

**MINNESOTA HISTORICAL SOCIETY**

Financial Statements and Supplementary Information

June 30, 2010

(With Independent Auditors' Report Thereon)

**MINNESOTA HISTORICAL SOCIETY  
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## MINNESOTA HISTORICAL SOCIETY ORGANIZATION

### Officers

William R. Stoeri, President	Minneapolis
Sharon Avent, Vice President	Hastings
Ram Gada, Vice President	Eden Prairie
Kathy Tunheim, Vice President	Stillwater
Paul Verret, Vice President	Mendota Heights
Nina M. Archabal, Secretary	St. Paul
Missy Staples Thompson, Treasurer	St. Paul

### Executive Council

Abbot G. Apter	Duluth
Nina M. Archabal	St. Paul
Sharon Avent	Hastings
Brenda J. Child	St. Paul
Judith S. Corson	Minnetonka
Mark Davis	Le Sueur
Michael L. Davis	Minneapolis
Ram Gada	Eden Prairie
Phyllis Rawls Goff	St. Paul
James T. Hale	Medina
Ruth S. Huss	St. Paul
Martha Kaemmer	St. Paul
Elliot S. Kaplan	Edina
David M. Larson	Wayzata
Charles Mahar	St. Paul
Susan B. McCarthy	White Bear Lake
Bob Nelson	Wayzata
Dean M. Nelson	St. Paul
Richard H. Nicholson	St. Paul
Peter R. Reis	White Bear Lake
Simon Stevens	Minneapolis
William R. Stoeri	Minneapolis
Edward C. Stringer	Mendota Heights
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 (Continued)**

**Appointed Management**

Nina Archabal, Director and Chief Executive Officer

Michael Fox, Chief Operating Officer and Deputy Director, Programs

Andrea Hart Kajer, Deputy Director, External Relations

Robert Horton, Director, Library, Publications, and Collections

John Crippen, Director, Historic Sites and Museums

Pat Gaarder, Director, Human Resources and Volunteer Services

Cassie Cramer, Director, Development

Chuck Irrgang, Chief Financial Officer

David Kelliher, Director, Public Policy and Community Relations

Rose Sherman, Director, Enterprise Tech and Business Development

Dan Spock, Director, History Center Museum

Lory Sutton, Director, Marketing and Communications

## INDEPENDENT AUDITORS' REPORT

Executive Council  
Minnesota Historical Society  
St Paul, Minnesota

We have audited the accompanying balance sheets for each major fund of Minnesota Historical Society (the Society) as of June 30, 2010, and the related statement 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 these financial statements based on our audit. The prior year summary information has been derived from the Society's 2009 financial statements, which were audited by other auditors. The other auditors report on the 2009 financial was dated October 20, 2009, and expressed an unqualified opinion on the respective 2009 financial statements.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Society as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, the Society has restated the financial statements effective as of the beginning of the year ended June 30, 2010 to restate balances relating to the Society's recording of accrued vacation liabilities.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
October 20, 2010

**MINNESOTA HISTORICAL SOCIETY**  
**BALANCE SHEET**  
**YEAR ENDED JUNE 30, 2010**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)**

Assets	Unrestricted			Temporarily restricted		Permanently restricted	2010 Total	2009 Total
	Operating	Plant fund	Board-designated endowment	State appropriations	Other			
Cash and cash equivalents	\$ 1,811,729	—	118,918	982,980	2,901,485	1,112,460	6,927,572	6,292,269
Investments (at cost)	721,573	—	6,396,811	—	7,707,887	19,886,019	34,712,290	33,113,384
Unrealized gain (loss) on investments	—	—	(37,285)	—	52,408	(1,589,144)	(1,574,021)	(4,991,634)
Total investments (at fair value)	721,573	—	6,359,526	—	7,760,295	18,296,875	33,138,269	28,121,750
Receivables:								
Nonstate support and contributions, net	37,763	—	—	—	3,603,669	1,768,214	5,409,646	6,191,632
Contribution receivable in remainder trusts	—	—	—	—	—	157,998	157,998	152,928
State operating appropriation	—	—	—	—	—	—	—	2,480,000
State legacy appropriation	—	—	—	5,850,000	—	—	5,850,000	—
State capital appropriation	—	—	—	12,160,390	—	—	12,160,390	13,067,831
Cash on deposit with the State Treasurer	173,898	—	—	—	—	—	173,898	167,490
Contracts	469,025	—	—	—	—	—	469,025	269,386
Publication sales	262,898	—	—	—	—	—	262,898	267,760
Other	413,142	—	—	—	—	—	413,142	359,375
Total receivables	1,356,726	—	—	18,010,390	3,603,669	1,926,212	24,896,997	22,956,402
Museum shop inventories	961,162	—	—	—	—	—	961,162	921,747
Property and equipment, net	—	85,510,696	—	—	—	—	85,510,696	86,829,100
Total assets	\$ 4,851,190	85,510,696	6,478,444	18,993,370	14,265,449	21,335,547	151,434,696	145,121,268
<b>Liabilities and Net Assets</b>								
Liabilities:								
Accounts payable and accrued expenses	\$ 1,339,168	—	—	1,802,034	243,144	—	3,384,346	4,915,414
Accrued vacation and sick leave liability	2,155,116	—	—	—	—	—	2,155,116	—
Split-interest agreements liability	—	—	—	—	—	277,207	277,207	335,918
Amounts held for others	—	—	—	—	—	—	—	24,299
Total liabilities	3,494,284	—	—	1,802,034	243,144	277,207	5,816,669	5,275,631
Net assets:								
Unrestricted:								
Operating	1,356,906	85,510,696	—	—	—	—	86,867,602	89,947,793
Board-designated endowment	—	—	6,478,444	—	—	—	6,478,444	5,931,797
Total unrestricted	1,356,906	85,510,696	6,478,444	—	—	—	93,346,046	95,879,590
Temporarily restricted	—	—	—	17,191,336	14,022,305	—	31,213,641	26,003,035
Permanently restricted	—	—	—	—	—	21,058,340	21,058,340	17,963,012
Total net assets	1,356,906	85,510,696	6,478,444	17,191,336	14,022,305	21,058,340	145,618,027	139,845,637
Total liabilities and net assets	\$ 4,851,190	85,510,696	6,478,444	18,993,370	14,265,449	21,335,547	151,434,696	145,121,268

*See accompanying Notes to Financial Statements.*

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2010**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)**

	Unrestricted			Temporarily restricted				
	Operating	Plant fund	Board-designated endowment	State appropriations	Other	Permanently restricted	2010 Total	2009 Total
Support and revenue:								
Support:								
Private contributions	\$ 1,957,105	—	—	—	1,220,385	725,797	3,903,287	5,168,551
Sale of collection item	—	—	—	—	64,321	1,458,743	1,523,064	—
Federal grants	—	—	—	—	1,348,208	—	1,348,208	2,231,601
County and other grants	—	—	—	—	76,305	—	76,305	62,000
State operating appropriation	—	—	—	22,226,587	—	—	22,226,587	23,655,410
State legacy appropriation	—	—	—	9,750,000	—	—	9,750,000	—
State capital appropriation	—	—	—	4,250,000	—	—	4,250,000	2,065,000
Total support	1,957,105	—	—	36,226,587	2,709,219	2,184,540	43,077,451	33,182,562
Revenue:								
Admission fees	2,268,348	—	—	—	—	—	2,268,348	2,610,042
Museum store sales	1,734,037	—	—	—	—	—	1,734,037	1,814,485
Membership	430,912	—	—	—	—	—	430,912	415,710
Publication sales	1,239,257	—	—	—	—	—	1,239,257	1,166,130
Program fees	781,470	—	—	—	—	—	781,470	678,712
Contract service fees	1,306,653	—	—	—	—	—	1,306,653	864,226
Digital product fees	367,474	—	—	—	—	—	367,474	384,478
Investment return	731,352	—	546,647	—	1,932,314	910,788	4,121,101	(8,790,089)
Auxiliary services	987,853	—	—	—	—	—	987,853	1,182,758
Other sales and fees	161,289	—	—	—	—	—	161,289	274,532
Total revenue	10,008,645	—	546,647	—	1,932,314	910,788	13,398,394	600,984
Total support and revenue	11,965,750	—	546,647	36,226,587	4,641,533	3,095,328	56,475,845	33,783,546
Net assets released from program restrictions	35,463,080	194,434	—	(31,607,535)	(4,049,979)	—	—	—
Total support, revenue, and net assets released from program restrictions	47,428,830	194,434	546,647	4,619,052	591,554	3,095,328	56,475,845	33,783,546

*See accompanying Notes to Financial Statements.*

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2010**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)**

	Unrestricted		Board- designated endowment	Temporarily restricted		Permanently restricted	2010 Total	2009 Total
	Operating	Plant fund		State appropriations	Other			
Expenses:								
Program services:								
Library collections and archival services	\$ 7,224,945	195,454	—	—	—	—	7,420,399	7,601,588
Publications	1,666,525	7,671	—	—	—	—	1,674,196	2,052,005
History Center Museum	9,437,456	495,108	—	—	—	—	9,932,564	10,660,370
Historic sites	13,418,563	768,955	—	—	—	—	14,187,518	13,347,013
Outreach and preservation	6,594,160	5,402	—	—	—	—	6,599,562	5,097,457
Total program services	38,341,649	1,472,590	—	—	—	—	39,814,239	38,758,433
Supporting services:								
Management and general	6,909,617	39,047	—	—	—	—	6,948,664	6,579,291
Development and membership	1,703,682	1,201	—	—	—	—	1,704,883	1,823,505
Total supporting services	8,613,299	40,248	—	—	—	—	8,653,547	8,402,796
Total expenses	46,954,948	1,512,838	—	—	—	—	48,467,786	47,161,229
Increase (decrease) in net assets	473,882	(1,318,404)	546,647	4,619,052	591,554	3,095,328	8,008,059	(13,377,683)
Changes in net assets:								
Unrestricted	473,882	(1,318,404)	546,647	—	—	—	(297,875)	(9,929,481)
Temporarily restricted	—	—	—	4,619,052	591,554	—	5,210,606	(1,742,265)
Permanently restricted	—	—	—	—	—	3,095,328	3,095,328	(1,705,937)
Net changes in net assets	473,882	(1,318,404)	546,647	4,619,052	591,554	3,095,328	8,008,059	(13,377,683)
Net assets at beginning of year	3,118,693	86,829,100	5,931,797	12,572,284	13,430,751	17,963,012	139,845,637	153,223,320
Restatement of beginning net assets (see note 11)	(2,235,669)	—	—	—	—	—	(2,235,669)	—
Net assets at beginning of year, as restated	883,024	86,829,100	5,931,797	12,572,284	13,430,751	17,963,012	137,609,968	153,223,320
Net assets at end of year	\$ 1,356,906	85,510,696	6,478,444	17,191,336	14,022,305	21,058,340	145,618,027	139,845,637

*See accompanying Notes to Financial Statements.*



**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2010**  
**(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 8,008,059	(13,377,683)
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Depreciation	1,512,838	1,485,796
Net realized and unrealized gains (losses) on investments	(3,637,163)	9,435,000
Adjustment of actuarial liability for split-interest agreements liability	(25,460)	3,904
Contributions restricted for financing activities	(2,168,398)	(1,460,118)
Changes in assets and liabilities:		
Receivables	(2,145,792)	(1,183,313)
Museum shop inventories	(39,415)	58,451
Accounts payable and accrued expenses	(1,531,068)	(227,477)
Accrued Vacation and Sick Leave Liability	(80,553)	—
Amounts held for others	(24,299)	(592,040)
Net cash used by operating activities	<u>(131,251)</u>	<u>(5,857,480)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(194,434)	(239,832)
Purchase of investments	(22,713,417)	(13,868,913)
Proceeds from sale of investments	21,334,062	12,646,384
Proceeds from sale of collection item	1,523,064	—
Net cash used in investing activities	<u>(50,725)</u>	<u>(1,462,361)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(33,251)	(40,460)
Proceeds from contributions restricted for:		
Investment in endowment	850,530	608,713
Net cash provided by financing activities	<u>817,279</u>	<u>568,253</u>
Net increase (decrease) in cash and cash equivalents	635,303	(6,751,588)
Cash and cash equivalents at beginning of year	<u>6,292,269</u>	<u>13,043,857</u>
Cash and cash equivalents at end of year	<u>\$ 6,927,572</u>	<u>6,292,269</u>

*See accompanying Notes to Financial Statements.*

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(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 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 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, 2010**

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

**(b) Support and Revenue (Continued)**

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

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 three types:

- i) Biennial funding, accounting for the majority of the Society's appropriations.
- ii) Biennial funding from the Legacy funding from the Arts and Cultural Heritage fund
- iii) Appropriations of a capital nature for projects that have indefinite expiration dates. These funds are available until the project is completed or abandoned.

Federal, County and other grants are recorded upon receipt of the grant award letter in accordance with the terms of the awards.

All other earned revenue is recorded when sales are made and revenue is deemed earned. Investment returns include dividends, interest, realized and unrealized gain or loss, recorded monthly.

**(c) Investments**

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

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

**(d) *Split-Interest Agreements***

The split-interest agreements include charitable remainder trusts and charitable gift annuities. The Society recognizes the contribution from charitable trusts when the trust is established and recognizes the contribution from the charitable annuity gifts when the agreement is executed. The contribution amount is the difference between the fair value of assets received and the present value of the future cash flows expected to be paid to the designated beneficiaries. The significant assumptions used to estimate the present value of the future cash flows include discount rates of 3.0% to 6.0% commensurate with the risks involved and the 2010 mortality tables.

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

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

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

- **Library Collections 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.

**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

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

- **Development and Membership** – Manages development and membership functions for the institution and develops programs to ensure ongoing nonstate support for the Society.

**(f) Contributed Services**

Many members and other volunteers have made significant contributions of their time to develop and promote the programs of the Society. The value of these contributed services is not included in the accompanying financial statements, as such services do not create or enhance nonfinancial assets or require specialized skills.

**(g) Museum Shop Inventories**

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

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

The Society's collection of artifacts, documents, newspapers, pictures, paintings, tapes, and books is not capitalized because donated values are not readily determinable. Items purchased for the collection are expensed as acquired. Proceeds from items sold from the donor collection are added to the corpus of the collection endowment in accordance with original commitments to donors.

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

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

**(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 at fair value when initially recognized using present value techniques, which approximate fair value. They are not subsequently revalued at fair value, as the discounts calculated at initial recognition are amortized in years subsequent to initial recognition. Investments are carried at fair value as described in note 2 (c). Split-interest agreements liability are initially recorded at the present value of the estimated future cash flows using discount rate assumptions established upon initial recognition of the liabilities, which approximated fair value. Split-interest agreements liability is not subsequently revalued at fair value, as the discounts calculated at initial recognition are amortized in years subsequent to initial recognition.

**(k) *Income Taxes***

The Society has received a determination letter indicating that it is exempt from federal and state income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and corresponding State of Minnesota Statutes. The Society monitors its activities and it considers the potential for income taxes if any activities are not related to its exempt purpose. The Society engages in activities that are considered as unrelated to its exempt purpose. These activities are subject to federal and state income taxes. However, the Society has a net operating loss carry-forward available to offset future taxable income from these unrelated activities. Accordingly, no federal or state tax provision is required in the current year. The net operating loss carry-forward of \$257,324 begins to expire in 2020. The Society has adopted financial accounting standards relating to uncertainty in income taxes. The Society had no uncertain tax positions and in accordance with regulations the Society's federal and state tax returns are open for examinations for the years 2006-2009.

**(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 2009 financial statements from which the summarized information was derived.

**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

**(o) Reclassifications**

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

**(3) Cash and Investments**

Cash and investments consist of the following at June 30, 2010:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Cash & Cash Equivalents	\$ 6,927,572	6,927,572
Mutual Funds:		
Equity	4,511,492	4,410,131
Fixed Income	7,231,929	7,501,468
Real Estate	10,435	10,893
Total Mutual Funds	<u>11,753,856</u>	<u>11,922,492</u>
Common Stocks		
Domestic	9,460,192	9,340,347
Foreign	1,294,643	1,282,416
Total Common Stock	<u>10,754,835</u>	<u>10,622,763</u>
Common Collective Trusts		
Domestic	6,552,204	5,775,576
Foreign	5,651,395	4,817,438
Total Common Collective Trusts	<u>12,203,599</u>	<u>10,593,014</u>
Total investments	<u>34,712,290</u>	<u>33,138,269</u>
Total cash, cash equivalents & investments	<u>\$ 41,639,862</u>	<u>40,065,841</u>

Investment return for the year consisted of the following:

Dividends and interest	\$ 483,939
Net realized gain on investments	232,767
Net unrealized gain on investments	<u>3,404,395</u>
Investment return	<u>\$ 4,121,101</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 \$287,835 for the year ended June 30, 2010. In addition, included in investments is \$406,149 of investments under split-interest agreements.

**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**(4) Fair Value Measurements**

The Society measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. 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 under 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 as of June 30, 2010:

<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Mutual Funds</b>				
Equity	\$ 4,410,131	—	—	4,410,131
Fixed Income	7,501,468	—	—	7,501,468
Real Estate	10,893	—	—	10,893
<b>Total Mutual Funds</b>	<b>11,922,492</b>	<b>—</b>	<b>—</b>	<b>11,922,492</b>
<b>Common Stocks</b>				
Domestic	9,340,347	—	—	9,340,347
Foreign	1,282,416	—	—	1,282,416
<b>Total Common Stock</b>	<b>10,622,763</b>	<b>—</b>	<b>—</b>	<b>10,622,763</b>
<b>Common Collective Trusts</b>				
Domestic	—	5,775,576	—	5,775,576
Foreign	—	4,817,438	—	4,817,438
<b>Total Common Collective Trusts</b>	<b>—</b>	<b>10,593,014</b>	<b>—</b>	<b>10,593,014</b>
	<b>\$ 22,545,255</b>	<b>10,593,014</b>	<b>—</b>	<b>33,138,269</b>



**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

The Society values certain investment holdings at fair value using their net asset value and has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30, 2010:

<u>Investment Category</u>	<u>NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common Collective Trusts:				
Speece Thorson Capital Group	\$ 1,064,598	—	Daily	10 Days
Bernstein Global Style Blend	9,528,416	—	Quarterly	90 Days
Total	<u>\$ 10,593,014</u>			

**(5) Property and Equipment**

Property and equipment consist of the following at June 30, 2010:

Land	\$ 4,684,986
Property and improvement	97,220,362
Equipment	<u>5,033,181</u>
	106,938,529
Accumulated depreciation	<u>(21,427,833)</u>
	<u>\$ 85,510,696</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 0.98% to 5.07% and summarized as follows at June 30, 2010:

Unconditional promises expected to be collected in:	
Less than one year	\$ 22,417,124
One year to five years	1,229,223
More than five years	10,000
Less discount	<u>(78,313)</u>
	<u>\$ 23,578,034</u>

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

Temporarily restricted net assets are available for the following purposes as of June 30, 2010:

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

Programs	\$ 2,123,060
Operations	2,684,299
	<u>4,807,359</u>

Gifts and other unexpended support and  
revenue available for:

Programs	9,214,946
Programs and operations from state appropriation	17,191,336
	<u>\$ 31,213,641</u>

Permanently restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2010:

Endowment funds for:

Programs	\$ 6,472,873
Operations	12,519,253
	<u>18,992,126</u>

Receivables for endowment fund	1,768,214
Split-interest agreements	140,002
Contributions receivable in remainder trust restricted for program	157,998
	<u>\$ 21,058,340</u>

**(8) Endowment Funds**

The Society's endowment consists of approximately 107 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

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

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

***Interpretation of Relevant Law (Continued)***

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

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

***Endowment Net Assets Composition by Type of Fund***

Endowment net assets consist of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (27,658)	4,807,359	18,992,126	23,771,827
Board designated endowment funds	6,506,102	—	—	6,506,102
Total endowed net assets	<u>\$ 6,478,444</u>	<u>4,807,359</u>	<u>18,992,126</u>	<u>30,277,929</u>

**Changes in Endowment Net Assets**

Changes in Endowment Net Assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 5,931,797	3,957,705	15,654,674	25,544,176
Investment return	1,250,020	1,577,749	884,007	3,711,776
Contributions			2,453,445	2,453,445
Appropriation of endowment assets for expenditure	<u>(703,373)</u>	<u>(728,095)</u>	<u>—</u>	<u>(1,431,468)</u>
Endowment net assets, June 30, 2010	<u>\$ 6,478,444</u>	<u>4,807,359</u>	<u>18,992,126</u>	<u>30,277,929</u>

**MINNESOTA HISTORICAL SOCIETY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**(8) 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 unrestricted net assets were \$27,658 as of June 30, 2010. 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 of Trustees. 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 ending June 30, 2010 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 (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 \$834,182 for the year ended June 30, 2010.

**MINNESOTA HISTORICAL SOCIETY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**(10) Subsequent Events**

In connection with the preparation of the financial statements the Society evaluated subsequent events after the balance sheet date of June 30, 2010 through October 20, 2010, which was the dates the financial statements were available to be issued.

**(11) Restatement**

In order to accurately reflect accrued vacation and sick pay liability, activity and balances for the year ended June 30, 2010 were restated as follows:

June 30, 2010 - Restatement:

Decrease in beginning net assets - unrestricted	<u>\$ (2,235,669)</u>
---	-----------------------

The 2009 summary information presented has not been restated for amounts related to the above. The beginning net assets for 2009 is overstated by \$2,026,316, change in net assets is overstated by \$209,353 and ending net assets is overstated by \$2,235,669 due to the liability for vacation and sick pay not being recorded in prior periods.

**(12) Sale of Collection Item**

Over 30 years ago, the Society received a gift of 535 acres of land on Crane Lake in northern Minnesota. At the time the gift was made, it was believed that this property was the location of a fur trade wintering site in 1736, known traditionally as Bourassa's Fur Post. However, subsequent archaeological surveys were unable to locate physical evidence that would corroborate that assumption and in 2000 the Society de-accessioned the property from its collections.

In June 2010, the Society was able to sell the property and received \$1,458,743, after attorney and other fees. In accordance with the Society's legislative charter, the institution is required to retain the value of all real or personal property "in perpetuity". In order to accomplish that requirement the net proceeds of the sale must be treated as permanent endowment. Accordingly, the net proceeds have been recorded as a contribution to permanently restricted endowment for the acquisition and care of collections.

## **SUPPLEMENTARY INFORMATION**



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**INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES**

Executive Council  
Minnesota Historical Society  
St. Paul, Minnesota

Our report on the audit of the basic financial statements of Minnesota Historical Society as of June 30, 2010 appears on page 3. This audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of program functional expenses for the year ended June 30, 2010 is presented on the following page for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
October 20, 2010

**MINNESOTA HISTORICAL SOCIETY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2010**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)**

	Library collections and archival services	Publications	History Center Museum	Historic sites	Outreach and preservation	Total program services	Management and general	Development and membership	2010 total expenses	2009 total expenses
Salaries	\$ 3,052,814	497,934	2,694,151	4,319,383	2,477,020	13,041,302	3,422,324	1,011,090	17,474,716	18,352,503
Benefits	1,037,986	195,237	943,360	1,386,545	730,745	4,293,873	1,042,669	299,314	5,635,856	5,623,969
	<u>4,090,800</u>	<u>693,171</u>	<u>3,637,511</u>	<u>5,705,928</u>	<u>3,207,765</u>	<u>17,335,175</u>	<u>4,464,993</u>	<u>1,310,404</u>	<u>23,110,572</u>	<u>23,976,472</u>
Rental fees	21,358	4,408	116,316	24,826	23,682	190,590	11,117	5,642	207,349	320,653
Advertising	461	15,920	16,786	31,501	5,538	70,206	524,347	41	594,594	704,872
Repairs	62,111	1,723	99,944	305,567	28,149	497,494	93,388	17,835	608,717	493,112
Insurance	9,500	2,967	7,725	1,025	—	21,217	109,638	3,403	134,258	115,433
Printing	13,030	328,773	30,801	32,756	38,025	443,385	202,306	72,977	718,668	956,980
Professional and technical services	588,556	132,553	384,902	1,091,980	248,720	2,446,711	701,780	126,642	3,275,133	4,362,897
Purchased services	46,913	198,137	454,581	707,268	179,245	1,586,144	184,188	45,963	1,816,295	1,760,828
Speakers' fees	300	—	106,865	23,885	57,158	188,208	650	550	189,408	138,703
Communications/postage	18,638	40,889	125,673	84,764	13,680	283,644	131,823	37,696	453,163	503,040
Employee travel	61,287	11,189	48,318	90,397	207,705	418,896	26,526	23,309	468,731	390,667
Utility service	—	—	25,336	367,432	128	392,896	—	—	392,896	420,342
Fees and other expenses	10,483	130,774	41,750	86,793	25,090	294,890	38,877	10,475	344,242	312,415
Supplies	107,547	29,717	273,653	267,202	125,196	803,315	120,984	35,348	959,647	915,069
Equipment	31,341	1,216	103,307	50,342	33,237	219,443	176,578	1,643	397,664	441,552
Collections acquisition	240,523	—	—	15,000	—	255,523	—	—	255,523	217,712
Buildings and improvements	—	—	—	3,718,250	—	3,718,250	—	—	3,718,250	1,464,190
Grants	9,000	—	—	138,960	2,347,971	2,495,931	1,000	—	2,496,931	1,292,217
Cost of goods sold	—	—	254,180	633,292	—	887,472	—	—	887,472	962,844
Depreciation	195,454	7,671	495,108	768,955	5,402	1,472,590	39,047	1,201	1,512,838	1,485,796
History Center building services	1,913,097	75,088	3,709,808	41,395	52,871	5,792,259	121,422	11,754	5,925,435	5,925,435
	<u>\$ 7,420,399</u>	<u>1,674,196</u>	<u>9,932,564</u>	<u>14,187,518</u>	<u>6,599,562</u>	<u>39,814,239</u>	<u>6,948,664</u>	<u>1,704,883</u>	<u>48,467,786</u>	<u>47,161,229</u>

*See independent auditors' report on supplemental schedule of functional expenses*