

Massachusetts Historical Society, Inc.

Financial Statements

**For the Years Ended
June 30, 2013 and 2012**

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of financial position of **Massachusetts Historical Society, Inc.** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statement of functional expenses and cash flows for the years then ended, and the statement of activities for the year ended June 30, 2013, 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, 2013 and 2012, and its cash flow for the years then ended, and the changes in its net assets for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the **Massachusetts Historical Society, Inc.** financial statements, and our report dated March 22, 2013, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all respects, with the audited financial statements from which it has been derived.

Brewer PC

Needham, Massachusetts
December 10, 2013

Massachusetts Historical Society, Inc.

Statements of Financial Position
June 30, 2013 and 2012

	2013			2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<i>Assets</i>				
Cash and cash equivalents	\$ 232,642	\$ 233,000	\$ -	\$ 465,642
Other investments - cash	1,476,066	231,051	-	1,707,117
Accounts and grants receivable, net	21,616	643,556	-	665,172
Pledges receivable, net	150	29,750	-	29,900
Prepaid expenses	97,363	-	-	97,363
Total current assets	1,827,837	1,137,357	-	2,965,194
Grants receivable - non-current	-	243,600	-	243,600
Endowment investments	21,526,634	30,228,367	15,922,382	67,677,383
Split-interest agreements	-	365,028	-	365,028
Property and equipment, net	10,489,995	-	-	10,489,995
Total assets	\$ 33,844,466	\$ 31,974,352	\$ 15,922,382	\$ 81,741,200
<i>Liabilities and Net Assets</i>				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 507,058	\$ -	\$ -	\$ 507,058
Deferred dues revenue	78,835	-	-	78,835
Total current liabilities	585,893	-	-	585,893
Split-interest agreements	-	226,409	-	226,409
Deferred lease revenue	401,100	-	-	401,100
Bonds payable	-	-	-	-
Total liabilities	986,993	226,409	-	1,213,402
<i>Net assets</i>				
Unrestricted	25,982,434	-	-	25,982,434
Trustee designated	6,875,039	-	-	6,875,039
Total unrestricted	32,857,473	-	-	32,857,473
Temporarily restricted	-	31,747,943	-	31,747,943
Permanently restricted	-	-	15,922,382	15,922,382
Total net assets	32,857,473	31,747,943	15,922,382	80,527,798
Total liabilities and net assets	\$ 33,844,466	\$ 31,974,352	\$ 15,922,382	\$ 81,741,200

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.

Statement of Activities

For the Year Ended June 30, 2013

(with Comparative Totals for 2012)

2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2012 Total
Revenues and support					
Gifts	\$ 842,967	\$ 266,038	\$ 112,650	\$ 1,221,655	\$ 739,222
Bequests	-	-	344,897	344,897	1,159
Grants	427,330	335,921	-	763,251	1,502,760
Endowment support for operations	2,913,500	-	-	2,913,500	3,065,600
Seminars, conferences, workshops and other events	170,853	-	-	170,853	169,698
Members and Fellows dues	116,183	-	-	116,183	118,351
Royalties, reproductions and rights	69,340	-	-	69,340	71,201
Sales of publications	19,313	-	-	19,313	6,678
Miscellaneous income	13,856	-	-	13,856	18,343
Investment income from other investments	4,359	-	-	4,359	4,766
Endowment activity:					
Investment income, net of fees	272,942	613,488	-	886,430	935,780
Purchase of collections	(26,553)	-	-	(26,553)	(348,969)
Proceeds from sale of collections	1,232,985	-	-	1,232,985	-
Realized and unrealized gain (loss) on investments	2,124,943	4,776,237	-	6,901,180	(3,264,509)
Endowment draw for operations	(2,913,500)	(3,582,919)	-	(2,913,500)	(3,065,600)
Net assets released from restrictions	3,582,919	(3,582,919)	-	-	-
Operating expenses	8,851,437	2,408,765	457,547	11,717,749	(45,520)
Programs	4,082,490	-	-	4,082,490	3,896,619
Management and general	1,128,671	-	-	1,128,671	1,033,009
Fundraising	545,156	-	-	545,156	542,011
Change in net assets	5,756,317	-	-	5,756,317	5,471,639
Net assets at beginning of year	3,095,120	2,408,765	457,547	5,961,432	(5,517,159)
Net assets at end of year	29,762,353	29,339,178	15,464,835	74,566,366	80,083,525
	\$ 32,857,473	\$ 31,747,943	\$ 15,922,382	\$ 80,527,798	\$ 74,566,366

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Programs		
Salaries, payroll taxes and benefits	\$ 2,815,965	\$ 2,714,685
Occupancy costs	305,568	275,986
Depreciation	282,836	276,217
Grant funded program expenses:		
Research fellows and projects	171,307	220,230
Public programs and workshops	200,953	112,057
Collections processing	49,626	37,073
Exhibits	58,432	67,647
Offsite storage	60,003	60,363
Printing	54,842	45,420
Computer supplies, software and support	15,824	16,468
Seminars and conferences	14,409	2,668
Conservation	11,355	28,609
Consulting and outside services	3,816	5,274
Sponsorship expense	10,250	6,100
Other expenses	27,304	27,822
	<u>\$ 4,082,490</u>	<u>\$ 3,896,619</u>
Management and general		
Salaries, payroll taxes and benefits	\$ 792,309	\$ 697,898
Occupancy costs	69,373	41,695
Depreciation	33,275	32,496
Computer supplies, software and support	19,785	5,753
Advertising and public relations	32,138	39,735
Auditing	46,000	44,000
Legal	6,458	9,161
Consulting and outside services	7,762	14,880
Cultivation, meetings and events	79,169	108,861
Other expenses	42,402	38,530
	<u>\$ 1,128,671</u>	<u>\$ 1,033,009</u>
Fundraising		
Salaries, payroll taxes and benefits	\$ 407,797	\$ 408,313
Occupancy costs	28,600	30,525
Depreciation	16,637	16,248
Printing	18,251	14,532
Computer supplies, software and support	21,094	24,528
Cultivation, meetings and events	45,175	34,420
Other expenses	7,602	9,649
	<u>\$ 545,156</u>	<u>\$ 542,011</u>

Massachusetts Historical Society, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 5,961,432	\$ (5,517,159)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	332,748	324,961
Gifts received for split interest agreements	(49,522)	(100,000)
Grants received for capital projects	(222,390)	(133,234)
Gifts and grants received for endowment	(462,447)	(80,684)
Proceeds from sale of collections	(1,232,985)	-
Investment income, net of management fees, reinvested	(886,430)	(935,780)
(Increase) decrease in fair value of investments	(6,901,180)	3,264,509
Decrease (increase) in		
Accounts and grants receivable	543,877	(391,755)
Pledges receivable	(25,060)	185,460
Split-interest agreements	(5,087)	13,918
Prepaid expenses	(7,945)	(20,069)
Increase (decrease) in		
Accounts payable and accrued expenses	139,641	9,567
Liability for split-interest agreements	16,636	70,378
Deferred revenue	(2,566)	(3,899)
Net cash used in operating activities	<u>(2,801,278)</u>	<u>(3,313,787)</u>
Cash flows from investing activities		
Capital expenditures	(797,670)	(538,739)
Gifts for split-interest agreements invested	49,522	100,000
Gifts and grants invested	462,447	80,684
Proceeds from sale of collections	1,232,985	-
Investment sales	4,102,573	4,313,669
Investment purchases	(2,400,867)	(1,031,993)
Net cash provided by investing activities	<u>2,648,990</u>	<u>2,923,621</u>
Cash flows from financing activities		
Grants received for capital projects	222,390	133,234
Net cash provided by financing activities	<u>222,390</u>	<u>133,234</u>
Net increase (decrease) in cash and cash equivalents	70,102	(256,932)
Cash and cash equivalents at beginning of year	395,540	652,472
Cash and cash equivalents at end of year	<u>\$ 465,642</u>	<u>\$ 395,540</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

1. Organization

The Massachusetts Historical Society, Inc. (the "Society") was founded in 1791 as an independent research library 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 in conformity with GAAP. 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.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

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 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 11.

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 market value of each fund to the total market 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.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (Continued)

Deferred Revenue

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

Collections

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

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

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 required by GAAP. As of June 30, 2013, 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, 2013, 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, 2013 and 2012 was 4.8% and 4.9%, respectively. The Trustees also approved the appropriation of \$50,000 in each year for the payment of investment advisory services.

In June 2013, the Trustees approved a spending percentage of 4.7% for fiscal year 2014 and acknowledged that future spending percentages may need to be reduced further to maintain the purchasing power of the endowment assets.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

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 average real (inflation-adjusted) rate of return of approximately 3.5% annually while assuming a moderate level of investment risk. This results in average nominal rate of return of 6% over the long term with an inflation assumption of 2.5%. Actual returns in any given year may vary from this amount.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

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 revised expected returns on its endowment assets as discussed above. 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, 2012, from which the summarized information was derived. In addition, certain amounts reported in the financial statements for 2012, have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on 2012 changes in net assets.

3. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Accounts receivable	\$ 21,616	\$ 15,052
Less allowance for doubtful accounts	(3,215)	(3,215)
Net accounts receivable	<u>18,401</u>	<u>11,837</u>
Grants receivable		
Federal agencies	699,019	1,245,812
Other grants receivable	191,352	195,000
Total grants receivable	<u>890,371</u>	<u>1,440,812</u>
Net accounts and grants receivable	<u>\$ 908,772</u>	<u>\$ 1,452,649</u>
Current portion	\$ 665,172	\$ 1,068,830
Due after one year	243,600	383,819
	<u>\$ 908,772</u>	<u>\$ 1,452,649</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

4. Pledges Receivable

Pledges receivable are recorded for unconditional promises to give to the MHS Fund and temporarily restricted gifts for current programs. Pledges receivable at June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Amounts due in less than one year	\$ 31,150	\$ 6,090
Allowance for doubtful accounts	(1,250)	(1,250)
Net pledges receivable	<u>\$ 29,900</u>	<u>\$ 4,840</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 statement of activities as a temporarily restricted gift in the period the agreement is established. There were grantor gifts of \$49,522 and \$100,000 in 2013 and 2012, respectively. Assets held in the agreements are reported at fair market value in the Society's statements of financial position. On an annual basis, the Society revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future liability for payments to grantors at June 30, 2013 is calculated using discount rates ranging from 1.2% to 6.2% and applicable mortality tables.

6. Endowment Investments

Endowment investments are carried at the aggregate fair market value and consist of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Equity securities	\$ 39,022,761	\$ 30,990,816
Fixed income (U.S. and other sovereign debt obligations)	9,113,918	9,421,666
Flexible capital (including fund-of-funds)	11,068,217	9,201,128
Inflation hedges (including real assets and TIPS)	8,472,487	11,520,784
Total	<u>\$ 67,677,383</u>	<u>\$ 61,134,394</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unrestricted funds		
General support funds	\$ 16,201,661	\$ 14,562,435
Funds designated by the Trustees for specific purposes	5,324,973	3,717,165
	<u>\$ 21,526,634</u>	<u>\$ 18,279,600</u>
Temporarily restricted funds		
General support funds	\$ 19,638,160	\$ 17,830,456
Library funds	7,023,341	6,430,908
Publication funds	3,208,025	2,862,332
Special purpose funds	358,841	266,263
	<u>\$ 30,228,367</u>	<u>\$ 27,389,959</u>
Permanently restricted funds		
General support funds	\$ 9,810,513	\$ 9,710,513
Library funds	2,922,030	2,922,030
Publication funds	1,588,345	1,588,345
Special purpose funds	1,601,494	1,243,947
	<u>\$ 15,922,382</u>	<u>\$ 15,464,835</u>

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

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 1,271,910	\$ 1,310,430
Realized and unrealized gains (losses)	6,901,180	(3,264,509)
Investment fees	(385,480)	(374,650)
	<u>\$ 7,787,610</u>	<u>\$ (2,328,729)</u>

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

7. Other Investments - Cash

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

	<u>2013</u>	<u>2012</u>
Cash equivalents – Federally insured cash deposit funds	<u>\$ 1,707,117</u>	<u>\$ 2,213,724</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

7. Other Investments - Cash (Continued)

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

	<u>2013</u>	<u>2012</u>
Unrestricted funds – Designated by Trustees		
Capital acquisitions fund	\$ 43,066	\$ 285,598
President’s discretionary fund	100,000	-
Operating funds reserve	1,333,000	1,782,900
	1,476,066	2,068,498
Temporarily restricted funds		
Temporarily restricted gifts and grants	231,051	145,226
Total	\$ 1,707,117	\$ 2,213,724

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

	<u>2013</u>	<u>2012</u>
Interest	\$ 4,359	\$ 4,766

8. Property and Equipment

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

	<u>Asset lives in years</u>	<u>2013</u>	<u>2012</u>
Land		\$ 200,000	\$ 200,000
Building and building renovations	10 to 50	14,498,432	13,738,880
Furniture and equipment	3 to 15	854,541	816,423
		15,552,973	14,755,303
Accumulated depreciation		(5,062,978)	(4,730,230)
		\$ 10,489,995	\$ 10,025,073

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$332,748 and \$324,961, respectively.

As of June 30, 2013 and 2012, 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, 2013 and 2012.

9. Pension Plan

The Society has a defined contribution retirement plan for its employees administered by the Teachers Insurance and Annuity Association of America. In 2013 and 2012 the Society made contributions to the plan of 8% of the compensation of all eligible employees and there are no employee contributions required. The Society’s contributions to the plan were \$283,974 and \$195,107 for the years ended June 30, 2013 and 2012, respectively. The contributions for 2013 include retirement contributions of \$79,960 (including \$57,090 relating to prior years) for part time employees that have worked over 1000 hours and have otherwise met plan eligibility requirements.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

9. Pension Plan (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.

10. 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 \$257,666 per the bank records at June 30, 2013 are insured by the Federal Deposit Insurance Corporation up to \$250,000. Balances in excess of \$250,000 are transferred to a federally insured cash deposit funds account. 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 a federally insured cash deposit funds account.

11. 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.

The Society, under the direction of its investment committee and in consultation with its investment advisor, have selected several independent investment managers to manage specific allocations of its endowment funds portfolio in accordance with an investment policy approved by the Trustees of the Society. In addition, the Society's investments in split-interest agreements are managed by independent investment managers. The investment managers report investment transactions and performance on a monthly basis and provide the Society with their audited financial statements which include detailed disclosures of its fair value methodology and measurements of investment assets and liabilities using the fair value hierarchy described above.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

11. Fair Value Measurements (Continued)

This disclosure information is used by the Society to present information about fair values of its investments in the statements of financial position classified according to the method for determining such fair values which is as follows:

As of June 30, 2013:

	Fair Value	Quoted Prices for Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Split-interest agreements				
Cash and cash equivalents	\$ 12,824	\$ 12,824		
Domestic equities	233,254	233,254		
Fixed income	118,950	118,950		
	<u>\$ 365,028</u>	<u>\$ 365,028</u>		
Endowment investments				
Domestic equities	\$ 19,995,372	\$ 19,559,304	\$ 436,068	\$ -
International equities	18,797,662	10,425,339	8,360,067	12,256
Private equities	229,727	-	-	229,727
Total equities	<u>39,022,761</u>	<u>29,984,643</u>	<u>8,796,135</u>	<u>241,983</u>
Fixed income (U.S. and other sovereign debt obligations)	9,113,918	33,216	9,080,702	-
Flexible capital (including fund-of-funds)	11,068,217	3,196,486	3,534,501	4,337,230
Inflation hedges (including real assets and TIPS)	8,472,487	3,169,123	5,261,911	41,453
	<u>\$ 67,677,383</u>	<u>\$ 36,383,468</u>	<u>\$ 26,673,249</u>	<u>\$ 4,620,666</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2013 and 2012

11. Fair Value Measurements (Continued)

As of June 30, 2012:	Fair Value	Quoted Prices for Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Split-interest agreements				
Cash and cash equivalents	\$ 46,968	\$ 46,968		
Domestic equities	154,998	154,998		
Fixed income	108,453	108,453		
	<u>\$ 310,419</u>	<u>\$ 310,419</u>		
Endowment investments				
Domestic equities	\$ 15,936,382	\$ 15,503,280	\$ 433,102	\$ -
International equities	14,727,457	7,707,356	7,009,879	10,222
Private equities	326,977	-	-	326,977
Total equities	<u>30,990,816</u>	<u>23,210,636</u>	<u>7,442,981</u>	<u>337,199</u>
Fixed income (U.S. and other sovereign debt obligations)	9,201,128	48,188	9,152,940	-
Flexible capital (including fund-of-funds)	9,421,666	2,476,586	3,321,487	3,623,593
Inflation hedges (including real assets and TIPS)	11,520,784	5,074,323	5,874,506	571,955
	<u>\$ 61,134,394</u>	<u>\$ 30,809,733</u>	<u>\$ 25,791,914</u>	<u>\$ 4,532,747</u>

The reconciliation of the changes in the fair value of endowment investments classified as Level 3 during the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Balance at the beginning of the year	\$ 4,532,747	\$ 4,868,327
Additional investments	3,241	-
Redemptions	(204,686)	(220,594)
Unrealized gain (loss)	289,364	(114,986)
Balance at the end of the year	<u>\$ 4,620,666</u>	<u>\$ 4,532,747</u>

12. Subsequent Events

The Society has evaluated all subsequent events through December 10, 2013, the date the financial statements were available to be issued.

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

A summary of changes during the year ended June 30, 2013 in Trustee designated, temporarily restricted and permanently restricted net assets included in the statement of activities classified by purpose is shown on page 18.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements

For the Years Ended June 30, 2013 and 2012

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

	Balance July 1, 2012	Contributions and Other Additions	Investment Income, Net	Realized and Unrealized Gains	Expenditures and Appropriations	Balance June 30, 2013
Trustee Designated Net Assets						
General support	\$ 2,847,115	\$ 655,138	\$ 15,462	\$ 86,441	\$ (1,214,995)	\$ 2,389,161
Library operations	469,553	1,232,985	18,972	147,704	(44,104)	1,825,110
Publications	2,468,995	-	35,207	274,103	(117,537)	2,660,768
	<u>\$ 5,785,663</u>	<u>\$ 1,888,123</u>	<u>\$ 69,641</u>	<u>\$ 508,248</u>	<u>\$ (1,376,636)</u>	<u>\$ 6,875,039</u>
Temporarily Restricted Net Assets						
General support	\$ 19,492,903	\$ 597,059	\$ 392,845	\$ 3,058,465	\$ (2,670,308)	\$ 20,870,964
Library operations	6,430,908	-	133,372	1,038,343	(579,282)	7,023,341
Publications	2,862,332	-	63,466	494,105	(211,878)	3,208,025
Special purposes	553,035	4,900	23,805	185,324	(121,451)	645,613
	<u>\$ 29,339,178</u>	<u>\$ 601,959</u>	<u>\$ 613,488</u>	<u>\$ 4,776,237</u>	<u>\$ (3,582,919)</u>	<u>\$ 31,747,943</u>
Permanently Restricted Net Assets						
General support	\$ 9,710,513	\$ 100,000	\$ -	\$ -	\$ -	\$ 9,810,513
Library operations	2,922,030	-	-	-	-	2,922,030
Publications	1,588,345	-	-	-	-	1,588,345
Special purposes	1,243,947	357,547	-	-	-	1,601,494
	<u>\$ 15,464,835</u>	<u>\$ 457,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,922,382</u>