

**Massachusetts Historical Society, Inc.**

**Financial Statements**

**For the Year Ended June 30, 2017**

**(With Summarized Comparative Information for June 30, 2016)**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Massachusetts Historical Society, Inc.

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Massachusetts Historical Society, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 Massachusetts Historical Society, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Massachusetts Historical Society, Inc.'s June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Marcum LLP*

Boston, Massachusetts  
January 26, 2018

**Massachusetts Historical Society, Inc.**

**Statement of Financial Position**

**June 30, 2017**

**(With Comparative Totals for June 30, 2016)**

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<i>Assets</i>					
Cash and cash equivalents	\$ 227	\$ 199,400	\$ -	\$ 199,627	\$ 293,067
Other investments	1,589,619	614,143	-	2,203,762	1,855,257
Accounts and grants receivable	34,180	703,802	-	737,982	784,211
Pledges receivable, net	34,142	16,250	-	50,392	26,652
Prepaid expenses	155,314	-	-	155,314	117,514
Total current assets	1,813,482	1,533,595	-	3,347,077	3,076,701
Grants receivable - non-current, net	-	177,458	-	177,458	403,088
Endowment investments	25,396,275	37,235,089	16,309,393	78,940,757	69,284,487
Split-interest agreements	-	486,564	-	486,564	423,414
Property and equipment, net	11,252,132	-	-	11,252,132	11,583,912
Total assets	<u>\$ 38,461,889</u>	<u>\$ 39,432,706</u>	<u>\$ 16,309,393</u>	<u>\$ 94,203,988</u>	<u>\$ 84,771,602</u>
<i>Liabilities and Net Assets</i>					
<i>Liabilities</i>					
Accounts payable and accrued expenses	\$ 465,587	\$ -	\$ -	\$ 465,587	\$ 475,565
Deferred dues revenue	91,462	-	-	91,462	92,969
Long-term debt - current portion	88,863	-	-	88,863	85,943
Total current liabilities	645,912	-	-	645,912	654,477
Split-interest agreements	-	263,609	-	263,609	265,343
Deferred lease revenue	374,428	-	-	374,428	381,096
Long-term debt, net	1,256,696	-	-	1,256,696	1,341,021
Total liabilities	2,277,036	263,609	-	2,540,645	2,641,937
<i>Net assets</i>					
Unrestricted	28,372,340	-	-	28,372,340	26,417,716
Trustee designated	7,812,513	-	-	7,812,513	7,135,945
Total unrestricted	36,184,853	-	-	36,184,853	33,553,661
Temporarily restricted	-	39,169,097	-	39,169,097	32,390,761
Permanently restricted	-	-	16,309,393	16,309,393	16,185,243
Total net assets	36,184,853	39,169,097	16,309,393	91,663,343	82,129,665
Total liabilities and net assets	<u>\$ 38,461,889</u>	<u>\$ 39,432,706</u>	<u>\$ 16,309,393</u>	<u>\$ 94,203,988</u>	<u>\$ 84,771,602</u>

*The accompanying notes are an integral part of these financial statements*

**Massachusetts Historical Society, Inc.**

**Statement of Activities  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)**

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and support					
Gifts	\$ 903,772	\$ 779,643	\$ 124,150	\$ 1,807,565	\$ 1,223,046
Bequests	25,394	-	-	25,394	57,229
Grants	273,825	235,283	-	509,108	1,157,295
Endowment support for operations	3,273,500	-	-	3,273,500	3,133,100
Seminars, conferences, workshops and other events	271,563	-	-	271,563	276,590
Members and Fellows dues	132,214	-	-	132,214	134,050
Royalties, reproductions and rights	87,794	-	-	87,794	88,280
Sales of publications	4,062	-	-	4,062	6,328
Miscellaneous income	21,797	-	-	21,797	11,363
Investment income from other investments	11,739	-	-	11,739	14,776
Endowment activity:					
Investment income (loss), net of fees	(150,799)	(314,743)	-	(465,542)	(57,400)
Purchase of collections	(57,838)	-	-	(57,838)	(70,043)
Proceeds from sale of collections	-	-	-	-	17,500
Realized and unrealized gain (loss) on investments	4,309,411	8,994,195	-	13,303,606	(3,520,080)
Endowment draw for operations	(3,273,500)	-	-	(3,273,500)	(3,133,100)
Net assets released from restrictions	2,916,042	(2,916,042)	-	-	-
	<u>8,748,976</u>	<u>6,778,336</u>	<u>124,150</u>	<u>15,651,462</u>	<u>(661,066)</u>
Operating expenses					
Programs	4,007,631	-	-	4,007,631	3,968,981
Management and general	1,611,447	-	-	1,611,447	1,498,139
Fundraising	498,706	-	-	498,706	486,654
	<u>6,117,784</u>	<u>-</u>	<u>-</u>	<u>6,117,784</u>	<u>5,953,774</u>
Change in net assets	2,631,192	6,778,336	124,150	9,533,678	(6,614,840)
Net assets at beginning of year	<u>33,553,661</u>	<u>32,390,761</u>	<u>16,185,243</u>	<u>82,129,665</u>	<u>88,744,505</u>
Net assets at end of year	<u>\$ 36,184,853</u>	<u>\$ 39,169,097</u>	<u>\$ 16,309,393</u>	<u>\$ 91,663,343</u>	<u>\$ 82,129,665</u>

*The accompanying notes are an integral part of these financial statements*

## Massachusetts Historical Society, Inc.

### Statements of Functional Expenses For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Programs</b>		
Salaries, payroll taxes and benefits	\$ 2,595,850	\$ 2,479,268
Occupancy costs	327,345	233,401
Depreciation	359,556	345,611
Grant funded program expenses:		
Research fellows and projects	185,301	106,951
Public programs and workshops	110,549	255,861
Collections processing	39,027	49,331
Exhibits	92,251	162,397
Offsite storage	71,907	69,994
Printing	23,637	89,779
Computer supplies, software and support	68,876	58,043
Seminars and conferences	18,262	6,162
Conservation	22,210	10,727
Consulting and outside services	2,493	2,720
Sponsorship expense	39,875	46,806
Other expenses	50,492	51,930
	\$ 4,007,631	\$ 3,968,981
<b>Management and general</b>		
Salaries, payroll taxes and benefits	\$ 1,048,271	\$ 912,430
Occupancy costs	99,438	169,699
Depreciation	42,301	40,660
Long-term debt interest and fees	52,813	53,140
Computer supplies, software and support	26,233	33,924
Advertising and public relations	29,381	84,129
Auditing	57,133	40,000
Legal	7,383	5,532
Consulting and outside services	121,758	23,580
Cultivation, meetings and events	102,865	108,939
Other expenses	23,871	26,106
	\$ 1,611,447	\$ 1,498,139
<b>Fundraising</b>		
Salaries, payroll taxes and benefits	\$ 324,354	\$ 322,143
Occupancy costs	27,200	19,100
Depreciation	21,150	20,330
Printing	14,223	17,558
Computer supplies, software and support	22,551	23,491
Cultivation, meetings and events	74,050	73,958
Other expenses	15,178	10,074
	\$ 498,706	\$ 486,654

*The accompanying notes are an integral part of these financial statements*

**Massachusetts Historical Society, Inc.**

**Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 9,533,678	\$ (6,614,840)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	423,007	406,601
Amortization of finance costs	4,539	4,539
Grants received for capital projects	-	(66,000)
Gifts and grants received for endowment	(149,544)	(110,829)
Purchase of collections	57,838	70,043
Proceeds from sale of collections	-	(17,500)
Investment income, net of management fees, reinvested	465,542	57,400
(Increase) decrease in fair value of investments	(13,303,606)	3,520,080
Decrease (increase) in		
Accounts and grants receivable	271,859	(198,786)
Pledges receivable	(23,740)	(25,187)
Split-interest agreements	(63,150)	40,837
Prepaid expenses	(37,800)	(8,273)
Increase (decrease) in		
Accounts payable and accrued expenses	(51,951)	111,646
Liability for split-interest agreements	(1,734)	(6,152)
Deferred revenue	(8,175)	(12,063)
Net cash used in operating activities	<u>(2,883,237)</u>	<u>(2,848,484)</u>
Cash flows from investing activities		
Capital expenditures	(49,254)	(984,384)
Gifts and grants invested	149,544	110,829
Purchase of collections	(57,838)	(70,043)
Proceeds from sale of collections	-	17,500
Investment sales	4,220,631	4,709,342
Investment purchases	(1,387,342)	(1,603,796)
Net cash provided by investing activities	<u>2,875,741</u>	<u>2,179,448</u>
Cash flows from financing activities		
Advances of long-term debt financing	-	642,444
Debt principal payments	(85,944)	(14,025)
Financing costs paid	-	(1,500)
Grants received for capital projects	-	66,000
Net cash (used in) provided by financing activities	<u>(85,944)</u>	<u>692,919</u>
Net (decrease) increase in cash and cash equivalents	(93,440)	23,883
Cash and cash equivalents at beginning of year	<u>293,067</u>	<u>269,184</u>
Cash and cash equivalents at end of year	<u>\$ 199,627</u>	<u>\$ 293,067</u>
<i>Supplemental Disclosure of Cash Flow Information:</i>		
Bank loan interest paid	<u>\$ 48,412</u>	<u>\$ 47,375</u>
<i>Supplemental Disclosure of Non-cash Investing Activity:</i>		
Additions to property and equipment for capital projects in process included in accounts payable and accrued expenses	<u>\$ 41,973</u>	<u>\$ -</u>

*The accompanying notes are an integral part of these financial statements*

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 1. Organization

The Massachusetts Historical Society, Inc. (the “Society”) was founded in 1791 as an independent research library and center of learning that collects, preserves, makes accessible and communicates manuscripts and other materials in order to promote the study of history of Massachusetts and the nation.

### 2. Summary of Significant Accounting Policies

#### *Basis of Accounting and Presentation*

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Society is required under GAAP 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*

Unrestricted net assets represent those assets which the Society may use at its discretion.

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets are subject to grantor/donor imposed stipulations that may or will be met by actions of the Society and/or the passage of time.

#### *Permanently Restricted Net Assets*

Permanently restricted net assets are subject to grantor/donor imposed stipulations that they be maintained permanently by the Society. Generally, the donors of those assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

#### *Use of Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Society considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

#### *Accounts, Grants and Pledges Receivable*

Accounts, grants and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants or pledges receivable.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 2. Summary of Significant Accounting Policies (Continued)

#### *Accounts, Grants and Pledges Receivable (Continued)*

Pledges receivable are unconditional promises to give that are recognized as revenues in the period received and as assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges and grants receivable that are expected to be collected within one year are recorded at their realizable value. Pledges and grants receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts is computed using an appropriate discount rate commensurate with the risks involved. Amortization of the discount is included in gifts and grant revenue.

#### *Investments*

The Society carries its investments in split-interest agreements and endowment funds in the statements of financial position at their fair values as further described in Note 12.

Unrealized gains and losses on endowment and other investments are included in the change in net assets in the accompanying statement of activities. The investment income, realized and unrealized gains and losses and investment expenses on permanently restricted endowment assets are accounted for as temporarily restricted endowment assets and, along with unrestricted endowment assets, are available for appropriation under the Society's spending policy.

#### *Investment Pools*

The Society maintains separate master investment accounts for its split-interest agreements, endowment funds and its other investments. Investment income, investment expenses, and realized and unrealized gains and losses from investments in the master investment accounts are allocated to the individual endowment funds and other investment funds based on the relationship of the fair value of each fund to the total fair value of the master investment accounts, as adjusted for additions to or deductions from those accounts during the year.

#### *Recognition of Donor Restrictions*

Donor-restricted revenue and support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### *Property and Equipment*

All acquisitions of property and equipment in excess of \$2,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the property.

#### *Deferred Revenue*

The Society leases a building it owns to an unrelated not-for-profit organization for a period of 75 years, expiring August 18, 2074. The entire lease payment was received at the inception of the lease and is being amortized ratably over the lease term. The Society also defers recognition of membership dues until the revenue is earned.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 2. Summary of Significant Accounting Policies (Continued)

#### *Collections*

The Society's collections are made up of manuscripts, rare books, pamphlets, reference works, art objects and other artifacts of historical significance that are held for educational, research, historic, and curatorial purposes. Each of these items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

The collections, which were acquired through purchases and donor contributions since the Society's inception, are not recognized as assets on the statements of financial position. Purchases of collections are recorded as a reduction in unrestricted net assets if purchased with unrestricted assets and as a reduction in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Proceeds from sales of collections are reflected in the statements of activities based on the absence or existence and nature of donor-imposed restrictions.

#### *Financing Costs*

Financing costs associated with obtaining financing are capitalized and amortized over the term of the loan using the straight-line method, which approximates the effective interest method. Deferred financing costs are netted against long-term debt (Note 9).

#### *Income Taxes*

The Society is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Society is also exempt from Massachusetts income taxes. However, income from certain activities not directly related to the Society's tax-exempt purpose may be subject to taxation as unrelated business income at both the state and federal levels. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Society evaluates all significant tax positions. As of June 30, 2017, the Society does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Society's income tax returns are subject to examination by the appropriate taxing jurisdictions; however, there are no examinations in process.

#### *Total Return Spending Policy*

The Society utilizes a total return policy with respect to its use of endowment assets. The Trustees set an annual spending amount from endowment assets computed on a trailing 12 quarter quarterly average market value basis and approve a specific spending percentage for operations each fiscal year as part of approving the Society's annual operating budget. The spending percentage for operations for both of the years ended June 30, 2017 and 2016 was 4.5%. In June 2017, the Trustees approved a spending percentage of 4.5% for fiscal year 2018.

#### *Expense Allocation*

The operating costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 2. Summary of Significant Accounting Policies (Continued)

#### *Donor-restricted Endowment Assets*

The Commonwealth of Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) effective June 30, 2009. The Society’s policies as to the classification and appropriation of donor-restricted endowment funds are described below and are consistent with the requirements of UPMIFA.

The Society classifies as permanently restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor’s gift instructions at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted assets is classified as temporarily restricted assets until those amounts are appropriated for expenditure by the Society.

The Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) The mission of the Society and purpose of the donor-restricted endowment funds,
- (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 the Society,
- (7) The investment policies of the Society.

#### *Return Objectives and Risk Parameters*

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and operations 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 the Society must hold in perpetuity or for a donor-specified period, temporarily restricted funds and unrestricted funds that include Board of Trustee designated funds.

In connection with the annual budgeting process, the Investment Committee, after reviewing the conditions of the financial markets and consultation with investment advisors, concluded that the Society’s estimates of the returns on endowment assets should provide for an expected long term total net real (inflation-adjusted) rate of return of approximately 4.6% or more annually while assuming a moderate level of investment risk.

#### *Strategies Employed for Achieving Objectives*

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

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 2. Summary of Significant Accounting Policies (Continued)

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Society has a policy of appropriating for distribution each year a spending percentage of invested assets computed on a trailing 12 quarter quarterly average of its endowment asset market values. In establishing this policy, the Society considered the long-term expected returns on its endowment assets. Accordingly, over the long term, the Society expects the spending policy to allow its endowment to grow at a rate in excess of inflation. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets.

The cumulative net unspent appreciation on temporarily and permanently restricted investments is accounted for as temporarily restricted net assets and together with unspent appreciation on unrestricted endowment funds is not available for distribution, except by the express appropriation action of the Board of Trustees of the Society.

#### *Comparative Financial Information*

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2016, from which the summarized information was derived. In addition, certain amounts reported in the financial statements and the notes thereto for 2016 have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on 2016 changes in net assets.

### 3. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 34,180	\$ 18,871
Grants receivable		
Federal agencies	570,475	833,643
Other grants receivable	314,000	338,000
	<u>884,475</u>	<u>1,171,643</u>
Less discount to net present value	(3,215)	(3,215)
Total grants receivable, net	<u>881,260</u>	<u>1,168,428</u>
Accounts and grants receivable, net	<u>\$ 915,440</u>	<u>\$ 1,187,299</u>
Current portion	\$ 737,982	\$ 784,211
Due after one year	180,673	406,303
Less discount to net present value	(3,215)	(3,215)
Due after one year, net	<u>177,458</u>	<u>403,088</u>
Accounts and grants receivable, net	<u>\$ 915,440</u>	<u>\$ 1,187,299</u>

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 4. Pledges Receivable

Pledges receivable are recorded for unconditional promises to give and temporarily restricted gifts for current programs. Pledges receivable at June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Amounts due in less than one year	\$ 51,642	\$ 27,902
Allowance for doubtful accounts	<u>(1,250)</u>	<u>(1,250)</u>
Net pledges receivable	<u>\$ 50,392</u>	<u>\$ 26,652</u>

### 5. Split-Interest Agreements

The Society administers various agreements through charitable remainder trusts and annuities. These agreements provide for the payment of distributions to the grantor or other designated beneficiaries over the terms of the agreement. At the end of the term, the remaining assets are available for the Society's use. The portion of the agreements attributable to the present value of the future benefits to be received by the Society is recorded in the statements of activities as a temporarily restricted gift in the period the agreement is established. Two gifts totaling \$60,000 were received in 2017. No new gifts were received in 2016. Investment assets held under these agreements are managed by an investment advisor and held in a brokerage account. They are carried at their fair value in the Society's statement of financial position. The fair value of these investments is based on unadjusted quoted prices in active markets that are accessible at June 30, 2017 and 2016 for identical unrestricted securities and are classified as Level 1 in the fair value information in Note 12. On an annual basis, the Society revalues the present value liability for future distributions to the designated beneficiaries based on updated actuarial assumptions. The present value of the estimated future liability for payments to grantors at June 30, 2017 is calculated using discount rates ranging from 1.2% to 6.2% and applicable mortality tables.

### 6. Endowment Investments

Endowment investment funds are carried at their aggregate fair value and consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Global equities	\$ 22,971,210	\$ 22,183,532
Global fixed income	6,021,766	12,052,543
Hedge funds	1,306,971	1,097,626
Limited partnerships	<u>48,640,810</u>	<u>33,950,786</u>
Total	<u>\$ 78,940,757</u>	<u>\$ 69,284,487</u>

The Society, under the direction of its investment committee and in consultation with its investment advisors, has selected several independent investment fund managers to manage specific allocations of its endowment investment funds in accordance with an investment policy approved by the Trustees of the Society. The investment fund managers report monthly transactions and month end fair values based on the Society's net asset value in the respective funds.

## Massachusetts Historical Society, Inc.

### Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

#### 6. Endowment Investments (Continued)

Endowment investments at the aggregate fair market value classified by restrictions and purpose of fund consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unrestricted funds		
General support funds	\$ 19,173,381	\$ 16,984,885
Funds designated by the Trustees for specific purposes	6,222,894	5,459,926
	<u>\$ 25,396,275</u>	<u>\$ 22,444,811</u>
Temporarily restricted funds		
General support funds	\$ 24,088,461	\$ 19,879,447
Library funds	8,502,319	7,125,519
Publication funds	3,930,586	3,265,896
Special purpose funds	713,723	383,571
	<u>\$ 37,235,089</u>	<u>\$ 30,654,433</u>
Permanently restricted funds		
General support funds	\$ 9,810,513	\$ 9,810,513
Library funds	2,929,266	2,929,266
Publication funds	1,588,345	1,588,345
Special purpose funds	1,981,269	1,857,119
	<u>\$ 16,309,393</u>	<u>\$ 16,185,243</u>

The following schedule summarizes the components of investment return for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 554,880	\$ 783,400
Realized and unrealized gains (losses)	13,303,606	(3,520,080)
Investment fees	(1,020,422)	(840,800)
	<u>\$ 12,838,064</u>	<u>\$ (3,577,480)</u>

The above investment fees include custodial fees and investment advisory fees charged by the Society's investment managers. Fees for both years also include investment advisory services of \$78,718 and \$90,724 in 2017 and 2016, respectively, paid to the Society's investment advisor.

#### 7. Other Investments

Other investments are composed of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Cash, cash equivalents and corporate bonds	<u>\$ 2,203,762</u>	<u>\$ 1,855,257</u>

These investments are managed by an investment advisor and held in a brokerage account. They are carried at their fair value in the Society's statements of financial position. The fair value of these investments is based on unadjusted quoted prices in active markets that are accessible at June 30, 2017 and 2016 for identical unrestricted securities and are classified as Level 1 in the fair value information in Note 12.

## Massachusetts Historical Society, Inc.

### Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

#### 7. Other Investments (Continued)

Other investments at their aggregate fair value classified by restrictions and purpose of each fund are composed of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Unrestricted funds – Designated by Trustees		
Capital acquisitions fund	\$ 810,677	\$ 601,483
President’s discretionary fund	158,044	311,853
Operating funds reserve	620,898	750,100
	1,589,619	1,663,436
Temporarily restricted funds		
Temporarily restricted gifts and grants	614,143	191,821
Total	\$ 2,203,762	\$ 1,855,257

The following schedule summarizes the components of investment return for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest	\$ 11,739	\$ 14,776

#### 8. Property and Equipment

Property and equipment consist of the following major classifications as of June 30:

	<u>Asset lives in years</u>	<u>2017</u>	<u>2016</u>
Land		\$ 200,000	\$ 200,000
Building and building renovations	10 to 50	16,557,464	16,522,923
Furniture and technology equipment	3 to 25	888,688	873,975
Capital projects in process		41,973	-
		17,688,125	17,596,898
Accumulated depreciation		(6,435,993)	(6,012,986)
		\$ 11,252,132	\$ 11,583,912

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to \$423,007 and \$406,601, respectively.

As of June 30, 2017 and 2016, the building under lease was fully depreciated. However, land for the leased building is not depreciated and has a net book value of \$175,000 and is included in property and equipment as of June 30, 2017 and 2016.

#### 9. Long-Term Debt, Net

Long-term debt consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Balance due under long-term debt agreement described below	\$ 1,400,031	\$ 1,485,975
Less deferred finance costs related thereto, net of amortization	(54,472)	(59,011)
	\$ 1,345,559	\$ 1,426,964

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 9. Long-Term Debt, Net (Continued)

Amortization of financing costs of \$4,539 is included in long-term debt interest and fees in the statements of functional expenses for the years ended June 30, 2017 and 2016.

On April 1, 2015, the Society entered into long-term debt agreements with the Massachusetts Development Finance Agency, First Republic Lending Corp, and First Republic Bank pursuant to which the Massachusetts Development Finance Agency loaned to the Society the proceeds of the sale of a \$1,500,000, 3.3%, tax exempt revenue note designated the Massachusetts Historical Society Issue, Series 2015 to First Republic Lending Corp. Proceeds from the note were used to finance two major projects; the restoration of the balustrade and roofs of its facilities on Boylston Street and the installation of enhanced audio visual systems and equipment in three public rooms.

Under the terms of the loan agreements the Society drew down \$1,500,000 to fund the project costs. The loan is for a 15 year term with interest, fixed at 3.3%, paid monthly on the outstanding amount. Commencing on May 9, 2016 and on each monthly payment date thereafter, equal payments of principal and interest will be payable in an amount necessary to fully amortize the then outstanding principal amount of the note and interest by the maturity date April 9, 2030. Up to 20% of the outstanding balance of the loan may be prepaid without premium from internal sources in any fiscal year and the entire loan may be prepaid without premium after the fifth year.

Maturities of the long term debt are as follows for the years ending June 30:

2018	\$ 88,863
2019	91,883
2020	94,898
2021	98,229
2022	101,566
Thereafter	924,592

The long-term debt is collateralized by gross receipts, accounts, equipment, inventory and general intangibles and any insurance proceeds thereof. Collateral excludes all collections, all investment securities and property and the real property of the Society located on Boylston Street, Boston, MA. The Society has also made a negative pledge that it will not encumber in any manner or dispose this real property except in accordance with the terms of the loan. In addition, the agreements contain certain covenants that, among other things, require the Society to maintain specified levels of (a) unrestricted liquidity and (b) total endowment assets each to be tested on June 30 and December 31 for the term of the agreement. The Society is in compliance with all financial covenants at June 30, 2017.

### 10. Pension Plans

The Society has a defined contribution retirement plan for its employees administered by TIAA (formally the Teachers Insurance and Annuity Association of America). Effective July 1, 2014 the plan was amended to consolidate the two existing plans, introduce an enhanced investment menu, provide for employer matching contributions and continue to allow for employer discretionary contributions. The amended plan is intended to satisfy the “nondiscriminatory requirements” using the “safe harbor” methods as provided by Section 403(b) of the Internal Revenue Code. The Society made matching contributions of \$108,514 and \$105,606 in 2017 and 2016, respectively.

Since April 1, 2006, the Society has sponsored a deferred compensation plan for certain eligible employees under IRS code 457(b). All contributions to the plan are made by employees and there are no contributions made by the Society.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 11. Concentrations of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash balances in its operating bank accounts; accounts receivable, grants receivable and pledges receivable; and other investments. The Society's cash balances at its commercial bank totaling \$628,567 per the bank records at June 30, 2017 are insured by the Federal Deposit Insurance Corporation up to \$250,000. Credit risk in accounts receivable, grants receivable and pledges receivable are limited due to the large number of contributors comprising the Society's contributor base and their dispersion across different industries, government sectors, and geographic areas. Other investments are invested in cash, money market funds, and short duration U.S. treasuries and highly rated corporate bonds.

### 12. Fair Value Measurements

GAAP has established a fair value hierarchy that categorizes and prioritizes the inputs to valuation techniques used to measure the fair value of various investment assets and liabilities. The fair value is defined as the price that would be received upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy and the inputs used are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Other significant observable inputs (including quoted prices in markets that are not considered to be active or similar financial instruments for which all significant inputs are observable, either directly or indirectly);

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable;

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The inputs used in valuing securities are not necessarily an indication of the risk or liquidity associated with investing in the respective financial instruments.

As described in Note 6 above, all of the Society's endowment funds are invested in funds managed by investment fund managers. The fund managers use a practical expedient of net asset value to estimate the fair value of the respective investment funds and they are classified as Level 2, if they are redeemable within 120 days under the current terms of the partnership and/or subscription agreements and the operations of the underlying funds. Investments in funds measured at net asset value that are not redeemable within 120 days are classified in Level 3.

The disclosure criteria described above is used by the Society to present the following information about the fair values of its investments in the statements of financial position classified according to the method for determining such fair values:

## Massachusetts Historical Society, Inc.

### Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

#### 12. Fair Value Measurements (Continued)

<u>As of June 30, 2017:</u>	<u>Fair Value</u>	<u>Quoted Prices for Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Other investments				
Cash, cash equivalents and corporate bonds	\$ 2,203,762	\$ 2,203,762		
Endowment investments				
Global equities	\$ 22,971,210	\$ -	\$ 11,406,154	\$ 11,565,056
Global fixed income	6,021,766	-	6,021,766	-
Hedge funds	1,306,971	-	-	1,306,971
Limited partnerships	48,640,810	-	-	48,640,810
	<u>\$ 78,940,757</u>	<u>\$ -</u>	<u>\$ 17,427,920</u>	<u>\$ 61,512,837</u>
Split-interest agreements				
Cash and cash equivalents	\$ 24,380	\$ 24,380		
Global equities	306,682	306,682		
Global fixed income	155,502	155,502		
	<u>\$ 486,564</u>	<u>\$ 486,564</u>		
<u>As of June 30, 2016:</u>				
Other investments				
Cash, cash equivalents and corporate bonds	\$ 1,855,257	\$ 1,855,257		
Endowment investments				
Global equities	\$ 22,183,532	\$ -	\$ 12,336,136	\$ 9,847,396
Global fixed income	12,052,543	-	12,052,543	-
Hedge funds	1,097,626	-	-	1,097,626
Limited partnerships	33,950,786	-	-	33,950,786
	<u>\$ 69,284,487</u>	<u>\$ -</u>	<u>\$ 24,388,679</u>	<u>\$ 44,895,808</u>
Split-interest agreements				
Cash and cash equivalents	\$ 7,194	\$ 7,194		
Global equities	272,369	272,369		
Global fixed income	143,851	143,851		
	<u>\$ 423,414</u>	<u>\$ 423,414</u>		

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2017 and 2016

### 12. Fair Value Measurements (Continued)

The reconciliation of the changes in the fair value of endowment investments classified as Level 3 during the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Balance at the beginning of the year	\$ 44,895,808	\$ 47,578,504
Additional investments	10,000,000	7,850,000
Redemptions	(4,387,139)	(8,712,828)
Unrealized gain (loss)	<u>11,004,168</u>	<u>(1,819,868)</u>
Balance at the end of the year	<u>\$ 61,512,837</u>	<u>\$ 44,895,808</u>

### 13. Subsequent Events

The Society has evaluated all subsequent events through January 26, 2018, the date the financial statements were available to be issued.

### 14. Trustee Designated, Temporarily Restricted and Permanently Restricted Net Assets

A summary of changes during the year ended June 30, 2017 in Trustee designated, temporarily restricted and permanently restricted net assets included in the statement of activities classified by purpose is shown on page 19.

**Massachusetts Historical Society, Inc.**

**Notes to the Financial Statements  
For the Years Ended June 30, 2017 and 2016**

**14. Trustee Designated, Temporarily Restricted and Permanently Restricted Net Assets (Continued)**

	Balance July 1, 2016	Contributions and Other Additions	Investment Income (Loss), Net	Realized and Unrealized Gains	Expenditures and Appropriations	Balance June 30, 2017
Trustee Designated Net Assets						
General support	\$ 2,525,237	\$ 523,037	\$ 6,035	\$ 162,988	\$ (662,178)	\$ 2,555,119
Library operations	1,917,835	-	(12,881)	368,085	(77,253)	2,195,786
Publications	2,692,873	-	(18,086)	516,837	(130,016)	3,061,608
	<u>\$ 7,135,945</u>	<u>\$ 523,037</u>	<u>\$ (24,932)</u>	<u>\$ 1,047,910</u>	<u>\$ (869,447)</u>	<u>\$ 7,812,513</u>
Temporarily Restricted Net Assets						
General support	\$ 21,615,775	\$ 1,014,926	\$ (199,409)	\$ 5,698,319	\$ (2,108,362)	\$ 26,021,249
Library operations	7,125,519	-	(67,529)	1,929,792	(485,463)	8,502,319
Publications	3,265,896	-	(32,602)	931,661	(234,369)	3,930,586
Special purposes	383,571	-	(15,203)	434,423	(87,848)	714,943
	<u>\$ 32,390,761</u>	<u>\$ 1,014,926</u>	<u>\$ (314,743)</u>	<u>\$ 8,994,195</u>	<u>\$ (2,916,042)</u>	<u>\$ 39,169,097</u>
Permanently Restricted Net Assets						
General support	\$ 9,810,513	\$ -	\$ -	\$ -	\$ -	\$ 9,810,513
Library operations	2,929,266	-	-	-	-	2,929,266
Publications	1,588,345	-	-	-	-	1,588,345
Special purposes	1,857,119	124,150	-	-	-	1,981,269
	<u>\$ 16,185,243</u>	<u>\$ 124,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,309,393</u>