

MASSACHUSETTS HISTORICAL SOCIETY, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE INFORMATION
FOR YEAR ENDED JUNE 30, 2017)

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



MASSACHUSETTS HISTORICAL SOCIETY, INC.
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(WITH SUMMARIZED COMPARATIVE INFORMATION
FOR YEAR ENDED JUNE 30, 2017)

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Massachusetts Historical Society, Inc.
Boston, Massachusetts

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, 2018, 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 audits 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.

Board of Trustees
Massachusetts Historical Society, Inc.

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, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The 2017 summarized comparative information of Massachusetts Historical Society, Inc. has been derived from the 2017 financial statements, which were audited by other auditors whose report dated on January 26, 2018, expressed an unmodified opinion on those financial statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
January 31, 2019

MASSACHUSETTS HISTORICAL SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTAL FOR JUNE 30, 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 148,224	\$ 199,400	\$ -	\$ 347,624	\$ 199,627
Other Investments	1,903,359	1,015,600	-	2,918,959	2,203,762
Accounts and Grants Receivable	24,498	820,786	-	845,284	737,982
Pledges Receivable, Net	110,408	6,750	-	117,158	50,392
Prepaid Expenses	141,089	-	-	141,089	155,314
Total Current Assets	<u>2,327,578</u>	<u>2,042,536</u>	<u>-</u>	<u>4,370,113</u>	<u>3,347,077</u>
NONCURRENT ASSETS					
Grants Receivable - Noncurrent, Net	-	174,603	-	174,603	177,458
Collections (see Note 2)	-	-	-	-	-
Endowment Investments	27,180,136	39,042,487	16,372,443	82,595,066	78,940,757
Split-Interest Agreements	-	475,561	-	475,561	486,564
Property and Equipment, Net	<u>11,003,978</u>	<u>-</u>	<u>-</u>	<u>11,003,978</u>	<u>11,252,132</u>
Total Noncurrent Assets	<u>38,184,113</u>	<u>39,692,651</u>	<u>16,372,443</u>	<u>94,249,207</u>	<u>90,856,911</u>
Total Assets	<u>\$ 40,511,691</u>	<u>\$ 41,735,187</u>	<u>\$ 16,372,443</u>	<u>\$ 98,619,321</u>	<u>\$ 94,203,988</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable and Accrued Expenses	\$ 360,639	\$ -	\$ -	\$ 360,639	\$ 465,587
Deferred Dues Revenue	97,692	-	-	97,692	91,462
Long-Term Debt - Current Portion	91,883	-	-	91,883	88,863
Total Current Liabilities	<u>550,214</u>	<u>-</u>	<u>-</u>	<u>550,214</u>	<u>645,912</u>
NONCURRENT LIABILITIES					
Split-Interest Agreements	-	249,233	-	249,233	263,609
Deferred Lease Revenue	367,760	-	-	367,760	374,428
Long-Term Debt, Net	1,169,352	-	-	1,169,352	1,256,696
Total Noncurrent Liabilities	<u>1,537,112</u>	<u>249,233</u>	<u>-</u>	<u>1,786,345</u>	<u>1,894,733</u>
Total Liabilities	2,087,326	249,233	-	2,336,559	2,540,645
NET ASSETS					
Unrestricted	30,029,567	-	-	30,029,567	28,372,340
Trustee Designated	8,394,798	-	-	8,394,798	7,812,513
Total Unrestricted	<u>38,424,365</u>	<u>-</u>	<u>-</u>	<u>38,424,365</u>	<u>36,184,853</u>
Temporarily Restricted	-	41,485,954	-	41,485,954	39,169,097
Permanently Restricted	-	-	16,372,443	16,372,443	16,309,393
Total Net Assets	<u>38,424,365</u>	<u>41,485,954</u>	<u>16,372,443</u>	<u>96,282,762</u>	<u>91,663,343</u>
Total Liabilities and Net Assets	<u>\$ 40,511,691</u>	<u>\$ 41,735,187</u>	<u>\$ 16,372,443</u>	<u>\$ 98,619,321</u>	<u>\$ 94,203,988</u>

See accompanying Notes to Financial Statements.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTAL FOR YEAR ENDED JUNE 30, 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT					
Gifts	\$ 1,063,793	\$ 969,402	\$ 63,050	\$ 2,096,245	\$ 1,807,565
Bequest	326,604	-	-	326,604	25,394
Grants	286,400	721,726	-	1,008,126	509,108
Endowment Support for Operations	3,284,869	-	-	3,284,869	3,273,500
Seminars, Conferences, Workshops, and Other Events	259,966	-	-	259,966	271,563
Members and Fellows Dues	106,718	-	-	106,718	132,214
Royalties, Reproductions, and Rights	70,654	-	-	70,654	87,794
Sales of Publications	6,210	-	-	6,210	4,062
Miscellaneous Income	18,904	-	-	18,904	21,797
Investment Income from Other Investments	25,418	-	-	25,418	11,739
Endowment Activity:					
Investment Income (Loss), Net of Fees	(64,239)	(136,101)	-	(200,340)	(465,542)
Purchase of Collections	(90,381)	-	-	(90,381)	(57,838)
Proceeds from Sale of Collections	650	-	-	650	-
Realized and Unrealized Gain (Loss) on Investments	2,297,954	4,868,245	-	7,166,199	13,303,606
Endowment Draw for Operations	(3,284,869)	-	-	(3,284,869)	(3,273,500)
Net Assets Released from Restrictions	4,106,415	(4,106,415)	-	-	-
Total Revenue and Support	<u>8,415,065</u>	<u>2,316,857</u>	<u>63,050</u>	<u>10,794,972</u>	<u>15,651,462</u>
OPERATING EXPENSES					
Programs	4,503,849	-	-	4,503,849	4,007,631
Management and General	1,186,032	-	-	1,186,032	1,611,447
Fundraising	485,671	-	-	485,671	498,706
Total Operating Expenses	<u>6,175,553</u>	<u>-</u>	<u>-</u>	<u>6,175,553</u>	<u>6,117,784</u>
CHANGE IN NET ASSETS	2,239,512	2,316,857	63,050	4,619,419	9,533,678
Net Assets - Beginning 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>
NET ASSETS - END OF YEAR	<u>\$ 38,424,365</u>	<u>\$ 41,485,954</u>	<u>\$ 16,372,443</u>	<u>\$ 96,282,762</u>	<u>\$ 91,663,343</u>

See accompanying Notes to Financial Statements.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
PROGRAM EXPENSES		
Salaries, Payroll Taxes, and Benefits	\$ 2,913,989	\$ 2,595,850
Occupancy Costs	342,700	327,345
Depreciation	369,737	359,556
Grant Funded Program Expenses:		
Research Fellows and Projects	127,563	185,301
Public Programs and Workshops	129,175	110,549
Collections Processing	48,555	39,027
Exhibits	259,168	92,251
Offsite Storage	73,409	71,907
Printing	17,361	23,637
Computer Supplies, Software, and Support	68,289	68,876
Seminars and Conferences	4,837	18,262
Conservation	9,875	22,210
Consulting and Outside Services	2,499	2,493
Sponsorship Expense	105,296	39,875
Other Expense	31,395	50,492
Total Program Expenses	4,503,849	4,007,631
 MANAGEMENT AND GENERAL EXPENSES		
Salaries, Payroll Taxes, and Benefits	790,865	1,048,271
Occupancy Costs	62,837	99,438
Depreciation	43,499	42,301
Long-Term Debt Interest and Fees	49,860	52,813
Computer Supplies, Software, and Support	16,740	26,233
Advertising and Public Relations	30,884	29,381
Auditing	46,000	57,133
Legal	2,030	7,383
Consulting and Outside Services	2,953	121,758
Cultivation, Meetings, and Events	122,514	102,865
Other Expenses	17,851	23,871
Total Management and General Expenses	1,186,032	1,611,447
 FUNDRAISING		
Salaries, Payroll Taxes, and Benefits	319,078	324,354
Occupancy Costs	26,300	27,200
Depreciation	21,749	21,150
Printing	15,820	14,223
Computer Supplies, Software, and Support	21,454	22,551
Cultivation, Meetings, and Events	69,551	74,050
Other Expenses	11,720	15,178
Total Fundraising	485,671	498,706
 Total Functional Expenses	\$ 6,175,553	\$ 6,117,784

See accompanying Notes to Financial Statements.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,619,419	\$ 9,533,678
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	434,985	423,007
Amortization of Finance Costs	4,539	4,539
Grants Received for Capital Projects	30,000	-
Gifts and Grants Received for Endowment	(63,050)	(149,544)
Purchase of Collections	90,381	57,838
Proceeds from Sale of Collections	(650)	-
Investment Income, Net of Management Fees, Reinvested	200,340	465,542
(Increase) Decrease in Fair Value of Investments	(7,166,199)	(13,303,606)
Decrease (Increase) in:		
Accounts and Grants Receivable	(104,447)	271,859
Pledges Receivable	(66,766)	(23,740)
Split-Interest Agreements	11,003	(63,150)
Prepaid Expenses	14,225	(37,800)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(104,946)	(51,951)
Liability for Split-Interest Agreements	(14,376)	(1,734)
Deferred Revenue	(438)	(8,175)
Net Cash Used by Operating Activities	(2,115,980)	(2,883,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(186,830)	(49,254)
Gifts and Grants Invested	63,050	149,544
Purchase of Collections	(90,381)	(57,838)
Proceeds from Sale of Collections	650	-
Investment Sales	4,252,246	4,220,631
Investment Purchases	(1,655,893)	(1,387,342)
Net Cash Provided by Investing Activities	2,382,842	2,875,741
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt Principal Payments	(88,863)	(85,944)
Grants Received for Capital Projects	(30,000)	-
Net Cash Used by Financing Activities	(118,863)	(85,944)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	147,998	(93,440)
Cash and Cash Equivalents - Beginning of Year	199,627	293,067
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 347,625	\$ 199,627

See accompanying Notes to Financial Statements.

**MASSACHUSETTS HISTORICAL SOCIETY, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Bank Loan Interest Paid	<u>\$ 49,860</u>	<u>\$ 48,412</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY		
Additions to Property and Equipment for Capital Projects in Process Included in Accounts Payable and Accrued Expenses	<u>\$ 56,696</u>	<u>\$ 41,973</u>

See accompanying Notes to Financial Statements.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 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.

NOTE 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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts, Grants, and Pledges Receivable (Continued)

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.

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, other investments 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.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Building and Building Renovations	10 to 50 Years
Furniture and Technology Equipment	3 to 25 Years

Deferred Revenue

The Society leases a building it owns to an unrelated nonprofit 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).

Income Taxes

The Society is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). 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).

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Society evaluates all significant tax positions. As of June 30, 2018, 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 12 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, 2018 and 2017 was 4.5%. In June 2018, the trustees approved a spending percentage of 4.5% for fiscal year 2019.

Expense Allocation

The operating costs of providing various programs and other activities have been summarized on a functional basis in the statements 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.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donor-Restricted Endowment Assets (Continued)

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.

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.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Spending Policy and How the Investment Objectives Relate to Spending Policy
(Continued)**

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.

New Accounting Pronouncements

Presentation of Financial Statements of Not-for-Profit Entities

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), which will modify the presentation of net asset classifications and enhance disclosures about liquidity and functional classification of expenses. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017. Management has not yet evaluated the effects of the new standard on its financial statements.

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, 2017, from which the summarized information was derived.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable at June 30, 2018 and 2017 consist of the following:

	2018	2017
Accounts Receivable	\$ 24,498	\$ 34,180
Grants Receivable:		
Federal Agencies	786,604	570,475
Other Grants Receivable	212,000	314,000
Total Grants Receivable	998,604	884,475
Less: Discount to Net Present Value	(3,215)	(3,215)
Grants Receivable, Net	995,389	881,260
Accounts and Grants Receivable, Net	\$ 1,019,887	\$ 915,440
Current Portion	\$ 848,499	\$ 737,982
Due After One Year	174,603	180,673
Less: Discount to Net Present Value	(3,215)	(3,215)
Due After One Year, Net	171,388	177,458
Accounts and Grants Receivable, Net	\$ 1,019,887	\$ 915,440

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable are recorded for unconditional promises to give and temporarily restricted gifts for current programs. Pledges receivable at June 30, 2018 and 2017 consist of the following:

	2018	2017
Amounts Due in Less than One Year	\$ 118,408	\$ 51,642
Allowance for Doubtful Accounts	(1,250)	(1,250)
Net Pledges Receivable	\$ 117,158	\$ 50,392

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 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 Temporarily Restricted Gift in the period the agreement is established. No gifts were received in 2018. Two gifts totaling \$60,000 were received in 2017. 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, 2018 and 2017 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, 2018 and 2017 is calculated using discount rates ranging from 1.2% to 6.2% and applicable mortality tables.

NOTE 6 ENDOWMENT INVESTMENTS

Endowment investment funds are carried at their aggregate fair value and consist of the following as of June 30, 2018 and 2017:

	2018	2017
Cash and Cash Equivalents	\$ 673,456	\$ -
Global Equities	22,557,426	22,971,210
Global Fixed Income	6,067,626	6,021,766
Hedge Funds	1,640,250	1,306,971
Limited Partnerships	51,656,308	48,640,810
Total Endowment Investments Funds	\$ 82,595,066	\$ 78,940,757

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 FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 ENDOWMENT INVESTMENTS (CONTINUED)

Changes in endowment net assets consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Unrestricted Funds:		
Beginning of Year	\$ 25,396,275	\$ 22,444,811
New Gifts and Proceeds from Sales of Collections	650	25,394
Investment Income, Net of Investment Fees	(64,239)	(150,799)
Realized and Unrealized Gain	2,297,954	4,309,411
Direct Expenditures	(90,381)	(57,838)
Spending Allowed (Draw)	(1,003,090)	(1,010,899)
Interfund Transfers	642,967	(163,805)
Total Unrestricted Funds	\$ 27,180,136	\$ 25,396,275
Temporarily Restricted Funds:		
Beginning of Year	\$ 37,235,089	\$ 30,654,433
Investment Income, Net of Investment Fees	(136,101)	(314,743)
Realized and Unrealized Gain	4,868,245	8,994,195
Spending Allowed (Draw)	(2,281,779)	(2,262,601)
Interfund Transfers	(642,967)	163,805
Total Temporarily Restricted Funds	\$ 39,042,487	\$ 37,235,089
Permanently Restricted Funds:		
Beginning of Year	\$ 16,309,393	\$ 16,185,243
Additions (New Gifts)	63,050	124,150
Total Permanently Restricted Funds	\$ 16,372,443	\$ 16,309,393

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Society to retain as a fund of perpetual nature. Deficiencies of this nature are reported in unrestricted net assets and were approximately \$32,000 for the year ended June 30, 2018.

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

	2018	2017
Interest and Dividends	\$ 887,470	\$ 554,880
Realized and Unrealized Gains (Losses)	7,166,199	13,303,606
Investment Fees	(1,087,810)	(1,020,422)
Total	\$ 6,965,859	\$ 12,838,064

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 \$79,999 and \$78,718 for the years ended June 30, 2018 and 2017, respectively, paid to the Society's investment advisor.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 OTHER INVESTMENTS

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

	2018	2017
Cash, Cash Equivalents, and Corporate Bonds	<u>\$ 2,918,959</u>	<u>\$ 2,203,762</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, 2018 and 2017 for identical unrestricted securities and are classified as Level 1 in the fair value information in Note 12.

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

	2018	2017
Unrestricted Funds-Designated by Trustees:		
Capital Acquisitions Fund	\$ 979,894	\$ 810,677
President's Discretionary Fund	118,054	158,044
Operating Funds Reserve	665,330	620,898
Liquidity Reserve	140,081	-
Total	<u>1,903,359</u>	<u>1,589,619</u>
Temporarily Restricted Funds:		
Temporarily Restricted Gifts and Grants	1,015,600	614,143
Total	<u>\$ 2,918,959</u>	<u>\$ 2,203,762</u>

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

	2018	2017
Interest	<u>\$ 25,418</u>	<u>\$ 11,739</u>

NOTE 8 PROPERTY AND EQUIPMENT

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

	2018	2017
Land	\$ 200,000	\$ 200,000
Buildings and Building Renovations	16,642,744	16,557,464
Furniture and Technology Equipment	933,543	888,688
Capital Projects in Process	98,669	41,973
Total Property and Equipment	<u>17,874,956</u>	<u>17,688,125</u>
Less: Accumulated Depreciation	<u>(6,870,978)</u>	<u>(6,435,993)</u>
Property and Equipment, Net	<u>\$ 11,003,978</u>	<u>\$ 11,252,132</u>

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to \$434,985 and \$423,007, respectively.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 PROPERTY AND EQUIPMENT (CONTINUED)

As of June 30, 2018 and 2017, 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 June 30, 2018 and 2017.

NOTE 9 LONG-TERM DEBT, NET

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

	<u>2018</u>	<u>2017</u>
Balance Due Under Long-Term Debt Agreement Described Below	\$ 1,311,168	\$ 1,400,031
Less: Deferred Finance Costs Related Thereto, Net of Amortization	<u>(49,933)</u>	<u>(54,472)</u>
Total Long-Term Debt	<u>\$ 1,261,235</u>	<u>\$ 1,345,559</u>

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, 2018 and 2017.

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.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 LONG-TERM DEBT, NET (CONTINUED)

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 91,883
2020	94,898
2021	98,229
2022	101,566
2023	105,017

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, Massachusetts. 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, 2018.

NOTE 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 IRC. The Society made matching contributions of \$110,376 and \$108,514 for the years ended June 30, 2018 and 2017, 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 FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 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 \$454,916 per the bank records at June 30, 2018 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.

NOTE 12 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *Topic 820, Fair Value Measurements and Disclosures*, provides a framework for reporting fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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). Except for investments reported at net asset value or its equivalent (NAV) as a practical expedient to estimate fair value, the Organization uses a three-tiered hierarchy to categorize those assets carried a fair value based on the valuation methodologies employed. The hierarchy is described as follows:

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.

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

Short-term investments including cash and cash equivalents, corporate bonds and global equities are classified as Level 1 of the fair value hierarchy because their fair values are based on quoted prices for identical securities. The remaining investments of the Society are considered alternative investments and do not have readily determinable fair values. Investments that do not have readily determinable fair values are valued using the investments net asset value as the practical expedient. The Society summarizes alternative investments by significant investment category consisting of (1) global equities, (2) global fixed income, (3) hedge funds, and (4) limited partnerships.

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 for the years ended June 30, 2018 and 2017 are as follows:

	June 30, 2018				Investments Measured at Net Asset Value
	Total	Fair Value Measurements at Report Date Using			
		Quoted Prices for Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other Investments:					
Cash, Cash Equivalents, and Corporate Bonds	\$ 2,918,958	\$ 2,918,958			
Endowment Investments:					
Cash and Cash Equivalents -					
Endowment	\$ 673,456	\$ 673,456	\$ -	\$ -	\$ -
Global Equities	22,557,426	1,988,264	-	-	20,569,162
Global Fixed Income	6,067,626	-	-	-	6,067,626
Hedge Funds	1,640,250	-	-	-	1,640,250
Limited Partnerships	51,656,308	-	-	-	51,656,308
Total	<u>\$ 82,595,066</u>	<u>\$ 2,661,720</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,933,346</u>
Split-Interest Agreements:					
Cash, Cash Equivalents	\$ 25,315	\$ 25,315			
Global Equities	255,856	255,856			
Global Fixed Income	194,390	194,390			
Total	<u>\$ 475,561</u>	<u>\$ 475,561</u>			

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

	June 30, 2017			
	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices for Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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
Total	<u>\$ 78,940,757</u>	<u>\$ -</u>	<u>\$ 17,427,920</u>	<u>\$ 61,512,837</u>
Split-Interest Agreements:				
Cash, Cash Equivalents	\$ 24,380	\$ 24,380		
Global Equities	306,682	306,682		
Global Fixed Income	155,502	155,502		
Total	<u>\$ 486,564</u>	<u>\$ 486,564</u>		

**MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

The following presents the Society's liquidity for investments measured at net asset value as of June 30, 2018:

Investments Measured at NAV:	Net Asset Value	Daily	Monthly	Quarterly	Semi-Annual to Annual	Over 1 Year	Days Notice
Global Equities	\$ 20,569,162	\$ -	\$ 8,021,159	\$ 2,112,232	\$ 7,128,710	\$ 3,307,061	1 - 180 Days
Global Fixed Income	6,067,626	1,875,836	4,191,790	-	-	-	1 - 5 Days
Hedge Funds	1,640,250	-	-	-	-	1,640,250	60 Days
Limited Partnerships ^{1 and 2}	51,656,308	-	3,469,630	-	-	48,186,678	90 Days - 360 Days
Total	<u>\$ 79,933,346</u>	<u>\$ 1,875,836</u>	<u>\$ 15,682,579</u>	<u>\$ 2,112,232</u>	<u>\$ 7,128,710</u>	<u>\$ 53,133,989</u>	

1 - \$2,881,642 subject to a 5 year lock up

2 - \$3,307,061 subject to a 3 year rolling lock up

Unfunded commitments for limited partnership amounted to \$2,000,000 as of June 30, 2018.

**MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance - Beginning of the Year	\$ 61,512,837	\$ 44,895,808
Transfers to Valued at NAV	(61,512,837)	-
Additional Investments	-	10,000,000
Redemptions	-	(4,387,139)
Unrealized Gain (Loss)	-	11,004,168
Balance - End of Year	<u>\$ -</u>	<u>\$ 61,512,837</u>

The Society transferred Level 2 and 3 assets in the amount of \$17,427,920 and \$61,512,837, respectively to investments that are measured at net asset value. The transfers were made as of the beginning of the year.

NOTE 13 TRUSTEE DESIGNATED, TEMPORARILY RESTRICTED, AND PERMANENTLY RESTRICTED NET ASSETS

A summary of changes during the year ended June 30, 2018 in Trustee Designated, Temporarily Restricted, and Permanently Restricted Net Assets included in the statements of activities classified by the purpose is shown on the following page:

MASSACHUSETTS HISTORICAL SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 13 TRUSTEE DESIGNATED, TEMPORARILY RESTRICTED, AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

	<u>Balance June 30, 2017</u>	<u>Contributions and Other Additions</u>	<u>Investment Income (Loss), Net</u>	<u>Realized and Unrealized Gains</u>	<u>Expenditures and Appropriations</u>	<u>Balance June 30, 2018</u>
Trustee Designated Net Assets:						
General Support	\$ 2,555,119	\$ 516,082	\$ 22,968	\$ 87,627	\$ (268,831)	\$ 2,912,965
Library Operations	2,195,786	650	(5,573)	199,331	(109,829)	2,280,365
Publications	3,061,608	-	(7,768)	277,866	(130,238)	3,201,468
Total Trustee Designated Net Assets	<u>\$ 7,812,513</u>	<u>\$ 516,732</u>	<u>\$ 9,627</u>	<u>\$ 564,824</u>	<u>\$ (508,898)</u>	<u>\$ 8,394,798</u>
Temporarily Restricted Net Assets:						
General Support	\$ 26,021,249	\$ 1,691,128	\$ (86,213)	\$ 3,083,894	\$ (3,195,085)	\$ 27,514,973
Library Operations	8,502,319	-	(29,006)	1,037,509	(486,289)	9,024,533
Publications	3,930,586	-	(14,003)	500,887	(234,768)	4,182,702
Special Purposes	714,943	-	(6,879)	245,955	(190,273)	763,746
Total Temporarily Restricted Net Assets	<u>\$ 39,169,097</u>	<u>\$ 1,691,128</u>	<u>\$ (136,101)</u>	<u>\$ 4,868,245</u>	<u>\$ (4,106,415)</u>	<u>\$ 41,485,954</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	1,981,269	63,050	-	-	-	2,044,319
Total Permanently Restricted Net Assets	<u>\$ 16,309,393</u>	<u>\$ 63,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,372,443</u>

NOTE 14 SUBSEQUENT EVENTS

The Society has evaluated all subsequent events through January 31, 2019, the date the financial statements were available to be issued.



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.