

Massachusetts Historical Society, Inc.

Financial Statements

**For the Years Ended
June 30, 2014 and 2013**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014, 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, 2014, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements Report on Comparative Information

The financial statements of Massachusetts Historical Society, Inc.'s as of June 30, 2013 and for the year then ended were audited by Braver P.C., whose practice combined with Marcum LLP as of January 1, 2014, and whose report dated December 10, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Marcum LLP

Needham, Massachusetts
January 20, 2015

Massachusetts Historical Society, Inc.

Statements of Financial Position
June 30, 2014 and 2013

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<i>Assets</i>				
Cash and cash equivalents	\$ 106,846	\$ 225,000	\$ -	\$ 331,846
Other investments - cash	1,563,622	135,016	-	1,698,638
Accounts and grants receivable, net	6,035	561,062	-	567,097
Pledges receivable, net	2,950	250	-	3,200
Prepaid expenses	108,909	-	-	108,909
Total current assets	1,788,362	921,328	-	2,709,690
Grants receivable - non-current	-	250,600	-	250,600
Endowment investments	24,697,248	35,501,246	16,096,907	76,295,401
Split-interest agreements	-	486,994	-	486,994
Property and equipment, net	10,429,811	-	-	10,429,811
Total assets	\$ 36,915,421	\$ 37,160,168	\$ 16,096,907	\$ 90,172,496
<i>Liabilities and Net Assets</i>				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 361,030	\$ -	\$ -	\$ 361,030
Deferred dues revenue	79,860	-	-	79,860
Total current liabilities	440,890	-	-	440,890
Split-interest agreements	-	284,343	-	284,343
Deferred lease revenue	394,432	-	-	394,432
Total liabilities	835,322	284,343	-	1,119,665
<i>Net assets</i>				
Unrestricted	28,690,599	-	-	28,690,599
Trustee designated	7,389,500	-	-	7,389,500
Total unrestricted	36,080,099	-	-	36,080,099
Temporarily restricted	-	36,875,825	-	36,875,825
Permanently restricted	-	-	16,096,907	16,096,907
Total net assets	36,080,099	36,875,825	16,096,907	89,052,831
Total liabilities and net assets	\$ 36,915,421	\$ 37,160,168	\$ 16,096,907	\$ 90,172,496

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.

Statement of Activities

For the Year Ended June 30, 2014

(with Comparative Totals for 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and support				
Gifts	\$ 900,110	\$ 167,974	\$ 174,525	\$ 1,242,609
Bequests	200,000	-	-	200,000
Grants	376,138	608,388	-	984,526
Endowment support for operations	2,964,100	-	-	2,964,100
Seminars, conferences, workshops and other events	194,934	-	-	194,934
Members and Fellows dues	120,185	-	-	120,185
Royalties, reproductions and rights	92,333	-	-	92,333
Sales of publications	7,643	-	-	7,643
Miscellaneous income	11,689	-	-	11,689
Investment income from other investments	4,639	-	-	4,639
Endowment activity:				
Investment income, net of fees	308,544	660,516	-	969,060
Purchase of collections	(234,142)	-	-	(234,142)
Proceeds from sale of collections	-	-	-	-
Realized and unrealized gain on investments	3,331,300	7,131,375	-	10,462,675
Endowment draw for operations	(2,964,100)	-	-	(2,964,100)
Net assets released from restrictions	3,440,371	(3,440,371)	-	-
Operating expenses	8,753,744	5,127,882	174,525	14,056,151
Programs	3,944,053	-	-	3,944,053
Management and general	1,071,389	-	-	1,071,389
Fundraising	515,676	-	-	515,676
	5,531,118	-	-	5,531,118
Change in net assets	3,222,626	5,127,882	174,525	8,525,033
Net assets at beginning of year	32,857,473	31,747,943	15,922,382	80,527,798
Net assets at end of year	\$ 36,080,099	\$ 36,875,825	\$ 16,096,907	\$ 89,052,831

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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Programs		
Salaries, payroll taxes and benefits	\$ 2,697,099	\$ 2,815,965
Occupancy costs	294,301	305,568
Depreciation	300,830	282,836
Grant funded program expenses:		
Research fellows and projects	167,854	171,307
Public programs and workshops	61,059	200,953
Collections processing	44,646	49,626
Exhibits	179,073	58,432
Offsite storage	62,567	60,003
Printing	48,217	54,842
Computer supplies, software and support	27,878	15,824
Seminars and conferences	4,552	14,409
Conservation	15,459	11,355
Consulting and outside services	3,319	3,816
Sponsorship expense	14,625	10,250
Other expenses	22,574	27,304
	<u>\$ 3,944,053</u>	<u>\$ 4,082,490</u>
Management and general		
Salaries, payroll taxes and benefits	\$ 719,800	\$ 792,309
Occupancy costs	82,753	69,373
Depreciation	35,392	33,275
Computer supplies, software and support	12,219	19,785
Advertising and public relations	27,889	32,138
Auditing	44,000	46,000
Legal	20,645	6,458
Consulting and outside services	17,406	7,762
Cultivation, meetings and events	70,990	79,169
Other expenses	40,295	42,402
	<u>\$ 1,071,389</u>	<u>\$ 1,128,671</u>
Fundraising		
Salaries, payroll taxes and benefits	\$ 351,065	\$ 407,797
Occupancy costs	33,500	28,600
Depreciation	17,696	16,637
Printing	28,461	18,251
Computer supplies, software and support	20,760	21,094
Cultivation, meetings and events	53,168	45,175
Other expenses	11,026	7,602
	<u>\$ 515,676</u>	<u>\$ 545,156</u>

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 8,525,033	\$ 5,961,432
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	353,918	332,748
Gifts received for split interest agreements	(100,000)	(49,522)
Grants received for capital projects	(132,969)	(222,390)
Gifts and grants received for endowment	(384,525)	(462,447)
Proceeds from sale of collections	-	(1,232,985)
Investment income, net of management fees, reinvested	(969,060)	(886,430)
Increase in fair value of investments	(10,462,675)	(6,901,180)
Decrease (increase) in		
Accounts and grants receivable	91,075	543,877
Pledges receivable	26,700	(25,060)
Split-interest agreements	(21,966)	(5,087)
Prepaid expenses	(11,546)	(7,945)
Increase (decrease) in		
Accounts payable and accrued expenses	(146,028)	146,309
Liability for split-interest agreements	57,934	16,636
Deferred revenue	(5,643)	(9,234)
Net cash used in operating activities	<u>(3,179,752)</u>	<u>(2,801,278)</u>
Cash flows from investing activities		
Capital expenditures	(293,734)	(797,670)
Gifts for split-interest agreements invested	100,000	49,522
Gifts and grants invested	384,525	462,447
Proceeds from sale of collections	-	1,232,985
Investment sales	3,764,582	4,102,573
Investment purchases	(1,042,386)	(2,400,867)
Net cash provided by investing activities	<u>2,912,987</u>	<u>2,648,990</u>
Cash flows from financing activities		
Grants received for capital projects	<u>132,969</u>	<u>222,390</u>
Net cash provided by financing activities	<u>132,969</u>	<u>222,390</u>
Net increase (decrease) in cash and cash equivalents	(133,796)	70,102
Cash and cash equivalents at beginning of year	<u>465,642</u>	<u>395,540</u>
Cash and cash equivalents at end of year	<u>\$ 331,846</u>	<u>\$ 465,642</u>

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2014 and 2013

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. 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, 2014 and 2013

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 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.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (Continued)

Deferred Revenue

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

Collections

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

The collections, which were acquired through purchases and donor contributions since the Society's inception, are not recognized as assets on the statements of financial position. Purchases of collections are recorded as a reduction in unrestricted net assets if purchased with unrestricted assets and as a reduction in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Proceeds from sales of collections are reflected in the 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 of June 30, 2014, 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, 2014, 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, 2014 and 2013 was 4.7% and 4.8%, respectively. The Trustees also approved the appropriation of \$50,000 in each year for the payment of investment advisory services.

In June 2014, the Trustees approved a spending percentage of 4.6% for fiscal year 2015.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2014 and 2013

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 total net real (inflation-adjusted) rate of return of 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, 2014 and 2013

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, 2013, from which the summarized information was derived. In addition, certain amounts reported in the financial statements for 2013, have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on 2013 changes in net assets.

3. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 6,035	\$ 21,616
Less allowance for doubtful accounts	<u>(3,215)</u>	<u>(3,215)</u>
Net accounts receivable	<u>2,820</u>	<u>18,401</u>
Grants receivable		
Federal agencies	764,877	699,019
Other grants receivable	<u>50,000</u>	<u>191,352</u>
Total grants receivable	<u>814,877</u>	<u>890,371</u>
Net accounts and grants receivable	<u>\$ 817,697</u>	<u>\$ 908,771</u>
Current portion	\$ 567,097	\$ 665,172
Due after one year	<u>250,600</u>	<u>243,600</u>
	<u>\$ 817,697</u>	<u>\$ 908,772</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2014 and 2013

4. Pledges Receivable

Pledges receivable are recorded for unconditional promises to give and temporarily restricted gifts for current programs. Pledges receivable at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Amounts due in less than one year	\$ 4,450	\$ 31,150
Allowance for doubtful accounts	<u>(1,250)</u>	<u>(1,250)</u>
Net pledges receivable	<u>\$ 3,200</u>	<u>\$ 29,900</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 \$100,000 and \$ 49,522 in 2014 and 2013, respectively. Assets held in the agreements are reported at fair value in the Society's statements of financial position. On an annual basis, the Society revalues the present value liability for future distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future liability for payments to grantors at June 30, 2014 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 value and consist of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Equity securities	\$ 44,270,000	\$ 39,022,761
Fixed income (U.S. and other sovereign debt obligations)	10,440,224	9,113,918
Flexible capital (including fund-of-funds)	12,059,674	11,068,217
Inflation hedges (including real assets and TIPS)	<u>9,525,503</u>	<u>8,472,487</u>
Total	<u>\$ 76,295,401</u>	<u>\$ 67,677,383</u>

Massachusetts Historical Society, Inc.

**Notes to the Financial Statements
For the Years Ended June 30, 2014 and 2013**

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unrestricted funds		
General support funds	\$ 18,871,370	\$ 16,201,661
Funds designated by the Trustees for specific purposes	<u>5,825,878</u>	<u>5,324,973</u>
	<u>\$ 24,697,248</u>	<u>\$ 21,526,634</u>
Temporarily restricted funds		
General support funds	\$ 22,883,537	\$ 19,638,160
Library funds	8,237,165	7,023,341
Publication funds	3,802,628	3,208,025
Special purpose funds	<u>577,916</u>	<u>358,841</u>
	<u>\$ 35,501,246</u>	<u>\$ 30,228,367</u>
Permanently restricted funds		
General support funds	\$ 9,810,513	\$ 9,810,513
Library funds	2,922,030	2,922,030
Publication funds	1,588,345	1,588,345
Special purpose funds	<u>1,776,019</u>	<u>1,601,494</u>
	<u>\$ 16,096,907</u>	<u>\$ 15,922,382</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 1,386,410	\$ 1,271,910
Realized and unrealized gains	10,462,675	6,901,180
Investment fees	<u>(417,350)</u>	<u>(385,480)</u>
	<u>\$ 11,431,735</u>	<u>\$ 7,787,610</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>2014</u>	<u>2013</u>
Cash equivalents – Federally insured cash deposit funds	<u>\$ 1,698,638</u>	<u>\$ 1,707,117</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2014 and 2013

7. Other Investments - Cash (Continued)

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

	<u>2014</u>	<u>2013</u>
Unrestricted funds – Designated by Trustees		
Capital acquisitions fund	\$ 240,622	\$ 43,066
President’s discretionary fund	200,000	100,000
Operating funds reserve	1,123,000	1,333,000
	1,563,622	1,476,066
Temporarily restricted funds		
Temporarily restricted gifts and grants	135,016	231,051
Total	\$ 1,698,638	\$ 1,707,177

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

	<u>2014</u>	<u>2013</u>
Interest	\$ 4,403	\$ 4,359

8. Property and Equipment

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

	<u>Asset lives in years</u>	<u>2014</u>	<u>2013</u>
Land		\$ 200,000	\$ 200,000
Building and building renovations	10 to 50	14,697,975	14,498,432
Furniture and technology equipment	3 to 15	766,510	854,541
		15,664,485	15,552,973
Accumulated depreciation		(5,234,674)	(5,062,978)
		\$ 10,429,811	\$ 10,489,995

Depreciation expense for the years ended June 30, 2014 and 2013 amounted to \$353,918 and \$332,748, respectively. Fully depreciated technology equipment no longer in use with an original cost totaling \$182,222 was removed from the accounts in 2014.

As of June 30, 2014 and 2013, 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, 2014 and 2013.

9. Pension Plan

The Society has a defined contribution retirement plan for its employees administered by the Teachers Insurance and Annuity Association of America. The Society made contributions to the plan of 6% and 8% in 2014 and 2013, respectively, of the compensation of all eligible employees and there are no employee contributions required. The society’s contributions to the plan were \$175,397 and \$283,974 for the years ended June 30, 2014 and 2013, respectively.

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2014 and 2013

9. Pension Plan (Continued)

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.

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 \$150,007 per the bank records at June 30, 2014 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, has 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 an independent investment manager. The respective investment funds report investment transactions and performance on a monthly basis and provide the Society with their audited financial statements which include detailed disclosures of the 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, 2014 and 2013

11. Fair Value Measurements (Continued)

The following is a summary description of the valuation methodologies used:

Cash and cash equivalents:

Consist of cash and certificates of deposit and are measured in Level 1 at par in U.S. dollars that approximates market.

~~Domestic and international equities and fixed income obligations of the U.S. and other sovereign debt:~~

~~Level 1 securities are measured based on quoted market prices in an exchange market.~~

~~Level 2 securities are measured based on independent unadjusted market-based prices received from third party pricing services that utilizes pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.~~

Flexible capital, inflation hedges and private equities:

Level 1 and 2 securities are measured as described above.

Level 3 securities are measured based on fund management estimates as observable market data is not available. These estimates are based upon the terms and conditions of the organizational documents of the respective entities with further consideration to portfolio risks.

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 described as follows:

As of June 30, 2014:

	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	\$ 24,656	\$ 24,656		
Domestic equities	306,468	306,468		
Fixed income	155,870	155,870		
	<u>\$ 486,994</u>	<u>\$ 486,994</u>		
Endowment investments				
Domestic equities	\$ 26,922,032	\$ 26,485,598	\$ 436,434	\$ -
International equities	17,094,306	12,453,480	4,590,401	50,425
Private equities	253,662	-	-	253,662
Total equities	<u>44,270,000</u>	<u>38,939,078</u>	<u>5,026,835</u>	<u>304,087</u>
Fixed income (U.S. and other sovereign debt obligations)	10,440,224	444,193	9,996,031	-
Flexible capital (including fund-of-funds)	12,059,674	3,299,590	3,887,245	4,872,839
Inflation hedges (including real assets and TIPS)	9,525,503	4,236,672	5,241,498	47,333
	<u>\$ 76,295,401</u>	<u>\$ 46,919,533</u>	<u>\$ 24,151,609</u>	<u>\$ 5,224,259</u>

Massachusetts Historical Society, Inc.

Notes to the Financial Statements For the Years Ended June 30, 2014 and 2013

11. Fair Value Measurements (Continued)

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>

The reconciliation of the changes in the fair value of endowment investments classified as Level 3 during the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Balance at the beginning of the year	\$ 4,620,666	\$ 4,532,747
Additional investments	21,026,289	3,241
Redemptions	(7,054,107)	-
Transfers	(10,743,514)	(204,686)
Unrealized gain (loss)	(2,625,075)	289,364
Balance at the end of the year	<u>\$ 5,224,259</u>	<u>\$ 4,620,666</u>

12. Subsequent Events

The Society has evaluated all subsequent events through January 20, 2015, 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, 2014 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, 2014 and 2013**

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

	Balance July 1, 2013	Contributions and Other Additions	Investment Income, Net	Realized and Unrealized Gains	Expenditures and Appropriations	Balance June 30, 2014
Trustee Designated Net Assets						
General support	\$ 2,389,161	\$ 586,888	\$ 16,398	\$ 129,511	\$ (615,219)	\$ 2,506,739
Library operations	1,825,110	10,000	26,187	282,732	(251,891)	1,892,138
Publications	2,660,768	-	38,038	410,679	(118,862)	2,990,623
	<u>\$ 6,875,039</u>	<u>\$ 596,888</u>	<u>\$ 80,623</u>	<u>\$ 822,922</u>	<u>\$ (985,972)</u>	<u>\$ 7,389,500</u>
Temporarily Restricted Net Assets						
General support	\$ 21,157,736	\$ 776,362	\$ 420,989	\$ 4,545,285	\$ (2,642,256)	\$ 24,258,116
Library operations	7,023,341	-	142,177	1,535,026	(463,379)	8,237,165
Publications	3,208,025	-	68,566	740,299	(214,262)	3,802,628
Special purposes	358,841	-	28,784	310,765	(120,474)	577,916
	<u>\$ 31,747,943</u>	<u>\$ 776,362</u>	<u>\$ 660,516</u>	<u>\$ 7,131,375</u>	<u>\$ (3,440,371)</u>	<u>\$ 36,875,825</u>
Permanently Restricted Net Assets						
General support	\$ 9,810,513	\$ -	\$ -	\$ -	\$ -	\$ 9,810,513
Library operations	2,922,030	-	-	-	-	2,922,030
Publications	1,588,345	-	-	-	-	1,588,345
Special purposes	1,601,494	174,525	-	-	-	1,776,019
	<u>\$ 15,922,382</u>	<u>\$ 174,525</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,096,907</u>