

St. Louis County Historical Society

Annual Financial Statements

Years Ended December 31, 2019 and
2018



WIPFLI

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of St. Louis County Historical Society (the Society), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Louis County Historical Society as of December 31, 2019 and 2018, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP
September 9, 2020
Duluth, Minnesota

St. Louis County Historical Society

Statements of Financial Position

December 31,

| Assets | 2019 | 2018 |
|--|---------------------|---------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 401,990 | \$ 344,029 |
| Accounts receivable | 1,975 | 2,210 |
| Grants receivable | | 37,139 |
| Prepaid insurance | 2,762 | 3,479 |
| Total current assets | 406,727 | 386,857 |
| Other assets | | |
| Assets held by others | 112,794 | 102,036 |
| Collections and exhibits | 3,075,321 | 3,060,011 |
| Property and equipment | | |
| Furniture, fixtures and equipment | 530,175 | 513,100 |
| Leasehold improvements | 29,689 | 29,689 |
| Construction in progress | 8,000 | 5,603 |
| Accumulated depreciation | (346,132) | (281,490) |
| Net property and equipment | 221,732 | 266,902 |
| Total assets | \$ 3,816,574 | \$ 3,815,806 |
| Liabilities and Net Assets | 2019 | 2018 |
| Current liabilities | | |
| Current portion of capital lease payable | \$ 1,934 | \$ 1,231 |
| Accounts payable | 5,314 | 4,656 |
| Accrued payroll and taxes | 12,535 | 11,727 |
| Deferred revenue | 4,797 | 15,969 |
| Total current liabilities | 24,580 | 33,583 |
| Capital lease payable, net of current portion | 7,306 | |
| Net assets | | |
| Without donor restrictions | | |
| Undesignated | 3,388,510 | 3,383,747 |
| Board designated | 112,794 | 102,036 |
| With donor restrictions | 283,384 | 296,440 |
| Total net assets | 3,784,688 | 3,782,223 |
| Total liabilities and net assets | \$ 3,816,574 | \$ 3,815,806 |

See accompanying notes to the financial statements.

St. Louis County Historical Society

Statements of Activities

For the Years Ended December 31,

| | 2019 | | | 2018 | | |
|--|-------------------------------|----------------------------|----------------|-------------------------------|----------------------------|----------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Public support and revenue | | | | | | |
| Public support | | | | | | |
| St. Louis County | \$ 416,998 | \$ - | \$ 416,998 | \$ 406,998 | \$ - | \$ 406,998 |
| Collections contributed | 15,310 | - | 15,310 | 13,676 | - | 13,676 |
| Contributions and grants | 8,673 | 78,676 | 87,349 | 41,046 | 189,669 | 230,715 |
| Donated rents | 40,824 | - | 40,824 | 40,824 | - | 40,824 |
| Total public support | 481,805 | 78,676 | 560,481 | 502,544 | 189,669 | 692,213 |
| Revenue | | | | | | |
| Memberships | 8,035 | - | 8,035 | 8,365 | - | 8,365 |
| Interest income | 229 | - | 229 | 212 | - | 212 |
| Change in value of assets held by others | 15,904 | - | 15,904 | (13,380) | - | (13,380) |
| Book sales | 37,131 | - | 37,131 | 18 | - | 18 |
| Special events and tours, net of expenses of \$17,115 and \$3,837 | 26,798 | - | 26,798 | 15,777 | - | 15,777 |
| Miscellaneous | 2,902 | - | 2,902 | 14,699 | - | 14,699 |
| Total revenue | 90,999 | - | 90,999 | 25,691 | - | 25,691 |
| Total public support and revenue | 572,804 | 78,676 | 651,480 | 528,235 | 189,669 | 717,904 |
| Net assets released from restrictions | 91,732 | (91,732) | - | 127,349 | (127,349) | - |
| Expenses | | | | | | |
| Unallocated payments to affiliated organizations | 73,116 | - | 73,116 | 73,116 | - | 73,116 |
| Functional expenses | | | | | | |
| Program services | | | | | | |
| Historical preservation | 355,351 | - | 355,351 | 388,582 | - | 388,582 |
| Supporting services | | | | | | |
| Management and general | 171,672 | - | 171,672 | 148,579 | - | 148,579 |
| Fundraising | 48,877 | - | 48,877 | 47,125 | - | 47,125 |
| Total functional expenses | 575,899 | - | 575,899 | 584,286 | - | 584,286 |
| Total expenses | 649,015 | - | 649,015 | 657,402 | - | 657,402 |
| Change in net assets | 15,521 | (13,056) | 2,465 | (1,818) | 62,320 | 60,502 |
| Net assets, beginning of year | 3,485,783 | 296,440 | 3,782,223 | 3,487,601 | 234,120 | 3,721,721 |
| Net assets, end of year | \$ 3,501,304 | \$ 283,384 | \$ 3,784,688 | \$ 3,485,783 | \$ 296,440 | \$ 3,782,223 |

See accompanying notes to the financial statements.

St. Louis County Historical Society

Statement of Functional Expenses

For the Year Ended December 31, 2019

| | Program Services | | Supporting Services | | Total |
|---|-------------------------|------------------------|---------------------|-----------|----------------|
| | Historical Preservation | Management and General | Fundraising | | |
| | | | | | |
| Salaries | \$ 151,794 | \$ 77,227 | \$ 21,036 | | 250,057 |
| Payroll taxes and related payroll expenses | 14,013 | 7,129 | 1,942 | | 23,084 |
| Employee health insurance | 9,760 | 4,965 | 1,351 | | 16,076 |
| Pension | 2,888 | 1,392 | 484 | | 4,764 |
| Total salaries and related expenses | 178,455 | 90,713 | 24,813 | | 293,981 |
| Advertising | 1,224 | - | 1,224 | | 2,448 |
| Common area maintenance | 10,742 | 1,343 | 1,343 | | 13,428 |
| Dues and subscriptions | 1,466 | 366 | - | | 1,832 |
| Insurance | 7,761 | 5,174 | - | | 12,935 |
| Interest | 303 | 110 | 138 | | 550 |
| Miscellaneous | 2,733 | 2,733 | 1,367 | | 6,833 |
| Office supplies | 3,517 | 3,517 | 1,759 | | 8,793 |
| Postage | 1,921 | 1,921 | 961 | | 4,803 |
| Printing and reproduction | 842 | 842 | 421 | | 2,106 |
| Professional services | 24,293 | 48,586 | 8,098 | | 80,976 |
| Project costs | 5,643 | 705 | 705 | | 7,054 |
| Rent - donated | 38,783 | 2,041 | - | | 40,824 |
| Repairs and maintenance | 6,227 | 692 | - | | 6,919 |
| Supplies and other for special events | | | 17,115 | | 17,115 |
| Communications | 1,582 | 3,163 | 527 | | 5,272 |
| Travel and staff expense | 2,243 | 2,243 | - | | 4,485 |
| Museum - exhibits and supplies, conservation, repair, and acquisition of collection | 7,440 | - | - | | 7,440 |
| Total functional expenses before depreciation | 295,175 | 164,150 | 58,470 | | 517,794 |
| Depreciation | 60,176 | 7,522 | 7,522 | | 75,220 |
| Total expenses | 355,351 | 171,672 | 65,992 | | 593,014 |
| Less expenses included with revenue on the statement of activities: | | | | | |
| Direct cost of special events | - | - | (17,115) | | (17,115) |
| Total functional expenses | \$ 355,351 | \$ 171,672 | \$ 48,877 | \$ | 575,899 |

See accompanying notes to the financial statements.

St. Louis County Historical Society

Statement of Functional Expenses

For the Year Ended December 31, 2018

| | Program Services | | Supporting Services | | Total |
|---|-------------------------|------------------------|---------------------|-------------------|-------|
| | Historical Preservation | Management and General | Fundraising | | |
| Salaries | \$ 176,641 | \$ 61,193 | \$ 19,578 | \$ 257,412 | |
| Payroll taxes and related payroll expenses | 16,324 | 5,655 | 1,809 | 23,788 | |
| Employee health insurance | 9,677 | 3,353 | 1,073 | 14,103 | |
| Pension | 2,833 | 1,774 | 455 | 5,062 | |
| Total salaries and related expenses | 205,475 | 71,975 | 22,915 | 300,365 | |
| Advertising | 1,320 | - | 1,319 | 2,639 | |
| Common area maintenance | 10,742 | 1,343 | 1,343 | 13,428 | |
| Dues and subscriptions | 1,334 | 333 | - | 1,667 | |
| Insurance | 7,696 | 5,131 | - | 12,827 | |
| Interest | 97 | 35 | 44 | 176 | |
| Miscellaneous | 2,459 | 2,459 | 1,229 | 6,147 | |
| Office supplies | 2,667 | 2,666 | 1,333 | 6,666 | |
| Postage | 507 | 506 | 253 | 1,266 | |
| Printing and reproduction | 1,015 | 1,015 | 508 | 2,538 | |
| Professional services | 23,598 | 47,197 | 7,866 | 78,661 | |
| Project costs | 16,460 | 2,058 | 2,058 | 20,576 | |
| Rent - donated | 38,783 | 2,041 | - | 40,824 | |
| Repairs and maintenance | 10,250 | 1,139 | - | 11,389 | |
| Supplies and other for special events | - | - | 3,837 | 3,837 | |
| Communications | 2,866 | 1,433 | 1,433 | 5,732 | |
| Travel and staff expense | 1,616 | 2,424 | - | 4,040 | |
| Museum - exhibits and supplies, conservation, repair, and acquisition of collection | 7,108 | - | - | 7,108 | |
| Total functional expenses before depreciation | 333,993 | 141,755 | 44,138 | 519,886 | |
| Depreciation | 54,589 | 6,824 | 6,824 | 68,237 | |
| Total expenses | 388,582 | 148,579 | 50,962 | 588,123 | |
| Less expenses included with revenue on the statement of activities: | | | | | |
| Direct cost of special events | - | - | (3,837) | (3,837) | |
| Total functional expenses | \$ 388,582 | \$ 148,579 | \$ 47,125 | \$ 584,286 | |

See accompanying notes to the financial statements.

St. Louis County Historical Society

Statements of Cash Flows

For the Years Ended December 31,

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 2,465 | \$ 60,502 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 75,220 | 68,237 |
| Collections contributed | (15,310) | (13,676) |
| Change in value of assets held by others | (15,904) | 13,380 |
| Change in operating assets and liabilities | | |
| (Increase) decrease in | | |
| Accounts receivable | 235 | (1,110) |
| Grants receivable | 37,139 | 40,641 |
| Prepaid insurance | 717 | 19 |
| Increase (decrease) in | | |
| Accounts payable | 658 | 2,684 |
| Accrued payroll and taxes | 808 | 3,352 |
| Deferred revenue | (11,172) | 11,172 |
| Net cash provided by operating activities | 74,856 | 185,201 |
| Cash flows from investing activities | | |
| Withdrawal from assets held by others | 5,146 | 5,475 |
| Purchase of property and equipment | (19,445) | (64,165) |
| Net cash used in investing activities | (14,299) | (58,690) |
| Cash flows from financing activities | | |
| Payments on capital lease payable | (2,596) | (2,338) |
| Net cash used in financing activities | (2,596) | (2,338) |
| Net increase in cash and cash equivalents | 57,961 | 124,173 |
| Cash and cash equivalents, beginning of year | 344,029 | 219,856 |
| Cash and cash equivalents, end of year | \$ 401,990 | \$ 344,029 |
| Supplemental disclosures | | |
| Interest paid | \$ 550 | \$ 176 |
| Contributions of collection items | 15,310 | 13,676 |
| Supplemental investing and financing disclosures | | |
| Purchase of equipment with capital lease | 10,605 | |

See accompanying notes to the financial statements.

St. Louis County Historical Society

Notes to Financial Statements

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 \$12,016 and \$11,974 at December 31, 2019 and 2018, respectively, is included in cash and cash equivalents in the accompanying financial statements. The certificate bears interest at 0.35 percent and matures April 29, 2020, 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

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.

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.

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.

In 2019, the Society had construction in progress of \$8,000 for the Erie Mining Fixed Exhibit and the Joe Gomer Project. In 2018, the Society had construction in progress of \$5,603 for the VMH Hubert Traveling Exhibit and the Erie Mining Fixed Exhibit. Depreciation of furniture and equipment 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 \$75,220 and \$68,237 for the years ended December 31, 2019 and 2018.

Advertising and Promotion

Advertising and promotion costs are charged to operations when incurred. For the years ended December 31, 2019 and 2018, the amount charged to expense was \$2,448 and \$2,639, respectively.

St. Louis County Historical Society

Notes to Financial Statements

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.

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 identifying of a 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.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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.

St. Louis County Historical Society

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Society's tax-exempt purpose is subject to taxation on unrelated business income.

Subsequent Events

The Society has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 9, 2020, which is the date the financial statements were available to be issued.

Beginning in March 2020, the United States economy began suffering adverse effects from the COVID-19 Crisis (CV19 Crisis) including financial markets, supply chains, businesses, and communities. Specific to the Society, COVID-19 may impact various parts of its 2020 operations and financial results. Management believes the Society is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

Change in Accounting Policy

On June 21, 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU assist in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Subtopic 958-605 or as exchange (reciprocal) transactions subject to Accounting Standards Codification 606 and (2) determining whether a contribution is conditional. The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional, which affects the timing of the revenue recognized. The entity has applied the amendments in this ASU on a modified prospective basis. There was no change on opening balances of net assets and no prior period results were restated.

Accounting Standards Updates

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 606, *Revenue Recognition*, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2019. The Society is currently evaluating the impact of the provisions of ASC 606.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria

St. Louis County Historical Society

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Accounting Standards Updates (Continued)

for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. In 2020, the FASB delayed the effective date for nonpublic entities to fiscal years beginning after December 15, 2021. Early adoption is permitted. The Society is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

Note 2: 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, 2019:

| <i>Fair Value Measurements Listing</i> | Level 1 | Level 2 | Level 3 | Total Assets at Fair Value |
|--|-------------|-------------|-------------------|-------------------------------|
| Assets held by others | \$ - | \$ - | \$ 112,794 | \$ 112,794 |
| Total | \$ - | \$ - | \$ 112,794 | \$ 112,794 |

St. Louis County Historical Society

Notes to Financial Statements

Note 2: Fair Value Measurements (Continued)

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, 2018:

| <i>Fair Value Measurements Listing</i> | Level 1 | Level 2 | Level 3 | Total Assets at Fair Value |
|--|-------------|-------------|-------------------|-------------------------------|
| Assets held by others | \$ - | \$ - | \$ 102,036 | \$ 102,036 |
| Total | \$ - | \$ - | \$ 102,036 | \$ 102,036 |

There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2019 and 2018.

Information regarding the changes in the fair value of the Society's assets using significant unobservable inputs (Level 3) is as follows:

| <i>Years Ended December 31,</i> | 2019 | 2018 |
|---------------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 102,036 | \$ 120,891 |
| Contributions | 200 | |
| Withdrawals | (5,346) | (5,475) |
| Change in value | 15,904 | (13,380) |
| Balance, end of year | \$ 112,794 | \$ 102,036 |

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 12/31/19 | Fair Value 12/31/18 | Principle Valuation Technique | Unobservable Inputs | Range |
|-----------------------|------------------------|------------------------|--|--------------------------------|---------|
| Assets held by others | \$ 112,794 | \$ 102,036 | Quoted Market Prices or Third Party Pricing | Market price of assets held | Unknown |

St. Louis County Historical Society

Notes to Financial Statements

Note 3: 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 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.

Under Financial Accounting Standards Board's Accounting Standards Codification, Not-for-Profit Entities, Revenue Recognition, 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 \$112,794 and \$102,036 as of December 31, 2019 and 2018.

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

Note 4: 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 3). 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.

Changes in net assets with donor restrictions - Board Designated Endowment for the years ended December 31, 2019 and 2018, were as follows:

| | 2019 | 2018 |
|---|-------------------|-------------------|
| Balance, January 1 | \$ 102,036 | \$ 120,891 |
| Investment fees | (233) | (237) |
| Contributions | 200 | - |
| Withdrawals | (5,346) | (5,475) |
| Net appreciation (depreciation) - realized and unrealized | 16,137 | (13,143) |
| Balance, December 31 | \$ 112,794 | \$ 102,036 |

St. Louis County Historical Society

Notes to Financial Statements

Note 5: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2019 and 2018.

| | 2019 | 2018 |
|---|-------------------|-------------------|
| American Indian Project | \$ 14,463 | \$ 38,113 |
| Scholarships-VMH | 20,082 | 24,030 |
| Erie Mining Book Project | 147,247 | 173,019 |
| Veterans Memorial Hall Gomer/Wheat Statue Maintenance | - | 6,555 |
| Collection Care | 3,307 | 3,257 |
| Veterans Memorial Hall - Joe Gomer Project | 9,039 | - |
| Eli's Farm | 7,280 | 7,280 |
| Veterans Oral History/Traveling Exhibit | 10,000 | 10,000 |
| Ryan Room | 24,600 | 24,600 |
| County Built on Iron | 40,000 | - |
| Fessler Gallery Project | 5,366 | 7,586 |
| Civil War Reenactors | 2,000 | 2,000 |
| Total | \$ 283,384 | \$ 296,440 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the years ended December 31, 2019 and 2018:

| <i>Years Ended December 31,</i> | 2019 | 2018 |
|---|------------------|-------------------|
| American Indian Project | \$ 27,511 | \$ 45,457 |
| Erie Mining Book Project | 46,309 | 71,661 |
| Scholarships-VMH | 5,132 | 1,508 |
| Veteran Memorial Hall - Joe Gomer Project | 6,555 | 8,723 |
| Fessler Gallery Project | 6,225 | - |
| Total | \$ 91,732 | \$ 127,349 |

St. Louis County Historical Society

Notes to Financial Statements

Note 6: Amounts Paid to Affiliated Organizations

For the years ended December 31, 2019 and 2018, the Society distributed the following amounts to other regional historical societies and museums pursuant to its funding agreement with St. Louis County:

| <i>Years Ended December 31,</i> | 2019 | 2018 |
|---------------------------------|------------------|------------------|
| Ely-Winton Historical Society | \$ 16,164 | \$ 16,164 |
| Hibbing Historical Society | 14,596 | 14,596 |
| Tower-Soudan Historical Society | 9,108 | 9,108 |
| Virginia Historical Society | 14,696 | 14,696 |
| Museum of Mining | 11,372 | 11,372 |
| Sisu Heritage, Inc. | 7,180 | 7,180 |
| Total | \$ 73,116 | \$ 73,116 |

Note 7: Donated Rents and Services

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

| <i>Years Ended December 31,</i> | 2019 | 2018 |
|---------------------------------|-----------|-----------|
| U.M.D. (space) | \$ 40,824 | \$ 40,824 |

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 \$54,238 and \$46,200 for the years ended December 31, 2019 and 2018, respectively.

Note 8: 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 \$4,764 and \$5,062 for the years ended December 31, 2019 and 2018, respectively.

Note 9: Operating Leases

The Society has an annual renewable lease with St. Louis County. The lease is for the use of office and exhibit space located at 506 West Michigan Street. The lease has been extended verbally on an annual basis. In July 2019, the Society entered into a lease agreement with St. Louis County through December 31, 2019.

St. Louis County Historical Society

Notes to Financial Statements

Note 9: Operating Leases (Continued)

The lease requires an additional annual common area maintenance charge when actual operating costs of the building, as described in the lease agreement, exceed an allocated based amount. The common area maintenance charges to the Society were \$13,428 and \$13,428 for the years ended December 31, 2019 and 2018, respectively.

Note 10: Capital Lease Obligation

The Society leased a copier with lease payments of \$209 per month beginning July 2014 through June 2019. The capital lease obligation was recorded at the present value of future minimum lease payments, discounted at an interest rate of 7 percent. The capitalized cost of \$10,578 less accumulated depreciation of \$9,697 at December 31, 2018, is included in furniture, fixtures and equipment in the accompanying financial statements.

The Society entered into a new lease agreement replacing the existing agreement in March 2019. The Society leases a copier with lease payments of \$210 per month beginning March 2019 through February 2024. A capital lease obligation has been recorded at the present value of future minimum lease payments, discounted at an interest rate of 7 percent. The capitalized cost of \$10,605 less accumulated depreciation of \$1,768 at December 31, 2019 is included in furniture, fixtures and equipment in the accompanying financial statements.

The Society incurred interest expense on the leases of \$550 and \$176 during the years ended December 31, 2019 and 2018, respectively.

Depreciation expense for equipment was \$2,650 and \$2,116 for the years ended December 31, 2019 and 2018, respectively.

The future minimum lease payments under the current capital lease and the net present value of future minimum lease payments are as follows as of December 31, 2019:

| <i>Year Ending December 31,</i> | | |
|-----------------------------------|----|---------|
| 2020 | \$ | 2,520 |
| 2021 | | 2,520 |
| 2022 | | 2,520 |
| 2023 | | 2,520 |
| 2024 | | 630 |
| Future minimum lease payments | | 10,710 |
| Less amount representing interest | | (1,470) |
| Total capital lease obligation | \$ | 9,240 |

St. Louis County Historical Society

Notes to Financial Statements

Note 11: Liquidity and Availability of Financial Resources

The following table reflects the Society's financial assets as of December 31, 2019, and 2018, 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> | 2019 | 2018 |
|--|-------------------|------------------|
| Cash | \$ 401,990 | \$ 344,029 |
| Accounts receivable | 1,975 | 2,210 |
| Grants receivable | - | 37,139 |
| Total financial assets as of end of year | 403,965 | 383,378 |
| Less: Net assets with donor restrictions | (283,384) | (296,440) |
| Financial assets available to meet cash needs for general expenditure within one year | \$ 120,581 | \$ 86,938 |

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 4. 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.