

Old Dartmouth Historical Society

Also Known As “The New Bedford Whaling Museum”

Financial Statements and Additional Information (with Independent Auditors’ Report Thereon)

December 31, 2015 and 2014

**OLD DARTMOUTH HISTORICAL SOCIETY
(also known as “The New Bedford Whaling Museum”)**

*Financial Statements
and Additional Information*

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Independent Auditors' Report

To the Board of Trustees
Old Dartmouth Historical Society
(also known as "The New Bedford Whaling Museum")
New Bedford, Massachusetts

Report on the financial statements:

We have audited the accompanying financial statements of Old Dartmouth Historical Society (also known as "The New Bedford Whaling Museum") (a Massachusetts not-for-profit organization) (hereinafter "Society") which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 Society'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 Society'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.

To the Board of Trustees
Old Dartmouth Historical Society
(also known as "The New Bedford Whaling Museum")
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Opinion:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Old Dartmouth Historical Society as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other reporting required by Government Auditing Standards:

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2016 on our consideration of Old Dartmouth Historical Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Old Dartmouth Historical Society's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Allan Smith and Company CPA's PC". The signature is written in a cursive, slightly slanted style.

Allan Smith and Company, CPA's PC
Stoughton, Massachusetts
April 27, 2016

OLD DARTMOUTH HISTORICAL SOCIETY
(also known as "The New Bedford Whaling Museum")

Statements of Financial Position

December 31, 2015 and 2014

	December 31,	
<u>Assets:</u>	2015	2014
Current assets:		
Cash and cash equivalents	\$ 1,130,893	\$ 4,157,213
Restricted cash	30,543	30,520
Accounts receivable	98,871	79,495
Pledges receivable net, current portion	310,699	829,424
Inventory	116,751	138,057
Prepaid expenses	25,739	24,461
Total current assets	1,713,496	5,259,170
Long-term assets:		
Land, buildings and equipment, net	17,382,376	11,671,210
Long-term investments	8,715,672	8,974,610
Pledges receivable, net of current portion	95,307	242,793
Charitable remainder trust receivable	1,553,385	1,597,835
Beneficial interest in perpetual trusts	3,023,097	3,183,100
Museum collections (note 1)	-	-
Total long-term assets	30,769,837	25,669,548
Total assets	\$ 32,483,333	\$ 30,928,718
 <u>Liabilities and net assets:</u>		
Current liabilities:		
Accounts payable	\$ 336,897	\$ 139,081
Accrued expenses	19,907	24,325
Liability under split-interest agreements	233,022	245,803
Deferred revenue	443,284	509,605
Total current liabilities	1,033,110	918,814
Long-term liabilities:		
Custodial funds	30,543	30,520
Long-term note payable, draw to capital expenditure	1,475,000	-
Total long-term liabilities	1,505,543	30,520
Total liabilities	2,538,653	949,334
Net assets:		
Unrestricted	23,208,563	21,254,138
Temporarily restricted	2,775,611	4,606,687
Permanently restricted	3,960,506	4,118,559
Total net assets	29,944,680	29,979,384
Total liabilities and net assets	\$ 32,483,333	\$ 30,928,718

See accompanying notes to financial statements.

OLD DARTMOUTH HISTORICAL SOCIETY
(also known as "The New Bedford Whaling Museum")

Statement of Activities

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Operations:</u>				
Revenue and support:				
Admissions	\$ 385,853	\$ -	\$ -	\$ 385,853
Membership, programs and unrestricted support	1,242,166	-	-	1,242,166
Grants and restricted support	832,440	-	1,950	834,390
Museum store	317,449	-	-	317,449
In-kind gifts and services	471,116	-	-	471,116
Other earned income, net	231,412	-	-	231,412
Total revenue and support from operations	3,480,436	-	1,950	3,482,386
Expenses:				
Collections and exhibitions	1,046,851	-	-	1,046,851
Management and general	800,790	-	-	800,790
In-kind gifts and services	471,116	-	-	471,116
Education and programs	634,356	-	-	634,356
Development	246,603	-	-	246,603
Museum store	245,676	-	-	245,676
Library and publications	249,603	-	-	249,603
Digital initiatives	103,855	-	-	103,855
Total expenses from operations	3,798,850	-	-	3,798,850
Net assets released from restrictions for operations	170,141	(170,141)	-	-
Change in net assets from operations	(148,273)	(170,141)	1,950	(316,464)
<u>Other non-operational activities:</u>				
Contributions for capital purposes and related expenses:				
Campaign contributions	-	1,466,849	-	1,466,849
Campaign expense including campaign related bad debts	(166,610)	-	-	(166,610)
Depreciation expense	(904,433)	-	-	(904,433)
Interest expense	(5,861)	-	-	(5,861)
Total contributions for capital purposes and related expenses	(1,076,904)	1,466,849	-	389,945
Deaccession (accession) of objects for collection:				
(Accession) deaccession of objects for collection	(69,377)	80,262	-	10,885
Releases of restrictions for purpose of collections	69,377	(69,377)	-	-
Accession of objects for collection, net	-	10,885	-	10,885
Non-operational net assets released from restrictions	3,100,452	(3,100,452)	-	-
Net investment return	66,369	19,014	-	85,383
Change in value of split interest agreements	12,781	(57,231)	(160,003)	(204,453)
Change in non-operational activities	2,102,698	(1,660,935)	(160,003)	281,760
Change in net assets	1,954,425	(1,831,076)	(158,053)	(34,704)
Net assets, beginning	21,254,138	4,606,687	\$ 4,118,559	29,979,384
Net assets, ending	\$ 23,208,563	\$ 2,775,611	\$ 3,960,506	\$ 29,944,680

OLD DARTMOUTH HISTORICAL SOCIETY
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Statement of Activities

Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operations:				
Revenue and support:				
Admissions	\$ 406,405	\$ -	\$ -	\$ 406,405
Membership, programs and unrestricted support	1,251,597	-	-	1,251,597
Grants and restricted support	1,140,199	-	-	1,140,199
Museum store	341,661	-	-	341,661
In-kind gifts and services	511,941	-	-	511,941
Other earned income, net	197,298	-	-	197,298
Total revenue and support from operations	3,849,101	-	-	3,849,101
Expenses:				
Collections and exhibitions	1,259,540	-	-	1,259,540
Management and general	717,082	-	-	717,082
In-kind gifts and services	511,941	-	-	511,941
Education and programs	779,832	-	-	779,832
Museum store	289,397	-	-	289,397
Development	252,863	-	-	252,863
Library and publications	219,393	-	-	219,393
Digital initiatives	130,214	-	-	130,214
Total expenses from operations	4,160,262	-	-	4,160,262
Net assets released from restrictions for operations	486,201	(486,201)	-	-
Change in net assets from operations	175,040	(486,201)	-	(311,161)
Other non-operational activities:				
Contributions for capital purposes and related expenses:				
Campaign contributions	-	3,318,321	-	3,318,321
Campaign expense including campaign related bad debts	(81,672)	-	-	(81,672)
Depreciation expense	(852,193)	-	-	(852,193)
Total contributions for capital purposes and related expenses	(933,865)	3,318,321	-	2,384,456
Deaccession (accession) of objects for collection:				
(Accession) deaccession of objects for collection	(16,719)	4,585	-	(12,134)
Releases of restrictions for purpose of collections	16,719	(16,719)	-	-
Deaccession (accession) of objects for collection, net	-	(12,134)	-	(12,134)
Non-operational net assets released from restrictions	2,304,226	(2,304,226)	-	-
Net investment return	284,860	101,182	-	386,042
Change in value of split interest agreements	13,486	16,784	(1,875)	28,395
Change in non-operational activities	1,668,707	1,119,927	(1,875)	2,786,759
Change in net assets	1,843,747	633,726	(1,875)	2,475,598
Net assets, beginning	19,410,391	3,972,961	4,120,434	27,503,786
Net assets, ending	\$ 21,254,138	\$ 4,606,687	\$ 4,118,559	\$ 29,979,384

OLD DARTMOUTH HISTORICAL SOCIETY
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Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	Years Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (34,704)	\$ 2,475,598
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	904,433	852,193
Changes in beneficial interest in perpetual trusts	160,003	1,875
Unrealized losses on investments	264,157	140,837
Realized gain on sale of investments	(251,802)	(348,931)
Restricted cash	(23)	(8)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(19,376)	(10,011)
Pledges receivable net of collections for long-lived assets	(453,802)	(1,106,290)
Inventory	21,306	(21,751)
Prepaid expenses	(1,278)	2,319
Charitable remainder trust receivable	44,450	(30,270)
Increase (decrease) in liabilities:		
Accounts payable	197,816	23,260
Accrued expenses	(4,418)	(37,642)
Liability under split-interest agreements	(12,781)	(13,486)
Deferred revenue	(66,321)	(222,261)
Custodial funds	23	8
Total adjustments	782,387	(770,158)
Net cash provided by operating activities	747,683	1,705,440
Cash flows from investing activities:		
Land, buildings and equipment acquisitions and construction in progress	(6,615,599)	(759,223)
Purchases of long-term investments	(1,739,338)	(2,816,872)
Sales of long-term investments	1,985,921	2,665,661
Net cash used in investing activities	(6,369,016)	(910,434)
Cash flows from financing activities:		
Advances from the draw to capital expenditure note payable	1,475,000	-
Collections of pledges for long-lived assets	1,120,013	975,000
Net cash provided by financing activities	2,595,013	975,000
Net (decrease) increase in cash and cash equivalents	(3,026,320)	1,770,006
Cash and cash equivalents, beginning of year	4,157,213	2,387,207
Cash and cash equivalents, end of year	\$ 1,130,893	\$ 4,157,213
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid during the year for interest	\$ 5,861	\$ -

See accompanying notes to financial statements.

OLD DARTMOUTH HISTORICAL SOCIETY
(also known as “The New Bedford Whaling Museum”)

Notes to Financial Statements

1. Organization and summary of significant accounting policies:

Organization and nature of operations:

Old Dartmouth Historical Society (hereinafter “Society”) is a Massachusetts not-for-profit corporation established in 1903. The Society’s mission is to “educate and interest all the public in the historical interaction worldwide of humans with whales; in the history of Old Dartmouth and adjacent communities and in regional maritime activities”. The Society is commonly referred to as the New Bedford Whaling Museum, or The Whaling Museum.

The Society houses one of the world’s most distinguished collections of maritime art and history, spanning five (5) centuries. The collections are of local, regional, national and international significance. The collection has two (2) categories. The first category is related to the history of whaling. The Society has, by far, the world’s largest and best developed holding of whaling related artifacts. The second category is the interpreted social and economic history of the region.

A summary of significant accounting policies consistently applied in the preparation of the financial statements follows:

Use of estimates and assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Society’s management to make estimates and assumptions. These affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include the valuation assumptions associated with the charitable remainder trust receivable and the valuation assumptions associated with the the net realizable value of pledges receivable. Actual results could differ from those estimates and assumptions.

Financial statement presentation:

The financial statements are presented on the accrual basis and in accordance with the reporting principles of not-for-profit accounting. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets comprised of public support and program revenues which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor. The governing board of the Society may elect to designate such resources for specific purposes. This designation may be removed at the Board’s discretion.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions which permit the donee organization to expend the assets as specified and are satisfied either by the passage of time or by actions of the Society. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions in the period in which the donor-imposed stipulations are met or the stipulated time restrictions have passed. Resources of this nature originate from contributions, grants, bequests, contracts and investment income earned on restricted funds.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Financial statement presentation - continued:

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Grants, which are limited to the use of various programs, are reflected as unrestricted revenue if the funds are received and spent during the same year and if they support the activities of the Society within the limits of the Society’s articles of organization. Grant and contract receipts in excess of revenue recognized are presented as deferred revenue.

Gifts of long-lived assets with explicit restrictions that specify how the donated assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions as to how these long-lived assets must be maintained, the Society reports the expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents:

For purposes of the Statement of Cash Flows, the Society considers all highly liquid debt instruments and money market funds when purchased, other than those held in the investment portfolio, with a maturity of three (3) months or less to be cash equivalents.

Accounts receivable and uncollectible accounts:

All accounts receivable are considered collectible at year-end. Accounts receivable over ninety (90) days old are considered past due and are written off routinely after it is evident that the collection effort has little or no chance of near term success. The Society has no significant past due accounts receivable at December 31, 2015 and 2014. The Society uses the direct method in writing off uncollectible accounts receivable because its effect on the financial statements is not materially different from the results that would have been obtained under the allowance method required by accounting principles generally accepted in the United States of America.

Pledges receivable and contributions:

Contributions, including unconditional promises to give, are recognized as revenue in the period received or promised. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of publicly traded securities are recorded at their fair value at the time of donation. It is the Society’s policy to convert contributions of marketable securities to cash as soon as practical and prudent, and record them at their estimated fair value at the date of donation.

Unconditional promises to give, that are expected to be collected within one (1) year, are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years, are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate adjusted for a market risk premium or the credit worthiness of each donor. Amortization of the discounts is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Pledges receivable and contributions - continued:

Pledges receivable are made primarily by individuals located throughout Southeastern Massachusetts and are reflected at the present value of estimated future cash flows using a risk adjusted discount rate of approximately five percent (5%).

Contributions of assets other than cash are recorded at their estimated fair market value at the date received.

Inventory:

Inventories are stated at average cost and reduced to net realizable value as appropriate.

Land, buildings and equipment:

Land, buildings and equipment are stated at cost at the date of acquisition or fair value at the date of donation, in the case of gifts. Expenditures that significantly add to the productivity or extend the useful lives of buildings and equipment are capitalized. Other expenditures for maintenance and repairs are charged to operations in the year the costs are incurred.

The Society performs an informal capital needs assessment on a routine basis. Currently, the long-lived assets held require no significant scheduled maintenance that has not been contemplated in the long-term capital budgeting process. The cost of routine and non-routine maintenance is funded on a “pay as you go” basis.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	25 – 39 years
Improvements	10 – 15 years
Equipment	7 years
Vehicles	5 years

Investments and endowment matters:

The long term focus of the Society’s investment portfolio is to support the Society’s mission by providing a reliable source of funds for current and future use.

The Society records investments at fair market value, which represents the value on the date of donation or cost on the date of purchase, plus reinvested earnings and appreciation or depreciation. Equity securities, registered mutual funds, exchange traded funds, government and corporate bonds are reported at fair value as described in Note 13. Investments denominated in foreign currency are translated at the year-end spot rate.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Investments and endowment matters - continued:

Income from pooled investments and realized gains and losses and unrealized appreciation and depreciation on security transactions are allocated among individual restricted and unrestricted funds on the basis of the respective percentage share in the fund balance which exists at the beginning of each month in which income and realized gains or losses and unrealized appreciation and depreciation are earned. Realized and unrealized gains and losses are reported in the Statements of Activities. Realized gains and losses are determined on the basis of average cost of securities sold based on purchases and sales reflected on a trade-date basis. Investment income (interest and dividends) is recognized as non-operational revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur. Dividend income is recorded on the ex-dividend date, and interest income is recorded on an accrual basis.

The Society’s investment funds, which include equity funds and fixed income funds, consist of the Society’s ownership interest in externally managed funds, which may be invested in less liquid investments. The fair value of these investments is determined based on the net asset value (hereinafter “NAV”) provided by the external investment managers of the underlying funds. The Society believes that the NAV of these investments is a reasonable estimate of fair value as of December 31, 2015 and 2014. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements.

The Society maintains permanently and temporarily restricted endowment investment funds that are reported in accordance with the reporting principles of not-for-profit accounting and consistent with the *Uniform Prudent Management of Institutional Funds Act of 2006* (hereinafter “UPMIFA”) effective June 30, 2009, when adopted by the Commonwealth of Massachusetts. UPMIFA is a model act approved by the Uniform Law Commission, formerly known as the National Conference of Commissioners on Uniform State Laws that serves as a guideline for states to use in enacting legislation.

The Board of Trustees of the Society has interpreted UPMIFA, as adopted by the Commonwealth of Massachusetts, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net 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 gift instrument 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 net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the funds, the purposes of the Society and the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Society, and the investment policies of the Society.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Investments and endowment matters - continued:

The Board of Trustees of the Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. This policy defines the endowment’s investment objectives, return and risk parameters, asset allocation ranges and targets, and benchmark performance measurement and evaluation. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity, or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are intended to maximize real total return over the long term (rolling five (5) year periods) while minimizing the risk of achieving returns over any twelve (12) month period through the diversification of investments within the prescribed classes. Real total return is defined as the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the U.S. Consumer Price Index. Actual returns in any given year may vary from this amount.

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 investment income yield (interest and dividends). The Society’s investment manager 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.

As approved by its Investment Committee, the Society has in recent years, including 2015 and 2014, appropriated for distribution approximately five percent (5%) of its endowment fund’s year-end fair value over the prior three (3) years through the preceding year-end. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at the total return less the spending policy. This is consistent with the Society’s objective to maintain the purchasing power of the endowment assets held in perpetuity, or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Split interest agreements:

The Society is the beneficiary of various split interest agreements as follows:

Beneficial Interest in Perpetual Trusts - The Society records a beneficial interest in a perpetual trust, at the fair value of the assets contributed to the trust, at the time the Society is notified of the trust’s existence. Annual changes to the market value of the assets are recognized as permanently restricted gains or losses.

Charitable Remainder Trusts - The Society records a receivable for charitable remainder trust agreements for which the Society is a beneficiary but is not the trustee of the assets. These trusts are created by donors, independent of the Society, and are neither in the possession nor under the control of the Society. The trusts are administered by outside fiscal agents as designated by the donor. The receivable is recorded at the present value of the anticipated residual interest in the trust and discounted at the rate commensurate with the risks involved. Upon termination of the trusts, the Society will receive a specified portion of the remaining trust assets.

OLD DARTMOUTH HISTORICAL SOCIETY
(also known as “The New Bedford Whaling Museum”)

Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Split interest agreements - continued:

Charitable Gift Annuities - The Society records assets, included in investments, received under charitable gift annuity agreements at the fair market value of the assets when the assets are received by the Society as trustee. Under charitable gift annuity contracts, the Society receives irrevocable title to contributed assets and agrees to make fixed period payments over various periods, generally the life of the donor. In conjunction with these gifts the Society records a liability, included in liability under split-interest agreements, equal to the present value of future cash flows expected to be paid to the income beneficiaries based upon the actuarial expected lives of the beneficiaries. The assets to fund these liabilities to donors are included as investments and are maintained in a separate and distinct fund. The discount rate used to calculate the present value of the obligations was three percent (3%) at December 31, 2015 and 2014. The excess of contributed assets over the annuity liability is recorded as unrestricted contribution revenue. The liabilities are adjusted annually for changes in the life expectancy of the income beneficiary, amortization of the discount and other changes in the estimates of future payments. The resulting changes are recorded as an unrestricted change in the value of the split interest agreements. Upon the donor’s death, the remaining liability is recognized as unrestricted contribution revenue.

Pooled Income Fund - The Society manages a pooled life income fund, included in investments, which is divided into units based on contributions from donors. Donors are assigned a specific number of units based on the proportion of the fair market value of the contribution to the total fair market value of the fund. The donors receive a portion of the actual income earned on those units, included in liability under split-interest agreements, until his or her death. At that time, the value of the units assigned to the donor will be available to the Society without restriction.

Grant income:

Grant revenue is recognized in the period the Society incurs reimbursable program expenditures.

Income taxes:

The Society is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined not to be a private foundation. The Society is also exempt from Massachusetts income tax. Therefore, no provision for income taxes has been made in the accompanying financial statements. Contributions to the Society qualify for the fifty percent (50%) charitable contribution deduction.

The Society will file not-for-profit tax returns in the U.S. federal jurisdiction, and the Commonwealth of Massachusetts where they operate and solicit funds. The Internal Revenue Service (IRS) and the Commonwealth of Massachusetts have not requested examination of open tax years of 2014, 2013 and 2012. The Commonwealth of Massachusetts has a statute of limitations of three (3) years. The Society’s U.S. federal and Commonwealth of Massachusetts income tax returns prior to December 31, 2012 are closed. The Society is subject to a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. At December 31, 2015, the Society believes that it has no significant uncertain tax positions within any of its open tax years.

OLD DARTMOUTH HISTORICAL SOCIETY
(also known as “The New Bedford Whaling Museum”)

Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Collections:

The collections, which were acquired through purchases and contributions since the Society’s inception, are not recognized as assets on the Statements of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily restricted or permanently restricted net assets if the assets used to purchase the items are restricted by donors. The Society provides the resources to ensure the collections are protected and preserved. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes. The value of items of collection received is not reported as contributions or accessions in the Statements of Activities. Accessions of objects for the years ended December 31, 2015 and 2014 totaled \$69,377 and \$16,719, respectively. The Society sold artifacts, figureheads and prints in 2015 and 2014 from its collections that were properly deaccessioned. The net proceeds from these sales were \$80,262 and \$4,585 for the years ended December 31, 2015 and 2014.

Fair value of financial instruments – definition and measurement:

The Society measures certain assets and liabilities in accordance with FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. As such, fair value is defined as the price that would be received upon sale of an asset, or paid upon transfer of a liability, in an orderly transaction between market participants at the measurement date and in the principal, or most advantageous, market for that asset or liability. The fair value is calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the Society. In addition, the Society reports certain investments using the net asset value per share as determined by investment managers under the so called “practical expedient” method. The practical expedient method allows net asset values per share to represent fair value for reporting purposes when the criteria for using this method are met.

ASC Topic 820 establishes a hierarchy prioritizing the inputs used in measuring fair value into three (3) levels based on the extent to which inputs are observable in the market. Each fair value measurement is reported in one of the three (3) levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is also applied to investments valued using the net asset values determined by the practical expedient method depending upon the minimum investment “lock-up and notice periods” which provide time restrictions on the sale of the underlying funds. The three (3) levels of the fair value framework are as follows:

Level I – Quoted prices are available in active markets for identical instruments as of the reporting date. The type of instruments generally included in Level I include listed equity and debt securities publicly traded on a stock exchange.

Level II – Pricing inputs are based on quoted prices for similar instruments in active markets, which are either directly or indirectly observable as of the reporting date, and the fair value is determined through the use of model-based valuation methodologies. Instruments generally included in Level II are less liquid and may include restricted equity securities and over-the-counter derivatives including corporate bonds and loans as well as public company equity securities with legal restrictions. Level II assets include practical expedient investments with notice periods for redemption of ninety (90) days or less and alternative investments that are redeemable at or near the balance sheet date.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Fair value of financial instruments – definition and measurement - continued:

Level III – Pricing inputs are generally unobservable for these instruments and include situations where there is little or no market activity for the instrument. The inputs into the determination of fair value require significant management judgment and reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include discounted cash flow models or similar techniques. Instruments generally included in Level III are practical expedient investments with notice periods for redemption of more than ninety (90) days.

The measurement’s level for any qualifying assets and liabilities within this framework is based upon the lowest level of any input that is significant to the fair value measurement. Most investments classified in Level II and III consist of shares or units of investment funds as opposed to direct investments in the funds’ underlying holdings, which may be marketable. The Society reports transfers between levels as of the end of the reporting period. The classification of investments in the fair value hierarchy is not necessarily an indication of risks, liquidity, or degree of difficulty in estimating the fair value of each investment’s underlying assets and liabilities.

The Society’s financial instruments consist primarily of cash and cash equivalents, accounts and pledges receivable, investments, certain split interest agreements, accounts payable and accrued expenses. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value at December 31, 2015 and 2014, due to the relatively short maturity of these instruments. The fair value of the Society’s pledges receivable is based on the discounted cash flows analysis using U.S. Treasury yield curve interest rates consistent with the maturities of the pledges receivable and adjusted for consideration of the donor’s credit. The determination of the fair values of investments, certain perpetual and charitable trusts are reported at fair value in the accompanying Statements of Financial Position as described in Note 13.

Risks and uncertainties:

The fair values of the Society’s financial instruments have been determined at a specific point in time, based on relevant market information and information about the financial instrument. Estimates of fair value are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The Society may invest in various types of investment securities in accordance with its formal investment policy monitored by its Board of Trustees. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

1. Organization and summary of significant accounting policies – continued:

Operating activities:

Changes in unrestricted net assets are classified as either operating activities or non-operating activities. Non-operating activities include investment income (including interest and dividend income, realized and unrealized gains and losses on investments) reduced by the annual approved investment income draw to support operations, funds released from temporarily restricted net assets to support capital spending, comprehensive campaign activities and depreciation charges not integral to the operations of the Society and comprehensive collection activities. The measure of operating activities includes a percentage of investment income pursuant to the spending policy as determined and approved on an annual basis by the Board of Trustees. All other activities that are deemed by the administration to be ongoing, major and central to operations are reported as operating revenues and expenses.

In-kind contributions:

Contributions of goods and services are recognized when provided by individuals or organizations whose specialized skills would need to be purchased if not provided by donation or would create or enhance long-lived assets. Such skills include professional services. Contributed goods and services are reflected as contributions at their estimated fair market value at date of receipt if an objective basis exists for recording and assigning value to such donations.

Functional allocation of expenses:

The costs of providing the various programs and the administration of the Society have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the program services and supporting services benefited.

Fundraising expense:

The Society expenses fundraising costs as incurred. Fundraising expense for the years ended December 31, 2015 and 2014 totaled \$413,213 and \$334,535, respectively.

Reclassifications:

Certain reclassifications have been made to the 2014 financial statements to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported changes in net assets.

Subsequent events:

Subsequent events are transactions or events that occur after the Statement of Financial Position date, but before the financial statements are issued or available to be issued. The Society has evaluated subsequent events through April 27, 2016, which is the date the financial statements were available to be issued.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

2. Funds held in agency capacity:

Agency funds include funds entrusted to the Society for specific purposes, as follows:

Howland Cemetery Maintenance Fund – Represents funds invested in a certificate of deposit currently earning approximately one half of one percent (0.50%) interest, which had a balance of \$30,543 and \$30,520 as of December 31, 2015 and 2014, respectively. These funds must be used for cemetery maintenance in accordance with the donor’s wishes.

3. Pledges receivable:

Capital campaign and operations pledges receivable as of December 31 are presented as temporarily restricted net assets. These unconditional promises to give are to be received by the Society for years subsequent to December 31. The following schedule summarizes pledges receivable as of December 31:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 310,699	\$ 829,424
From one to five years	<u>105,558</u>	<u>272,208</u>
	416,257	1,101,632
Less: discount to net present value	(5,251)	(16,415)
Less: allowance for uncollectible pledges	<u>(5,000)</u>	<u>(13,000)</u>
 Net pledges receivable	 <u>\$ 406,006</u>	 <u>\$ 1,072,217</u>
 Current portion of pledges receivable	 \$ 310,699	 \$ 829,424
Pledges receivable, long-term	<u>95,307</u>	<u>242,793</u>
 Total pledges receivable, net	 <u>\$ 406,006</u>	 <u>\$ 1,072,217</u>

Pledges receivable are made primarily by individuals located throughout Southeastern Massachusetts and are reflected at the present value of estimated future cash flows using a risk adjusted rate of approximately five percent (5%). Of the total pledges receivable, \$269,950 and \$397,500 represent outstanding pledges from Trustees and employees of the Society as of December 31, 2015 and 2014, respectively.

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Notes to Financial Statements

4. Land, buildings and equipment:

Land, buildings and equipment consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 220,731	\$ 220,731
Buildings and improvements	27,174,898	20,087,419
Furniture, equipment and vehicles	1,771,937	1,581,235
Custodial program and equipment	<u>43,010</u>	<u>43,010</u>
	29,210,576	21,932,395
Less: accumulated depreciation	<u>(11,959,013)</u>	<u>(11,076,804)</u>
Subtotal	17,251,563	10,855,591
Construction in progress	<u>130,813</u>	<u>815,619</u>
Total land, buildings and equipment, net	<u>\$ 17,382,376</u>	<u>\$ 11,671,210</u>

Depreciation expense for the years ended December 31, 2015 and 2014 totaled \$904,433 and \$852,193, respectively.

Certain of the furniture, fixtures and equipment were funded by the Federal Department of Education and the Federal government retains a reversionary interest in these long-lived assets.

Construction in progress at December 31, 2014 relates largely to the expansion of its education and exhibition space at its campus facility in New Bedford, Massachusetts which was completed during 2015.

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Notes to Financial Statements

5. Long-term investments:

Long-term investments are reported at fair value and consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 325,823	\$ 448,553
Domestic equities:		
Consumer growth	574,544	452,661
Consumer cyclicals	475,317	342,736
Consumer staples	364,238	203,567
Energy	143,751	214,252
Financials	687,566	681,179
Healthcare	168,465	544,244
Industrial commodities	175,513	313,868
Information technologies	695,680	499,085
Materials	-	125,766
Capital equipment	245,988	272,630
Services	78,852	68,306
Utilities	143,165	66,267
All other sectors	31,894	60,276
International equities:		
Developed markets	-	127,476
Mutual funds:		
Domestic fixed income (0 - 5 Years)	571,306	-
Domestic fixed income (5-10 Years)	1,536,990	1,343,114
Domestic equities	852,028	130,967
International equities – developed markets	1,414,667	1,248,443
International equities – emerging markets	229,885	211,051
International fixed income (5-10 Years)	-	1,577,712
Real estate equities	-	42,457
Total long-term investments	<u>\$ 8,715,672</u>	<u>\$ 8,974,610</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities at December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 108,125	\$ 30,978	\$ 139,103
Investment fees	(32,153)	(9,212)	(41,365)
Net unrealized losses	(205,329)	(58,828)	(264,157)
Net realized gain on sales	<u>195,726</u>	<u>56,076</u>	<u>251,802</u>
Net investment return	<u>\$ 66,369</u>	<u>\$ 19,014</u>	<u>\$ 85,383</u>

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Notes to Financial Statements

5. Long-term investments – continued:

The following schedule summarizes the investment return and its classification in the Statement of Activities at December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividends	\$ 161,242	\$ 57,273	\$ 218,515
Investment fees	(29,934)	(10,633)	(40,567)
Net unrealized gains	(103,924)	(36,913)	(140,837)
Net realized gain on sales	<u>257,476</u>	<u>91,455</u>	<u>348,931</u>
Net investment return	<u>\$ 284,860</u>	<u>\$ 101,182</u>	<u>\$ 386,042</u>

6. Endowments:

The Society’s endowments consist of permanently and temporarily restricted individual endowment sub-funds for a variety of purposes. Net assets associated with endowment funds (hereinafter “the Fund”) are classified and reported based on the existence or absence of donor-imposed restrictions as well as unrestricted sub-funds for operational purposes.

Interpretation of relevant law:

The Society’s Board has interpreted the Commonwealth of Massachusetts Uniform Prudent Management of Institutional Funds Act (hereinafter “UPMIFA”) adopted June 30, 2009, as allowing the Society to appropriate for expenditure or accumulate as much of an endowment fund as the Society determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of a donor expressed gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Society.

In making a determination to appropriate or accumulate the Society shall act in good faith with the care that an ordinarily prudent organization, in a like position, would exercise under similar circumstances and shall consider, if relevant, all of the following factors:

- The duration and preservation of the fund
- The purposes of the Society and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Society
- The investment policies of the Society

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Notes to Financial Statements

6. Endowments – continued:

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with U.S. generally accepted accounting principles for not-for-profit organizations, there were no deficiencies of this nature that are reported in unrestricted net assets at December 31, 2015 and 2014. To the extent that deficiencies result from unfavorable market fluctuations that have occurred, subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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 supported by its endowments while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to achieve a total rate of return that exceeds the rate of inflation and meets or exceeds the investment return objectives of the Society’s funds and reserves while assuming a moderate level of investment risk. See Note 1, *Investments and Endowment Matters*, for further detail on the Society’s investment strategies.

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, such as interest and dividends. The Society targets a diversified asset allocation among various financial instruments and asset categories, and uses multiple investment strategies 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 for each endowment allowing that annually the Board of Trustees will appropriate and expend all or part of the income (defined as income from interest, dividends, and other ordinary income, plus net realized gains). If little or no income is produced in a given year, up to five percent (5%) of the past three (3) years’ average year-end fair value of the fund may be spent in accordance with the purpose of the Fund, taking into account the recommendations of the Investment Advisory Committee to the Finance Committee.

The Society has, in recent years, appropriated for distribution approximately four point seven five percent (4.75%) of its endowment fund’s average year-end fair value over the prior three (3) years through the preceding year-end. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at the total return less the spending policy. This is consistent with the Society’s objective to maintain the purchasing power of the endowment assets held in perpetuity, or for a specified term, as well as to provide additional real growth through new gifts and investment return.

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Notes to Financial Statements

6. Endowments – continued:

Spending policy and how the investment objectives relate to spending policy - continued:

Based on its spending policy, a portion of the Society’s cumulative net realized gains and net appreciation is allocated to operations in accordance with the Society’s investment policies and procedures. For the years ended December 31, 2015 and 2014, the Board approved funding for operations of \$383,760 and \$353,686, respectively. Of these amounts, \$85,463 and \$92,701 were the investment earning amounts allowed to be expended from accumulated investment earnings on permanently and temporarily restricted endowment funds for the years ended December 31, 2015 and 2014, respectively, with the balance of the Board approved “draw” from unrestricted endowment investment earnings.

Changes to unrestricted and donor-restricted endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	<u>\$6,736,006</u>	<u>\$ 1,303,145</u>	<u>\$ 935,459</u>	<u>\$8,974,610</u>
Endowment investment return:				
Interest and dividends	108,125	30,978	-	139,103
Investment fees	(32,153)	(9,212)	-	(41,365)
Net depreciation (realized and unrealized)	<u>(9,603)</u>	<u>(2,752)</u>	<u>-</u>	<u>(12,355)</u>
Total endowment investment return	<u>66,369</u>	<u>19,014</u>	<u>-</u>	<u>85,383</u>
Contributions	50,500	-	1,950	52,450
Net assets released for satisfaction of program requirements	-	(28,797)	-	(28,797)
Other changes and reclasses	96,766	(80,980)	-	15,786
Appropriation of endowment for expenditure	<u>(298,297)</u>	<u>(85,463)</u>	<u>-</u>	<u>(383,760)</u>
Endowment net assets, December 31, 2015	<u>\$6,651,344</u>	<u>\$ 1,126,919</u>	<u>\$ 937,409</u>	<u>\$8,715,672</u>

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Notes to Financial Statements

6. Endowments – continued:

Changes to unrestricted and donor-restricted endowment net assets for the year ended December 31, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2013	<u>\$6,528,049</u>	<u>\$ 1,151,797</u>	<u>\$ 935,459</u>	<u>\$8,615,305</u>
Endowment investment return:				
Interest and dividends	161,242	57,273	-	218,515
Investment fees	(29,934)	(10,633)	-	(40,567)
Net appreciation (realized and unrealized)	<u>153,552</u>	<u>54,542</u>	<u>-</u>	<u>208,094</u>
Total endowment investment return	<u>284,860</u>	<u>101,182</u>	<u>-</u>	<u>386,042</u>
Contributions	200,000	150,289	-	350,289
Net assets released for satisfaction of program requirements	-	(29,712)	-	(29,712)
Other changes and reclasses	(15,918)	22,290	-	6,372
Appropriation of endowment for expenditure	<u>(260,985)</u>	<u>(92,701)</u>	<u>-</u>	<u>(353,686)</u>
Endowment net assets, December 31, 2014	<u>\$6,736,006</u>	<u>\$ 1,303,145</u>	<u>\$ 935,459</u>	<u>\$8,974,610</u>

7. Charitable remainder trusts receivable:

The Society is the beneficiary of numerous irrevocable charitable trusts and gift annuities. These assets have been donated to the Society for investment and are largely held by third party trustees on its behalf, in return for payments to the donor(s) or their designees. Upon the satisfaction of the terms of each trust or annuity, the Society will receive the balance of the invested assets. These assets are then added to the endowment per the donor’s direction. For gift annuities the related annuity liability is valued, using U.S. Internal Revenue Service (IRS) tables, at the net present value each year. See Note 1 for the discount rate used.

For the years ended December 31, 2015 and 2014, contributions to the charitable remainder trusts of \$- and \$191,680 were received, respectively. The change in the fair value of annuities, included in the change of split-interest agreements in the Statements of Activities, was a decrease of \$12,781 and an increase of \$128,615 for the years ended December 31, 2015 and 2014, respectively.

The following are the invested assets and annuity obligations at December 31:

	<u>2015</u>	<u>2014</u>
Fair value of charitable remainder trust	\$ 1,553,385	\$ 1,597,835
Annuity obligations	<u>(233,022)</u>	<u>(245,803)</u>
Total charitable remainder trusts receivable, net	<u>\$ 1,320,363</u>	<u>\$ 1,352,032</u>

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8. Beneficial interest in perpetual trusts:

The Society is the beneficiary of two (2) trusts (hereinafter “Trusts”) created by donors, the assets of which are not in the possession of the Society but are held with a third party investment custodian and are invested in accordance with the respective Trust documents. The Society has legally enforceable rights and claims to such assets, including the right to their respective interest in the Trusts’ income therefrom. Net realized and unrealized gains and losses related to the beneficial interests in the Trusts are reported as changes in permanently restricted net assets based on explicit donor stipulations. Distributions from the Trusts as determined by the investment custodian are approximately \$60,000 annually.

The Trustees of one of these Trusts has agreed to resign under a consent agreement and the Society, as sole qualified beneficiary of its separate charitable shares, has agreed to add these funds to its restricted endowment. The Society’s interest in the trust totaled \$2,433,378 at December 31, 2015 which is expected to be received by its endowment during 2016.

9. Demand note payable – line-of-credit:

The Society had a demand note payable with a financial institution with a maximum line-of-credit availability of \$850,000. Interest on the note’s outstanding balance is computed at the financial institution’s variable prime lending rate (3.50% and 3.25% at December 31, 2015 and 2014, respectively). The note is collateralized by all business assets of the Society, excluding endowment investments, real property and the items of the collection. There were no borrowings during the years ended December 31, 2015 and 2014.

10. Long-term note payable – construction financing:

The Society has a long-term note payable with a financial institution with a maximum draw to capital expenditure line-of-credit availability of \$3,000,000 which expires on April 28, 2019. The note is intended to provide for construction financing of the Society’s new Wattles Jacobs Education Center (hereinafter “Education Center”) which was completed in the fall of 2015. The note provides bridge financing for the Education Center and is expected to be fully repaid with secured future pledge receivable receipts given for this purpose that are projected to be received through 2018. See Pledges Receivable Note 3 for additional disclosures. Interest only payments are due monthly through May 2016 on the note’s outstanding balance computed at the financial institution’s variable prime lending rate minus one percent (1%) with no floor (2.50% and 2.25% at December 31, 2015 and 2014, respectively). Thereafter, commencing in June 2016, thirty-six (36) monthly principal payments are due as determined by the Society annually based upon the amount of pledges received so as to fully repay the outstanding principal balance on the note with the final payment plus fixed interest at four percent (4%) of the outstanding balance. Amounts drawn under the note and repaid cannot be re-borrowed.

The note is collateralized by the endowment investments of the Society, however not to exceed a maximum loan to value ratio of sixty percent (60%). The note is also subject to annual administrative loan covenant provisions. The balance outstanding on the note was \$1,475,000 and \$- at December 31, 2015 and 2014, respectively.

Interest on the long-term note payable totaled \$5,861 and \$- for the years ended December 31, 2015 and 2014, respectively.

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11. Temporarily restricted net assets:

The Society has recognized revenue related to grants and contributions that are restricted as to purpose or the expiration of time. The following is a detail of the nature of the restriction on net assets at December 31:

	<u>2015</u>	<u>2014</u>
Restricted for programs	\$ 390,684	\$ 475,362
Restricted for campaign and capital expenditures	-	1,462,914
Accumulated unspent earnings on endowment	537,939	640,372
Restricted for time	95,307	242,793
Restricted for acquisition of collections	198,296	187,411
Time restricted - split interest agreements	<u>1,553,385</u>	<u>1,597,835</u>
Total temporarily restricted net assets	<u>\$ 2,775,611</u>	<u>\$ 4,606,687</u>

Restricted for programs net assets includes gifts and contributions received for purposes of the capital campaign.

Releases from donor restrictions consisted of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
<u>Operating:</u>		
Released for program purposes	\$ 84,678	\$ 393,500
Release of accumulated earnings	<u>85,463</u>	<u>92,701</u>
Total releases for operating	<u>170,141</u>	<u>486,201</u>
<u>Non-operating:</u>		
Released for campaign and capital expenditures	2,451,724	759,224
Released for payments and changes in split interest agreements and time	<u>648,728</u>	<u>1,545,002</u>
Total releases for non-operating	<u>3,100,452</u>	<u>2,304,226</u>
<u>Accession:</u>		
Released for acquisition of collections	<u>69,377</u>	<u>16,719</u>
Total releases from donor restrictions	<u>\$ 3,339,970</u>	<u>\$ 2,807,146</u>

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12. Permanently restricted net assets:

Permanently restricted net assets consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Beneficial interest in perpetual trusts	\$ 3,023,097	\$ 3,183,100
Endowment	<u>937,409</u>	<u>935,459</u>
Total permanently restricted net assets	<u>\$ 3,960,506</u>	<u>\$ 4,118,559</u>

13. Financial instruments reported at fair value:

The asset or liability’s fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Domestic equities – Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds, exchange traded funds and real estate investment trusts – Valued at the daily closing price as reported by the fund. Mutual funds held by the Society are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission (SEC). These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Society are deemed to be actively traded.

Perpetual and charitable trusts – Valued at the current market value of the remainder interest in the underlying assets using observable market inputs based on its beneficial interest in the trust discounted to a single present value using market rates of approximately three percent (3%).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

OLD DARTMOUTH HISTORICAL SOCIETY
(also known as “The New Bedford Whaling Museum”)

Notes to Financial Statements

13. Financial instruments reported at fair value – continued:

Fair value of assets and liabilities at December 31, 2015 are as follows:

	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
<u>Total marketable securities:</u>			
Domestic equity securities	\$ 3,784,972	\$ -	\$ -
Mutual funds:			
Domestic equity securities	852,028	-	-
International equity securities	1,644,552	-	-
Domestic fixed income	-	2,108,296	-
Total marketable securities	<u>\$ 6,281,552</u>	<u>\$ 2,108,296</u>	<u>\$ -</u>
Perpetual and charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,576,482</u>
Long-term notes payable	<u>\$ -</u>	<u>\$ (1,475,000)</u>	<u>\$ -</u>

Fair value of assets and liabilities at December 31, 2014 are as follows:

	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
<u>Total marketable securities:</u>			
Domestic equity securities	\$ 3,844,837	\$ -	\$ -
International equity securities	127,476	-	-
Mutual funds:			
Domestic equity securities	130,967	-	-
International equity securities	1,459,494	-	-
Domestic fixed income	-	1,343,114	-
International fixed income	-	1,577,712	-
Real estate investment trusts (REIT)	-	42,457	-
Total marketable securities	<u>\$ 5,562,774</u>	<u>\$ 2,963,283</u>	<u>\$ -</u>
Perpetual and charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,780,935</u>
Long-term notes payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There were no significant transfers in or out of Level I and Level II of the fair value hierarchy during the years ended December 31, 2015 and 2014. There were no changes in valuation techniques for the years ended December 31, 2015 and 2014. None of the investments held at December 31, 2015 and 2014 have restrictions limiting daily redemption of holdings or requiring advance notice of redemption.

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13. Financial instruments reported at fair value – continued:

Following is a detail of assets measured at fair value on a recurring basis using significant unobservable inputs (Level III) to develop the fair value annually for the year ended December 31:

	<u>2015</u>	<u>2014</u>
<u>Perpetual and charitable trusts:</u>		
Balance, beginning of year	\$ 4,780,935	\$ 4,752,540
Total (loss) gains realized in non-operational income	<u>(204,453)</u>	<u>28,395</u>
Balance, end of year	<u>\$ 4,576,482</u>	<u>\$ 4,780,935</u>

Certain administrators of these perpetual and charitable trusts receivable provide an annual valuation representing the Society’s allocation in the trusts but without significant basis for the composition of the underlying trust interests. Accordingly, the fair value of underlying assets, when known, is used to approximate the discounted cash flows projected to be received. The Society considers the measurement of its beneficial interest in the perpetual and charitable trusts to be a Level III measurement within the fair value measurement hierarchy because even though that measurement is based on the unadjusted fair value of the underlying trust assets reported by the trustee, the Society will not receive those assets or have the ability to direct the trustee to redeem them in the near term.

Financial instruments such as those above involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded on the Statement of Financial Position. For the Society, market risk represents the potential loss due to the decrease in the value of financial instruments; credit risk represents the maximum potential loss due to possible nonperformance of contract terms by obligors and counter parties.

14. Museum store activities:

The Society operates a museum store within the exhibit facility offering unique merchandise complementary to visitor interests. Gross revenue and expenses consisted of the following for the year ended December 31:

	<u>2015</u>	<u>2014</u>
Museum store revenues	\$ 317,449	\$ 341,661
Less: Museum store expenses	<u>(245,676)</u>	<u>(289,397)</u>
Museum store, net	<u>\$ 71,773</u>	<u>\$ 52,264</u>

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15. Retirement plans:

The Society offers a tax-deferred savings plan (hereinafter “Plan”) which qualifies as a voluntary contribution savings plan under Internal Revenue Code Section 403(b). The Plan is administered by Teacher’s Insurance and Annuity Association and College Retirement Equities Fund (TIAA – CREF). Employees may provide tax-deferred contributions to fully vested individual retirement accounts up to the Internal Revenue Code limit. The Plan covers all employees over age twenty-one (21) who normally work forty (40) hours per week and after two (2) years of continuous employment. The Society made contributions of one percent (1%) of eligible employee’s wages in 2015 and 2014. The Society’s contribution to the Plan is discretionary. Pension expense for the years ended December 31, 2015 and 2014 was \$11,229 and \$10,768, respectively.

16. Contributed goods and services:

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Society’s programs; principally membership development, fundraising and educational programs. The Society estimates donated services for the years ended December 31, 2015 and 2014 to be \$50,000 annually. These amounts do not meet the criteria for recording and are therefore excluded from the accompanying financial statements. In addition to volunteer time, the Society received \$471,116 and \$511,941 in donated goods and services for the years ended December 31, 2015 and 2014, respectively, which meet the criteria for recording in the financial statements and, accordingly, are included in revenue and expense in the Statements of Activities.

17. Concentration of credit and economic risk:

The Society maintains its cash and cash equivalents at various financial institutions in accounts which at times may exceed federally insured limits. The Society has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents. Cash and cash equivalent balances in excess of federally insured limits totaled approximately \$- at December 31, 2015 and 2014.

Approximately thirty-seven percent (37%) and fourteen percent (14%) of total pledges receivable are from two (2) and one (1) donor(s) at December 31, 2015 and 2014, respectively. One (1) and three (3) donors provided eleven percent (11%) and twenty-one percent (21%) of total revenue and support to the Society for the years ended December 31, 2015 and 2014, respectively.

18. Commitments and contingencies:

The Society receives a portion of its funding from government agencies. These contracts are subject to contractual provisions governing the programs, most of which are subject to interpretation. These contracts provide the oversight agencies the right to audit the Society and their sub-recipients and could result in the recapture of revenue previously reported by the Society. Any disallowed claims resulting from such audits could become a liability of the Society. The ultimate determination of amounts received under these programs generally is based on allowable costs reported to and auditable by the funding agencies. Until such audits have been completed, if any, and final settlement is reached, there exists a contingency to refund all amounts received in excess of allowable costs. In the opinion of management, the results of such audits, if any, would not have a material effect on the Society’s financial position or results of operations at December 31, 2015 and 2014.

OLD DARTMOUTH HISTORICAL SOCIETY
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Notes to Financial Statements

18. Commitments and contingencies – continued:

As such, the Society operates in a heavily regulated environment. The operations of the Society are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies including, but not limited to, the following:

- U.S. Institute of Museum and Library Services
- U.S. Department of Interior, National Park Service
- U.S. Department of Commerce, National Oceanic and Atmospheric Administration
- U.S. Department of Housing and Urban Development, Community Development Block Grant
- National Endowment for the Humanities
- Massachusetts Cultural Council

These administrative directives, rules and regulations are subject to change by act of the United States Congress, act of the state and local legislature or an administrative change mandated by the United States federal agencies or Commonwealth of Massachusetts agencies noted above. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with the change. Additionally, contractual funding may decrease or be withdrawn during contract periods with little notice.

In August 2013, the Society received a four (4) year conditional pledge from a donor for \$1.8 million dollars towards the expansion of education space on its Museum campus (hereinafter “Education Facility Expansion”). The Education Facility Expansion project was completed during 2015. For the year ended December 31, 2015, the Society has recognized and received as unrestricted support \$450,000 towards this pledge and \$1,350,000 cumulatively. The Society also received a total of \$510,000 in conditional pledges from individuals toward the Education Facility Expansion. As of December 31, 2015, the Society has received \$400,000 towards these pledges. The balance of these conditional pledges is projected to be paid over the next three (3) years.

In February 2011, the Society received a three (3) year conditional pledge from a member of the Board of Trustees’ family foundation of between \$400,000 and \$600,000 towards the Education Facility Expansion. In November 2012, this pledge was replaced with a one million dollar (\$1MM) conditional pledge payable annually through 2017 as the Trustee’s charitable foundation resources allow. For the year ended December 31, 2015, the Society has recognized and received as unrestricted support \$150,000 towards this pledge and \$600,000 cumulatively. The Society was also awarded a \$500,000 challenge grant from a private foundation in January 2013. The award provides funding of up to a total of \$500,000 for general support conditioned on a one dollar (\$1) match for every one dollar (\$1) of contribution from new and existing individuals, private foundations, donor advised funds, corporations and any other entity qualified to support the Society and will be funded over a two (2) year basis through 2014. For the years ended December 31, 2014 and 2013, the Society has recognized and received as unrestricted support \$250,000 in each year towards this pledge. The Society was also awarded a \$250,000 facilities grant from MassDevelopment in August 2012 towards the Education Facility Expansion. The award provides funding of up to a total of \$250,000 for design development and construction related expenditures of the Education Facility Expansion when matched by other project funds through June 2014. For the year ended December 31, 2014, the Society has recognized and received as restricted support \$250,000 from this award. The Society was also awarded a \$500,000 challenge grant from the Massachusetts Cultural Council’s Cultural Facilities Grant in July 2014 towards the Education Facility Expansion. The award provides funding of up to a total of \$500,000 for design development and construction related expenditures of the Education Facility Expansion when matched by other project funds through June 2016. For the year ended December 31, 2014, the Society has recognized as restricted support \$500,000 from this award and was in receipt of the funds during 2015.

OLD DARTMOUTH HISTORICAL SOCIETY
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19. Subsequent events:

In March 2016, the Society sold its library and storage facility for \$316,500 after consolidating its operations in the new education and exhibition space at its campus facility in New Bedford, Massachusetts. The loss on the sale of the facility to be recorded in 2016 was approximately \$1,000,000.

20. Effect of new accounting pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update enhances the comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets and for disclosing information about the nature, amount, timing and uncertainty of revenue that is recognized in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). ASU No. 2014-09, as amended by ASU 2015-14, *Revenue from Contracts with Customers—Deferral of the Effective Date*, is effective for the Society’s year ending December 31, 2020 and is not expected to have a material impact on the Society’s financial statements.

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU No. 2015-03 is effective for the Society’s year ending December 31, 2016 and is not expected to have a material impact on the Society’s financial statements.

In May, 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in ASU 2015-07 provides for investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity of the practice resulting from the manner in which investments are measured at net asset value per share (or its equivalent) with future redemption dates are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied, will continue to be included in the fair value hierarchy. The Society should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. ASU No. 2015-07 is effective for the Society’s year ending December 31, 2017 and is not expected to have a material impact on the Society’s financial statements.

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Notes to Financial Statements

20. Effect of new accounting pronouncements - continued:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This update establishes the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1.) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and 2.) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU No. 2016-02 is effective for the Society’s year ending December 31, 2020 and is not expected to have a material impact on the Society’s financial statements.

Other recent accounting pronouncements issued by the Financial Accounting Standards Board (FASB) did not or are not believed by management to have a material impact on the Society's present or future financial statements.

***INFORMATION REQUIRED BY
GOVERNMENT AUDITING STANDARDS***

***Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

To the Board of Trustees
Old Dartmouth Historical Society
(also known as "The New Bedford Whaling Museum")
New Bedford, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Old Dartmouth Historical Society (also known as "The New Bedford Whaling Museum") (a Massachusetts not-for-profit organization) (hereinafter "Society"), which comprise the Statement of Financial Position as of December 31, 2015, and the related Statements of Activities, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2016.

Internal control over financial reporting:

In planning and performing our audit of the financial statements, we considered Old Dartmouth Historical Society's internal control over financial reporting (hereinafter "internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Society's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees
Old Dartmouth Historical Society
(also known as "The New Bedford Whaling Museum")
Page two

Compliance and other matters:

As part of obtaining reasonable assurance about whether Old Dartmouth Historical Society's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this report:

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Society's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Society's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Allan Smith and Company CPA's PC". The signature is written in a cursive, slightly slanted style.

Allan Smith and Company, CPA's PC
Stoughton, Massachusetts
April 27, 2016