



**MISSOURI
HISTORICAL
SOCIETY**

FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016
(with independent auditors' report thereon)



**MISSOURI
HISTORY
MUSEUM**



**LIBRARY &
RESEARCH
CENTER**



**SOLDIERS
MEMORIAL**

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Independent Auditors' Report

Board of Trustees
Missouri Historical Society
St. Louis, Missouri

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Report On The Financial Statements

We have audited the financial statements of Missouri Historical Society, a not-for-profit organization, which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 of America; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 Missouri Historical Society as of December 31, 2017 and 2016, 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.

RubinBrown LLP

March 27, 2018

As of December 31, 2017 and 2016

CURRENT ASSETS

Cash	\$11,458,060	\$7,338,688
Accrued Investment Income	69,845	71,657
Grants and Accounts Receivable	101,000	104,847
Pledges Receivable, Net	1,492,483	1,517,203
Inventories	181,618	170,970
Short-Term Investments	1,001,174	1,031,009
Prepaid Expenses	310,770	354,469
Total Current Assets	\$14,614,950	\$10,588,843

NON-CURRENT ASSETS

Investments (including Unrealized Gains of \$11,116,760 and \$6,637,186 for 2017 and 2016, respectively)	\$53,558,583	\$46,319,203
Retirement Plan	430,533	381,421
Pledges Receivable, Net	0	572,043
Leasehold Improvements and Buildings, Net	21,536,869	22,395,232
Furniture, Fixtures and Equipment, Net	1,925,558	1,789,450
Projects in Progress	270,289	72,897
Land	661,510	661,510
Other	7,417	5,741
Total Non-Current Assets	\$78,390,759	\$72,197,497

TOTAL ASSETS**\$93,005,709 \$82,786,340****CURRENT LIABILITIES**

Accounts Payable	\$2,700,913	\$1,734,415
Accrued Salary and Accrued Vacation	477,893	460,540
Deferred Revenue	23,825	81,314
Total Current Liabilities	\$3,202,631	\$2,276,269

NON-CURRENT LIABILITIES

Obligations Under Split-Interest Agreements	\$19,111	\$208,778
Retirement Plan	430,533	381,421
Total Non-Current Liabilities	\$449,644	\$590,199

TOTAL LIABILITIES**\$3,652,275 \$2,866,468****NET ASSETS**

Unrestricted	\$30,821,475	\$31,213,553
Unrestricted — Board Designated	20,066,549	17,676,402
Total Unrestricted	\$50,888,024	\$48,889,955
Temporarily Restricted	24,004,512	17,331,727
Permanently Restricted	14,460,898	13,698,190
Total Net Assets	\$89,353,434	\$79,919,872

TOTAL LIABILITIES AND NET ASSETS**\$93,005,709 \$82,786,340**

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

INCREASES IN NET ASSETS

Public Support:

Services Provided for the Missouri History Museum Subdistrict \$10,447,162 \$10,447,162

Contributions:

General 546,593 \$957,151 \$762,708 2,266,452

Bequests 158,305 2,334,547 2,492,852

Soldiers Memorial Processing, Planning and Operations 817,113 817,113

Soldiers Memorial Revitalization 18,461,738 18,461,738

Memberships 854,777 854,777

In-Kind Contributions 10,494 10,494

Total Public Support \$12,017,331 \$22,570,549 \$762,708 \$35,350,588

Revenue:

Investment Income \$1,589,005 \$285,783 \$1,874,788

Realized Gains from Sale of Securities, Net 219,832 161,380 381,212

Unrealized Gains from Securities 1,997,070 2,482,504 4,479,574

Museum Shop, Net (Sales of \$576,184) 69,278 69,278

Facility Rental/Restaurant Income/Catering, Net 86,021 86,021

Other Income 310,339 113,923 424,262

Total Revenue \$4,271,545 \$3,043,590 \$0 \$7,315,135

Net Assets Released from Restrictions:

Satisfaction of Purpose Restrictions \$18,941,354 (18,941,354) \$0 \$0

Total Net Assets Released from Restrictions \$18,941,354 (\$18,941,354) \$0 \$0

TOTAL PUBLIC SUPPORT AND REVENUE — INCREASES IN NET ASSETS

\$35,230,230 \$6,672,785 \$762,708 \$42,665,723

DECREASES IN NET ASSETS

Expenses:

Program Services:

Education and Visitor Experience \$2,315,681 \$2,315,681

Library and Collections 4,871,143 4,871,143

Publications 372,960 372,960

Exhibitions and Research 3,794,324 3,794,324

Communications 1,215,897 1,215,897

Soldiers Memorial Processing, Planning and Operations 514,036 514,036

Soldiers Memorial Revitalization 16,970,317 16,970,317

Total Program Services \$30,054,358 \$30,054,358

Supporting Services:

Development \$832,408 \$832,408

Membership 364,094 364,094

Management and General 1,680,094 1,680,094

Human Resources 315,812 315,812

Information Technology 156,787 156,787

Total Supporting Services \$3,349,195 \$3,349,195

Change in Value of Split-Interest Agreements (\$171,392) (\$171,392)

TOTAL EXPENSES —

DECREASES IN NET ASSETS

\$33,232,161 \$33,232,161

Excess of Public Support and Revenue over Expenses \$1,998,069 \$6,672,785 \$762,708 \$9,433,562

Net Assets Beginning of Year 48,889,955 17,331,727 13,698,190 79,919,872

NET ASSETS END OF YEAR \$50,888,024 \$24,004,512 \$14,460,898 \$89,353,434

STATEMENT OF ACTIVITIES

For the year ended December 31, 2016

INCREASES IN NET ASSETS

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Public Support:				
Services Provided for the Missouri History Museum Subdistrict	\$10,480,662			\$10,480,662
Contributions:				
General	233,558	\$963,071	\$1,013,106	2,209,735
Bequests	1,190,693			1,190,693
Soldiers Memorial Processing, Planning and Operations		1,019,424		1,019,424
Soldiers Memorial Revitalization		7,462,602		7,462,602
Memberships	871,933			871,933
In-Kind Contributions	8,780			8,780
Total Public Support	\$12,785,626	\$9,445,097	\$1,013,106	\$23,243,829
Revenue:				
Investment Income	\$1,457,149	\$245,812		\$1,702,961
Realized Losses from Sale of Securities, Net	(125,758)	(340,225)		(465,983)
Unrealized Gains from Securities	793,240	1,048,423		1,841,663
Museum Shop, Net (Sales of \$801,788)	163,862			163,862
Facility Rental/Restaurant Income/Catering, Net	67,658			67,658
Other Income	277,634	225,016		502,650
Total Revenue	\$2,633,785	\$1,179,026	\$0	\$3,812,811
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	\$7,276,690	(\$7,276,690)	\$0	\$0
Total Net Assets Released from Restrictions	\$7,276,690	(\$7,276,690)	\$0	\$0
TOTAL PUBLIC SUPPORT AND REVENUE — INCREASES IN NET ASSETS	\$22,696,101	\$3,347,433	\$1,013,106	\$27,056,640

DECREASES IN NET ASSETS

Expenses:				
Program Services:				
Education and Visitor Experience	\$2,137,605			\$2,137,605
Library and Collections	4,656,189			4,656,189
Publications	382,542			382,542
Exhibitions and Research	4,177,380			4,177,380
Communications	1,073,289			1,073,289
Soldiers Memorial Processing, Planning and Operations	717,279			717,279
Soldiers Memorial Revitalization	4,883,880			4,883,880
Total Program Services	\$18,028,164			\$18,028,164
Supporting Services:				
Development	\$708,743			\$708,743
Membership	360,880			360,880
Management and General	1,570,445			1,570,445
Human Resources	342,445			342,445
Information Technology	169,133			169,133
Total Supporting Services	\$3,151,646			\$3,151,646
Change in Value of Split-Interest Agreements	\$34,111			\$34,111
TOTAL EXPENSES — DECREASES IN NET ASSETS	\$21,213,921			\$21,213,921
Excess of Public Support and Revenue over Expenses	\$1,482,180	\$3,347,433	\$1,013,106	\$5,842,719
Net Assets Beginning of Year	47,407,775	13,984,294	12,685,084	74,077,153
NET ASSETS END OF YEAR	\$48,889,955	\$17,331,727	\$13,698,190	\$79,919,872

STATEMENTS OF CASH FLOWS

	2017	2016
For the years ended December 31, 2017 and 2016		
Cash Flows from Operating Activities		
Change in Net Assets	\$9,433,562	\$5,842,719
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation	1,548,802	1,393,853
Contributions Restricted for Endowment	(762,708)	(1,013,106)
Net Realized (Gains) Losses on Investments	(381,212)	465,983
Net Unrealized (Gains) Losses on Investments	(4,479,574)	(1,841,663)
Change in Assets and Liabilities		
Receivables	(17,579)	1,103,027
Inventories, Prepaid Expenses, and Other	31,376	139,095
Accounts Payable and Accrued Liabilities	983,851	1,316,323
Deferred Revenue	(57,489)	(81,256)
Obligations Under Split-Interest Agreements	(189,667)	(38,395)
Other Liabilities	49,112	41,852
Net Cash from Operating Activities	\$6,158,474	\$7,328,432
Cash Flows from Investing Activities		
Proceeds from Sales of Investments	18,527,405	\$27,259,506
Purchases of Investments	(20,878,567)	(30,071,237)
Improvements to Property and Equipment Purchases	(1,023,940)	(1,193,367)
Net Cash Used in Investing Activities	(\$3,375,102)	(\$4,005,098)
Cash Flows from Financing Activities		
Proceeds from Contributions Restricted for Endowment	1,336,000	915,000
Net Cash from Financing Activities	\$1,336,000	\$915,000
Net Change in Cash	\$4,119,372	\$4,238,334
Cash, Beginning of Year	7,338,688	3,100,354
CASH, END OF YEAR	\$11,458,060	\$7,338,688

1. Summary of Significant Accounting Policies

Missouri Historical Society Operations

The Missouri Historical Society (MHS) is a Missouri pro forma decree not-for-profit corporation whose primary functions are educational and community programs; collections and conservation; library and research; and exhibitions. MHS's mission is to serve as the confluence of historical perspectives and contemporary issues to inspire and engage our audiences.

MHS operates the Missouri History Museum in Forest Park, the Library and Research Center on Skinker and the Soldiers Memorial Military Museum in downtown St. Louis.

Basis of Presentation

MHS follows accounting standards set by the Financial Accounting Standards Board (FASB).

The financial statement presentation follows the requirements of FASB Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, MHS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets:

Unrestricted Net Assets include all resources which are not subject to donor-imposed restrictions of a more specific nature than those which only obligate MHS to utilize funds in furtherance of its mission.

Unrestricted-Board Designated Net Assets include net assets designated by the Board of Trustees for specified purposes.

Temporarily Restricted Net Assets carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by MHS which fulfill the restriction.

Permanently Restricted Net Assets are those that are subject to donor-imposed restrictions which will never lapse, thus requiring that the funds be retained permanently.

Fair Value Measurements

The fair value of financial instruments classified as current assets or current liabilities, including cash, receivables, inventories, prepaid expenses, accounts payable, accrued expenses and deferred revenue approximates carrying value due to the short-term nature of these accounts.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 — Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 — Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

MHS determines the fair value of certain assets and liabilities on a recurring basis through application of ASC 820.

Cash

Cash consists of demand deposits. Money market funds and highly liquid investments are included in short-term investments.

Grants and Accounts Receivable

Grants and accounts receivable consist of amounts due to MHS related to work performed under grant agreements. Grants and accounts receivable are carried at their net realizable value. Management estimates the allowance for doubtful accounts based on its assessment of individual accounts. Accordingly, no allowance was considered necessary at December 31, 2017 and 2016.

Pledges Receivable

Unconditional pledges, less an allowance for uncollectible amounts, are recorded as receivables at fair value in the year made. Pledges made and received beyond one year are discounted to present value using a risk adjusted rate at the date of pledge of 3.96% at both December 31, 2017 and 2016. For pledges made and received within one year, the net realizable value is a reasonable estimate of the fair value. If restricted by the donor for endowment, the amount is reported as public support of the permanently restricted net asset class. If restricted by donor for particular purposes or for capital acquisition, the amount is reported as public support of temporarily restricted net assets.

Inventories

Inventories consist of Museum Shop items held for resale. Inventories are recorded at the lower of cost or net realizable value, determined by the retail method.

Investments

Investments are carried at fair value as determined per the fair value policy described in this section, and net realized and unrealized gains and (losses) are reflected in the Statements of Activities. The classification of investment balances as current or non-current is based on the intent of the use of the underlying investment. It is the policy of MHS to sell all contributed securities as soon as they are received.

Investment activities and results on the financial statements are shown net of investment advisory and asset management fees of \$196,286 and \$185,435 for the years ended December 31, 2017 and 2016, respectively. Included in these fees are advisory and asset custodian fees paid to a financial institution for which a non-voting Trustee is an officer. The amounts paid to this financial institution during the years ended December 31, 2017 and 2016 are \$53,596 and \$50,787, respectively.

For the years ended December 31, 2017 and 2016, the unrealized and realized gains (losses) and investment income include an operating draw of \$1,413,841 and \$1,255,216, respectively, from the Endowment investment account and an annual draw of \$462,758 and \$459,540, respectively, from the Operating investment account.

Property and Equipment

The land and buildings that comprise the facilities of MHS are leased from the Missouri History Museum Subdistrict (Subdistrict) of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (ZMD). Property and equipment are recorded at cost, if purchased. Expenditures greater than \$5,000 are reviewed for capitalization. Expenditures for repairs and maintenance are charged to expense as incurred, additions and improvements that significantly extend the lives of assets are capitalized. Leasehold improvements are amortized over the estimated life of the assets of seven to forty years. Furniture, fixtures and equipment are depreciated on the straight-line basis over the estimated life of the assets of three to ten years.

Museum Collections

MHS holds the premier regional history collection documenting St. Louis, Missouri, the Mississippi and Missouri Valleys, the Louisiana Purchase Territory and the American West. An integrated and multi-format collection, it serves an audience of diverse local, national and international readers and researchers. The Collections currently consist of more than 179,000 artifacts in a variety of formats that document the everyday life of the diverse inhabitants of our region. The Library contains more than 90,000 volumes. The Manuscript Collections comprise more than 7,900 linear feet of original

manuscript records. The Photographs and Prints Collections contain more than 1 million images. The Sound and Moving Images collection includes more than 74,000 items. MHS staff members work to make the collections publicly accessible through exhibitions, public programs, publications, online collection searches and social media platforms as well as through the public Library and Research Center. The value of the collections cannot be determined, and therefore, is not capitalized in the accompanying financial statements. The majority of the artifacts within the collection are donations. The few purchases made yearly typically are paid for through restricted funds. Any proceeds from the deaccession of collection items are only to be used for future artifact purchases according to museum best practices.

Deferred Revenue

Deferred revenue at December 31, 2017 represents cash received for restaurant and facility rentals prior to performance by MHS. Deferred revenue at December 31, 2016 represented cash received for restaurant, facility rentals, and St. Louis Public Schools (SLPS) prior to performance by MHS. The agreement with the Special Administrative Board (SAB) of the Transitional School District of the City of St. Louis is for the cost of personnel, supplies and equipment necessary to identify, catalog and preserve the collection of SLPS materials.

Split-Interest Agreements

MHS administers split-interest agreements subject to obligations to pay fixed amounts periodically to the respective donor or designated beneficiary during their lifetimes. At the inception of the split-interest agreement, an obligation is recorded at present value, which is a Level 2 fair value approach, using a discount rate ranging from 1.6% to 7.8%, for estimated future payments. The obligations under the split-interest agreements are adjusted over the term of the agreement for changes in the fair value of assets, accretion of the discount and other changes in estimates of future benefits. Obligations under split-interest agreements were \$19,111 and \$208,778 at December 31, 2017 and 2016, respectively. The assets are included in MHS's long-term investment portfolio.

Public Support and Revenues

MHS reports contributions, including unconditional pledges receivable, as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Contributions received with donor-imposed stipulations that are satisfied in the same year as the contributions are used are initially reported in temporarily restricted net assets and released to unrestricted net assets as the restrictions are met.

MHS reports gifts of land and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, MHS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Other income includes publication sales and other items.

Volunteer Service and In-Kind Contributions

The value of in-kind contributions is recorded in the Statements of Activities as public support and included in expenses within the function for which these services were performed or the in-kind contributions were applicable.

MHS recognizes the value of volunteer services in accordance with FASB ASC 958-605-25-16. The value of these contributions is not recognized in the financial statements. A substantial number of volunteers make significant contributions to MHS enhancing its activities and programs. MHS wishes to acknowledge these services and values such at approximately \$193,865 and \$215,019 for the years ended December 31, 2017 and 2016, respectively. In fiscal years 2017 and 2016, these services include approximately 139 and 131 volunteers, respectively, who contributed approximately 12,079 and 13,397 hours of service, respectively, to MHS.

Income Taxes

MHS qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and therefore, there is no provision for income taxes. The federal tax returns for MHS for tax years 2014 and later remain subject to examination by taxing authorities.

MHS follows the provisions of ASC 740-10-25 requiring disclosure of uncertain tax positions. There has been no interest or penalties recognized in the Statements of Activities nor in the Statements of Financial Position related to uncertain tax positions. In addition, no tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. MHS evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

Use of Estimates

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

Reclassifications

Certain amounts have been reclassified in the 2016 financial statements to conform to the 2017 financial statements.

2. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes or periods:

	2017	2016
Capital Campaign	\$1,122,940	\$1,127,523
Education and Visitor Experience	112,392	166,450
Collections and Conservation	2,624,090	771,031
Publication of Books	96,646	91,180
Exhibit Production, Maintenance and Research	524,839	411,436
Innovation Fund	156,780	163,914
Operations	3,191	4,119
Time Restrictions	333,479	0
Soldiers Memorial Processing, Planning and Operations	927,030	628,264
Soldiers Memorial Revitalization	5,326,378	3,834,958
Realized Endowment Earnings Gains	6,737,053	6,575,662
Unrealized Endowment Earnings Gains	6,039,694	3,557,190
	<u>\$24,004,512</u>	<u>\$17,331,727</u>

Net assets were released from donor restrictions as MHS incurred expenses satisfying the restricted purposes as follows for the years ended December 31, 2017 and 2016:

	2017	2016
Capital Campaign	\$4,583	\$215,524
Education and Visitor Experience	363,417	499,897
Collections and Conservation	281,440	201,901
Publication of Books	39,467	4,835
Exhibit Production, Maintenance and Research	755,590	717,302
Innovation Fund	7,135	6,223
Operations	927	32,070
Soldiers Memorial Processing, Planning and Operations	518,478	715,058
Soldiers Memorial Revitalization	16,970,317	4,883,880
Net Assets Released from Restrictions	<u>\$ 18,941,354</u>	<u>\$7,276,690</u>

3. Permanently Restricted Net Assets

Permanently restricted net assets as of December 31, 2017 and 2016 are summarized below based on the types of activities the income is available to support:

	2017	2016
Acquisition of Items for Library and Collections	\$82,040	\$82,040
Exhibits, Research and Conservation	7,173,533	6,410,825
Endowed Bascom and Shoenberg Curatorial Positions	517,901	517,901
Publication of Books and Magazines	137,285	137,285
Internship Program	246,715	246,715
General MHS Operations	6,303,424	6,303,424
	<u>\$14,460,898</u>	<u>\$13,698,190</u>

4. Pledges Receivable

At December 31, 2017, the pledges receivable balance was \$1,504,190 and an allowance for uncollectibles of \$11,707 was recorded for a net pledges receivable balance of \$1,492,483.

5. Endowment

The endowment consists of 29 individual funds established for a variety of purposes. As required by GAAP, assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted UPMIFA (Uniform Prudent Management of Institutional Funds Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, MHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by MHS in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, MHS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

MHS has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that MHS must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that provide a rate of return over a rolling 60 month period greater than or equal to a "Policy Index" created by combining various indices in the proportion as the endowment funds target allocation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, MHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). MHS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

MHS has a policy of appropriating for distribution each year between 3 and 5 percent of its endowment fund's average fair value over the 13 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. Accordingly, over the long-term, MHS expects the fund to achieve a real annualized rate of return that is 5% over the trailing 12 month Consumer Price Index. This is consistent with MHS's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. An appropriation of \$1,413,841 and \$1,255,216 was disbursed in 2017 and 2016, respectively.

The changes in endowment assets for the year ended December 31, 2017 are as follows:

	UNRESTRICTED	UNRESTRICTED BOARD DESIGNATED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment Assets, January 1, 2017	\$0	\$17,676,402	\$10,132,852	\$12,233,029	\$40,042,283
Contributions and Other		371,718		1,336,000	1,707,718
Amounts Appropriated for Expenditures	1,413,841	(631,108)	(782,733)		
Net Appreciation		2,649,537	3,426,628		6,076,165
Amounts Disbursed	(1,413,841)				(1,413,841)
Endowment Assets, December 31, 2017	\$0	\$20,066,549	\$12,776,747	\$13,569,029	\$46,412,325

The changes in endowment assets for the year ended December 31, 2016 are as follows:

	UNRESTRICTED	UNRESTRICTED BOARD DESIGNATED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment Assets, January 1, 2016	\$0	\$9,047,757	\$9,424,618	\$11,318,029	\$29,790,404
Contributions and Other		8,180,750		915,000	9,095,750
Amounts Appropriated for Expenditures	1,255,216	(484,973)	(770,243)		
Net Appreciation		932,868	1,478,476		2,411,345
Amounts Disbursed	(1,255,216)				(1,255,216)
Endowment Assets, December 31, 2016	\$0	\$17,676,402	\$10,132,852	\$12,233,029	\$40,042,283

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires MHS to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017 and 2016.

6. Fair Value Measurements

Fair values of assets and liabilities measured on a recurring basis at December 31, 2017 and 2016 are as follows:

Fair Value Measurements at Reported Date Using:

	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT OTHER UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2017				
Money Market Funds	\$1,411,144	\$1,411,144		
U.S. Government Obligations	1,069,170	1,069,170		
Corporate Bonds and Debentures	8,704,453		\$8,704,453	
Corporate Stock	17,054,820	17,054,820		
Mutual Funds — Equities:				
Large Cap Funds	10,757,879	10,757,879		
International Funds	5,321,107	5,321,107		
Mid Cap Funds	2,928,952	2,928,952		
Small Cap Funds	1,257,280	1,257,280		
Other	681,891	681,891		
Total Mutual Funds — Equities	20,947,109	20,947,109		
Mutual Funds — Fixed Income	1,001,098	1,001,098		
Mutual Funds — Real Estate	2,479,795	2,479,795		
Mutual Funds — Hedge Funds	2,322,701	2,322,701		
Total Investments	\$54,990,290	\$46,285,837	\$8,704,453	\$0
December 31, 2016				
Money Market Funds	\$1,139,706	\$1,139,706		
U.S. Government Obligations	905,413	905,413		
Corporate Bonds and Debentures	7,978,963		\$7,978,963	
Corporate Stock	14,322,174	14,322,174		
Mutual Funds — Equities:				
Large Cap Funds	8,762,267	8,762,267		
International Funds	4,690,833	4,690,833		
Mid Cap Funds	2,793,913	2,793,913		
Small Cap Funds	1,175,204	1,175,204		
Other	687,080	687,080		
Total Mutual Funds — Equities	18,109,297	18,109,297		
Mutual Funds — Fixed Income	1,138,987	1,138,987		
Mutual Funds — Real Estate	1,874,295	1,874,295		
Mutual Funds — Hedge Funds	2,262,798	2,262,798		
Total Investments	\$47,731,633	\$39,752,670	\$ 7,978,963	\$0

Fair value for investments valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Fair value for investments valued using level 2 inputs are based primarily on available quoted prices for similar assets in active or inactive markets.

7. Property and Equipment

A summary of property and equipment at December 31, 2017 and 2016 is as follows:

	2017	2016
Leasehold Improvements and Buildings	\$41,980,747	\$41,763,087
Furniture, Fixtures and Equipment	5,154,010	4,564,235
	<u>47,134,757</u>	<u>46,327,322</u>
Less Accumulated Depreciation and Amortization	(23,672,330)	(22,142,640)
Projects in Progress	270,289	72,897
Land	661,510	661,510
	<u>\$24,394,226</u>	<u>\$24,919,089</u>

Depreciation expense was \$1,548,802 and \$1,393,853 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, MHS was committed for certain equipment under noncancelable operating leases and certain warehouse and temporary storage location leases which expire at various dates through 2023. Additionally, MHS leases the land and buildings that comprise facilities of MHS from the Subdistrict. The lease agreement for these facilities is coterminous with the term of the Agreement MHS has with the Subdistrict to provide history museum services. This agreement renews on December 31 each year as more fully discussed in footnote 11 hereafter.

Years ending December 31	AMOUNT
2018	\$166,214
2019	146,789
2020	142,464
2021	127,872
2022	76,257
2023	<u>20</u>
Total Minimum Rental Payments Required	<u>\$659,616</u>

Rental expense was \$163,829 and \$121,581 for the years ended December 31, 2017 and 2016, respectively.

8. Employee Benefit Plans

MHS has a defined contribution plan for all employees with at least two years of service. The plan provides for MHS to contribute 5% of the participants' salaries with no employee contributions permitted. MHS also has a 403(b) salary reduction plan, which provides for MHS to match employee contributions at the maximum of \$500 or 1% of annual participants' salaries. Expenses for the two plans were \$354,275 and \$337,566 for the years ended December 31, 2017 and 2016, respectively.

9. Employee Deferred Compensation Plan

MHS maintains a voluntary 457(b) Plan for employees who wish to defer a portion of their salary to future years. The investment is presented in the Statement of Financial Position as a non-current asset and liability. The value of this plan asset was \$430,533 and \$381,421 at December 31, 2017 and 2016, respectively.

10. Concentrations of Credit Risk

Financial instruments that potentially subject MHS to concentrations of credit risk consist of cash deposits in banks and other financial institutions, investment securities and pledge receivables. MHS maintains cash and short- and long-term investments with major banks and financial institutions. Accounts at banks insured by the Federal Deposit Insurance Corporation (FDIC) are insured to a level of \$250,000. At times, MHS may have cash balances with banks and securities with financial institutions in excess of the FDIC coverage, and currently \$11,440,345 is uninsured for a short duration. Concentrations of credit risk with respect to pledges receivable are limited due to the large number and credit worthiness of donors comprising MHS's donor base.

11. Contract with the Missouri History Museum Subdistrict

The Subdistrict is part of the ZMD. The Subdistrict was established to receive tax revenues from the tax collector's offices and to pay for history museum services provided to benefit the public. The ZMD tax generated revenue is subject to annual review and approval. Amounts available to the Subdistrict are based on a rate which may not exceed 4.0 cents on each \$100 of assessed valuation. The certified rate was \$.0386 and \$.0399 at December 31, 2017 and 2016, respectively. In 1988, the Subdistrict and MHS entered into a contract, which, after renegotiation in the fall of 2012 and amended on November 13, 2013, renewed on December 16, 2014 and amended on December 17, 2015, renews for one year each December 31, unless the Subdistrict, upon recommendation of its committee on renewal, votes not to renew the contract. Upon giving written notice of its intent not to renew the contract, MHS and the Subdistrict are required to meet for a period of six months to resolve their differences. If those differences are not resolved the contract terminates at the end of the calendar year in which such final determination is made. The contract provides for history museum facilities and services to be provided to the public by MHS in exchange for compensation from the Subdistrict. The public support under this contract is determined each year based upon an annual budget. The Agreement also requires prior Subdistrict approval for the purchase of any real estate, or any expenditure of an amount in excess of \$10,000, if not previously approved in the annual budget. MHS shall comply with the provisions of the Open Meeting Law, sections 610.010 et. al., as from time to time amended. In accordance with the contract, MHS records revenue in the period in which reimbursement vouchers are approved. MHS is included as a discretely presented component unit within the Subdistrict's financial statements.

12. Agreement with the City of St. Louis

The City of St. Louis, Missouri, a constitutional charter city of the State of Missouri (the City), owns the Soldiers Memorial Military Museum (Soldiers Memorial) at 1315 Chestnut. The City and MHS have entered into an agreement by which MHS will oversee a substantial renovation and reconstruction of the Soldiers Memorial and Court of Honor and thereafter operate the Soldiers Memorial on behalf of the City.

The Soldiers Memorial project components consist of 1) processing of collections, 2) planning for exhibitions and operations, and 3) renovation, construction and design, fabrication and installation of exhibitions.

A \$917,000 Processing Grant received in 2014 provided the funding for the processing of collections. Endowment agreements with donors will provide funding for the planning for exhibitions and operations. Agreements with donors will provide funding for the renovation, construction and exhibition design.

All funds for the Soldiers Memorial are held and identified as restricted funds on the books and records of MHS and shall be accounted for as a separate fund and not commingled with funds to be used for any purpose other than the renovation and operation of the Soldiers Memorial.

13. Related Entities

MHS serves as the fiscal agent and leases employees from a nonprofit entity through a written agreement: the Association for Midwest Museums (AMM). In accordance with ASC 958-810-15, the account of this organization has not been included in the accompanying financial statements. AMM is a not-for-profit corporation that has served the Midwest museum community for over 85 years. Through its programs and services, AMM encourages professional standards for all areas of museum administration and provides information and resources to museums and cultural institutions in the Midwest. During 2016, MHS provided office space without charge, but was reimbursed by AMM for all compensation costs for AMM employees and administrative expenses on a quarterly basis. During 2017, MHS did not provide any office space. At December 31, 2017 and 2016, MHS had a receivable from AMM totaling \$55,940 and \$21,117, respectively.

14. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated based on square footage among the programs and supporting services benefited.

15. Risks and Uncertainties

MHS's investments are exposed to various risks, such as interest rate, market and credit risks. Due to potential changes in economic conditions, it is at least reasonably possible that changes in the value of MHS's investments could occur in the near term and those changes could materially affect the amounts reported in the MHS's financial statements.

MHS is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business. In the opinion of MHS's management, the resolution of these matters will not have a material adverse effect on MHS's financial statements.

16. Conditional Pledges

A donor made a conditional pledge of \$5,000,000 in September 2015, to be paid over seven years in support of the African American History Endowment, enabling MHS to sustain its commitment to collections, museum exhibitions and programs focused on the African American history of our region. As of December 31, 2017, \$2,145,000 has been received by MHS, \$715,000 in both 2017 and 2016, and recorded as a permanently restricted contribution.

17. Commitments

MHS entered into a construction contract for \$22,290,302 (original contract \$21,656,510 plus two change orders of \$433,792 and \$200,000) for renovation and construction at Soldiers Memorial, and MHS incurred cumulative renovation and construction costs on this contract of \$19,501,115 as of December 31, 2017. These costs are funded by donors who have agreed to fund the renovation and reconstruction of the Soldiers Memorial.

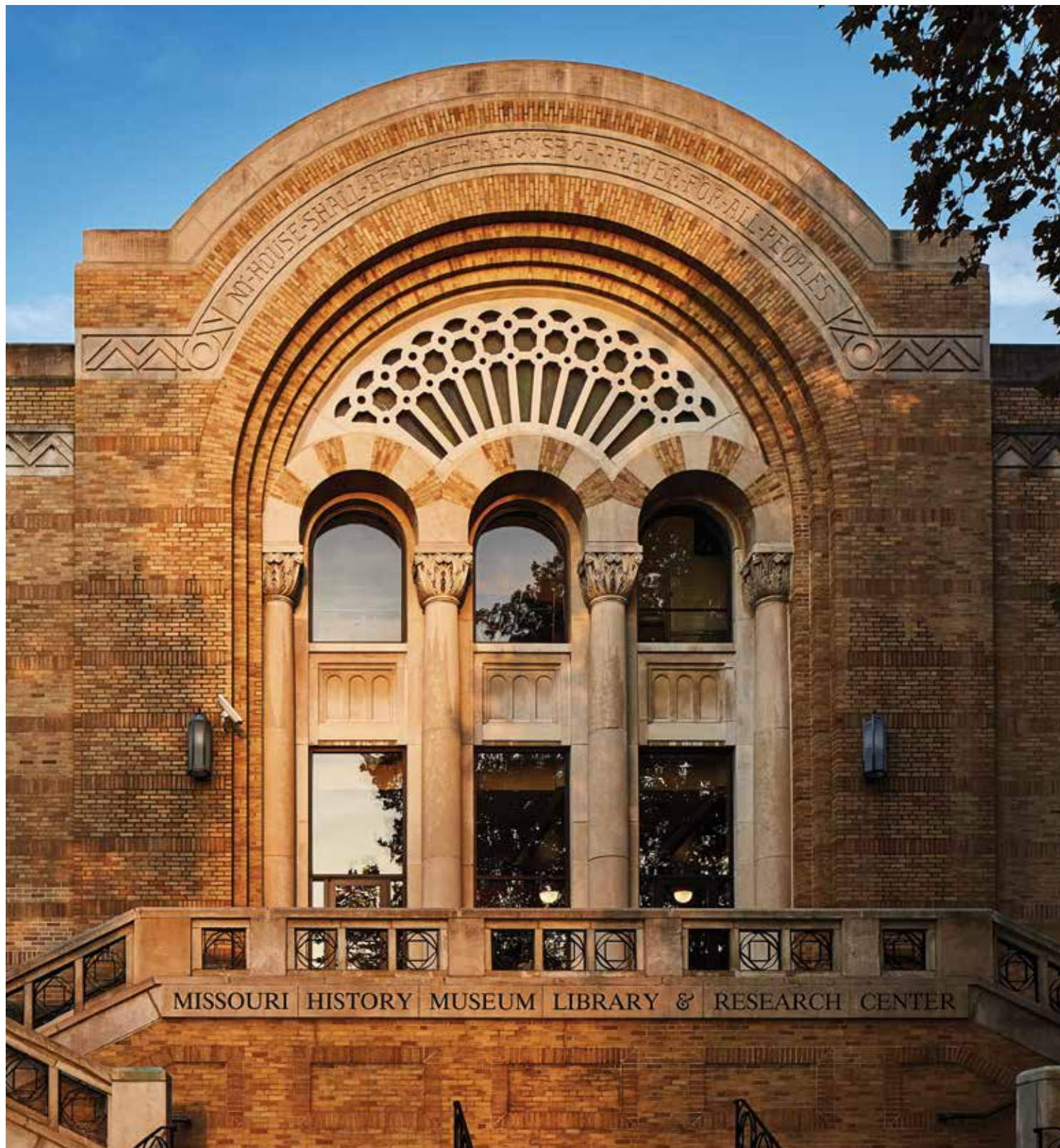
18. Subsequent Events

In accordance with ASC 855, MHS has evaluated subsequent events through March 27, 2018, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.



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