

**Massachusetts Historical Society, Inc.**

**Financial Statements**

**For the Year Ended June 30, 2016**

**(With Summarized Comparative Information for June 30, 2015)**

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## INDEPENDENT AUDITORS' REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Massachusetts Historical Society, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Marcum LLP*

Boston, Massachusetts

August 22, 2017

**Massachusetts Historical Society, Inc.**  
**Statement of Financial Position**  
**June 30, 2016**  
**(With Comparative Totals for June 30, 2015)**

	2016			2015 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<i>Assets</i>					
Cash and cash equivalents	\$ 93,667	\$ 199,400	\$ -	\$ 293,067	\$ 269,184
Other investments	1,663,436	191,821	-	1,855,257	1,885,989
Accounts and grants receivable, net	18,871	762,125	-	780,996	791,413
Pledges receivable, net	8,044	18,608	-	26,652	1,465
Prepaid expenses	117,514	-	-	117,514	109,241
Total current assets	<u>1,901,532</u>	<u>1,171,954</u>	<u>-</u>	<u>3,073,486</u>	<u>3,057,292</u>
Grants receivable - non-current	-	406,303	-	406,303	197,100
Endowment investments	22,444,811	30,654,433	16,185,243	69,284,487	75,936,781
Split-interest agreements	-	423,414	-	423,414	464,251
Property and equipment, net	11,583,912	-	-	11,583,912	11,006,129
Total assets	<u>\$ 35,930,255</u>	<u>\$ 32,656,104</u>	<u>\$ 16,185,243</u>	<u>\$ 84,771,602</u>	<u>\$ 90,661,553</u>
<i>Liabilities and Net Assets</i>					
Liabilities					
Accounts payable and accrued expenses	\$ 475,565	\$ -	\$ -	\$ 475,565	\$ 363,919
Deferred dues revenue	92,969	-	-	92,969	98,364
Long-term debt - current portion	85,943	-	-	85,943	12,921
Total current liabilities	<u>654,477</u>	<u>-</u>	<u>-</u>	<u>654,477</u>	<u>475,204</u>
Split-interest agreements	-	265,343	-	265,343	271,495
Deferred lease revenue	381,096	-	-	381,096	387,764
Long-term debt, net	1,341,021	-	-	1,341,021	782,585
Total liabilities	<u>2,376,594</u>	<u>265,343</u>	<u>-</u>	<u>2,641,937</u>	<u>1,917,048</u>
Net assets					
Unrestricted	26,417,716	-	-	26,417,716	28,393,750
Trustee designated	7,135,945	-	-	7,135,945	7,722,230
Total unrestricted	<u>33,553,661</u>	<u>-</u>	<u>-</u>	<u>33,553,661</u>	<u>36,115,980</u>
Temporarily restricted	-	32,390,761	-	32,390,761	36,496,882
Permanently restricted	-	-	16,185,243	16,185,243	16,131,643
Total net assets	<u>33,553,661</u>	<u>32,390,761</u>	<u>16,185,243</u>	<u>82,129,665</u>	<u>88,744,505</u>
Total liabilities and net assets	<u>\$ 35,930,255</u>	<u>\$ 32,656,104</u>	<u>\$ 16,185,243</u>	<u>\$ 84,771,602</u>	<u>\$ 90,661,553</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, 2016  
(With Comparative Totals for 2015)

	2016				2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenues and support					
Gifts	\$ 915,459	\$ 253,987	\$ 53,600	\$ 1,223,046	\$ 1,012,222
Bequests	57,229	-	-	57,229	257,303
Grants	379,400	777,895	-	1,157,295	943,323
Endowment support for operations	3,133,100	-	-	3,133,100	3,028,700
Seminars, conferences, workshops and other events	276,590	-	-	276,590	221,152
Members and Fellows dues	134,050	-	-	134,050	122,639
Royalties, reproductions and rights	88,280	-	-	88,280	107,739
Sales of publications	6,328	-	-	6,328	5,200
Miscellaneous income	11,363	-	-	11,363	16,522
Investment income from other investments	14,776	-	-	14,776	1,351
Endowment activity:					
Investment income (loss) income, net of fees	(18,786)	(38,614)	-	(57,400)	353,100
Purchase of collections	(70,043)	-	-	(70,043)	(43,630)
Proceeds from sale of collections	17,500	-	-	17,500	199,500
Realized and unrealized (loss) gain on investments	(1,152,149)	(2,367,931)	-	(3,520,080)	1,876,374
Endowment draw for operations	(3,133,100)	-	-	(3,133,100)	(3,028,700)
Net assets released from restrictions	2,731,458	(2,731,458)	-	-	.
	<u>3,391,455</u>	<u>(4,106,121)</u>	<u>53,600</u>	<u>(661,066)</u>	<u>5,072,795</u>
Operating expenses					
Programs	3,968,981	-	-	3,968,981	3,632,556
Management and general	1,498,139	-	-	1,498,139	1,255,111
Fundraising	486,654	-	-	486,654	493,454
	<u>5,953,774</u>	<u>-</u>	<u>-</u>	<u>5,953,774</u>	<u>5,381,121</u>
Change in net assets	(2,562,319)	(4,106,121)	53,600	(6,614,840)	(308,326)
Net assets at beginning of year	36,115,980	36,496,882	16,131,643	88,744,505	89,052,831
Net assets at end of year	<u>\$ 33,553,661</u>	<u>\$ 32,390,761</u>	<u>\$ 16,185,243</u>	<u>\$ 82,129,665</u>	<u>\$ 88,744,505</u>

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Programs</b>		
Salaries, payroll taxes and benefits	\$ 2,479,268	\$ 2,540,620
Occupancy costs	233,401	281,916
Depreciation	345,611	315,954
Grant funded program expenses:		
Research fellows and projects	106,951	141,052
Public programs and workshops	255,861	64,615
Collections processing	49,331	39,769
Exhibits	162,397	25,836
Offsite storage	69,994	65,411
Printing	89,779	24,030
Computer supplies, software and support	58,043	30,270
Seminars and conferences	6,162	29,086
Conservation	10,727	12,964
Consulting and outside services	2,720	3,113
Sponsorship expense	46,806	11,500
Other expenses	51,930	46,420
	<u>\$ 3,968,981</u>	<u>\$ 3,632,556</u>
<b>Management and general</b>		
Salaries, payroll taxes and benefits	\$ 912,430	\$ 888,173
Occupancy costs	169,699	89,173
Depreciation	40,660	37,171
Long-term debt interest and fees	53,140	3,008
Computer supplies, software and support	33,924	14,457
Advertising and public relations	84,129	6,635
Auditing	40,000	44,000
Legal	5,532	12,490
Consulting and outside services	23,580	30,328
Cultivation, meetings and events	108,939	105,144
Other expenses	26,106	24,532
	<u>\$ 1,498,139</u>	<u>\$ 1,255,111</u>
<b>Fundraising</b>		
Salaries, payroll taxes and benefits	\$ 322,143	\$ 328,233
Occupancy costs	19,100	26,300
Depreciation	20,330	18,586
Printing	17,558	28,506
Computer supplies, software and support	23,491	21,525
Cultivation, meetings and events	73,958	57,300
Other expenses	10,074	13,004
	<u>\$ 486,654</u>	<u>\$ 493,454</u>

**Massachusetts Historical Society, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (6,614,840)	\$ (308,326)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	406,601	371,711
Amortization of finance costs	4,539	-
Grants received for capital projects	(66,000)	-
Gifts and grants received for endowment	(110,829)	(284,736)
Proceeds from sale of collections	(17,500)	(199,500)
Investment (loss) income, net of management fees, reinvested	57,400	(353,100)
Decrease (increase) in fair value of investments	3,520,080	(1,876,374)
Decrease (increase) in		
Accounts and grants receivable	(198,786)	(170,816)
Pledges receivable	(25,187)	1,735
Split-interest agreements	40,837	22,743
Prepaid expenses	(8,273)	(332)
Increase (decrease) in		
Accounts payable and accrued expenses	111,646	2,889
Liability for split-interest agreements	(6,152)	(12,848)
Deferred revenue	(12,063)	11,836
Net cash used in operating activities	<u>(2,918,527)</u>	<u>(2,795,118)</u>
Cash flows from investing activities		
Capital expenditures	(984,384)	(948,029)
Gifts and grants invested	110,829	284,736
Proceeds from sale of collections	17,500	199,500
Investment sales	4,709,342	4,300,501
Investment purchases	(1,603,796)	(1,899,758)
Net cash provided by investing activities	<u>2,249,491</u>	<u>1,936,950</u>
Cash flows from financing activities		
Advances of long-term debt financing	642,444	857,556
Debt principal payments	(14,025)	-
Financing costs paid	(1,500)	(62,050)
Grants received for capital projects	66,000	-
Net cash provided by financing activities	<u>692,919</u>	<u>795,506</u>
Net increase (decrease) in cash and cash equivalents	23,883	(62,662)
Cash and cash equivalents at beginning of year	<u>269,184</u>	<u>331,846</u>
Cash and cash equivalents at end of year	<u>\$ 293,067</u>	<u>\$ 269,184</u>
<i>Supplemental Disclosure of Cash Flow Information:</i>		
Bank loan interest paid	<u>\$ 47,375</u>	<u>\$ 1,184</u>

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

### 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, 2016 and 2015

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

#### *Investment Pools*

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

#### *Recognition of Donor Restrictions*

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

#### *Property and Equipment*

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

#### *Deferred Revenue*

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

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

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

#### *Collections*

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

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

#### *Financing Costs*

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

Effective June 1, 2015, the Society 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, 2016, 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, 2016, the Society's federal and state returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

#### *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, 2016 and 2015 was 4.5% and 4.6%, respectively. In June 2016, the Trustees approved a spending percentage of 4.5% for fiscal year 2017.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

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

#### *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 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.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

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

#### *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, 2015, from which the summarized information was derived. In addition, certain amounts reported in the financial statements and the notes thereto for 2015 have been reclassified to conform to the 2016 presentation. These reclassifications had no effect on 2015 changes in net assets.

### 3. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Accounts receivable, net of allowance for doubtful accounts of \$3,215	\$ 15,656	\$ 14,972
Grants receivable		
Federal agencies	833,643	583,541
Other grants receivable	338,000	390,000
Total grants receivable	<u>1,171,643</u>	<u>973,541</u>
Net accounts and grants receivable	<u>\$ 1,187,299</u>	<u>\$ 988,513</u>
Current portion	\$ 780,996	\$ 791,413
Due after one year	406,303	197,100
	<u>\$ 1,187,299</u>	<u>\$ 988,513</u>

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

### 4. Pledges Receivable

Pledges receivable are recorded for unconditional promises to give and temporarily restricted gifts for current programs. Pledges receivable at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Amounts due in less than one year	\$ 27,902	\$ 2,715
Allowance for doubtful accounts	(1,250)	(1,250)
Net pledges receivable	<u>\$ 26,652</u>	<u>\$ 1,465</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. No gifts were received in 2016 and 2015. Investment assets held under these agreements are managed by an investment advisor and held in a brokerage account. They are carried at their fair value in the Society's statement of financial position. The fair value of these investments is based on unadjusted quoted prices in active markets that are accessible at June 30, 2016 and 2015 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, 2016 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Global equities	\$ 22,183,532	\$ 22,766,464
Global fixed income	12,052,543	6,493,990
Hedge funds	1,097,626	8,924,279
Real assets / inflation hedges	-	3,097,823
Limited partnerships	<u>33,950,786</u>	<u>34,654,225</u>
Total	<u>\$ 69,284,487</u>	<u>\$ 75,936,781</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, 2016 and 2015

#### 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unrestricted funds		
General support funds	\$ 16,984,885	\$ 18,857,347
Funds designated by the Trustees for specific purposes	5,459,926	5,977,450
	<u>\$ 22,444,811</u>	<u>\$ 24,834,797</u>
Temporarily restricted funds		
General support funds	\$ 19,879,447	\$ 22,545,152
Library funds	7,125,519	8,111,514
Publication funds	3,265,896	3,741,922
Special purpose funds	383,571	571,753
	<u>\$ 30,654,433</u>	<u>\$ 34,970,341</u>
Permanently restricted funds		
General support funds	\$ 9,810,513	\$ 9,810,513
Library funds	2,929,266	2,929,266
Publication funds	1,588,345	1,588,345
Special purpose funds	1,857,119	1,803,519
	<u>\$ 16,185,243</u>	<u>\$ 16,131,643</u>

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 783,400	\$ 967,630
Realized and unrealized (losses) gains	(3,520,080)	1,876,374
Investment fees	(840,800)	(614,530)
	<u>\$ (3,577,480)</u>	<u>\$ 2,229,474</u>

The above investment fees include custodial fees and investment advisory fees charged by the Society's investment managers. Fees for both years also include investment advisory services of \$90,724 and \$81,715 in 2016 and 2015, respectively, paid to the Society's investment advisor.

#### 7. Other Investments

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

	<u>2016</u>	<u>2015</u>
Cash, cash equivalents and corporate bonds	<u>\$ 1,855,257</u>	<u>\$ 1,885,989</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 statement of financial position. The fair value of these investments is based on unadjusted quoted prices in active markets that are accessible at June 30, 2016 and 2015 for identical unrestricted securities and are classified as Level 1 in the fair value information in Note 12.

## Massachusetts Historical Society, Inc.

### Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

#### 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>2016</u>	<u>2015</u>
Unrestricted funds – Designated by Trustees		
Capital acquisitions fund	\$ 601,483	\$ 485,462
President’s discretionary fund	311,853	228,318
Operating funds reserve	750,100	1,031,000
	1,663,436	1,744,780
Temporarily restricted funds		
Temporarily restricted gifts and grants	191,821	141,209
	\$ 1,855,257	\$ 1,885,989
Total	\$ 1,855,257	\$ 1,885,989

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

	<u>2016</u>	<u>2015</u>
Interest	\$ 14,776	\$ 1,351

#### 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 was \$1,570,600 of which \$832,151 was expended at June 30, 2015 and classified as capital projects in process. The projects were completed in 2016.

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

	<u>Asset lives in years</u>	<u>2016</u>	<u>2015</u>
Land		\$ 200,000	\$ 200,000
Building and building renovations	10 to 50	16,522,923	14,743,309
Furniture and technology equipment	3 to 25	873,975	837,054
Capital projects in process		-	832,151
		17,596,898	16,612,514
Accumulated depreciation		(6,012,986)	(5,606,385)
		\$ 11,583,912	\$ 11,006,129

Depreciation expense for the years ended June 30, 2016 and 2015 amounted to \$406,601 and \$371,711, respectively.

As of June 30, 2016 and 2015, 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, 2016 and 2015.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

### 9. Long-Term Debt, Net

Long-term debt at June 30, 2016 consists of the following:

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

Beginning in 2016, amortization of financing costs of \$4,539 is included in long-term debt interest and fees in the statements of functional expenses.

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

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

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

2017	\$ 85,943
2018	88,863
2019	91,883
2020	94,898
2021	98,229
Thereafter	1,026,159

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, 2016.

### 10. Pension Plans

The Society has a defined contribution retirement plan for its employees administered by TIAA (formally the Teachers Insurance and Annuity Association of America). Effective July 1, 2014 the plan was amended to consolidate the two existing plans, introduce an enhanced investment menu, provide for employer matching contributions and continue to allow for employer discretionary contributions. The amended plan is intended to satisfy the “nondiscriminatory requirements” using the “safe harbor” methods as provided by Section 403(b) of the Internal Revenue Code. The Society made matching contributions of \$105,606 and \$95,233 in 2016 and 2015, respectively. In 2015 the Society also made a 2% discretionary contribution of \$62,084 to the plan.

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

### 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 \$223,698 per the bank records at June 30, 2016 are insured by the Federal Deposit Insurance Corporation up to \$250,000. Credit risk in accounts receivable, grants receivable and pledges receivable are limited due to the large number of contributors comprising the Society's contributor base and their dispersion across different industries, government sectors, and geographic areas. Other investments are invested in cash, money market funds, and short duration U.S. treasuries and highly rated corporate bonds.

### 12. Fair Value Measurements

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

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

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

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

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

As described in Note 6 above, all of the Society's endowment funds are invested in funds managed by investment fund managers. The fund managers use a practical expedient of net asset value to estimate the fair value of the respective investment funds and they are classified as Level 2, if they are redeemable within 120 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 statement 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, 2016 and 2015

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

<u>As of June 30, 2016:</u>	<u>Fair Value</u>	<u>Quoted Prices for Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Other investments				
Cash, cash equivalents and corporate bonds	\$ 1,855,257	\$ 1,855,257		
Endowment investments				
Global equities	\$ 22,183,532	\$ -	\$ 12,336,136	\$ 9,847,396
Global fixed income	12,052,543	-	12,052,543	-
Hedge funds	1,097,626	-	-	1,097,626
Limited partnerships	33,950,786	-	-	33,950,786
	<u>\$ 69,284,487</u>	<u>\$ -</u>	<u>\$ 24,388,679</u>	<u>\$ 44,895,808</u>
Split-interest agreements				
Cash and cash equivalents	\$ 7,194	\$ 7,194		
Global equities	272,369	272,369		
Global fixed income	143,851	143,851		
	<u>\$ 423,414</u>	<u>\$ 423,414</u>		
 <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, cash equivalents and corporate bonds	\$ 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>		

# Massachusetts Historical Society, Inc.

## Notes to the Financial Statements For the Years Ended June 30, 2016 and 2015

### 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year	\$ 47,578,504	\$ 9,330,016
Additional investments	7,850,000	36,355,461
Redemptions	(8,712,828)	(109,982)
Unrealized (loss) gain	<u>(1,819,868)</u>	<u>2,003,009</u>
Balance at the end of the year	<u>\$ 44,895,808</u>	<u>\$ 47,578,504</u>

### 13. Subsequent Events

The Society has evaluated all subsequent events through August 22, 2017, 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, 2016 in Trustee designated, temporarily restricted and permanently restricted net assets included in the statement of activities classified by purpose is shown on page 19.

**Massachusetts Historical Society, Inc.**

**Notes to the Financial Statements  
For the Years Ended June 30, 2016 and 2015**

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

	Balance July 1, 2015	Contributions and Other Additions	Investment Income, Net	Realized and Unrealized Losses	Expenditures and Appropriations	Balance June 30, 2016
<b>Trustee Designated Net Assets</b>						
General support	\$ 2,677,277	\$ 1,252,795	\$ 14,071	\$ (43,233)	\$ (1,375,673)	\$ 2,525,237
Library operations	2,088,006	17,500	(1,589)	(97,412)	(88,670)	1,917,835
Publications	2,956,947	-	(2,235)	(137,091)	(124,748)	2,692,873
	<u>\$ 7,722,230</u>	<u>\$ 1,270,295</u>	<u>\$ 10,247</u>	<u>\$ (277,736)</u>	<u>\$ (1,589,091)</u>	<u>\$ 7,135,945</u>
<b>Temporarily Restricted Net Assets</b>						
General support	\$ 24,071,693	\$ 1,031,882	\$ (24,463)	\$ (1,500,092)	\$ (1,963,245)	\$ 21,615,775
Library operations	8,111,514	-	(8,345)	(511,879)	(465,771)	7,125,519
Publications	3,741,922	-	(4,031)	(247,124)	(224,871)	3,265,896
Special purposes	571,753	-	(1,775)	(108,836)	(77,571)	383,571
	<u>\$ 36,496,882</u>	<u>\$ 1,031,882</u>	<u>\$ (38,614)</u>	<u>\$ (2,367,931)</u>	<u>\$ (2,731,458)</u>	<u>\$ 32,390,761</u>
<b>Permanently Restricted Net Assets</b>						
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	1,803,519	53,600	-	-	-	1,857,119
	<u>\$ 16,131,643</u>	<u>\$ 53,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,185,243</u>