

**HISTORIC DEERFIELD, INC.
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended June 30, 2015
(with comparative totals for the year ended June 30, 2014)

HISTORIC DEERFIELD, INC. AND AFFILIATE
Consolidated Financial Statements

TABLE OF CONTENTS

Independent Auditors' Report	1
 Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Historic Deerfield, Inc. and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated statements of Historic Deerfield, Inc. and Affiliate (the "Organization") which comprise the consolidated statements of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 controls. 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Historic Deerfield, Inc. and Affiliate as of June 30, 2015 and the changes in its net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Historic Deerfield, Inc. and Affiliate's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.


Springfield, Massachusetts
December 2, 2015

HISTORIC DEERFIELD, INC. AND AFFILIATE
Consolidated Statements of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 397,705	\$ 248,035
Accounts receivable.....	11,322	39,709
Gifts and grants receivable.....	30,565	44,931
Inventories.....	410,178	415,542
Prepaid expenses.....	<u>79,632</u>	<u>86,307</u>
Total current assets.....	<u>929,402</u>	<u>834,524</u>
Noncurrent assets		
Investments.....	29,441,315	33,901,023
Beneficial interest in trusts.....	25,589,512	24,659,191
Property and equipment, net.....	11,370,970	12,432,456
Collections (see Note 1).....		
Other assets.....	<u>311,668</u>	<u>301,921</u>
TOTAL ASSETS.....	<u>\$ 67,642,867</u>	<u>\$ 72,129,115</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities.....	\$ 598,493	\$ 443,326
Deferred revenue.....	310,224	263,084
Current portion of long term debt.....	<u>101,500</u>	<u>98,500</u>
Total current liabilities.....	1,010,217	804,910
Long term debt.....	<u>632,795</u>	<u>688,044</u>
Total liabilities.....	<u>1,643,012</u>	<u>1,492,954</u>
Net Assets		
Unrestricted.....	25,828,248	26,981,885
Unrestricted - board designated.....	313,139	4,286,436
Temporarily restricted.....	28,232,778	28,699,323
Permanently restricted.....	<u>11,625,690</u>	<u>10,668,517</u>
Total net assets.....	<u>65,999,855</u>	<u>70,636,161</u>
TOTAL LIABILITIES AND NET ASSETS.....	<u>\$ 67,642,867</u>	<u>\$ 72,129,115</u>

See accompanying notes to the consolidated financial statements

HISTORIC DEERFIELD, INC. AND AFFILIATE
Consolidated Statements of Activities

for the year ended June 30, 2015
(with comparative totals for the year ended June 30, 2014)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Museum admissions.....	\$ 110,164			\$ 110,164	\$ 106,923
Other museum related income.....	134,744			134,744	134,556
Academic program income.....	9,300			9,300	8,965
Museum store sales.....	321,980			321,980	294,250
Deerfield Inn.....	2,307,244			2,307,244	2,164,866
Rent.....	182,298			182,298	193,279
Gifts and grants.....	702,877	\$ 96,757	\$ 109,951	909,585	1,119,007
Net investment income.....	764,205	131,412		895,617	920,192
Net realized gain on investments.....	205,607	613,922	847,222	1,666,751	834,540
Unrealized losses on investments.....	(2,592,432)	(1,520,894)		(4,113,326)	3,696,769
Gain on sale of equipment.....	1,380			1,380	4,887
Miscellaneous income.....	11,733			11,733	12,164
Change in value of trusts.....		930,321		930,321	4,695,649
Net assets released from restrictions:					
Satisfaction of restrictions.....	718,063	(718,063)			
Total revenue, gains, and other support.....	<u>2,877,163</u>	<u>(466,545)</u>	<u>957,173</u>	<u>3,367,791</u>	<u>14,186,047</u>
Expenses					
Museum operations.....	871,802			871,802	879,076
Museum education.....	481,898			481,898	518,973
Academic programs.....	120,223			120,223	115,708
Library.....	177,755			177,755	180,899
Rental operations.....	122,183			122,183	122,080
Properties maintenance.....	684,215			684,215	634,624
Administrative and general.....	1,698,794			1,698,794	875,311
Inn administrative support services.....	98,019			98,019	88,847
Development.....	309,887			309,887	311,520
Marketing.....	325,970			325,970	279,733
Event planning.....	30,156			30,156	33,759
Museum store cost of sales and expense.....	361,145			361,145	292,904
Visitor services.....	34,636			34,636	32,751
Deerfield Inn.....	2,506,536			2,506,536	2,328,169
Total expenditures.....	<u>7,823,219</u>			<u>7,823,219</u>	<u>6,694,354</u>
Change in net assets before changes related to collection items not capitalized.....	<u>(4,946,056)</u>	<u>(466,545)</u>	<u>957,173</u>	<u>(4,455,428)</u>	<u>7,491,693</u>
Change in net assets related to collection items not capitalized					
Deaccessions.....	77,586			77,586	2,487
Collections.....	(258,464)			(258,464)	(248,006)
	<u>(180,878)</u>			<u>(180,878)</u>	<u>(245,519)</u>
Change in net assets.....	<u>(5,126,934)</u>	<u>(466,545)</u>	<u>957,173</u>	<u>(4,636,306)</u>	<u>7,246,174</u>
Net assets, beginning of year.....	<u>31,268,321</u>	<u>28,699,323</u>	<u>10,668,517</u>	<u>70,636,161</u>	<u>63,389,987</u>
Net assets, end of year.....	<u>\$ 26,141,387</u>	<u>\$ 28,232,778</u>	<u>\$ 11,625,690</u>	<u>\$ 65,999,855</u>	<u>\$ 70,636,161</u>

See accompanying notes to the consolidated financial statements

HISTORIC DEERFIELD, INC. AND AFFILIATE
Consolidated Statements of Cash Flows

for the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets.....	\$ (4,636,306)	\$ 7,246,174
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net accessions.....	180,878	245,519
Depreciation.....	584,890	584,369
Net realized gain on investments.....	(1,666,751)	(834,540)
Unrealized loss (gain) on investments.....	4,113,326	(3,696,769)
Change in value of trusts.....	(930,321)	(4,695,649)
Gain on sale of equipment.....	(1,380)	(4,887)
Contributions restricted for long-term investment.....	(109,951)	(112,187)
Accretion of discount on note payable.....	49,251	49,249
Decrease (increase) in operating assets		
Accounts receivable.....	28,387	(2,114)
Gifts and grants receivable.....	14,366	(38,306)
Inventories.....	5,364	(19,251)
Prepaid expenses.....	6,675	20,074
Bequest receivable.....		2,000,000
Other assets.....	(9,747)	(9,472)
Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities.....	155,167	74
Deferred revenue.....	47,140	81,291
Net cash (used in) provided by operating activities.....	<u>(2,169,012)</u>	<u>813,575</u>
Cash flows from investing activities		
Purchases of property and equipment.....	(230,501)	(281,263)
Discontinuation of capital project.....	708,477	
Deaccessions.....	77,586	2,487
Collections acquisitions.....	(258,464)	(248,006)
Net change in the value of investments.....	<u>2,013,133</u>	<u>(574,197)</u>
Net cash provided by (used in) investing activities.....	<u>2,310,231</u>	<u>(1,100,979)</u>
Cash flows from financing activities		
Principal payment on long-term debt.....	(101,500)	(95,500)
Proceeds from contributions restricted for long-term contributions to endowment.....	<u>109,951</u>	<u>112,187</u>
Net cash provided by financing activities.....	<u>8,451</u>	<u>16,687</u>
Net increase (decrease) in cash and cash equivalents.....	149,670	(270,717)
Cash and cash equivalents, beginning of year.....	<u>248,035</u>	<u>518,752</u>
Cash and cash equivalents, end of year.....	<u>\$ 397,705</u>	<u>\$ 248,035</u>

See accompanying notes to the consolidated financial statements

**HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

The consolidated financial statements of Historic Deerfield, Inc. and Affiliate include the accounts of Historic Deerfield, Inc. and Deerfield Heritage, Inc. All intercompany transactions and balances have been eliminated in consolidation.

Historic Deerfield, Inc. is a museum of early New England history, architecture, and decorative arts located in Deerfield, Massachusetts. It maintains and operates buildings as exhibition areas open to the general public and conducts a broad range of educational programs and auxiliary operations which include the Deerfield Inn and Museum Store.

Deerfield Heritage, Inc. was incorporated for the primary purpose of conducting public fundraising activities, including operating a charitable gift annuity program and other activities solely for the benefit and support of Historic Deerfield, Inc.

See subsequent events Footnote 12.

Basis of Presentation

The accompanying consolidated financial statements of Historic Deerfield, Inc. and Affiliate (the "Organization"), which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets

Net assets, including operating accounts, plant accounts, and board designated funds set aside for long-term investment purposes, that are not subject to donor-imposed stipulations. Any portion of board-designated funds may be expended with the approval of the Board.

Temporarily restricted net assets

Net assets that are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets

Net assets that are subject to the restrictions of gift instruments requiring that the principal, and in certain cases, the realized and unrealized appreciation on principal, be invested in perpetuity and income only be utilized for current expenditures.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Comparative Information

The statement of activities includes prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014 from which the summarized information was derived.

Contributions

The Organization reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. The Organization follows the policy of reporting temporarily restricted contributions in the statement of activities as increases in unrestricted net assets when the restrictions are met in the same reporting period the contribution is received or earned. Temporarily restricted contributions whose restrictions are not met in the same period received or earned are reported as increases in temporarily restricted net assets. When the donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports noncash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. The Organization follows the policy of releasing the restrictions on these gifts when the long-lived assets are acquired or placed in service.

Cash and Cash Equivalents

Cash and cash equivalents include cash held at depository institutions and cash equivalents with a maturity of 90 days or less when purchased, except for those that are purchased for the Organization's investment accounts.

Most of the banking activity, including cash and cash equivalents, is maintained with several national and regional banks and it is the Organization's policy to monitor these banks' financial strength on an ongoing basis. As of June 30, 2015, the funds in excess of federal insurance limits is approximately \$136,000 (2014 - none).

Investments

Investments are stated at fair market value as generally determined using quoted market values. Investments received as gifts are recorded at their fair market value at the date of the gift. Realized gains or losses are computed using the average cost method. Dividend income is recorded on the ex-dividend date, and interest income is recorded on an accrual basis.

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Advertising

Advertising costs are expensed the first time the advertising takes place and amounted to \$206,530 for the year ended June 30, 2015 (\$161,746 - 2014).

Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures* provides a framework for reporting fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liability's fair value measurement level 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.

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

There have been no changes in the methodologies used at June 30, 2015 and 2014. The following are descriptions of the valuation methodologies used for assets measured at fair value:

Registered investment companies: Invested primarily in mutual funds, short-term instruments, and money market funds. Mutual funds and short-term instruments are valued using market quotations or prices obtained from independent pricing sources, typically valued at the net asset value (NAV) of shares held by the Organization at year-end.

Equity accounts are invested primarily in a broadly diversified portfolio of domestic or foreign common stock. These funds seek to match the performance of an index of a particular segment of the financial market.

Fixed-income accounts are invested primarily through a broad range of fixed income securities, such as, U.S. Treasury and Agency securities, corporate bonds, and mortgage-backed or other asset-backed securities. These funds seek to match the highest performance of particular bond indexes.

Included in fixed-income accounts are convertible bonds, which are only convertible into preferred stock equity of domestic companies.

Beneficial interest in charitable remainder trusts: The fair value of the beneficial interest in charitable remainder trusts held, administered and controlled by third parties represents the present value of the estimated future cash receipts determined using the Organization's percentage interest in the current market value of the trust assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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.

See Note 4 for a summary of the inputs used as of June 30, 2015 and 2014 in determining the fair value of the Organization's investments and beneficial interest in trusts.

Property and Equipment

Property and equipment are recorded at cost. Donations of capital assets are recorded at their fair market value on the date of gift. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets, which range from 3 - 60 years. When an asset is sold or retired, the related cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in operations for the period. Maintenance and repairs are charged to operating expense as incurred. Betterments and major renewals are capitalized.

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Museum Collections

In accordance with the practice usually followed by museums, the Organization does not carry its collections on the statement of financial position. Since items acquired for collections by purchase are not capitalized, the cost of those acquisitions are reported as decreases in the net assets in the statement of activities. The proceeds from items disposed of are reported as increases in the appropriate class of net assets in the statement of activities. Contributed works of art, historical treasures, and similar assets that are not added to the collection are reported as assets held for sale on the statement of financial position at their fair values at the date of the gift.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. These costs include direct and indirect costs that have been allocated among the programs and support services.

Income Taxes

The Organization is exempt from federal income taxes other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code and also has received classification as a Massachusetts public charity. For the years ended June 30, 2015 and 2014, the Organization did not have any unrelated business income tax.

Accounting principles generally accepted in the United States of America require the Organization's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken any uncertain tax positions that more than likely would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a tax liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions, however there are currently no audits for any tax periods in progress. Management believes it is no longer subject to tax examinations for years prior to 2012.

Use of Estimates

The preparation of the Organization's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Organization's significant estimates include the value of the beneficial interest in the charitable remainder trust, and the useful lives of fixed assets.

**HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**

2. Inventories

Inventories consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Museum store inventory	\$219,521	\$233,480
Publications	134,323	136,351
Food	26,812	20,904
Liquor	<u>29,522</u>	<u>24,807</u>
	<u>\$410,178</u>	<u>\$415,542</u>

3. Investments

The composition of investments at fair value and the Organization's total gain on its invested assets at June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 377,095	\$ 1,193,809
Common stocks	19,520,819	21,472,108
Fixed income	9,543,401	9,734,876
Mutual funds	<u> </u>	<u>1,500,230</u>
	<u>\$29,441,315</u>	<u>\$33,901,023</u>
Investment income, net of management and custodial fees of \$273,025 (\$257,121 – 2014)	\$ 895,617	\$ 920,192
Net realized gain on investments	1,666,751	834,540
Unrealized (losses) gain on investments	<u>(4,113,326)</u>	<u>3,696,769</u>
	<u>\$(1,550,958)</u>	<u>\$5,451,501</u>

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the fair market value of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position and statement of activities.

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

4. Beneficial Interest in Trusts

The Organization is the permanent beneficiary of an irrevocable charitable remainder trust. The Organization's interest consists of the remaining principal in the trust, and is to be collected upon termination of the trust. The resources of the trust are neither in the possession of, nor under the control of the Organization but are held and administered by an outside fiscal agent. A trustee of the Organization is a co-trustee of the charitable remainder trust.

The Organization estimates the value of its interest in this trust as of each balance sheet date by estimating an investment return rate for future returns on the trust less trust payments, which is then discounted to the balance sheet date using a risk-adjusted discount rate. The fair market value of the trust's assets was \$21,345,942 at June 30, 2015 (\$20,606,799 - 2014). The Organization's interest is valued at \$22,555,401 at June 30, 2015 (\$21,772,780 - 2014), using a discount rate of 2% and a rate of return on trust assets of 8% at June 30, 2015 (2% discount rate and 8% rate of return - 2014).

The Organization is also the sole beneficiary of two charitable trusts whose fair value is approximately \$3,034,000 as of June 30, 2015 (\$2,886,000 - 2014). Certain members of management are trustees of one of the charitable trusts.

See subsequent events Footnote 12.

5. Fair Value Measurements

The following table summarizes the Organization's assets that are accounted for at fair value within the fair value hierarchy as of June 30, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trusts	\$ 3,034,111	\$	\$ 22,555,401	\$ 25,589,512
Registered investment companies				
Cash and cash equivalents	377,095			377,095
Equity	19,520,819			19,520,819
Fixed income	9,543,401			9,543,401
	<u>29,441,315</u>			<u>29,441,315</u>
Total	<u>\$ 32,475,426</u>	<u>\$</u>	<u>\$ 22,555,401</u>	<u>\$ 55,030,827</u>

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The following table summarizes the Organization's assets that are accounted for at fair value within the fair value hierarchy as of June 30, 2014:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in trusts	\$ 2,886,411	\$	\$ 21,772,780	\$ 24,659,191
Registered investment companies				
Cash and cash equivalents	1,193,809			1,193,809
Equity	21,472,108			21,472,108
Fixed income	9,600,086			9,600,086
Convertible bonds	134,790			134,790
Mutual funds	1,500,230			1,500,230
	<u>33,901,023</u>			<u>33,901,023</u>
Total	<u>\$ 36,787,434</u>	<u>\$</u>	<u>\$ 21,772,780</u>	<u>\$ 58,560,214</u>

The changes in Level 3 beneficial interest in charitable remainder trust measured at fair value on a recurring basis are summarized below:

Beginning balance at July 1, 2013	\$17,887,990
Unrealized gain	<u>3,884,790</u>
Ending balance at June 30, 2014	21,772,780
Unrealized gain	<u>782,621</u>
Ending balance at June 30, 2015	<u>\$22,555,401</u>

6. Endowment

The Organization's endowment consists of donor-restricted funds and funds designated by the Board of Trustees (the "Board") to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Unrestricted board designated, temporarily restricted, and permanently restricted endowment funds are invested on a pooled basis. Funds are added to or withdrawn from the pool at their share of the then current fair market value of the pooled assets. Income and realized and unrealized gains and losses from the funds are distributed based on each fund's proportionate share of the investment pool's fair market value, which is determined on a quarterly basis.

The Organization's spending policy allows the Organization to make available for operations the income and appreciation from both the board designated endowment funds and the general endowment funds in an amount representing up to 5% of a rolling twelve quarter average of market values of all endowment funds investments. The Organization calculates its twelve quarter rolling average to correspond with its operating budget cycle. The percentage of appropriation approved by the Board was 6.28% for 2015 and 5.35% for 2014.

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The Organization has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. The investment policy establishes goals and risk parameters that include asset diversification and investment returns in excess of appropriation. Actual returns in any given year may vary from this goal.

In July 2010, Massachusetts enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which serves as a model act to modernize their laws governing donor restricted endowment funds. The Museum's Board has interpreted UPMIFA as requiring the presentation of the fair value of the original gift as of the gift date (historic dollar value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Board has also interpreted UPMIFA as requiring the historic gift value of donor restricted endowment funds not to be reduced for any excess losses. Any excess losses shall reduce temporarily restricted net assets to the extent there is net appreciation on the related funds. Any remaining excess losses shall reduce unrestricted net assets. As a result of this interpretation, the Organization 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 Organization.

Changes in endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2013	\$2,443,298	\$3,056,396	\$25,974,941	\$31,474,635
Realized gains	88,867	296,389	440,139	825,395
Unrealized gains	477,256	1,280,655	1,899,949	3,657,860
Dividends and interest	357,572	566,050		923,622
Contributions	2,006,487	138,000	112,187	2,256,674
Appropriations for board-designated and donor-specific purposes	(15,690)	(26,251)		(41,941)
Appropriations for operations	<u>(1,071,355)</u>	<u>(1,382,557)</u>	<u> </u>	<u>(2,453,912)</u>
Balance, June 30, 2014	\$4,286,435	\$3,928,682	\$28,427,216	\$36,642,333
Realized gains	191,705	613,922	847,222	1,652,849
Unrealized losses	(2,577,605)	(1,520,894)		(4,098,499)
Dividends and interest	349,965	549,651		899,616
Contributions	76,627	13,661	109,951	200,239
Appropriations for board-designated and donor-specific purposes	(106,226)	(17,740)		(123,966)
Appropriations for operations	<u>(1,907,762)</u>	<u>(1,033,434)</u>	<u> </u>	<u>(2,941,196)</u>
Balance, June 30, 2015	<u>\$ 313,139</u>	<u>\$2,533,848</u>	<u>\$29,384,389</u>	<u>\$32,231,376</u>

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

7. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 348,562	\$ 348,562
Land improvements	324,983	324,983
Buildings and improvements	17,019,199	16,976,366
Equipment, furniture and fixtures	3,109,890	2,972,183
Books and manuscripts	<u>629,922</u>	<u>616,902</u>
	21,432,556	21,238,996
Less accumulated depreciation	<u>10,746,972</u>	<u>10,162,082</u>
	10,685,584	11,076,914
Construction in progress	<u>685,386</u>	<u>1,355,542</u>
	<u>\$11,370,970</u>	<u>\$12,432,456</u>

8. Long Term Debt

The Organization purchased a collection of antiques for \$2,000,000. The donor contributed the remaining half of the collection, valued at approximately \$2,000,000. The purchase was financed through a note payable to the donor of \$1,987,000 and \$13,000 due at signing. The note is payable in annual installments ranging from \$58,500 to \$128,500 through December 2024. The loan does not have a stated interest rate, and has been discounted using a rate of 5.32%, the rate which would be expected to be obtained from another lender. The Organization has recorded a total discount of \$412,705 as of June 30, 2015 of which \$49,251 was accreted during 2015 (\$461,956 and \$49,249 - 2014). The Organization was in compliance with all covenants at 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Note payable	\$1,147,000	\$1,248,500
Less unamortized discount	<u>412,705</u>	<u>461,956</u>
	734,295	786,544
Less current portion, net of discount accretion	<u>101,500</u>	<u>98,500</u>
Long term debt	<u>\$ 632,795</u>	<u>\$ 688,044</u>

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

11. Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2015 and 2014 include gifts of original principal as well as realized and unrealized appreciation for certain donor restricted funds, the income from which is expendable to support operations:

	<u>2015</u>	<u>2014</u>
Flynt Center building operations	\$ 509,008	\$ 488,693
Purchase of books	107,495	102,724
Purchase of prints, paintings and minor antiques	688,246	655,038
Summer fellow research stipend	8,125	8,125
Summer fellowship programs	274,445	271,438
Other special purposes	906,959	870,536
Conservation	259,103	198,055
General operations	26,631,008	25,832,607
Write-off antiques	<u>(17,758,699)</u>	<u>(17,758,699)</u>
	<u>\$11,625,690</u>	<u>\$10,668,517</u>

12. Subsequent Events

The Organization has evaluated subsequent events through December 2, 2015 which is the date the financial statements were available to be issued. The following items noted are subsequent events:

Subsequent to the June 30, 2015 year end accounting close the Organization received the proceeds of the Bartel's Charitable Trust. The recorded balance of this trust as of June 30, 2015 was \$2,817,920. The amount received on September 14, 2015 approximated \$2,488,000. Because the fair market value to be received subsequent to year end was not quantifiable as of June 30, 2015 the financial statements were not adjusted for this diminution of value.

Subsequent to the June 30, 2015 year end accounting close the Organization received the proceeds of life insurance policies. The recorded balance of the cash surrender value of these policies as of June 30, 2015 was \$283,352. The amount received on September 11, 2015 was \$314,151. Because the amount to be received subsequent to year end was not quantifiable as of June 30, 2015 the financial statements were not adjusted for this increase in value.

Subsequent to the June 30, 2015 year end accounting close the Organization received proceeds from a Trust on October 27, 2015 totaling \$1,242,351. The Organization was unaware it was a beneficiary of this Trust as of June 30, 2015. Accordingly, the financial statements were not adjusted for this subsequent event.

HISTORIC DEERFIELD, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Subsequent Events, continued

Subsequent to the June 30, 2015 year end accounting close the Organization received proceeds from an auction by William A. Smith Auctioneers regarding the Estate of Marilyn Meyer. On November 2, 2015 the Organization received \$192,000. Although aware it was a named beneficiary as of June 30, 2015, the Organization could not quantify amounts at that time. Accordingly, the financial statements were not adjusted for this subsequent event.

Subsequent to the June 30, 2015 year end accounting close the Board of Directors of Deerfield Heritage, Inc. voted to dissolve the entity as a separate corporation and merge its net assets with those of Historic Deerfield, Inc.

At June 30, 2015 Investments, net of the margin loan of \$2,846,192 was reported at a net fair market value of \$29,441,315 (see financial statement footnote #5). The Beneficial interest in trusts fair market value totaled \$25,589,512 (also reported in footnote #5). As of October 31, 2015 the Investment portfolio, net of the margin loan of \$2,865,531 approximated \$29,681,000 including a \$1,532,000 addition and reduced withdrawals both due to the subsequent events noted above. The Beneficial interest in trusts' October 31, 2015 fair market value approximated \$20,826,000 partially due to the receipt of the Bartel's Trust funds noted above and without the GAAP accounting step-up disclosed in footnote #4). Because subsequent fair market value was not knowable as of June 30, 2015 the financial statements have not been adjusted to reflect these fair market value changes.