

MINNESOTA HISTORICAL SOCIETY

Financial Statements and Supplementary Information

June 30, 2012

(With Independent Auditors' Report Thereon)

**MINNESOTA HISTORICAL SOCIETY
TABLE OF CONTENTS**

	Page
Independent auditors' report	1
Financial statements	
Balance sheet	2
Statement of activities	3
Statement of cash flows	5
Notes to financial statements	6
Independent auditors' report on supplementary information	22
Supplementary information	
Statements of functional expenses	23

INDEPENDENT AUDITORS' REPORT

Executive Council
Minnesota Historical Society
St. Paul, Minnesota

We have audited the accompanying balance sheet of the Minnesota Historical Society (the Society) as of June 30, 2012, 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 2011 financial statements and, in our report dated October 26, 2011, 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 Society as of June 30, 2012, 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 Note 11, the Society has restated the financial statements, effective as of the beginning of the year ended June 30, 2012, to restate balances relating to the Society's temporarily and permanently restricted net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012 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 considered in assessing the results of our audit.

CliftonLarsonAllen LLP
CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 24, 2012

MINNESOTA HISTORICAL SOCIETY
BALANCE SHEET
JUNE 30, 2012
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2011)

Assets	Unrestricted			Temporarily restricted			2012 Total	2011 Total
	Operating	Plant fund	Board- designated endowment	State appropriations	Other	Permanently restricted		
Cash and cash equivalents	\$ 3,565,877	-	79,898	1,587,949	3,785,736	1,935,876	10,955,336	11,910,942
Total cash and cash equivalents	3,565,877	-	79,898	1,587,949	3,785,736	1,935,876	10,955,336	11,910,942
Investments (at cost)	-	-	6,790,364	-	7,793,736	28,334,984	42,919,084	38,668,226
Unrealized gain (loss) on investments	-	-	439,554	-	1,130,931	(891,994)	678,491	4,315,699
Total investments (at fair value)	-	-	7,229,918	-	8,924,667	27,442,990	43,597,575	42,983,925
Receivables:								
Nonstate support and contributions, net	9,508	-	-	-	2,065,250	2,671,274	4,746,032	8,409,202
Contribution receivable in remainder trusts	-	-	-	-	-	192,581	192,581	176,834
State operating appropriation	-	-	-	15,000	-	-	15,000	45,000
State legacy appropriation	-	-	-	6,270,000	-	-	6,270,000	1,820,000
State capital appropriation	-	-	-	11,233,266	-	-	11,233,266	9,257,475
Cash on deposit with the State Treasurer	316,003	-	-	-	-	-	316,003	155,823
Contracts	823,524	-	-	-	-	-	823,524	704,847
Publication sales	283,607	-	-	-	-	-	283,607	281,055
Other	412,947	-	-	-	-	-	412,947	479,474
Total receivables	1,845,589	-	-	17,518,266	2,065,250	2,863,855	24,292,960	21,329,710
Museum shop inventories	1,127,545	-	-	-	-	-	1,127,545	1,059,317
Property and equipment, net	-	81,423,317	-	-	-	-	81,423,317	83,992,539
Total assets	\$ 6,539,011	81,423,317	7,309,816	19,106,215	14,775,653	32,242,721	161,396,733	161,276,433
Liabilities and Net Assets								
Liabilities:								
Accounts payable and accrued expenses	\$ 1,439,322	-	-	4,093,952	205,442	-	5,738,716	6,614,616
Accrued vacation and sick liability	1,893,707	-	-	-	-	-	1,893,707	2,060,064
Split-interest agreements liability	-	-	-	-	11,560	331,752	343,312	299,176
Total liabilities	3,333,029	-	-	4,093,952	217,002	331,752	7,975,735	8,973,856
Net assets:								
Unrestricted:								
Operating	3,205,982	81,423,317	-	-	-	-	84,629,299	86,201,628
Board-designated endowment	-	-	7,309,816	-	-	-	7,309,816	7,901,202
Total unrestricted	3,205,982	81,423,317	7,309,816	-	-	-	91,939,115	94,102,830
Temporarily restricted	-	-	-	15,012,263	14,558,651	-	29,570,914	27,813,804
Permanently restricted	-	-	-	-	-	31,910,969	31,910,969	30,385,943
Total net assets	3,205,982	81,423,317	7,309,816	15,012,263	14,558,651	31,910,969	153,420,998	152,302,577
Total liabilities and net assets	\$ 6,539,011	81,423,317	7,309,816	19,106,215	14,775,653	32,242,721	161,396,733	161,276,433

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2011)

	Unrestricted			Temporarily restricted				
	Operating	Plant fund	Board-designated endowment	State appropriations	Other	Permanently restricted	2012 Total	2011 Total
Support and revenue:								
Support:								
Private contributions	\$ 2,137,347	-	-	-	778,396	688,584	3,604,327	9,469,844 *
Sale of Collection Item (See Note 12)	-	-	-	-	-	1,487,662	1,487,662	-
Federal grants	-	-	-	-	1,926,727	-	1,926,727	1,972,108
County and other grants	-	-	-	-	217,000	-	217,000	48,000
State operating appropriation	-	-	-	20,407,944	-	-	20,407,944	22,139,209
State legacy appropriation	-	-	-	12,050,000	-	-	12,050,000	11,420,134
State capital appropriation	-	-	-	5,300,000	-	-	5,300,000	(30,673) *
Total support	<u>2,137,347</u>	<u>-</u>	<u>-</u>	<u>37,757,944</u>	<u>2,922,123</u>	<u>2,176,246</u>	<u>44,993,660</u>	<u>45,018,622</u>
Revenue:								
Admission fees	2,336,025	-	-	-	-	-	2,336,025	2,388,813
Museum store sales	1,770,292	-	-	-	-	-	1,770,292	1,930,556
Publication sales	992,907	-	-	-	-	-	992,907	1,118,496
Program fees	872,818	-	-	-	-	-	872,818	855,555
Contract service fees	1,737,024	-	-	-	-	-	1,737,024	1,915,641
Digital product fees	367,776	-	-	-	-	-	367,776	405,367
Investment return	741,306	-	(591,386)	-	(305,521)	(1,518,583)	(1,674,184)	8,680,829 *
Auxiliary services	1,142,126	-	-	-	-	-	1,142,126	1,067,013
Other sales, fees, and memberships	526,079	-	-	-	-	-	526,079	456,404
Total revenue	<u>10,486,353</u>	<u>-</u>	<u>(591,386)</u>	<u>-</u>	<u>(305,521)</u>	<u>(1,518,583)</u>	<u>8,070,863</u>	<u>18,818,674</u>
Total support and revenue	<u>12,623,700</u>	<u>-</u>	<u>(591,386)</u>	<u>37,757,944</u>	<u>2,616,602</u>	<u>657,663</u>	<u>53,064,523</u>	<u>63,837,296</u>
Net assets released from program restrictions	<u>38,824,622</u>	<u>(1,074,549)</u>	<u>-</u>	<u>(33,786,428)</u>	<u>(3,963,645)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from program restrictions	<u>\$ 51,448,322</u>	<u>(1,074,549)</u>	<u>(591,386)</u>	<u>3,971,516</u>	<u>(1,347,043)</u>	<u>657,663</u>	<u>53,064,523</u>	<u>63,837,296</u>

* See Note 13 for explanation of comparison to prior year.

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2011)

	Unrestricted			Temporarily restricted				
	Operating	Plant fund	Board-designated endowment	State appropriations	Other	Permanently restricted	2012 Total	2011 Total
Expenses:								
Program services:								
Library collections and archival services	\$ 7,306,331	198,616	-	-	-	-	7,504,947	9,575,437
Publications	1,609,015	7,812	-	-	-	-	1,616,827	1,694,959
History Center Museum	10,401,079	503,389	-	-	-	-	10,904,468	11,523,058
Historic sites	13,722,258	738,900	-	-	-	-	14,461,158	11,511,577
Outreach and preservation	8,706,936	5,474	-	-	-	-	8,712,410	13,155,540
Total program services	<u>41,745,619</u>	<u>1,454,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,199,810</u>	<u>47,460,571</u>
Supporting services:								
Management and general	7,093,586	39,252	-	-	-	-	7,132,838	7,963,768
Development and membership	1,612,224	1,230	-	-	-	-	1,613,454	1,728,407
Total supporting services	<u>8,705,810</u>	<u>40,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,746,292</u>	<u>9,692,175</u>
Total expenses	<u>50,451,429</u>	<u>1,494,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,946,102</u>	<u>57,152,746</u> *
Increase (decrease) in net assets	996,893	(2,569,222)	(591,386)	3,971,516	(1,347,043)	657,663	1,118,421	6,684,550
Changes in net assets:								
Unrestricted	996,893	(2,569,222)	(591,386)	-	-	-	(2,163,715)	756,784
Temporarily restricted	-	-	-	3,971,516	(1,347,043)	-	2,624,473	(3,399,837)
Permanently restricted	-	-	-	-	-	657,663	657,663	9,327,603
Net changes in net assets	<u>996,893</u>	<u>(2,569,222)</u>	<u>(591,386)</u>	<u>3,971,516</u>	<u>(1,347,043)</u>	<u>657,663</u>	<u>1,118,421</u>	<u>6,684,550</u>
Net assets at beginning of year, as originally reported	2,209,089	83,992,539	7,901,202	11,040,747	16,773,057	30,385,943	152,302,577	145,618,027
Restatement of beginning net assets (see note 11)	-	-	-	-	(867,363)	867,363	-	-
Net assets at beginning of year, as restated	<u>2,209,089</u>	<u>83,992,539</u>	<u>7,901,202</u>	<u>11,040,747</u>	<u>15,905,694</u>	<u>31,253,306</u>	<u>152,302,577</u>	<u>145,618,027</u>
Net assets at end of year	<u>\$ 3,205,982</u>	<u>81,423,317</u>	<u>7,309,816</u>	<u>15,012,263</u>	<u>14,558,651</u>	<u>31,910,969</u>	<u>153,420,998</u>	<u>152,302,577</u>

* See Note 13 for explanation of comparison to prior year.

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net changes in net assets	\$ 1,118,421	6,684,550
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Depreciation	1,494,673	1,518,157
Collection Expenses	1,119,466	-
Net realized and unrealized loss (gain) on investments	2,484,224	(8,111,465)
Adjustment of actuarial liability for split-interest agreements liability	78,888	54,974
Gain on sale of collection items	(1,487,662)	-
Contributions restricted for financing activities	(688,584)	(6,320,452)
Changes in assets and liabilities:		
Receivables	(581,365)	6,881,800
Museum shop inventories	(68,228)	(98,154)
Accounts payable and accrued expenses	(875,900)	3,230,270
Accrued vacation and sick liability	(166,357)	(95,052)
Net cash provided by operating activities	<u>2,427,576</u>	<u>3,744,628</u>
Cash flows from investing activities:		
Purchase of property and equipment	(44,916)	-
Purchase of investments	(23,947,092)	(24,816,668)
Proceeds from sale of investments	20,849,217	23,082,476
Proceeds from sale of collection items	1,487,662	-
Net cash used in investing activities	<u>(1,655,129)</u>	<u>(1,734,192)</u>
Cash flows from financing activities:		
Payments on split-interest agreements liability	(34,752)	(33,005)
Proceeds (Payments) from contributions restricted for:		
Investment in endowment	(1,693,301)	3,005,939
Net cash provided (used) by financing activities	<u>(1,728,053)</u>	<u>2,972,934</u>
Net increase (decrease) in cash and cash equivalents	(955,606)	4,983,370
Cash and cash equivalents at beginning of year	<u>11,910,942</u>	<u>6,927,572</u>
Cash and cash equivalents at end of year	<u>\$ 10,955,336</u>	<u>11,910,942</u>

See accompanying Notes to Financial Statements.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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 using the power of history to transform lives by preserving, sharing and connecting. The Society preserves the evidence of the past and tells the stories of Minnesota's people. To achieve this objective, the Society provides opportunities for people of all ages to learn about the history of Minnesota, collects and cares for materials that document human life in Minnesota, makes them known and accessible to people in Minnesota and beyond, and encourages and executes research in Minnesota history.

The Society is governed by its officers and an Executive Council, elected by the membership. The Executive Council appoints the director 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, 2012**

(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 in the temporarily restricted net asset class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue in the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor restrictions are reported as revenue of the temporarily restricted net assets class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

The Society receives appropriations from the State Legislature in accordance with Minnesota Statute 138.01. The State Legislature may place specific restrictions on such funds. These appropriations are of three types:

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

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

All other earned revenue is recorded when sales are made. 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, 2012**

(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 0.9% to 6.0% commensurate with the risks involved and the 2012 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.

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(2) Summary of Accounting Policies (Continued)

(e) Program and Supporting Services (Continued)

Supporting services include the following:

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

(f) Contributed Services

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

(g) Museum Shop Inventories

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

(h) Collections, Historic Sites, and Publications

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

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

(i) Property and Equipment

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

The Society's capitalization policy includes the following provisions:

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

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(2) Summary of Accounting Policies (Continued)

(i) Property and Equipment (Continued)

- 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 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 carried 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 \$217,824 begins to expire in 2020. The Society follows the financial accounting standards relating to uncertainty in income taxes. The Society had no uncertain tax positions and accordance with regulations the Society's federal and state tax returns are open for examination for the fiscal years ended June 30, 2009-2011.

(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.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(2) Summary of Accounting Policies (Continued)

(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 2011 financial statements from which the summarized information was derived and Note 11.

(3) Cash and Investments

Cash and investments consist of the following at June 30, 2012:

<u>Description</u>	<u>Cost</u>	<u>Fair Value</u>
Cash & Cash Equivalents	\$ 10,955,336	10,955,336
Investments:		
Equity	10,537,822	10,705,947
Fixed Income	8,668,625	9,104,474
Balanced	2,887,831	2,954,130
Total Mutual Funds	<u>22,094,278</u>	<u>22,764,551</u>
Common Stocks:		
Domestic	9,670,327	10,425,080
Foreign	848,271	865,235
Total Common Stock	<u>10,518,598</u>	<u>11,290,315</u>
Common Collective Trusts:		
Domestic	4,765,538	4,543,570
Foreign	3,365,453	2,699,771
Private Equity	2,175,217	2,299,368
Total Common Collective Trusts	<u>10,306,208</u>	<u>9,542,709</u>
Total investments	<u>42,919,084</u>	<u>43,597,575</u>
Total cash, cash equivalents & investments	<u>\$ 53,874,420</u>	<u>54,552,911</u>

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(3) Cash and Investments (Continued)

Investment return for the year ended June 30, 2012 consisted of the following:

Dividends and interest	\$	810,040
Net realized gain on investments		1,140,449
Net unrealized loss on investments		<u>(3,624,673)</u>
Investment return	\$	<u><u>(1,674,184)</u></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 \$246,429 for the year ended June 30, 2012. In addition, included in investments is \$561,765 of investments under split-interest agreements.

(4) Fair Value Measurements

The Society measures fair value using a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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

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

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(4) Fair Value Measurements (Continued)

The following table summarizes the Society's investments that were accounted for at fair value, as of June 30, 2012:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Equity	\$ 10,705,947	-	-	10,705,947
Fixed Income	9,104,474	-	-	9,104,474
Balanced	2,954,130	-	-	2,954,130
Total Mutual Funds	<u>22,764,551</u>	<u>-</u>	<u>-</u>	<u>22,764,551</u>
Common Stocks:				
Domestic	10,425,080	-	-	10,425,080
Foreign	865,235	-	-	865,235
Total Common Stock	<u>11,290,315</u>	<u>-</u>	<u>-</u>	<u>11,290,315</u>
Common Collective Trusts:				
Domestic	-	4,543,570	-	4,543,570
Foreign	-	2,699,771	-	2,699,771
Private Equity	-	-	2,299,368	2,299,368
Total Common Collective Trusts	<u>-</u>	<u>7,243,341</u>	<u>2,299,368</u>	<u>9,542,709</u>
	<u>\$ 34,054,866</u>	<u>7,243,341</u>	<u>2,299,368</u>	<u>43,597,575</u>

The following table summarizes the Society's contribution receivable in remainder trusts that were accounted for at fair value, as of June 30, 2012:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contribution receivable in remainder trusts	\$ 192,581	-	-	192,581
	<u>\$ 192,581</u>	<u>-</u>	<u>-</u>	<u>192,581</u>

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(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, 2012:

<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	\$ 2,048,664	-	Daily	10 Days
Bernstein Global Style Blend	5,194,677	-	Quarterly	90 Days
Total	<u>\$ 7,243,341</u>			

Speece Thorson Capital Group includes investments in mid and small cap common stocks. The fair value of the investment in this category is based on the fund's audited net asset value per share multiplied by the Society's units owned as of June 30, 2012.

Bernstein Global Style Blend includes investments in large cap US common stock and International large cap common stocks. The fair value of the investment in this category is based on the fund's audited net asset value per share multiplied by the Society's units owned as of June 30, 2012.

Changes in Private Equity for the year ended June 30, 2012 are as follows:

Private Equity Balance July 1, 2011	\$ 2,020,422
Purchases	200,000
Distributions	<u>-</u>
	2,220,422
Change in Market Value	<u>78,946</u>
Private Equity Balance June 30, 2012	<u>\$ 2,299,368</u>

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2012:

Land	\$ 4,684,986
Property and improvement	95,823,815
Equipment	<u>5,078,098</u>
	105,586,899
Accumulated depreciation	<u>(24,163,582)</u>
	<u><u>\$ 81,423,317</u></u>

(6) Nonstate Support and Contributions Receivable

Nonstate support and contributions receivable are discounted at rates ranging from 0.72% to 5.07% and summarized as follows at June 30, 2012:

Federal Grants Receivable	\$ 1,871,518
Donor Pledges Receivable	<u>2,874,514</u>
	<u><u>\$ 4,746,032</u></u>

Unconditional promises expected to be collected in:

Less than one year	\$ 1,357,251
One year to five years	1,559,961
More than five years	250
Less discount	<u>(42,948)</u>
	<u><u>\$ 2,874,514</u></u>

At June 30, 2012, one pledge made up 52% of the total donor pledges receivable.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(7) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2012:

The portion of unexpended investment return generated from donor-restricted endowment funds subject to UPMIFA consist of:	
Programs	\$ 2,732,624
Operations	3,348,623
	<u>6,081,247</u>
Gifts and other unexpended support and revenue available for:	
Programs	8,477,404
Programs and operations from state appropriation	15,012,263
	\$ <u><u>29,570,914</u></u>

Permanently restricted net assets and the purposes the income is expendable to support are as follows as of June 30, 2012:

Endowment funds for:	
Programs	\$ 20,367,452
Operations	8,470,763
	<u>28,838,215</u>
Receivables for endowment fund	2,671,274
Split-interest agreements	208,899
Contributions receivable in remainder trust restricted for program	192,581
	\$ <u><u>31,910,969</u></u>

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(8) Endowment Funds

The Society's endowment consists of approximately 112 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.

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, 2012

(8) Endowment Funds (Continued)

Endowment Net Assets Composition by Type of Fund

Endowment net assets consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	6,081,246	28,838,215	34,919,461
Board designated endowment funds	7,309,816	-	-	7,309,816
Total endowed net assets	<u>\$ 7,309,816</u>	<u>6,081,246</u>	<u>28,838,215</u>	<u>42,229,277</u>

Changes in Endowment Net Assets

Changes in Endowment Net Assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2011	\$ 7,901,202	7,031,752	24,963,836	39,896,790
Investment return	158,883	(162,124)	(1,511,636)	(1,514,877)
Contributions	-	-	4,518,652	4,518,652
Transfers (See Note 11)	-	-	867,363	867,363
Appropriation of endowment assets for expenditure	<u>(750,269)</u>	<u>(788,382)</u>	<u>-</u>	<u>(1,538,651)</u>
Endowment net assets, June 30, 2012	<u>\$ 7,309,816</u>	<u>6,081,246</u>	<u>28,838,215</u>	<u>42,229,277</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$-0- as of June 30, 2012.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(8) Endowment Funds (Continued)

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. 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 plus inflation. 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, 2012 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 \$867,406 for the year ended June 30, 2012.

(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, 2012 through October 24, 2012, which was the date the financial statements were available to be issued.

MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(11) Restatement

A restatement has been made to reclassify net assets at July 1, 2011 from temporarily restricted to permanently restricted. The majority of net assets involved in this restatement were related to a capital campaign for the Mill City Museum project. Pledges during that campaign were restricted for the Mill City Museum project or for the Society's endowment fund. It has been determined that all costs for the Mill City Museum project have been incurred and the remaining \$735,898 from the campaign should be transferred from temporarily restricted project funds to permanently restricted endowment funds.

Another reclassification of net assets from temporarily restricted to permanently restricted related to cash received upon death of a donor, at the direction of the donor's legal will. The will directed the cash donation to be used to display and care for some art that the donor had also donated. The will did not explicitly state that an endowment should be set up so the donations were initially recorded as temporarily restricted net assets. However, the will did indicate that the collection should be cared for in perpetuity. Management has re-evaluated the intent of the will and the intent of the surviving members of the family and determined that the artwork and the funds will be held in perpetuity and the net assets should be transferred from temporarily restricted to permanently restricted.

In order to properly reflect donor contributions, balances at July 1, 2011 were restated as follows:

July 1, 2011 - Restatement:

Decrease in beginning net assets - temporarily restricted	\$ (867,363)
Increase in beginning net assets - permanently restricted	867,363
	<u>\$ -</u>

(12) Sale of Collection Item

Sale of the Allyn K. Ford Manuscript Collection

During the fiscal year ended June 30, 2011 the Society's governing board approved the de-accessioning of the Allyn K. Ford Collection. The most valuable portion of the collection was sold at auction during the fiscal year ended June 30, 2012 for \$1,487,524. Additional sales are expected in fiscal years ending June 30, 2013 and later.

The Allyn K. Ford collection was donated to the Society by Mr. Ford in 1965 and 1972. The collection contains 1,575 items that include a variety of materials spanning two centuries of American history. Some items are purely of autograph value including letters from American presidents through the 1960s. The majority of the manuscript items, however, contain substantive research and collectible value, especially about the Revolutionary War and early federal periods. At least 155 items in this collection are of Minnesota significance and will not be sold.

The Society is bound by both its charter and professional museum practice in the use of funds resulting from the sale of collections materials. The Society's charter requires that the organization retain the value of the materials in perpetuity. Accredited museums must use the proceeds of the sale of deaccessioned items for either purchase of items for the collection or direct care of the collection. Accordingly, after these items are sold, the Society will place the proceeds of the sale of these materials in an endowment to support future purchase of collections items.

**MINNESOTA HISTORICAL SOCIETY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(13) Statement of Activities – Notable items for the year ended June 30, 2012 compared to 2011

	2012 Total	2011 Total	Change
Private Contributions Support	\$ 3,604,327	\$ 9,469,844	\$ (5,865,517)
State Capital Appropriation Support	\$ 5,300,000	\$ (30,673)	\$ (5,330,673)
Investment Return Revenue	\$ (1,674,673)	\$ 8,680,829	\$ (10,355,013)
Total Expenses	\$ 51,946,102	\$ 57,152,746	\$ (4,260,761)

Private Contributions Support - The majority of this decrease related to a unique endowment campaign during the year ended June 30, 2011 that was not repeated during the year ended June 30, 2012.

State Capital Appropriation Support - The Minnesota state legislature approved bonding bills in July 2011 (delayed due to shutdown) and in May 2012 to the Society for capital preservation projects. The legislature normally appropriates bonding funds in even numbered years.

Investment Return Revenue - These amounts are from dividends and interest, net realized gain/ (loss) on investments, and net unrealized gain/ (loss) on investments from the Society's endowment portfolio. This decrease is related to market conditions affecting the individual investments and, more specifically, includes a significant amount of unrealized loss during the fiscal year ended June 30, 2012. Due to the market variability these losses can be reversed if the market rebounds during the coming fiscal year.

Total Expenses - Much of this decrease in expense is related to the timing of expenses for the Legacy funding from the Arts and Cultural Heritage funds from the State of Minnesota. The biennial cycle provides an appropriation for two years and allows for funds to be carried forward from the first year to the second year of the biennium. Since these funds can carry forward to the second year of the biennium, and there are delays in start up for implementing Legacy funded programs and grants during the first year, these funds are typically spent in a higher proportion during the second year, which was the case during the fiscal year ended June 30, 2011. There was also an increase in expenses for Historic sites related to capital bond funds which was offset by the larger decrease in expense related to the timing of Legacy expense.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

Executive Council
Minnesota Historical Society
St. Paul, Minnesota

We have audited the financial statements of Minnesota Historical Society as of and for the year ended June 30 2012, and our report thereon dated October 24, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program functional expenses for the year ended June 30, 2012, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 24, 2012

MINNESOTA HISTORICAL SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2011)

	Library collections and archival services	Publications	History Center Museum	Historic sites	Outreach and preservation	Total program services	Management and general	Development and membership	2012 total expenses	2011 total expenses
Salaries	\$ 2,963,305	530,144	3,117,921	4,125,882	2,672,251	13,409,503	3,676,876	953,022	18,039,401	19,216,863
Benefits	1,006,557	184,345	1,072,766	1,368,959	836,179	4,468,806	1,138,510	276,287	5,883,603	6,009,215
	3,969,862	714,489	4,190,687	5,494,841	3,508,430	17,878,309	4,815,386	1,229,309	23,923,004	25,226,078
Rental fees	19,802	10,903	59,993	18,392	20,817	129,907	14,981	5,139	150,027	255,097
Advertising	-	19,158	4,811	26,248	973	51,190	517,364	500	569,054	550,922
Repairs	31,331	882	76,183	484,563	24,017	616,976	121,929	15,589	754,494	794,526
Insurance	9,500	2,967	5,315	-	-	17,782	148,533	-	166,315	135,229
Printing	24,279	283,866	87,001	14,356	29,634	439,136	211,407	86,459	737,002	890,708
Professional and technical services	952,292	163,775	429,628	793,983	470,976	2,810,654	584,368	66,193	3,461,215	5,641,684
Purchased services	18,070	189,572	637,031	770,067	284,090	1,898,830	184,994	75,079	2,158,903	2,502,772
Speakers' fees	-	2,101	141,843	24,451	93,617	262,012	1,275	1,745	265,032	247,675
Communications/postage	18,852	39,805	124,735	93,629	15,762	292,783	116,559	56,781	466,123	514,537
Employee travel	46,948	6,814	113,765	83,171	223,473	474,171	51,996	24,596	550,763	641,739
Utility service	-	-	26,865	361,926	-	388,791	-	-	388,791	433,981
Fees and other expenses	15,177	91,730	57,769	39,941	34,136	238,753	50,719	7,953	297,425	301,567
Supplies	114,593	9,573	420,711	226,202	87,501	858,580	123,406	29,615	1,011,601	1,344,245
Equipment	150,236	2,266	70,466	115,878	28,454	367,300	34,879	2,068	404,247	638,816
Collections acquisition	127,301	-	-	-	-	127,301	-	-	127,301	240,045
Buildings and improvements	-	-	33,964	4,452,233	-	4,486,197	-	-	4,486,197	1,125,790
Grants	-	-	73,741	129,982	3,835,220	4,038,943	1,000	-	4,039,943	7,517,718
Cost of goods sold	-	-	341,266	553,198	-	894,464	-	-	894,464	956,025
Depreciation	198,616	7,812	503,389	738,900	5,474	1,454,191	39,252	1,230	1,494,673	1,518,157
History Center building services	1,808,088	71,114	3,505,305	39,197	49,836	5,473,540	114,790	11,198	5,599,528	5,675,435
	<u>\$ 7,504,947</u>	<u>1,616,827</u>	<u>10,904,468</u>	<u>14,461,158</u>	<u>8,712,410</u>	<u>43,199,810</u>	<u>7,132,838</u>	<u>1,613,454</u>	<u>51,946,102</u>	<u>57,152,746</u> *

* See Note 13 for explanation of comparison to prior year.

See independent auditors' report on supplementary information.