

Massachusetts Historical Society, Inc.
Financial Statements
For the Year Ended June 30, 2015
(With Comparative Information for June 30, 2014)

Contents

	Page
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statement of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to the Financial Statements	7-19



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, 2015, 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, 2015, 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, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Needham, Massachusetts

January 28, 2016

Massachusetts Historical Society, Inc.
Statements of Financial Position
June 30, 2015
(With Comparative Totals for June 30, 2014)

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<i>Assets</i>					
Cash and cash equivalents	\$ 47,184	\$ 222,000	\$ -	\$ 269,184	\$ 331,846
Other investments	1,744,780	141,209	-	1,885,989	1,698,638
Accounts and grants receivable, net	18,187	773,226	-	791,413	567,097
Pledges receivable, net	1,215	250	-	1,465	3,200
Prepaid expenses	109,241	-	-	109,241	108,909
Total current assets	<u>1,920,607</u>	<u>1,136,685</u>	<u>-</u>	<u>3,057,292</u>	<u>2,709,690</u>
Grants receivable - non-current	-	197,100	-	197,100	250,600
Endowment investments	24,834,797	34,970,341	16,131,643	75,936,781	76,295,401
Split-interest agreements	-	464,251	-	464,251	486,994
Property and equipment, net	11,006,129	-	-	11,006,129	10,429,811
Total assets	<u>\$ 37,761,533</u>	<u>\$ 36,768,377</u>	<u>\$ 16,131,643</u>	<u>\$ 90,661,553</u>	<u>\$ 90,172,496</u>
<i>Liabilities and Net Assets</i>					
<i>Liabilities</i>					
Accounts payable and accrued expenses	\$ 363,919	\$ -	\$ -	\$ 363,919	\$ 361,030
Deferred dues revenue	98,364	-	-	98,364	79,860
Long-term debt - current portion	12,921	-	-	12,921	-
Total current liabilities	<u>475,204</u>	<u>-</u>	<u>-</u>	<u>475,204</u>	<u>440,890</u>
Split-interest agreements	-	271,495	-	271,495	284,343
Deferred lease revenue	387,764	-	-	387,764	394,432
Long-term debt	782,585	-	-	782,585	-
Total liabilities	<u>1,645,553</u>	<u>271,495</u>	<u>-</u>	<u>1,917,048</u>	<u>1,119,665</u>
<i>Net assets</i>					
Unrestricted	28,393,750	-	-	28,393,750	28,690,599
Trustee designated	7,722,230	-	-	7,722,230	7,389,500
Total unrestricted	<u>36,115,980</u>	<u>-</u>	<u>-</u>	<u>36,115,980</u>	<u>36,080,099</u>
Temporarily restricted	-	36,496,882	-	36,496,882	36,875,825
Permanently restricted	-	-	16,131,643	16,131,643	16,096,907
Total net assets	<u>36,115,980</u>	<u>36,496,882</u>	<u>16,131,643</u>	<u>88,744,505</u>	<u>89,052,831</u>
Total liabilities and net assets	<u>\$ 37,761,533</u>	<u>\$ 36,768,377</u>	<u>\$ 16,131,643</u>	<u>\$ 90,661,553</u>	<u>\$ 90,172,496</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, 2015
(With Comparative Totals for 2014)**

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues and support					
Gifts	\$ 870,612	\$ 114,110	\$ 27,500	\$ 1,012,222	\$ 1,242,609
Bequests	250,067	-	7,236	257,303	200,000
Grants	285,900	657,423	-	943,323	984,526
Endowment support for operations	3,028,700	-	-	3,028,700	2,964,100
Seminars, conferences, workshops and other events	221,152	-	-	221,152	194,934
Members and Fellows dues	122,639	-	-	122,639	120,185
Royalties, reproductions and rights	107,739	-	-	107,739	92,333
Sales of publications	5,200	-	-	5,200	7,643
Miscellaneous income	16,522	-	-	16,522	11,925
Investment income from other investments	1,351	-	-	1,351	4,403
Endowment activity:					
Investment income, net of fees	115,200	237,900	-	353,100	969,060
Purchase of collections	(43,630)	-	-	(43,630)	(234,142)
Proceeds from sale of collections	199,500	-	-	199,500	-
Realized and unrealized gain on investments	612,147	1,264,227	-	1,876,374	10,462,675
Endowment draw for operations	(3,028,700)	-	-	(3,028,700)	(2,964,100)
Net assets released from restrictions	2,652,603	(2,652,603)	-	-	-
	<u>5,417,002</u>	<u>(378,943)</u>	<u>34,736</u>	<u>5,072,795</u>	<u>14,056,151</u>
Operating expenses					
Programs	3,632,556	-	-	3,632,556	3,944,053
Management and general	1,255,111	-	-	1,255,111	1,071,389
Fundraising	493,454	-	-	493,454	515,676
	<u>5,381,121</u>	<u>-</u>	<u>-</u>	<u>5,381,121</u>	<u>5,531,118</u>
Change in net assets	35,881	(378,943)	34,736	(308,326)	8,525,033
Net assets at beginning of year	36,080,099	36,875,825	16,096,907	89,052,831	80,527,798
Net assets at end of year	<u>\$ 36,115,980</u>	<u>\$ 36,496,882</u>	<u>\$ 16,131,643</u>	<u>\$ 88,744,505</u>	<u>\$ 89,052,831</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Programs		
Salaries, payroll taxes and benefits	\$ 2,540,620	\$ 2,697,099
Occupancy costs	281,916	294,301
Depreciation	315,954	300,830
Grant funded program expenses:		
Research fellows and projects	141,052	167,854
Public programs and workshops	64,615	61,059
Collections processing	39,769	44,646
Exhibits	25,836	179,073
Offsite storage	65,411	62,567
Printing	24,030	48,217
Computer supplies, software and support	30,270	27,878
Seminars and conferences	29,086	4,552
Conservation	12,964	15,459
Consulting and outside services	3,113	3,319
Sponsorship expense	11,500	14,625
Other expenses	46,420	22,574
	<u>\$ 3,632,556</u>	<u>\$ 3,944,053</u>
Management and general		
Salaries, payroll taxes and benefits	\$ 888,173	\$ 719,800
Occupancy costs	89,173	82,753
Depreciation	37,171	35,392
Long-term debt interest and fees	3,008	-
Computer supplies, software and support	14,457	12,219
Advertising and public relations	6,635	27,889
Auditing	44,000	44,000
Legal	12,490	20,645
Consulting and outside services	30,328	17,406
Cultivation, meetings and events	105,144	70,990
Other expenses	24,532	40,295
	<u>\$ 1,255,111</u>	<u>\$ 1,071,389</u>
Fundraising		
Salaries, payroll taxes and benefits	\$ 328,233	\$ 351,065
Occupancy costs	26,300	33,500
Depreciation	18,586	17,696
Printing	28,506	28,461
Computer supplies, software and support	21,525	20,760
Cultivation, meetings and events	57,300	53,168
Other expenses	13,004	11,026
	<u>\$ 493,454</u>	<u>\$ 515,676</u>

Massachusetts Historical Society, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (308,326)	\$ 8,525,033
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	371,711	353,918
Gifts received for split interest agreements	-	(100,000)
Grants received for capital projects	-	(132,969)
Gifts and grants received for endowment	(284,736)	(384,525)
Proceeds from sale of collections	(199,500)	-
Investment income, net of management fees, reinvested	(353,100)	(969,060)
Increase in fair value of investments	(1,876,374)	(10,462,675)
Decrease (increase) in		
Accounts and grants receivable	(170,816)	91,075
Pledges receivable	1,735	26,700
Split-interest agreements	22,743	(21,966)
Prepaid expenses	(332)	(11,546)
Increase (decrease) in		
Accounts payable and accrued expenses	2,889	(146,028)
Liability for split-interest agreements	(12,848)	57,934
Deferred revenue	11,836	(5,643)
	<u>(2,795,118)</u>	<u>(3,179,752)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Capital expenditures	(948,029)	(293,734)
Gifts for split-interest agreements invested	-	100,000
Gifts and grants invested	284,736	384,525
Proceeds from sale of collections	199,500	-
Investment sales	4,300,501	3,764,582
Investment purchases	(1,899,758)	(1,042,386)
	<u>1,936,950</u>	<u>2,912,987</u>
Net cash provided by investing activities		
Cash flows from financing activities		
Advance of long-term debt financing	857,556	-
Financing costs	(62,050)	-
Grants received for capital projects	-	132,969
	<u>795,506</u>	<u>132,969</u>
Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(62,662)	(133,796)
Cash and cash equivalents at beginning of year	<u>331,846</u>	<u>465,642</u>
Cash and cash equivalents at end of year	<u>\$ 269,184</u>	<u>\$ 331,846</u>
<i>Supplemental Disclosure of Cash Flow Information:</i>		
<i>Bank loan interest paid</i>	<u>\$ 1,184</u>	<u>\$ -</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

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, 2015 and 2014

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 receivable that are expected to be collected within one year are recorded at their realizable value. Pledges 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 statements 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 statements 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.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

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.

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). There was no amortization expense for the year ended June 30, 2015.

Effective June 1, 2015, the Society early adopted the provisions of ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct reduction from the carrying amount of that liability, consistent with the presentation of debt discount.

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, 2015, 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. As of June 30, 2015, the Society's federal and state returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

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 the years ended June 30, 2015 and 2014 was 4.6% and 4.7%, respectively. In June 2015, the Trustees approved a spending percentage of 4.5% for fiscal year 2016.

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.

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 our investment advisors, concluded that our estimates of the returns on

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

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.

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, 2014, from which the summarized information was derived. In addition, certain amounts reported in the financial statements for 2014, have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on 2014 changes in net assets.

3. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Accounts receivable, net of allowance for doubtful accounts of \$3,215	\$ 14,972	\$ 2,820
Grants receivable		
Federal agencies	583,541	764,877
Other grants receivable	390,000	50,000
Total grants receivable	<u>973,541</u>	<u>814,877</u>
Net accounts and grants receivable	<u>\$ 988,513</u>	<u>\$ 817,697</u>
Current portion	\$ 791,413	\$ 567,097
Due after one year	<u>197,100</u>	<u>250,600</u>
	<u>\$ 988,513</u>	<u>\$ 817,697</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

4. Pledges Receivable

Pledges receivable are recorded for unconditional promises to give and temporarily restricted gifts for current programs. Pledges receivable at June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Amounts due in less than one year	\$ 2,715	\$ 4,450
Allowance for doubtful accounts	(1,250)	(1,250)
Net pledges receivable	<u>\$ 1,465</u>	<u>\$ 3,200</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. There were no grantor gifts in 2015 and \$ 100,000 was received in 2014. 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 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, 2015 and 2014 for identical unrestricted securities. On an annual basis, the Society revalues the present value liability for future distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future liability for payments to grantors at June 30, 2015 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Global equities	\$ 22,766,464	\$ 44,016,338
Global fixed income	6,493,990	10,440,224
Hedge funds	8,924,279	12,059,674
Real assets / inflation hedges	3,097,823	9,227,761
Limited partnerships	<u>34,654,225</u>	<u>551,404</u>
Total	<u>\$ 75,936,781</u>	<u>\$ 76,295,401</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, 2015 and 2014

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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrestricted funds		
General support funds	\$ 18,857,347	\$ 18,871,370
Funds designated by the Trustees for specific purposes	5,977,450	5,825,878
	<u>\$ 24,834,797</u>	<u>\$ 24,697,248</u>
Temporarily restricted funds		
General support funds	\$ 22,545,152	\$ 22,883,537
Library funds	8,111,514	8,237,165
Publication funds	3,741,922	3,802,628
Special purpose funds	571,753	577,916
	<u>\$ 34,970,341</u>	<u>\$ 35,501,246</u>
Permanently restricted funds		
General support funds	\$ 9,810,513	\$ 9,810,513
Library funds	2,929,266	2,922,030
Publication funds	1,588,345	1,588,345
Special purpose funds	1,803,519	1,776,019
	<u>\$ 16,131,643</u>	<u>\$ 16,096,907</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 967,630	\$ 1,386,410
Realized and unrealized gains	1,876,374	10,462,675
Investment fees	(614,530)	(417,350)
	<u>\$ 2,229,474</u>	<u>\$ 11,431,735</u>

The above investment fees include custodial fees and investment advisory fees. The fees for both years include \$50,000 for investment advisory services that the Society paid to its investment advisor.

7. Other Investments

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

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents – U.S. government money market funds (certificates of deposit in 2014)	<u>\$ 1,885,989</u>	<u>\$ 1,698,638</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

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>2015</u>	<u>2014</u>
Unrestricted funds – Designated by Trustees		
Capital acquisitions fund	\$ 228,318	\$ 240,622
President’s discretionary fund	485,462	200,000
Operating funds reserve	1,031,000	1,123,000
	1,744,780	1,563,622
Temporarily restricted funds		
Temporarily restricted gifts and grants	141,209	135,016
	\$ 1,885,989	\$ 1,698,638
Total	\$ 1,885,989	\$ 1,698,638

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

	<u>2015</u>	<u>2014</u>
Interest	\$ 1,351	\$ 4,403
	\$ 1,351	\$ 4,403

8. Property and Equipment

During 2015 the Society commenced two major capital projects, the restoration of the balustrade and roofs on its facilities on Boylston Street and the installation of enhanced audio visual equipment in three public rooms and galleries. The total cost of these projects is estimated at \$1,650,000 of which \$832,150 was expended at June 30, 2015.

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

	<u>Asset lives in years</u>	<u>2015</u>	<u>2014</u>
Land		\$ 200,000	\$ 200,000
Building and building renovations	10 to 50	14,743,309	14,697,975
Furniture and technology equipment	3 to 25	837,054	766, 510
Capital projects in process		832,151	-
		16,612,514	15,664,485
Accumulated depreciation		(5,606,385)	(5,234,674)
		\$ 11,006,129	\$ 10,429,811

Depreciation expense for the years ended June 30, 2015 and 2014 amounted to \$371,711 and \$353,918, respectively. Fully depreciated technology equipment no longer in use with an original cost totaling \$182,222 was removed from the accounts in 2014.

As of June 30, 2015 and 2014, 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, 2015 and 2014.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

9. Long-Term Debt

Long-term debt at June 30 2015 consists of the following:

Advances under long-term debt agreement described below	\$ 857,556
Less deferred finance costs related thereto	<u>(62,050)</u>
	<u>\$ 795,506</u>

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 are being 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 has drawdown advances of \$857,556 at June 30, 2015 and will drawdown up to \$1,500,000 to fund the project costs by April 9, 2016. 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:

2016	\$ 12,921
2017	79,033
2018	81,681
2019	84,417
2020	87,246
Thereafter	512,258

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 covenants at June 30, 2015.

10. Pension Plans

The Society has a defined contribution retirement plan for its employees administered by 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) the Internal Revenue Code. The Society made total contributions of \$157,317, including a 2% discretionary contribution of \$62,084, to the plan in 2015. In 2014, the Society made a 6% discretionary contribution of \$175,397 and no employee contribution were required.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

10. Pension Plans – (Continued)

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.

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 \$304,773 per the bank records at June 30, 2015 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, certificates of deposit and money market funds.

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 day 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, 2015 and 2014

12. Fair Value Measurements (Continued)

<u>As of June 30, 2015:</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 and cash equivalents	\$ 1,885,989	\$ 1,885,989		
Endowment investments				
Global equities	\$ 22,766,464	\$ -	\$ 18,766,464	\$ 4,000,000
Global fixed income	6,493,990	-	6,493,990	-
Hedge funds	8,924,279	-	-	8,924,279
Real assets / inflation hedges	3,097,823	-	3,097,823	
Limited partnerships	34,654,225	-	-	34,654,225
	<u>\$ 75,936,781</u>	<u>\$ -</u>	<u>\$ 28,358,277</u>	<u>\$ 47,578,504</u>
Split-interest agreements				
Cash and cash equivalents	\$ 16,306	\$ 16,306		
Global equities	296,458	296,458		
Global fixed income	151,487	151,487		
	<u>\$ 464,251</u>	<u>\$ 464,251</u>		
 <u>As of June 30, 2014:</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 and cash equivalents	\$ 1,698,638	\$ 1,698,638		
Endowment investments				
Global equities	\$ 44,016,338	\$ -	\$ 44,016,338	\$ -
Global fixed income	10,440,224	-	10,440,224	-
Hedge funds	12,059,674	-	3,281,062	8,778,612
Real assets / inflation hedges	9,227,761	-	9,227,761	-
Limited partnerships	551,404	-	-	551,404
	<u>\$ 76,295,401</u>	<u>\$ -</u>	<u>\$ 66,965,385</u>	<u>\$ 9,330,016</u>
Split-interest agreements				
Cash and cash equivalents	\$ 24,656	\$ 24,656		
Global equities	306,468	306,468		
Global fixed income	155,870	155,870		
	<u>\$ 486,994</u>	<u>\$ 486,994</u>		

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2015 and 2014

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Balance at the beginning of the year	\$ 9,330,016	\$ 8,152,513
Additional investments	36,355,461	21,026,289
Redemptions	(109,982)	(7,054,107)
Transfers	-	(10,169,604)
Unrealized gain (loss)	<u>2,003,009</u>	<u>(2,625,075)</u>
Balance at the end of the year	<u>\$ 47,578,504</u>	<u>\$ 9,330,016</u>

13. Subsequent Events

The Society has evaluated all subsequent events through January 28, 2016, 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, 2015 in Trustee designated, temporarily restricted and permanently restricted net assets included in the statements 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, 2015 and 2014**

15. Trustee Designated, Temporarily Restricted and Permanently Restricted Net Assets

	Balance July 1, 2014	Contributions and Other Additions	Investment Income, Net	Realized and Unrealized Gains	Expenditures and Appropriations	Balance June 30, 2015
Trustee Designated Net Assets						
General support	\$ 2,506,739	\$ 1,291,517	\$ 5,703	\$ 23,127	\$ (1,149,809)	\$ 2,677,277
Library operations	1,892,138	199,500	9,192	48,846	(61,670)	2,088,006
Publications	2,990,623	-	13,800	73,335	(120,811)	2,956,947
	<u>\$ 7,389,500</u>	<u>\$ 1,491,017</u>	<u>\$ 28,695</u>	<u>\$ 145,308</u>	<u>\$ (1,332,290)</u>	<u>\$ 7,722,230</u>
Temporarily Restricted Net Assets						
General support	\$ 24,258,116	\$ 771,533	\$ 150,865	\$ 801,709	\$ (1,910,530)	\$ 24,071,693
Library operations	8,237,165	-	51,502	273,686	(450,839)	8,111,514
Publications	3,802,628	-	24,875	132,195	(217,776)	3,741,922
Special purposes	577,916	-	10,658	56,637	(73,458)	571,753
	<u>\$ 36,875,825</u>	<u>\$ 771,533</u>	<u>\$ 237,900</u>	<u>\$ 1,264,227</u>	<u>\$ (2,652,603)</u>	<u>\$ 36,496,882</u>
Permanently Restricted Net Assets						
General support	\$ 9,810,513	\$ -	\$ -	\$ -	\$ -	\$ 9,810,513
Library operations	2,922,030	7,236	-	-	-	2,929,266
Publications	1,588,345	-	-	-	-	1,588,345
Special purposes	1,776,019	27,500	-	-	-	1,803,519
	<u>\$ 16,096,907</u>	<u>\$ 34,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,131,643</u>