

# St. Louis County Historical Society

Annual Financial Statements

Years Ended December 31, 2022 and 2021



**WIPFLI**

## **Independent Auditor's Report**

To the Board of Governors  
St. Louis County Historical Society  
Duluth, Minnesota

### ***Opinion***

We have audited the accompanying financial statements (the financial statements) of St. Louis County Historical Society (the Society), a nonprofit organization, which comprise the accompanying statements of financial position as of December 31, 2022 and 2021, and the related accompanying statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of St. Louis County Historical Society as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of St. Louis County Historical Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about St. Louis County Historical Society's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

### ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of St. Louis County Historical Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about St. Louis County Historical Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Wipfli LLP

August 21, 2023

Duluth, Minnesota

# St. Louis County Historical Society

## Statements of Financial Position

December 31,

| <b>Assets</b>                                 | <b>2022</b>  | <b>2021</b>  |
|---|--------------|--------------|
| Current assets                                |              |              |
| Cash and cash equivalents                     | \$ 417,723   | \$ 425,176   |
| Prepaid insurance                             | 4,037        | 7,631        |
| Inventory                                     | 31,283       | 34,400       |
| Total current assets                          | 453,043      | 467,207      |
| Other assets                                  |              |              |
| Assets held by others                         | 160,018      | 201,114      |
| Collections and exhibits                      | 3,096,051    | 3,095,162    |
| Property and equipment                        |              |              |
| Furniture, fixtures and equipment             | 567,237      | 535,577      |
| Leasehold improvements                        | 29,689       | 29,689       |
| Construction in progress                      | 96,200       | 96,200       |
| Accumulated depreciation                      | (533,796)    | (487,695)    |
| Net property and equipment                    | 159,330      | 173,771      |
| Right of use asset - finance Lease            | 2,763        | -            |
| Total assets                                  | \$ 3,871,205 | \$ 3,937,254 |
| <b>Liabilities and Net Assets</b>             | <b>2022</b>  | <b>2021</b>  |
| Current liabilities                           |              |              |
| Current portion of capital lease payable      | \$ 419       | \$ 2,224     |
| Accounts payable                              | 1,386        | 3,886        |
| Accrued payroll and taxes                     | 8,479        | 10,509       |
| Deferred revenue                              | 4,797        | 4,797        |
| Total current liabilities                     | 15,081       | 21,416       |
| Capital lease payable, net of current portion | 2,475        | 3,008        |
| Net assets                                    |              |              |
| Without donor restrictions                    |              |              |
| Undesignated                                  | 3,582,043    | 3,579,643    |
| Board designated                              | 160,018      | 201,114      |
| With donor restrictions                       | 111,588      | 132,073      |
| Total net assets                              | 3,853,649    | 3,912,830    |
| Total liabilities and net assets              | \$ 3,871,205 | \$ 3,937,254 |

See accompanying notes to the financial statements.

# St. Louis County Historical Society

## Statements of Activities

For the Years Ended December 31,

|   | 2022                          |                            |                     | 2021                          |                            |                     |
|---|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total               | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total               |
| Public support and revenue  |                               |                            |                     |                               |                            |                     |
| Public support  |                               |                            |                     |                               |                            |                     |
| St. Louis County  | \$ 545,998                    | \$ -                       | \$ 545,998          | \$ 533,352                    | \$ -                       | \$ 533,352          |
| Collections contributed   | 889                           | -                          | 889                 | 4,616                         | -                          | 4,616               |
| Contributions and grants  | 88,143                        | 16,368                     | 104,511             | 74,751                        | 83,709                     | 158,460             |
| Contribution of nonfinancial assets                                 | 40,824                        | -                          | 40,824              | 40,824                        | -                          | 40,824              |
| <b>Total public support</b>   | <b>675,854</b>                | <b>16,368</b>              | <b>692,222</b>      | <b>653,543</b>                | <b>83,709</b>              | <b>737,252</b>      |
| Revenue   |                               |                            |                     |                               |                            |                     |
| Memberships   | 8,880                         | -                          | 8,880               | 7,952                         | -                          | 7,952               |
| Interest income   | 21                            | -                          | 21                  | 237                           | -                          | 237                 |
| Change in value of assets held by others                            | (35,628)                      | -                          | (35,628)            | 20,672                        | -                          | 20,672              |
| Book sales, net of cost of goods sold<br>of \$3,117 and \$4,816     | 2,484                         | -                          | 2,484               | 5,412                         | -                          | 5,412               |
| Special events and tours, net of<br>expenses of \$5,422 and \$2,721 | 874                           | -                          | 874                 | 6,789                         | -                          | 6,789               |
| Miscellaneous   | 5,945                         | -                          | 5,945               | 1,376                         | -                          | 1,376               |
| <b>Total revenue</b>  | <b>(17,424)</b>               | <b>-</b>                   | <b>(17,424)</b>     | <b>42,438</b>                 | <b>-</b>                   | <b>42,438</b>       |
| <b>Total public support and revenue</b>                             | <b>658,430</b>                | <b>16,368</b>              | <b>674,798</b>      | <b>695,981</b>                | <b>83,709</b>              | <b>779,690</b>      |
| Net assets released from restrictions                               | 36,853                        | (36,853)                   | -                   | 146,954                       | (146,954)                  | -                   |
| Expenses  |                               |                            |                     |                               |                            |                     |
| Unallocated payments to<br>affiliated organizations                 | 100,116                       | -                          | 100,116             | 85,116                        | -                          | 85,116              |
| Functional expenses   |                               |                            |                     |                               |                            |                     |
| Program services  |                               |                            |                     |                               |                            |                     |
| Historical preservation   | 456,593                       | -                          | 456,593             | 523,353                       | -                          | 523,353             |
| Supporting services   |                               |                            |                     |                               |                            |                     |
| Management and general  | 125,622                       | -                          | 125,622             | 131,931                       | -                          | 131,931             |
| Fundraising   | 51,648                        | -                          | 51,648              | 54,098                        | -                          | 54,098              |
| <b>Total functional expenses</b>                                    | <b>633,863</b>                | <b>-</b>                   | <b>633,863</b>      | <b>709,382</b>                | <b>-</b>                   | <b>709,382</b>      |
| <b>Total expenses</b>   | <b>733,979</b>                | <b>-</b>                   | <b>733,979</b>      | <b>794,498</b>                | <b>-</b>                   | <b>794,498</b>      |
| Change in net assets  | (38,696)                      | (20,485)                   | (59,181)            | 48,437                        | (63,245)                   | (14,808)            |
| Net assets, beginning of year                                       | 3,780,757                     | 132,073                    | 3,912,830           | 3,732,320                     | 195,318                    | 3,927,638           |
| <b>Net assets, end of year</b>                                      | <b>\$ 3,742,061</b>           | <b>\$ 111,588</b>          | <b>\$ 3,853,649</b> | <b>\$ 3,780,757</b>           | <b>\$ 132,073</b>          | <b>\$ 3,912,830</b> |

See accompanying notes to the financial statements.

# St. Louis County Historical Society

## Statement of Functional Expenses

For the Year Ended December 31, 2022

|   | Program Services  |                   | Supporting Services |           | Total             |
|---|-------------------|-------------------|---------------------|-----------|-------------------|
|   | Historical        | Management        | Fundraising         |           |                   |
|   | Preservation      | and General       |                     |           |                   |
| Salaries  | \$ 232,870        | \$ 52,975         | \$ 30,400           |           | 316,245           |
| Payroll taxes and related payroll expenses  | 19,254            | 5,501             | 2,751               |           | 27,506            |
| Employee health insurance   | 10,813            | 5,406             | 1,802               |           | 18,021            |
| Pension   | 2,580             | 1,278             | 1,286               |           | 5,144             |
| <b>Total salaries and related expenses</b>  | <b>265,517</b>    | <b>65,160</b>     | <b>36,239</b>       |           | <b>366,916</b>    |
| Advertising   | 1,992             | -                 | 1,991               |           | 3,983             |
| Common area maintenance   | 13,067            | 1,633             | 1,633               |           | 16,333            |
| Cost of goods sold  | 3,117             | -                 | -                   |           | 3,117             |
| Dues and subscriptions  | 2,102             | 526               | -                   |           | 2,628             |
| Insurance   | 9,443             | 6,296             | -                   |           | 15,739            |
| Interest  | 58                | 29                | 29                  |           | 116               |
| Miscellaneous   | 1,638             | 1,638             | 819                 |           | 4,095             |
| Office supplies   | 1,829             | 1,829             | 914                 |           | 4,572             |
| Postage   | 930               | 930               | 464                 |           | 2,324             |
| Print and reproduce   | 245               | 245               | 123                 |           | 613               |
| Professional services   | 23,956            | 29,946            | 5,989               |           | 59,891            |
| Project costs   | 13,161            | 693               | -                   |           | 13,854            |
| Rent - donated  | 38,783            | 2,041             | -                   |           | 40,824            |
| Repairs and maintenance   | 16,801            | 1,867             | -                   |           | 18,668            |
| Supplies and other for special events   | -                 | -                 | 5,422               |           | 5,422             |
| Communications  | 4,844             | 2,422             | 807                 |           | 8,073             |
| Travel and staff expense  | 2,445             | 2,445             | -                   |           | 4,890             |
| Museum - exhibits and supplies, conservation, repair, and acquisition of collection | 17,533            | -                 | -                   |           | 17,533            |
| <b>Total functional expenses before depreciation</b>                                | <b>417,461</b>    | <b>117,700</b>    | <b>54,430</b>       |           | <b>589,591</b>    |
| Depreciation and amortization   | 42,249            | 7,922             | 2,640               |           | 52,811            |
| <b>Total expenses</b>   | <b>459,710</b>    | <b>125,622</b>    | <b>57,070</b>       |           | <b>642,402</b>    |
| Less expenses included with revenue on the statement of activities:                 |                   |                   |                     |           |                   |
| Cost of goods sold  | (3,117)           | -                 | -                   |           | (3,117)           |
| Direct cost of special events   | -                 | -                 | (5,422)             |           | (5,422)           |
| <b>Total functional expenses</b>  | <b>\$ 456,593</b> | <b>\$ 125,622</b> | <b>\$ 51,648</b>    | <b>\$</b> | <b>\$ 633,863</b> |

See accompanying notes to the financial statements.

# St. Louis County Historical Society

## Statement of Functional Expenses

For the Year Ended December 31, 2021

|   | Program Services  |                   | Supporting Services |                   | Total |
|---|-------------------|-------------------|---------------------|-------------------|-------|
|   | Historical        | Management        | Fundraising         |                   |       |
|   | Preservation      | and General       |                     |                   |       |
| Salaries  | \$ 286,902        | \$ 52,473         | \$ 30,066           | \$ 369,441        |       |
| Payroll taxes and related payroll expenses  | 23,182            | 6,623             | 3,312               | 33,117            |       |
| Employee health insurance   | 9,481             | 4,740             | 1,580               | 15,801            |       |
| Pension   | 1,987             | 1,405             | 904                 | 4,296             |       |
| <b>Total salaries and related expenses</b>  | <b>321,552</b>    | <b>65,241</b>     | <b>35,862</b>       | <b>422,655</b>    |       |
| Advertising   | 1,190             | -                 | 1,190               | 2,380             |       |
| Common area maintenance   | 14,001            | 1,750             | 1,750               | 17,501            |       |
| Cost of goods sold  | 4,816             | -                 | -                   | 4,816             |       |
| Dues and subscriptions  | 1,889             | 472               | -                   | 2,361             |       |
| Insurance   | 8,768             | 5,845             | -                   | 14,613            |       |
| Interest  | 223               | 112               | 111                 | 446               |       |
| Miscellaneous   | 3,977             | 3,977             | 1,988               | 9,942             |       |
| Office supplies   | 2,936             | 2,936             | 1,467               | 7,339             |       |
| Postage   | 1,030             | 1,030             | 515                 | 2,575             |       |
| Print and reproduce   | 1,116             | 1,116             | 559                 | 2,791             |       |
| Professional services   | 22,950            | 28,688            | 5,738               | 57,376            |       |
| Project costs   | 11,087            | 584               | -                   | 11,671            |       |
| Rent - donated  | 38,783            | 2,041             | -                   | 40,824            |       |
| Repairs and maintenance   | 15,395            | 1,711             | -                   | 17,106            |       |
| Supplies and other for special events   | -                 | -                 | 2,721               | 2,721             |       |
| Communications  | 4,794             | 2,397             | 799                 | 7,990             |       |
| Travel and staff expense  | 1,675             | 1,674             | -                   | 3,349             |       |
| Museum - exhibits and supplies, conservation, repair, and acquisition of collection | 6,083             | -                 | -                   | 6,083             |       |
| <b>Total functional expenses before depreciation</b>                                | <b>462,265</b>    | <b>119,574</b>    | <b>52,700</b>       | <b>634,539</b>    |       |
| Depreciation  | 65,904            | 12,357            | 4,119               | 82,380            |       |
| <b>Total expenses</b>   | <b>528,169</b>    | <b>131,931</b>    | <b>56,819</b>       | <b>716,919</b>    |       |
| Less expenses included with revenue on the statement of activities:                 |                   |                   |                     |                   |       |
| Cost of goods sold  | (4,816)           | -                 | -                   | (4,816)           |       |
| Direct cost of special events   | -                 | -                 | (2,721)             | (2,721)           |       |
| <b>Total functional expenses</b>  | <b>\$ 523,353</b> | <b>\$ 131,931</b> | <b>\$ 54,098</b>    | <b>\$ 709,382</b> |       |

See accompanying notes to the financial statements.

# St. Louis County Historical Society

## Statements of Cash Flows

For the Years Ended December 31,

|   | 2022            | 2021            |
|---|-----------------|-----------------|
| Cash flows from operating activities  |                 |                 |
| Change in net assets  | \$ (59,181)     | \$ (14,808)     |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities |                 |                 |
| Depreciation and amortization   | 52,811          | 82,380          |
| Collections contributed   | (889)           | (4,616)         |
| Change in value of assets held by others  | 35,628          | (20,672)        |
| Change in operating assets and liabilities  |                 |                 |
| (Increase) decrease in  |                 |                 |
| Accounts receivable   | -               | 1,530           |
| Grants receivable   | -               | 44,983          |
| Prepaid insurance   | 3,594           | (4,157)         |
| Inventory   | 3,117           | 4,816           |
| Increase (decrease) in  |                 |                 |
| Accounts payable  | (2,500)         | (9,518)         |
| Accrued payroll and taxes   | (2,030)         | 2,974           |
| <b>Net cash provided by operating activities</b>  | <b>30,550</b>   | <b>82,912</b>   |
| Cash flows from investing activities  |                 |                 |
| Contribution to assets held by others   |                 | (1,750)         |
| Withdrawal from assets held by others   | 5,468           | 6,099           |
| Purchase of property and equipment  | (41,133)        | (61,912)        |
| <b>Net cash used in investing activities</b>  | <b>(35,665)</b> | <b>(57,563)</b> |
| Cash flows from financing activities  |                 |                 |
| Payments on capital lease payable   | (2,338)         | (2,074)         |
| <b>Net cash used in financing activities</b>  | <b>(2,338)</b>  | <b>(2,074)</b>  |
| Net increase (decrease) in cash and cash equivalents  | (7,453)         | 23,275          |
| Cash and cash equivalents, beginning of year  | 425,176         | 401,901         |
| Cash and cash equivalents, end of year  | \$ 417,723      | \$ 425,176      |
| Supplemental disclosures  |                 |                 |
| Interest paid   | \$ 116          | \$ 446          |
| Contributions of collection items   | 889             | 4,616           |

See accompanying notes to the financial statements.



# St. Louis County Historical Society

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Organization

The St. Louis County Historical Society (the Society) was formed on a nonprofit basis on January 10, 1951, to discover, preserve, and disseminate knowledge about the history of St. Louis County and the State of Minnesota.

The Society receives a substantial amount of its revenue from St. Louis County.

#### Basis of Accounting

The financial statements of the Society have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

#### Net Assets

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

**Net assets without donor restrictions:** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

**Net assets with donor restrictions:** Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### Cash and Cash Equivalents

The Society classifies as cash and cash equivalents, all checking, savings and investments maturing within ninety days from the date of purchase which are not restricted by donors for long-term purposes. A certificate of deposit with a balance of \$12,274 at December 31, 2022 and 2021, is included in cash and cash equivalents in the accompanying financial statements. The certificate bears interest at 0.495 percent and matures March 29, 2024, with penalties for early withdrawal. The certificate can easily be converted to cash and any penalties for early withdrawal would not have a material effect on the financial statements, and therefore management considers the certificate of deposit a cash equivalent.

# St. Louis County Historical Society

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Accounts and Grants Receivable**

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that are considered uncollectible. Based on assessment of the credit history with grantors and donors having outstanding balances and current relationships with them, management has concluded that realized losses (if any) on balances outstanding at year-end would be immaterial.

#### **Inventory**

Inventory, consists of merchandise for resale, stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or net realizable value.

#### **Collections and Exhibits**

The Society capitalizes its collections. Accessions are capitalized at cost if purchased and at appraised or fair value at date of accession if received by donation. Exhibits are considered temporary and are expensed as they are purchased. Any proceeds from the sale of a collection item is to be used for future acquisitions to the Society's collections.

#### **Property and Equipment**

Purchased assets over \$500 and with an estimated life over one year are capitalized at cost, with normal repairs and maintenance charged to operating expenses when incurred. Donated assets are capitalized at their estimated fair value when received. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases to net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

At December 31, 2022 and 2021, the Society had construction in progress of \$96,200 and \$96,200, respectively, for the Erie Mining/County Built on Iron Exhibit. Depreciation of furniture, equipment and exhibits is computed using the straight-line method over estimated useful lives of three to ten years. Depreciation of leasehold improvements is computed using the straight-line method over fifteen years. Depreciation expense was \$50,443 and \$82,380 for the years ended December 31, 2022 and 2021.

# St. Louis County Historical Society

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Property and Equipment** (Continued)

##### **Impairment of Long-Lived Assets**

The Society reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset and its fair value are less than the carrying amount of that asset. The Society has not recognized any impairment of long lived assets during 2022 and 2021.

##### **ASC 842 Lease Accounting**

The Society is a lessee in a noncancelable financing lease. If the contract provides the Society the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The Society has elected to use a risk-free rate for a term similar to the underlying lease as the discount rate if the implicit rate in the lease contract is not readily determinable.

The ROU asset for finance leases is amortized on a straight-line basis over the lease term.

For all underlying classes of assets, the Society has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Society is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The Society recognizes short-term lease cost on a straight-line basis over the lease term.

The Society made an accounting policy election for all underlying classes of assets to not separate the lease components of a contract and its associated non-lease components such as lessor-provided maintenance and other services.

##### **Advertising and Promotion**

Advertising and promotion costs are charged to operations when incurred. For the years ended December 31, 2022 and 2021, the amount charged to expense was \$3,983 and \$2,380, respectively.

# St. Louis County Historical Society

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Contribution Revenue

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

#### Revenue Recognition

Revenue from exchange transactions are recognized in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Society records the following exchange transaction revenue in its statements of activities for the years ending December 31, 2022 and 2021:

##### Memberships:

The Society recognizes revenue from members over the membership period, which is generally one year. The contract is implied with payment required in advance and price is based on terms established by management. Membership benefits at the individual and family level include free admission to all exhibits and free admission to the Lake Superior Railroad Museum, along with a subscription to the Roofprints newsletter and one issue of The Junction. Other membership levels include other various benefits. These items are overall immaterial and are not priced separately. Unearned memberships are reflected as deferred revenue on the statements of financial position.

# St. Louis County Historical Society

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Revenue Recognition (Continued)

##### Book Sales:

The Society recognizes revenue from book sales at the point in time the customer pays for the goods on a stand-alone selling price basis. Control is transferred immediately to the customer at the point of sale. All sales are final, and no returns are allowed.

##### Special Events:

The Society conducts special events in which a portion of the gross proceeds paid by the participants may represent payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the Society. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Society. The contribution component is the excess gross proceeds over the fair value of the direct donor benefit. Special event fees collected in advance are recognized as deferred revenue and recognized to revenue upon delivery of the event. The direct costs of the special events, are recorded as expenses in their natural function in the statements of activities.

The Society recognizes freight and shipping costs associated with outbound freight after control over a product has transferred to a customer, as a fulfillment cost and includes those costs in cost of goods sold.

Sales and other taxes the Society collects concurrent with revenue-producing activities are excluded from revenue.

#### Grant Revenue

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

**Grant Awards That Are Contributions** - Grants awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

**Grant Awards That Are Exchange Transactions** - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

# St. Louis County Historical Society

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses allocated include salaries and benefits, which are allocated on the basis of time and effort.

#### **Use of Estimates**

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Income Taxes**

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and the Society assesses whether it is more likely than not that a tax position will be sustained upon examination of the technical merits or the positions, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of the tax position is not recognized in the financial statements. The Society recorded no assets or liabilities for uncertain tax positions or unrecognized tax benefits. Income from certain activities not directly related to the Society's tax-exempt purpose is subject to taxation on unrelated business income.

#### **Change in Accounting Policy**

As of January 1, 2022, the Society adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-Financial Assets* (Topic 958). The amendments in this update requires entities to present contributed nonfinancial assets as a separate line item in the statement of activities, expand disclosures on the various contributed nonfinancial assets recognized, including disaggregated category types, the valuation techniques and inputs used to arrive at fair value, and the policy for either monetizing or utilizing contributed nonfinancial assets. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). ASU 2016-02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases.

# St. Louis County Historical Society

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Change in Accounting Policy (Continued)

The Society adopted this guidance for the year ended December 31, 2022, with modified retrospective application to January 1, 2022 through a cumulative-effect adjustment. The Society has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Society accounted for its existing operating leases as operating leases and capital leases as finance leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether the classification of the leases would be different in accordance with ASC Topic 842, or (c) whether any unamortized initial direct costs before transition adjustments (as of December 31, 2021) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Similarly, the Society did not reassess service contracts evaluated for lease treatment under ASC 840 for embedded leases under ASC 842.

This standard did not have a material impact on the Society's net assets or cash flows from operations and had an immaterial impact on the Society's operating results. The most significant impact was the recognition of the ROU assets and lease obligations for finance leases.

#### Subsequent Events

The Society has evaluated events and transactions for potential recognition or disclosure in the financial statements through August 21, 2023, which is the date the financial statements were available to be issued.

### Note 2: Liquidity and Availability of Financial Resources

The following table reflects the Society's financial assets as of December 31, 2022, and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date. Amounts not available to meet general expenditures within one year include net assets with donor restrictions.

| <i>December 31,</i>   | 2022       | 2021       |
|---|------------|------------|
| Cash  | \$ 417,723 | \$ 425,176 |
| Total financial assets as of end of year  | 417,723    | 425,176    |
| Less: Net assets with donor restrictions  | (111,588)  | (132,073)  |
| Financial assets available to meet cash needs for general expenditure within one year | \$ 306,135 | \$ 293,103 |

# St. Louis County Historical Society

## Notes to Financial Statements

### Note 2: Liquidity and Availability of Financial Resources (Continued)

As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Society holds money in a certificate of deposit further described in Note 1. Additionally, the Society has a board-designated endowment, further described in Note 5. Although the Society does not intend to spend from its Board-designated endowment other than amounts distributed for general expenditure, amounts from its Board-designated endowment could be made available if necessary.

### Note 3: Accounts Receivable and Contract Balances

Opening and closing balances for contract assets, contract liabilities, and accounts receivable arising from contracts with customers include:

|                      | 12/31/2022 | 12/31/2021 | 1/1/2021 |
|----------------------|------------|------------|----------|
| Contract assets      | \$ -       | \$ -       | -        |
| Contract liabilities | \$ 4,797   | \$ 4,797   | \$ 4,797 |
| Accounts receivable  | \$ -       | \$ -       | 1,530    |

Contract assets arise when the Society transfers goods or services to a customer in advance of receiving consideration and the right to consideration is conditioned on something other than the passage of time. Contract assets are transferred to receivables when the right to receive consideration becomes unconditional and the Society is able to invoice the customer. There were no contract assets at December 31, 2022 or 2021 or January 1, 2021. Contract liabilities represent the Society's obligation to transfer goods or services to a customer when consideration has already been received from the customer. When transfer of control of the related good or service occurs, contract liabilities are reclassified, and revenue is recognized. Contract liabilities at December 31, 2022, December 31, 2021 and January 1, 2021 consist of deferred membership fees.

### Note 4: Leases

The Society has a one-year operating lease with St. Louis County through December 2022. The lease is for the use of office and exhibit space located at 506 West Michigan Street. The rent expense was \$16,333 and \$17,501 for years ended December 31, 2022 and 2021, respectively. This lease is considered short-term, therefore the ROU asset and liability was \$0 at December 31, 2022.

The Society leases a copier from Metro Sales, Inc. with lease payment of \$210 per month beginning March 2019 through February 2024.



# St. Louis County Historical Society

## Notes to Financial Statements

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### Note 4: Leases (Continued)

The leases entered into do not include the option to renew. The Society's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus, for many of the Society's office lease, variable payments. The Society's office space lease require it to make variable payments for the Society's proportionate share of the building's property taxes, insurance, and common area maintenance when this exceeds an allocated base amount, as described in the lease agreement. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable costs when incurred.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Components of lease expense were as follows for the year ended December 31, 2022:

|                                    |           |               |
|------------------------------------|-----------|---------------|
| Lease cost                         |           |               |
| Finance lease cost:                |           |               |
| Interest                           | \$        | 102           |
| Amortization of right-of-use asset |           | 2,368         |
| Short-term lease cost              |           | 16,333        |
| <hr/>                              |           |               |
| <b>Total lease cost</b>            | <b>\$</b> | <b>18,803</b> |

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

#### Other information

|  |    |       |
|--|----|-------|
| Operating cash flows from finance leases | \$ | 102   |
| Financing cash flows from finance leases | \$ | 2,470 |

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|  |            |
|--|------------|
| Weighted-average remaining lease term - Finance leases | 2.08 Years |
| Weighted-average discount rate - Finance leases        | 2.56 %     |

# St. Louis County Historical Society

## Notes to Financial Statements

### Note 4: Leases (Continued)

Maturities of lease liabilities are as follows as of December 31, 2022:

| <i>Years Ended December 31</i> | <b>Finance lease</b> |
|--------------------------------|----------------------|
| 2023                           | \$ 2,520             |
| 2024                           | 420                  |
| Total lease payments           | 2,940                |
| Less imputed interest          | (46)                 |
| <b>Total</b>                   | <b>\$ 2,894</b>      |

### ASC 840 Presentation

The Society has presented leases as of December 31, 2021 under ASC 840. Interest expense for the years ended December 31, 2021 was \$446. The following is a schedule of future minimum lease payments required at December 31, 2021.

| <i>Years Ended December 31</i>        | 2021            |
|---------------------------------------|-----------------|
| 2022                                  | \$ 2,520        |
| 2023                                  | 2,520           |
| 2024                                  | 630             |
| Future minimum lease payment          | 5,670           |
| Less amount representing interest     | (438)           |
| <b>Total capital lease obligation</b> | <b>\$ 5,232</b> |

# St. Louis County Historical Society

## Notes to Financial Statements

### Note 5: Fair Value Measurements

The Society categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follow:

Level 1 - Inputs that utilize quoted prices in active markets for identical assets or liabilities that the Society has the ability to access.

Level 2 - Inputs that included quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Assets held by others are measured on a recurring basis using significant unobservable inputs.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy at December 31, 2022:

| <i>Fair Value Measurements Listing</i> | Level 1     | Level 2     | Level 3           | Total Assets at<br>Fair Value |
|--|-------------|-------------|-------------------|-------------------------------|
| Assets held by others                  | \$ -        | \$ -        | \$ 160,018        | \$ 160,018                    |
| <b>Total</b>                           | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 160,018</b> | <b>\$ 160,018</b>             |

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy at December 31, 2021:

| <i>Fair Value Measurements Listing</i> | Level 1     | Level 2     | Level 3           | Total Assets at<br>Fair Value |
|--|-------------|-------------|-------------------|-------------------------------|
| Assets held by others                  | \$ -        | \$ -        | \$ 201,114        | \$ 201,114                    |
| <b>Total</b>                           | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 201,114</b> | <b>\$ 201,114</b>             |

There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021.

# St. Louis County Historical Society

## Notes to Financial Statements

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### Note 5: Fair Value Measurements (Continued)

#### Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

The following table represents the Society's level 3 asset, the valuation techniques used to measure the fair value of the asset, and the significant unobservable inputs and ranges of values for those inputs.

| Instrument            | Fair Value<br>12/31/2022 | Fair Value<br>12/31/2021 | Principle<br>Valuation<br>Technique                  | Unobservable<br>Inputs         | Range   |
|-----------------------|--------------------------|--------------------------|--|--------------------------------|---------|
| Assets held by others | \$ 160,018               | \$ 201,114               | Quoted<br>Market Prices<br>or Third Party<br>Pricing | Market price<br>of assets held | Unknown |

### Note 6: Assets Held by Others

The Mike Colalillo Medal of Honor Scholarship Fund was established with the Duluth-Superior Area Community Foundation by the St. Louis County Historical Society. The St. Louis County Historical Society is the sole beneficiary.

The Erie Mining Company Scholarship Fund was established with the Duluth-Superior Area Community Foundation by the St. Louis County Historical Society. The St. Louis County Historical Society is the sole beneficiary.

The St. Louis County Historical Society Designated Endowment Fund was established with the Depot Foundation by the Society in prior years. The St. Louis County Historical Society is the sole beneficiary.

The portion of the funds contributed by the St. Louis County Historical Society is considered a reciprocal transfer because the St. Louis County Historical Society is also the beneficiary of the funds. The funds are reported as an asset of the St. Louis County Historical Society. The fair value of this asset was \$160,018 and \$201,114 as of December 31, 2022 and 2021, respectively.

Changes in fair value are recorded in the change in value of assets held by others in the statement of activities.

### Note 7: Endowment Funds

The Board has established an Endowment Fund. The assets of the fund are held by the Duluth-Superior Area Community Foundation (DSACF) and the Depot Foundation (Depot) (see Note 4). DSACF and the Depot have authority to hold, manage and invest the funds held on behalf of the Society.

DSACF distributes net income at least annually. The distributions are available for the purposes of the Society. The Society may request additional distributions in accordance with the agreement with DSACF.

# St. Louis County Historical Society

## Notes to Financial Statements

### Note 7: Endowment Funds (Continued)

Changes in Board Designated Endowment for the years ended December 31, 2022 and 2021, were as follows:

|   | 2022              | 2021              |
|---|-------------------|-------------------|
| Balance, January 1  | \$ 201,114        | \$ 184,791        |
| Investment fees   | (1,600)           | (1,250)           |
| Contributions   | -                 | 1,750             |
| Withdrawals   | (6,969)           | (6,099)           |
| Net appreciation (depreciation) - realized and unrealized | (32,527)          | 21,922            |
| <b>Balance, December 31</b>                               | <b>\$ 160,018</b> | <b>\$ 201,114</b> |

### Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2022 and 2021.

| <i>As of December 31,</i>                  | 2022              | 2021              |
|--|-------------------|-------------------|
| Scholarships-VMH                           | \$ 24,605         | \$ 20,332         |
| Erie Mining Project                        | 28,334            | 22,759            |
| Collection Care                            | 3,807             | 3,807             |
| Veterans Memorial Hall - Joe Gomer Project | 304               | 304               |
| Fessler Gallery Project                    | 4,894             | 4,894             |
| Medal of Honor Row                         | 26,526            | 20,006            |
| SLCHS Centennial                           | 4,334             | 17,706            |
| Exhibit Cases                              | 18,784            | 42,265            |
| <b>Total</b>                               | <b>\$ 111,588</b> | <b>\$ 132,073</b> |

# St. Louis County Historical Society

## Notes to Financial Statements

### Note 8: Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows:

| <i>For the Years Ended December 31,</i>   | 2022             | 2021              |
|---|------------------|-------------------|
| Erie Mining Project                       | \$ -             | \$ 60,160         |
| Eli's Farm                                | -                | 7,280             |
| Veterans Oral History/Traveling Exhibit   | -                | 10,000            |
| Veteran Memorial Hall - Joe Gomer Project | -                | 4,784             |
| Medal of Honor Row                        | -                | 130               |
| Ryan Room                                 | -                | 24,600            |
| County Built on Iron                      | -                | 40,000            |
| SLCHS Centennial                          | 13,372           | -                 |
| Exhibit cases                             | 23,481           | -                 |
| <b>Total</b>                              | <b>\$ 36,853</b> | <b>\$ 146,954</b> |

### Note 9: Special Event Revenue

Gross receipts from special events recorded by the Society consist of exchange transaction revenue and contribution revenue. The Society recognized the following gross receipts for special events for the years ended December 31:

| <i>For the Years Ended December 31,</i>            | 2022            | 2021            |
|--|-----------------|-----------------|
| Contribution revenue                               | \$ 874          | \$ 6,789        |
| Exchange transaction revenue (benefit to customer) | 5,422           | 2,721           |
| <b>Total special event revenue</b>                 | <b>\$ 6,296</b> | <b>\$ 9,510</b> |

### Note 10: Donated Rents and Services

Space is being donated at the University of Minnesota-Duluth (U.M.D) for use by the Society for use in programming valued at the fair value of similar archival space. The following donated rent is shown in the accompanying financial statements as both contribution income and expense.

| <i>Years Ended December 31,</i> | 2022      | 2021      |
|---------------------------------|-----------|-----------|
| U.M.D. (space)                  | \$ 40,824 | \$ 40,824 |

# St. Louis County Historical Society

## Notes to Financial Statements

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### Note 10: Donated Rents and Services (Continued)

Donated services are recognized if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society. Volunteers also provided a variety of tasks and fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. Those amounts have an estimated value of \$39,600 and \$29,670 for the years ended December 31, 2022 and 2021, respectively.

### Note 11: Pension Plan

The Society participates in a defined contribution plan through TIAA-CREF. This plan covers employees who work at least 1,000 hours per year, are twenty-one years of age and older, and have at least eighteen months of service. Contributions are three percent of each covered employee's salary and totaled \$5,144 and \$4,296 for the years ended December 31, 2022 and 2021, respectively.

### Note 12: Amounts Paid to Affiliated Organizations

For the years ended December 31, 2022 and 2021, the Society distributed the following amounts to other regional historical societies and museums pursuant to its funding agreement with St. Louis County:

| <i>For the Years Ended December 31,</i> | 2022              | 2021             |
|---|-------------------|------------------|
| Ely-Winton Historical Society           | \$ 20,664         | \$ 18,164        |
| Hibbing Historical Society              | 19,096            | 16,596           |
| Tower-Soudan Historical Society         | 13,608            | 11,108           |
| Virginia Historical Society             | 19,196            | 16,696           |
| Museum of Mining                        | 15,872            | 13,372           |
| Sisu Heritage, Inc.                     | 11,680            | 9,180            |
| <b>Total</b>                            | <b>\$ 100,116</b> | <b>\$ 85,116</b> |