements.

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

(1) Description of the Organization

The Minnesota Historical Society (the Society) is an independent, nonprofit corporation created by the Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44. The Society receives significant support from the state of Minnesota in the form of legislative appropriations and grants, as well as from the federal government and the private sector. The balance of the Society's support and revenue is derived from grants, investment return, auxiliary enterprises, memberships, admissions, publications sales, bequests, gifts, and endowments.

The mission of the Society is to connect people with history to help them gain perspective on their lives. The Society preserves the evidence of the past and tells the stories of Minnesota's people. To achieve this objective, the Society provides opportunities for people of all ages to learn about the history of Minnesota, collects and cares for materials that document human life in Minnesota, makes them known and accessible to people in Minnesota and beyond, and encourages and executes research in Minnesota history.

The Society is governed by its officers and an Executive Council, elected by the membership. The Executive Council appoints the director and chief executive officer, who has the responsibility of directing the Society in accordance with its policies.

(2) Summary of Accounting Policies

(a) Basis of Presentation

Net assets, support and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the Society and changes therein are classified into the following three categories:

- Unrestricted net assets represent the portion of expendable funds that is available for support of the operations of the Society. Certain of these amounts have been designated by the board to act as endowment.
- Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are not available for use until a specific time. State appropriations are considered by the Society to be temporarily restricted because the appropriations are made to support programs as approved through the legislative process.
- Permanently restricted net assets consist of contributions the donor has stipulated be maintained permanently, but permit the Society to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

(b) Support and Revenue

Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or pursuant to the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Expirations of temporary restrictions on net assets (e.g., the donor-stipulated purpose has

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenue in the period that the contribution is received or that the promise is made. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of noncollection assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted using discount rates consistent with the general principles of present value measurement. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible pledges receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fund-raising activity.

Contributions with donor-imposed restrictions that are met in the same year as the gifts are received are reported as revenue of 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 of 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 two types:

- Biennial funding, accounting for the majority of the Society's appropriations.
- Appropriations of a capital nature for projects that have indefinite expiration dates. These funds are available until the project is completed or abandoned.

(c) Investments

Investments are recorded at fair value. Mutual funds and common stocks are valued based on quoted market prices in active exchanges. Investments in common collective trusts are valued using a unit share price as determined monthly by fund managers based on the fair values of the underlying securities in the trusts. The fair values of the underlying securities held by the common collective trusts are based on quoted market prices in the exchange of the country in which the security is registered.

(d) Split-Interest Agreements

The split-interest agreements include charitable remainder trusts and charitable gift annuities. The Society recognizes the contribution from charitable trusts when the trust is established and recognizes the contribution from the charitable annuity gifts when the agreement is executed. The contribution amount is the difference between the fair value of assets received and the present value of the future cash flows expected to be paid to the designated beneficiaries. The significant assumptions used to estimate the present value of the future cash flows include discount rates of 3.0% to 6.0% commensurate with the risks involved and the 2009 mortality tables.

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

(e) ***Program and Supporting Services***

The cost of providing the various program and supporting services has been summarized on a functional basis in the schedule of functional expenses.

The program services of the Society fall into five major groups:

- **Library Collections and Archival Services** – Maintains and makes available to the public the Society's collection of books, newspapers, maps, photographs, works of art, oral history tapes, private manuscripts, and periodicals on Minnesota history; and catalogs, restores, and microfilms documents and records to make them available for public use. This program includes the acquisition, preservation, and cataloging of public records, as well as the Society's responsibilities as State Archivist.
- **Publications** – Publishes books and other media related to Minnesota history.
- **History Center Museum** – Maintains the collections used for exhibit purposes in the Society's museums and at county historical societies; plans, fabricates, and installs exhibits at Society interpretive facilities and museums throughout the state; and orients visitors and tells them the stories of important events and persons of Minnesota's past. It also includes auxiliary activities and services at the History Center, such as the museum shops, parking, cafe, and building rental.
- **Historic Sites** – Administers historic sites throughout the state for public benefit through educational and entertaining reenactments of key events and historical characters, and participation in living history programs about the people who lived and worked at these historic places; operates the Capitol tour program; administers the State Historic Sites Act.
- **Outreach and Preservation** – Provides technical assistance and grants for historic preservation; conducts historic and archaeological surveys, as required by law; administers a grant-in-aid program supporting projects in preservation and interpretation of Minnesota history; administers the National Historic Preservation Act in Minnesota.

Supporting services include the following:

- **Management and General** – Provides necessary support services, such as institutional leadership, legislative programs and priorities, budget and accounting control, personnel administration, facility planning, establishment of institutional policies, board liaison, information technology coordination, public information services, and membership support services.
- **Development and Membership** – Manages development and membership functions for the institution and develops programs to ensure ongoing nonstate support for the Society.

(f) ***Contributed Services***

Many members and other volunteers have made significant contributions of their time to develop and promote the programs of the Society. The value of these contributed services is not included in the

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

accompanying financial statements, as such services do not create or enhance nonfinancial assets or require specialized skills.

(g) *Museum Shop Inventories*

Merchandise-for-resale inventories at museum shops are stated at the lower of cost (first-in, first-out) or net realizable value.

(h) *Collections, Historic Sites, and Publications*

The Society's collection of artifacts, documents, newspapers, pictures, paintings, tapes, and books is not capitalized because donated values are not readily determinable. Items purchased for the collection are expensed as acquired.

Similarly, historic sites and publication copyrights owned by the Society are not included in the financial statements. Costs of producing publications for resale are expensed as incurred. However, in the opinion of management, the effects of expensing publication costs do not have a material effect on the Society's financial statements taken as a whole.

(i) *Property and Equipment*

Constructed and purchased property and equipment are carried at cost and noncollection contributed assets are carried at fair value at date of donation, less accumulated depreciation.

The Society's capitalization policy includes the following provisions:

- Purchases of buildings and leasehold improvements that have an initial cost of more than \$100,000 are capitalized.
- Purchases of program-designated equipment that have an initial cost of more than \$100,000 are capitalized.
- Purchases of auxiliary service-designated equipment that have an initial cost of more than \$10,000 are capitalized.

Depreciation is provided in amounts sufficient to relate the cost of property and equipment to operations over their estimated useful lives by straight-line methods. A summary of estimated service lives follows:

History Center and improvements	100 years
Other property and improvements	50 years
Equipment	6 – 10 years

(j) *Fair Value of Financial Instruments*

The carrying amount of cash and cash equivalents, receivables other than nonstate support and contributions, and accounts payable and accrued liabilities approximates fair value because of the short maturity of those instruments. Nonstate support and contributions receivable are recorded using present value techniques, which approximate fair value. Investments are carried at fair value as

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Notes to Financial Statements

June 30, 2009

described in note 2(c). Split-interest agreements liability are carried at the present value of the estimated future cash flows using discount rate assumptions established upon initial recognition of the liabilities, which approximates fair value.

(k) *Income Taxes*

The Society has received a determination letter indicating that it is exempt from federal and state income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and corresponding State of Minnesota Statutes. The Society monitors its activities and it considers the potential for income taxes if any activities are not related to its exempt purpose. The Society engages in activities that are considered as unrelated to its exempt purpose. These activities are subject to federal and state income taxes. However, the Society has a net operating loss carryforward available to offset future taxable income from these unrelated activities. Accordingly, no federal or state tax provision is required in the current year. The net operating loss carryforward begins to expire in 2014. The Society has elected to defer the application of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The Society follows Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*, for evaluating uncertain tax positions.

(l) *Statement of Cash Flows*

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

(m) *Use of Estimates*

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

(n) *Prior Year Summarized Information*

The financial statements include certain prior year summarized information in total, but not by net asset class. With respect to the statement of activities, such prior year information is not presented by net asset class. Accordingly, such information should be read in conjunction with the Society's fiscal year 2008 financial statements from which the summarized information was derived.

(o) *Reclassifications*

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

(p) *New Accounting Pronouncements*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a common definition of fair value, establishes a framework for the measurement

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

of fair value, and requires expanded disclosures about fair value measurements. The Society adopted SFAS 157 on July 1, 2008 and has made the required disclosures in note 4.

In August 2008, the Society adopted the provisions of FASB Staff Position No. FAS-117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA and also required certain disclosures for donor-restricted and board-designated endowment funds. The Society reported the resulting net asset reclassification as a separate line item within the statement of activities and made the required disclosures in note 8.

(3) Cash and Investments

Cash and investments consist of the following at June 30, 2009:

	<u>Cost</u>	<u>Fair value</u>
Cash and cash equivalents	\$ 6,292,269	6,292,269
Investments:		
Mutual funds	2,880,823	4,680,900
Common stocks	9,436,941	9,106,591
Common collective trusts	20,795,620	14,334,259
Total investments	<u>33,113,384</u>	<u>28,121,750</u>
Total cash, cash equivalents, and investments	<u>\$ 39,405,653</u>	<u>34,414,019</u>

Investment return for the year consisted of the following:

Dividends and interest	\$ 644,910
Net realized loss on investments	(5,313,567)
Net unrealized loss on investments	<u>(4,121,432)</u>
Investment return	<u>\$ (8,790,089)</u>

The Society's endowment (permanently restricted, temporarily restricted, and board-designated) funds are managed by independent investment advisors in compliance with established board investment policies.

Investment expenses, including custodial and management fees for all funds, totaled \$308,342 for the year ended June 30, 2009. In addition, included in investments is \$434,818 of investments under split-interest agreements.

(4) Fair Value Measurements

As of July 1, 2008, the Society adopted SFAS 157, which establishes 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

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Pricing inputs other than identical quoted prices in active markets that are observable for the financial instrument, such as similar instruments, interest rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 includes situations where there is little, if any, market activity for the financial instrument.

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

The following table summarizes the Society's investments that were accounted for at fair value within the fair value hierarchy of SFAS 157 as of June 30, 2009:

Description	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity	\$ 2,274,997	—	—	2,274,997
Fixed income	2,398,716	—	—	2,398,716
Real estate	7,187	—	—	7,187
Total mutual funds	4,680,900	—	—	4,680,900
Common stocks:				
Domestic	8,379,862	—	—	8,379,862
Foreign	726,729	—	—	726,729
Total common stock	9,106,591	—	—	9,106,591
Common collective trusts:				
Domestic	—	7,117,754	—	7,117,754
Foreign	—	7,216,505	—	7,216,505
Total common collective trusts	—	14,334,259	—	14,334,259
	\$ 13,787,491	14,334,259	—	28,121,750

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2009:

Land	\$	4,684,986
Property and improvement		97,220,362
Equipment		<u>4,838,747</u>
		106,744,095
Accumulated depreciation		<u>(19,914,995)</u>
	\$	<u><u>86,829,100</u></u>

(6) Nonstate Support and Contributions Receivable and State Capital Appropriation

Nonstate support and contributions receivable and state capital appropriation are discounted at rates ranging from 2.22% to 5.07% and summarized as follows at June 30, 2009:

Unconditional promises expected to be collected in:		
Less than one year	\$	19,363,037
One year to five years		2,643,700
More than five years		20,000
Less discount		<u>(134,346)</u>
	\$	<u><u>21,892,391</u></u>

(7) Net Assets

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

The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA consists of:		
Programs	\$	1,543,109
Operations		<u>2,414,596</u>
		3,957,705
Gifts and other unexpended support and revenue available for:		
Programs		9,473,046
Programs and operations from state appropriation		<u>12,572,284</u>
	\$	<u><u>26,003,035</u></u>

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Notes to Financial Statements

June 30, 2009

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

Endowment funds for:	
Programs	\$ 9,646,793
Operations	6,007,881
	<hr/>
	15,654,674
Receivables for endowment fund	2,010,953
Split-interest agreements	144,457
Contribution receivable in remainder	
trust restricted for program	152,928
	<hr/>
	\$ 17,963,012
	<hr/>

(8) Endowment Funds

The Society's endowment consists of approximately 86 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Governors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

Effective August 1, 2008, the State of Minnesota enacted UPMIFA. The Society has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence described by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Society and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and appreciation of investments;
6. Other resources of the Society; and
7. The investment policies of the Society.

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

Endowment Net Assets Composition by Type of Fund

Endowment net assets consist of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (106,250)	3,957,705	15,654,674	19,506,129
Board-designated endowment funds	6,038,047	—	—	6,038,047
Total endowment net assets	<u>\$ 5,931,797</u>	<u>3,957,705</u>	<u>15,654,674</u>	<u>25,544,176</u>

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 13,148,144	1,751,346	18,113,321	33,012,811
Reclassification due to implementation of FSP 117-1	<u>(5,090,210)</u>	<u>5,090,210</u>	<u>—</u>	<u>—</u>
Endowment net assets after reclassification	8,057,934	6,841,556	18,113,321	33,012,811
Investment return	(2,126,137)	(2,883,851)	(3,124,170)	(8,134,158)
Contributions	—	—	665,523	665,523
Appropriation of endowment assets for expenditure	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2009	<u>\$ 5,931,797</u>	<u>3,957,705</u>	<u>15,654,674</u>	<u>25,544,176</u>

Due to unfavorable investment returns and market value during the year, the Board elected to make the fiscal year 2009 endowment payout using unrestricted operating funds. Therefore, no appropriation of endowment assets for expenditure was made during the year ended June 30, 2009.

MINNESOTA HISTORICAL SOCIETY

Notes to Financial Statements

June 30, 2009

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 \$106,250, as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowments assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce an annual return that equals or exceeds 7.50%, comprised of the Society's Annual Spending Rate (5.0%), plus inflation (2.5%). The annual spending rate is the percentage of the endowment paid out each year to support the purposes of the endowment funds. The actual amount paid out is determined by multiplying the spending rate by the average quarterly market value of the endowment for the previous five calendar years. The annual spending rate for the fiscal year ended June 30, 2009 was 5%, including investment management fees.

Strategies Employed for Achieving Objectives

To satisfy its rate of return objective, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places emphasis on investments in equities (80%) and fixed income (20%).

(9) Retirement Plan

The Society participates in the Minnesota State Retirement System (MSRS), a multi-employer defined benefit plan, and Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), a defined contribution plan, on behalf of all nonstudent employees meeting age and length of service requirements. New employees have the option of choosing either plan. MSRS covers certain employees of the State of Minnesota, the University of Minnesota, and certain other entities, including the Society, not covered by other pension funds. The Society's liability for each plan is limited to the contribution rates and amounts as determined by statute. The Society has made all required contributions totaling \$795,894 for the year ended June 30, 2009.

(10) Subsequent Events

In connection with the preparation of the financial statements and in accordance with the recently issued FASB Statement No. 165, *Subsequent Events*, the Society evaluated subsequent events after the balance sheet date of June 30, 2009 through October 20, 2009, which was the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

MINNESOTA HISTORICAL SOCIETY

Schedule of Functional Expenses

Year ended June 30, 2009

(with summarized information for year ended June 30, 2008

	Library collections and archival services	Publications and research	History Center Museum	Historic sites	Outreach and preservation	Total program services	Management and general	Development and membership	2009 total expenses	2008 total expenses
Salaries	\$ 3,450,343	603,573	2,783,646	4,924,192	2,198,137	13,959,891	3,312,668	1,079,944	18,352,503	17,964,632
Benefits	1,112,633	214,776	923,390	1,470,922	639,501	4,361,222	959,378	303,369	5,623,969	5,315,831
	4,562,976	818,349	3,707,036	6,395,114	2,837,638	18,321,113	4,272,046	1,383,313	23,976,472	23,280,463
Rental fees	22,521	15,502	147,338	95,673	22,444	303,478	11,228	5,947	320,653	189,196
Advertising	1,550	15,803	125,897	192,386	6,194	341,830	363,042	—	704,872	890,347
Repairs	26,123	1,854	83,543	284,580	20,412	416,512	60,537	16,063	493,112	868,641
Bonds and insurance	10,000	3,346	—	195	1,376	14,917	97,113	3,403	115,433	114,202
Printing and binding	20,816	571,787	29,976	132,753	54,125	809,457	94,475	53,048	956,980	1,268,754
Professional and technical services	306,335	130,565	512,359	1,924,566	419,510	3,293,335	897,458	172,104	4,362,897	4,079,085
Purchased services	30,893	207,060	571,325	483,299	189,169	1,481,746	204,826	74,256	1,760,828	1,765,679
Speakers' fees and tax	—	—	68,790	23,151	46,762	138,703	—	—	138,703	116,168
Communications/postage	20,224	60,478	189,416	87,724	18,924	376,766	107,753	18,521	503,040	544,203
Employee travel	43,551	13,383	36,483	102,462	136,700	332,579	34,319	23,769	390,667	455,154
Utility service	—	—	34,488	385,854	—	420,342	—	—	420,342	266,999
Supplies and material	104,536	14,901	357,845	208,494	89,355	775,131	94,280	45,658	915,069	1,071,407
Equipment	324,376	—	155,652	31,839	3,527	515,394	143,870	—	659,264	719,331
Buildings and improvements	—	—	124,749	1,335,748	3,693	1,464,190	—	—	1,464,190	1,402,950
Grants and subsidies	8,950	—	39,455	119,815	1,161,452	1,290,217	2,000	—	1,292,217	1,486,386
Miscellaneous claims and awards	13,325	116,341	—	51,423	27,990	248,534	49,394	14,487	312,415	402,140
Cost of goods sold	—	—	281,189	681,655	—	962,844	—	—	962,844	881,569
Depreciation	192,315	7,548	485,022	768,887	5,315	1,459,087	25,527	1,182	1,485,796	1,470,683
History Center building services	1,913,097	75,088	3,709,807	41,395	52,871	5,792,258	121,423	11,754	5,925,435	5,750,282
	\$ 7,601,588	2,052,005	10,660,370	13,347,013	5,097,457	38,758,433	6,579,291	1,823,505	47,161,229	47,023,639

See accompanying independent auditors' report.

MINNESOTA HISTORICAL SOCIETY

Schedule of Appropriation Status – Fiscal 2009

Year ended June 30, 2009

	Amounts received	Total expenses for year ended June 30, 2009	Accruals and other adjustments	Unspent support	Amounts encumbered	Unencumbered advances (encumbrances in excess)
\$	11,165,000	13,321,773	59,843	(2,096,930)	7,088	(2,104,018)
Education and Outreach	—	12,597	23,555	10,958	—	10,958
MN Sesquicentennial-Compet match grants	—	—	—	—	—	—
MN Sesquicentennial-Planning & support	—	—	—	—	—	—
MN Sesquicentennial-Admin	—	—	—	—	—	—
G-I-A County and Local	—	—	—	—	—	—
Increased Building Costs	250,000	282,630	295,533	12,903	12,902	1
MN Sesquicentennial-Deficiency	—	250,000	—	—	—	—
Sesquicentennial 2008 Funding	575,000	69,200	69,292	92	—	92
Preservation and Access	9,513,000	492,074	—	82,926	34,044	48,882
State Capitol Restoration	—	9,959,012	161,900	(284,112)	91,905	(376,017)
Battle Flags Preservation	—	66,340	226,914	160,574	—	160,574
Increased Building Costs	—	121,055	150,000	28,945	—	28,945
Fiscal agents:	250,000	250,000	—	—	—	—
Minnesota International Center	43,000	43,000	—	—	—	—
Farmamerica	128,000	128,000	—	—	—	—
Special session:	—	—	—	—	—	—
Southeast Minnesota Flood Relief	88,240	49,466	(38,774)	—	—	—
\$	22,012,240	25,045,147	948,263	(2,084,644)	145,939	(2,230,583)

See accompanying independent auditors' report.

MINNESOTA HISTORICAL SOCIETY

Schedule of Appropriation Status – Prior Fiscal Years

Year ended June 30, 2009

	Unspent support at June 30, 2008	Cancellations and other adjustments	Total expenses for year ended June 30, 2009	Unspent support	Amounts encumbered	Unencumbered advances (encumbrances in excess)
Fiscal 2007 appropriations carried over from June 30, 2007:						
Education and outreach	\$ 78	(78)	—	—	—	—
Preservation and access	1,348	(571)	777	—	—	—
Fiscal 2008 appropriations carried over from June 30, 2008:						
Education and outreach	60,880	(17,056)	41,328	2,496	—	2,496
MN Sesquicentennial-Compet match grants	23,555	—	12,596	10,959	—	10,959
G-1-A County & Local	295,533	—	282,630	12,903	12,902	1
MN Sesquicentennial-Deficiency	69,292	—	69,200	92	—	92
Preservation and access	161,122	(11,000)	147,271	2,851	—	2,851
State Capitol Restoration	226,914	—	66,340	160,574	—	160,574
Battle Flags Preservation	150,000	—	121,055	28,945	—	28,945
Special session:						
Southeast MN Flood Relief-2007	(36,832)	86,298	49,466	—	—	—
	\$ 951,890	57,593	790,663	218,820	12,902	205,918

See accompanying independent auditors' report.

MINNESOTA HISTORICAL SOCIETY

Schedule of Appropriation Status – Fiscal X

Year ended June 30, 2009

	Receipts for year ended June 30, 2009	Receipts through June 30, 2008	Accruals and other adjustments	Total expenditures for year ended June 30, 2009	Prior years' expenditures	Amounts encumbered	Encumbrances in excess
Fiscal X appropriations:							
County/Local Preservation Grants – 05	\$ 154,612	752,718	25,000	179,612	752,718	15,860	(15,860)
Historic Site Asset Preservation – 05	461,855	3,348,879	53,925	443,420	3,421,239	14,736	(14,736)
County/Local Preservation Grants – 06	531,129	245,132	—	331,128	445,133	47,056	(47,056)
Bruentrup Farm – 06	80,000	—	—	80,000	—	20,000	(20,000)
Historic Fort Snelling Museum – 06	346,244	270,392	322,270	427,958	510,948	104,633	(104,633)
History Center Visitor Services – 06	294,684	12,881	1,997	72,504	237,058	1,180	(1,180)
Historic Site Asset Preservation – 06	786,445	1,491,756	261,774	1,003,318	1,536,657	122,360	(122,360)
Historic Site Asset Preservation – 08	—	—	165,988	165,988	—	666,234	(666,234)
Historic Fort Snelling – 08	10,834	—	—	10,834	—	—	—
Oliver H. Kelley Farm – 08	55,609	—	100,900	156,509	—	60,628	(60,628)
Heritage Trails – 08	—	—	182	182	—	14,981	(14,981)
County/Local Preservation Grants – 08	—	—	8,750	8,750	—	478,756	(478,756)
Wells Train Depot-08	—	—	—	—	—	100,000	(100,000)
Historic Site Asset Preservation – 09	—	—	—	—	—	—	—
Historic Sites Design Projects – 09	—	—	—	—	—	—	—
Inver Grove Heights Grant – 09	—	—	—	—	—	—	—
	\$ 2,721,412	6,121,758	940,786	2,880,203	6,903,753	1,646,424	(1,646,424)

See accompanying independent auditors' report.

MINNESOTA HISTORICAL SOCIETY

Schedule of Special Subsidies and Grants

Year ended June 30, 2009

	Unspent support at beginning of year	Received	Disbursed	Unspent support at end of year
As requested by the Legislature:				
Minnesota International Center	\$ —	43,000	43,000	—
Farmamerica	—	128,000	128,000	—
City of Maplewood Bruentrup Farm	(10,740)	80,000	69,260	—
	<u>\$ (10,740)</u>	<u>251,000</u>	<u>240,260</u>	<u>—</u>
Other:				
Friends of Grand Portage	\$ 5,987	—	—	5,987
Weyerhaeuser Museum Fund	249,798	(892)	248,906	—
Sesquicentennial Commission	371,295	61,502	414,485	18,312
	<u>\$ 627,080</u>	<u>60,610</u>	<u>663,391</u>	<u>24,299</u>

See accompanying independent auditors' report.