

**Massachusetts Historical Society, Inc.**

**Financial Statements**

**For the Years Ended  
June 30, 2009 and 2008**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of **Massachusetts Historical Society, Inc.** (a nonprofit organization) as of June 30, 2009 and 2008, and the related statements of functional expenses and cash flows for the years then ended, and the statement of activities for the year ended June 30, 2009. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information in the statement of activities has been derived from the Society's June 30, 2008 financial statements and in our report dated March 13, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Massachusetts Historical Society, Inc.** as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Newton, Massachusetts  
March 15, 2010

**Massachusetts Historical Society, Inc.**

Statements of Financial Position  
June 30, 2009 and 2008

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<i>Assets</i>				
Cash and cash equivalents	\$ 763,280	\$ 75,511	\$ -	\$ 838,791
Accounts and grants receivable	40,719	565,390	-	606,109
Pledges receivable, net	4,100	59,687	-	63,787
Split-interest agreements	-	210,625	-	210,625
Endowment investments	16,754,752	25,111,118	13,550,720	55,416,590
Other investments	636,905	2,826,833	-	3,463,738
Escrow funds restricted to bond debt service	-	75,641	-	75,641
Prepaid expenses	64,742	-	-	64,742
Property and equipment, net	9,715,215	-	-	9,715,215
<b>Total assets</b>	<b>\$ 27,979,713</b>	<b>\$ 28,924,805</b>	<b>\$ 13,550,720</b>	<b>\$ 70,455,238</b>
<i>Liabilities and Net Assets</i>				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 545,209	\$ -	\$ -	\$ 545,209
Deferred grant and other revenue	67,930	264,056	-	331,986
Split-interest agreements	-	125,921	-	125,921
Deferred lease revenue	434,440	-	-	434,440
Bonds payable	4,199,671	-	-	4,199,671
<b>Total liabilities</b>	<b>5,247,250</b>	<b>389,977</b>	<b>-</b>	<b>5,637,227</b>
<i>Net assets</i>				
Unrestricted	19,090,648	-	-	19,090,648
Trustee designated	3,641,815	-	-	3,641,815
<b>Total unrestricted</b>	<b>22,732,463</b>	<b>-</b>	<b>-</b>	<b>22,732,463</b>
Temporarily restricted	-	28,534,828	-	28,534,828
Permanently restricted	-	-	13,550,720	13,550,720
<b>Total net assets</b>	<b>22,732,463</b>	<b>28,534,828</b>	<b>13,550,720</b>	<b>64,818,011</b>
<b>Total liabilities and net assets</b>	<b>\$ 27,979,713</b>	<b>\$ 28,924,805</b>	<b>\$ 13,550,720</b>	<b>\$ 70,455,238</b>

Massachusetts Historical Society, Inc.

Statement of Activities

For the Year Ended June 30, 2009

(with Comparative Totals for 2008)

	2009			Total	2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and support					
Gifts and grants	\$ 1,300,442	\$ 143,980	\$ 24,811	\$ 1,469,233	\$ 3,475,621
Endowment support	3,685,613	50,000	-	3,735,613	3,284,575
Members and Fellows dues	126,658	-	-	126,658	98,941
Royalties, reproductions and rights	108,642	-	-	108,642	166,167
Seminars and events	113,588	-	-	113,588	51,575
Sales of publications	6,525	-	-	6,525	7,799
Miscellaneous income	20,846	39,708	-	60,554	16,955
Investment income from other investments	-	30,289	-	30,289	104,329
Endowment activity					
Investment income, net of fees	314,303	662,339	-	976,642	1,293,048
Realized and unrealized losses on investments	(6,023,438)	(12,693,522)	-	(18,716,960)	(803,035)
Endowment draw	(3,685,613)	(50,000)	-	(3,735,613)	(3,284,575)
Net assets released from restrictions	1,684,120	(1,684,120)	-	-	-
	<u>(2,348,314)</u>	<u>(13,501,326)</u>	<u>24,811</u>	<u>(15,824,829)</u>	<u>4,411,400</u>
Operating expenses					
Programs	3,854,594	-	-	3,854,594	3,523,635
Management and general	872,393	-	-	872,393	1,062,067
Fundraising	653,684	-	-	653,684	540,595
	<u>5,380,671</u>	<u>-</u>	<u>-</u>	<u>5,380,671</u>	<u>5,126,297</u>
Change in net assets	(7,728,985)	(13,501,326)	24,811	(21,205,500)	(714,897)
Net assets at beginning of year	29,738,165	42,172,224	14,113,122	86,023,511	86,738,408
Prior period adjustment	723,283	(136,070)	(587,213)	-	-
Net assets at beginning of year, re-stated	<u>30,461,448</u>	<u>42,036,154</u>	<u>13,525,909</u>	<u>86,023,511</u>	<u>86,738,408</u>
Net assets at end of year	<u>\$ 22,732,463</u>	<u>\$ 28,534,828</u>	<u>\$ 13,550,720</u>	<u>\$ 64,818,011</u>	<u>\$ 86,023,511</u>

# Massachusetts Historical Society, Inc.

## Statements of Functional Expenses For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>Programs</b>		
Salaries, taxes and benefits	\$ 2,602,492	\$ 2,421,183
Occupancy costs	254,847	250,276
Depreciation	239,119	246,749
HEFA bond interest and fees	121,864	104,717
Computer supplies, software and support	11,788	27,171
Program expenses	271,156	299,956
Books and manuscripts	59,158	15,304
Printing	79,565	15,570
Conservation	16,819	24,679
Offsite storage	47,513	38,748
Seminars and conferences	66,635	24,309
Consulting and outside services	40,920	13,600
Cultivation, meetings and events	588	507
Sponsorship expense	21,500	30,500
Other expenses	20,630	10,366
	<u>\$ 3,854,594</u>	<u>\$ 3,523,635</u>
<b>Management and general</b>		
Salaries, taxes and benefits	\$ 584,653	\$ 695,567
Occupancy costs	41,134	39,813
Depreciation	28,132	29,029
HEFA bond interest and fees	14,337	56,690
Computer supplies, software and support	12,228	8,677
Books and manuscripts	1,469	1,671
Auditing	45,300	43,075
Legal	13,505	20,371
Consulting and outside services	70,992	101,219
Cultivation, meetings and events	22,994	30,589
Other expenses	37,649	35,366
	<u>\$ 872,393</u>	<u>\$ 1,062,067</u>
<b>Fundraising</b>		
Salaries, taxes and benefits	\$ 478,050	\$ 358,282
Occupancy costs	26,169	21,359
Depreciation	14,066	14,515
HEFA bond interest and fees	7,169	6,160
Computer supplies, software and support	8,192	15,444
Printing	19,522	26,977
Consulting and outside services	31,321	14,920
Cultivation, meetings and events	60,442	68,654
Other expenses	8,753	14,284
	<u>\$ 653,684</u>	<u>\$ 540,595</u>

**Massachusetts Historical Society, Inc.**

**Statements of Cash Flows  
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ (21,205,500)	\$ (714,897)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	281,317	290,293
Unrealized losses from split-interest agreements	3,239	6,354
Gifts, grants, and capital campaign gifts for endowment	(484,146)	(2,345,540)
Investment income, net of management fees, reinvested	(1,006,930)	(1,397,377)
Realized losses and (gains) reinvested	1,538,233	(566,141)
Decrease in fair value of investments	17,178,727	1,369,176
Decrease (increase) in		
Accounts and grants receivable	(5,421)	142,086
Pledges receivable	42,200	287,445
Split-interest agreements	(106,092)	(113)
Prepaid expenses	10,349	12,591
Increase (decrease) in		
Accounts payable and accrued expenses	168,772	92,351
Liability for split-interest agreements	63,145	3,661
Deferred revenue	(87,199)	(374,691)
Net cash used in operating activities	<u>(3,609,306)</u>	<u>(3,194,802)</u>
Cash flows from investing activities		
Capital expenditures	(168,388)	-
Gifts, grants, and capital campaign gifts invested	101,049	2,576,761
Investment sales	4,151,487	3,313,254
Investment purchases	(101,049)	(2,576,761)
Net cash provided by investing activities	<u>3,983,099</u>	<u>3,313,254</u>
Cash flows from financing activities		
Repayments of bonds payable	(83,400)	(78,679)
Change in escrow funds restricted to bond debt service	(7,243)	2,120
Net cash used in financing activities	<u>(90,643)</u>	<u>(76,559)</u>
Net increase in cash and cash equivalents	283,150	41,893
Cash and cash equivalents at beginning of year	<u>555,641</u>	<u>513,748</u>
Cash and cash equivalents at end of year	<u>\$ 838,791</u>	<u>\$ 555,641</u>
<i>Supplemental Disclosure of Cash Flow Information</i>		
Bond interest paid	<u>\$ 103,738</u>	<u>\$ 123,196</u>

*The accompanying notes are an integral part of these financial statements*

# Massachusetts Historical Society, Inc.

## Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

### 1. Organization

The Massachusetts Historical Society, Inc. (the "Society") was founded in 1791 as an independent research library that collects, preserves, makes accessible and communicates manuscripts and other materials in order to promote the study of history of Massachusetts and the nation.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### *Unrestricted Net Assets*

Unrestricted net assets represent those assets which the Society may use at its discretion.

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Society and/or the passage of time.

#### *Permanently Restricted Net Assets*

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of those assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

#### *Basis of Accounting*

The financial statements of the Society have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

#### *Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Society considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

#### *Accounts, Grants and Pledges Receivable*

Accounts, grants and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

# Massachusetts Historical Society, Inc.

## Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

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

#### *Accounts, Grants and Pledges Receivable (Continued)*

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants or pledges receivable. Changes in the valuation allowance have not been material to the financial statements.

Pledges receivable are unconditional promises to give that are recognized as revenues in the period received and as assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on these amounts is computed using an appropriate discount rate commensurate with the risks involved. Amortization of the discount is included in gifts and grant revenue.

#### *Investments*

The Society carries investments in marketable securities and debt securities in the statements of financial position at their fair values based on quoted prices for active markets for identical securities. Investments in limited partnerships and special situations are valued as described in Note 14. These estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Investment income, realized and unrealized gains and losses and investment expenses on endowment investments are included in the change in net assets in the accompanying statement of activities. The investment income, realized and unrealized gains and losses and investment expenses on permanently restricted endowment assets are accounted for as temporarily restricted endowment assets and, along with unrestricted endowment assets, are available for distribution under the Society's spending policy.

During the year ended June 30, 2009 the Society's investments of endowment funds were separated from certain other investment funds related to operations in the accompanying statements of financial position as further described in Note 7. The other investments are separately invested in short term U.S. treasury funds to minimize the risk of loss. The amounts of investments reported for 2008 have been reclassified to conform to the 2009 presentation.

#### *Investment Pools*

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



# Massachusetts Historical Society, Inc.

## Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

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

#### *Recognition of Donor Restrictions*

Revenue and support that is restricted by the donor is reported as an increase in unrestricted net assets, if the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the support is recognized. All other donor-restricted revenue and support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### *Escrow Funds Restricted to Bond Debt Service*

The balance in the escrow funds at June 30, 2009 and 2008 is restricted to debt service of the outstanding bonds and decreases annually proportionate to the outstanding balance of the bonds.

#### *Property and Equipment*

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

#### *Deferred Revenue*

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

#### *Collections*

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

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

#### *Income Taxes*

The Society is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Society's tax-exempt purpose is subject to taxation as unrelated business income at both the federal and state levels. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Society is also exempt from Massachusetts income taxes.

# Massachusetts Historical Society, Inc.

## Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

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

#### *Income Taxes (Continued)*

The Society evaluates its uncertain tax positions using the guidance for contingencies as contained in United States generally accepted accounting principles. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred on the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. The Society has not recognized any uncertain tax positions as of June 30, 2009 and 2008.

#### *Total Return Spending Policy*

The Society utilizes a total return policy with respect to its use of endowment assets. The Trustees set an annual spending amount from endowment assets computed on a trailing 12 quarter average market value basis and approve a specific spending percentage for operations each fiscal year as part of approving the Society's annual operating budget. The spending percentage for operations for the years ended June 30, 2009 and 2008 was 5% and 5.1%, respectively. In addition, the Trustees approved the appropriation of \$50,000 in each year for the payment of investment advisory services.

#### *Donated Assets*

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

#### *Donor-restricted Endowment Assets*

The Commonwealth of Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective June 30, 2009. The Society's policies as to the classification and appropriation of donor-restricted endowment funds are described below and are consistent with the requirements of UPMIFA.

The Society classifies as permanently restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor's gift instructions at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted assets is classified as temporarily restricted assets until those amounts are appropriated for expenditure by the Society.

The Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund,
- (2) The mission of the Society and purpose of the donor-restricted endowment funds,
- (3) General economic conditions,
- (4) The possible effect of inflation and deflation,
- (5) The expected total return from income and the appreciation of investments,
- (6) Other resources of the Society,
- (7) The investment policies of the Society.

# Massachusetts Historical Society, Inc.

## Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

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

#### *Return Objectives and Risk Parameters*

The Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period, temporarily restricted funds and unrestricted funds that include Board of Trustee designated funds. Under this policy the endowment assets are invested in a manner that is intended, over time, to provide an average real (inflation-adjusted) rate of return of approximately 5.6% annually while assuming a moderate level of investment risk. The policy expects an average nominal rate of return of 8.6 % over the long term with an inflation assumption of 3%. Actual returns in any given year may vary from this amount.

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Society has a policy of appropriating for distribution each year up to 5% of invested assets computed on a trailing 12 quarter average of market values. 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 a rate in excess of inflation. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets.

The cumulative net unspent appreciation on temporarily and permanently restricted investments is accounted for as temporarily restricted net assets and together with unspent appreciation on unrestricted endowment funds is not available for distribution, except by the express action of the Trustees of the Society.

#### *Comparative Financial Information*

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2008, from which the summarized information was derived. In addition, certain amounts reported in the financial statements for 2008, particularly in the statement of financial position and statement of activities, have been reclassified to conform to the 2009 presentation. These reclassifications had no effect on 2008 changes in net assets previously reported.

## Massachusetts Historical Society, Inc.

### Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

#### 3. Pledges Receivable

Pledges receivable are recorded for unconditional promises to give to the annual fund, temporarily restricted gifts for current programs and a prior capital campaign. Pledges receivable at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Amounts due in		
Less than one year	\$ 55,600	\$ 87,414
One to five years	15,000	27,333
Total due	70,600	114,747
Discount to net present value	(2,790)	(4,737)
Allowance for doubtful accounts	(4,023)	(4,023)
Net pledges receivable	<u>\$ 63,787</u>	<u>\$ 105,987</u>

Pledges receivable in more than one year are discounted at 6.25% at June 30, 2009 and 2008.

#### 4. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ 40,719	\$ 5,200
Grants receivable from Federal agencies	402,203	503,894
Other grants receivable	168,845	100,000
Discount to net present value	(5,658)	(8,406)
Net accounts and grants receivable	<u>\$ 606,109</u>	<u>\$ 600,688</u>

Other grants receivable are due over a five year period and are discounted to net present value at 3% at June 30, 2009 and 2008.

#### 5. Split-Interest Agreements

The Society administers various agreements through charitable remainder trusts and annuities. These agreements provide for the payment of distributions to the grantor or other designated beneficiaries over the terms of the agreement. At the end of the term, the remaining assets are available for the Society's use. The portion of the agreements attributable to the present value of the future benefits to be received by the Society is recorded in the statement of activities as a temporarily restricted gift in the period the agreement is established. Such contributions totaled \$120,194 and \$10,000 for the years ended June 30, 2009 and 2008, respectively. Assets held in the agreements total \$210,625 and \$107,772 at June 30, 2009 and 2008, respectively, and are reported at fair market value in the Society's statements of financial position. On an annual basis, the Society revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments of \$125,921 and \$62,776 at June 30, 2009 and 2008, respectively, is calculated using discount rates ranging from 6% to 11.3% and applicable mortality tables.

## Massachusetts Historical Society, Inc.

### Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

#### 6. Endowment Investments

Endowment investments are carried at the aggregate fair market value and are composed of the following as of June 30:

	2009		2008	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 326,494	\$ 326,494	\$ 255,677	\$ 255,677
Equity securities	29,470,076	25,961,595	36,095,774	45,447,932
U.S. Government obligations	13,085,076	13,448,074	14,227,593	15,127,570
Limited partnerships	15,371,015	15,680,427	10,490,549	15,986,532
<b>Total</b>	<u>\$ 58,252,661</u>	<u>\$ 55,416,590</u>	<u>\$ 61,069,593</u>	<u>\$ 76,817,711</u>

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

	2009	2008
<b>Unrestricted funds</b>		
General support funds	\$ 13,346,615	\$ 20,001,155
Funds designated by the Trustees for specific purposes	3,408,137	4,725,992
	<u>\$ 16,754,752</u>	<u>\$ 24,727,147</u>
<b>Temporarily restricted funds</b>		
General support funds	\$ 16,378,470	\$ 25,007,893
Library funds	5,910,005	8,758,915
Publication funds	2,606,142	4,228,063
Special purpose funds	216,501	569,784
	<u>\$ 25,111,118</u>	<u>\$ 38,564,655</u>
<b>Permanently restricted funds</b>		
General support funds	\$ 8,961,720	\$ 8,938,609
Library funds	1,989,143	1,988,143
Publication funds	1,588,345	1,588,345
Special purpose funds	1,011,512	1,010,812
	<u>\$ 13,550,720</u>	<u>\$ 13,525,909</u>

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

	2009	2008
Interest and dividends	\$ 1,277,576	\$ 1,680,516
Realized and unrealized losses	(18,716,960)	(803,035)
Investment fees	(300,934)	(387,467)
	<u>\$ (17,740,318)</u>	<u>\$ 490,014</u>

The above investment fees include custodial fees and investment management fees. The fees for both years also include \$50,000 for investment advisory services.

## Massachusetts Historical Society, Inc.

### Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

#### 7. Other Investments

Other investments are carried at the aggregate fair market value and are composed of the following as of June 30:

	2009		2008	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 3,463,738	\$ 3,463,738	\$ 2,426,975	\$ 2,426,975
Equity securities	-	-	754,999	1,013,013
Total	\$ 3,463,738	\$ 3,463,738	\$ 3,181,974	\$ 3,439,988

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

	2009	2008
Unrestricted funds – Designated by Trustees		
Deaccessions Fund	\$ 233,678	\$ 233,678
Depreciation Fund	403,227	290,300
	636,905	523,978
Temporarily restricted funds		
Temporarily restricted gifts and grants	418,931	489,035
Bond debt sinking fund	2,407,902	2,426,975
	2,826,833	2,916,010
Total	\$ 3,463,738	\$ 3,439,988

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

Interest and dividends	\$ 30,289	\$ 104,329
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#### 8. Property and Equipment

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

	2009	2008
Land	\$ 200,000	\$ 200,000
Building and building renovations	12,747,252	12,618,633
Furniture and equipment	596,252	556,483
	13,543,504	13,375,116
Accumulated depreciation	(3,828,289)	(3,546,972)
	\$ 9,715,215	\$ 9,828,144

Depreciation expense for the years ended June 30, 2009 and 2008 amounted to \$281,317 and \$290,293, respectively.

As of June 30, 2009 and 2008, the building under lease was fully depreciated. However, land for the leased building is not depreciated and has a net book value of \$175,000 as of June 30, 2009 and 2008.

# Massachusetts Historical Society, Inc.

## Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

### 9. Deferred Grant and Other Revenue

Deferred grant and other revenue consist of the following major classifications as of June 30:

	<u>2008</u>	<u>2007</u>
Federal grants	\$ 264,056	\$ 321,103
Member and Fellows dues and other deferred revenue	67,930	91,414
	<u>\$ 331,986</u>	<u>\$ 412,517</u>

### 10. Long-Term Debt

The Society entered into a long-term debt agreement with the Massachusetts Health and Education Facilities Authority (the "Lender") in April 2003. The loan was facilitated through a letter of credit issued by a financial institution that charges a fee of 0.45% on the unpaid principal balance. Proceeds from the loan have been used to finance building renovations to the Society's property. The original amount of the loan was \$5,030,000 of which \$503,000 or 10% of the proceeds were restricted to secure the loan debt service requirements. In July 2005, the Lender reduced the restriction on the proceeds to equal 1%. A prepaid financing charge of \$25,150 was recorded and is being amortized over the projected term of the long-term debt. The loan called for an interest-only period of 24 months followed by a payment term of 20 years at a variable interest rate based on the Municipal Swap Index Rate, which is .30 % and 1.55% at June 30, 2009 and 2008, respectively. The agreement contains certain covenants that, among other things, require the Society to maintain a minimum debt service coverage level and a maximum leverage ratio. The Society is in compliance with all covenants at June 30, 2009.

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

2010	88,404
2011	93,708
2012	99,331
2013	105,290
2014	111,608
Thereafter	3,701,330

Due to conditions in the financial markets during the spring of 2009, the effective interest rate on the bonds increased substantially and the Trustees of the Society concluded that the future debt service costs of the bonds would likely be higher than the return anticipated on our endowment and that the bonds should be paid off. On August 4, 2009, using the funds in the bond sinking fund and \$1,700,000 from unrestricted and temporarily restricted general purpose endowment funds, the bonds were paid off.

### 11. Pension Plan

The Society has a defined contribution retirement plan for its employees administered by the Teachers Insurance and Annuity Association of America. The Society makes contributions to the plan of 10% of the compensation of all eligible employees and there are no employee contributions required. The Society's contributions to the plan were \$228,380 and \$203,533 for the years ended June 30, 2009 and 2008, respectively.

Effective April 1, 2006, the Society sponsors a deferred compensation plan for certain eligible employees under IRS code 457(b). All contributions to the plan are made by employees; there are no contributions made by the Society.

## Massachusetts Historical Society, Inc.

### Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

#### 12. Concentrations of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash balances in its operating bank accounts, accounts and grants receivable and pledges receivable. Concentrations of credit risk with respect to accounts and grants receivable and pledges receivable are limited due to the large number of contributors compromising the Society's contributor base and their dispersion across different industries, government sectors, and geographic areas. The Society's cash balances at its commercial bank are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account.

#### 13. Prior Period Adjustment

In prior years the Society classified gifts with donor restrictions and gifts without donor restrictions in incorrect asset classifications. As a result the original gifts and any cumulative unexpended earnings thereon have been reclassified to the correct net asset classes as of June 30, 2008. These reclassifications have no effect on prior or current period reported changes in net assets.

#### 14. Fair Value Measurements

The Society establishes 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 below:

##### Basis of Fair Value Measurement

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

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2009.

*Equities:* Valued at the closing price reported in the active market in which the individual securities are traded.

*U.S. Government Obligations:* Valued at the closing price reported in the active market in which the individual securities are traded.

*Limited partnerships:* The Society values its investments in limited partnerships and special situations (Level 3 above) based on the fair values reported in the audited financial statements of the respective investments. The various investments of these limited partnerships and special situations generally have no ready market value and the management of the limited partnerships and special situations determine their estimated value.



## Massachusetts Historical Society, Inc.

### Notes Accompanying the Financial Statements For the Years Ended June 30, 2009 and 2008

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

The fair values of investments in the statement of financial position classified according to the method for determining such fair values are as follows at June 30, 2009:

	Fair Value	Quoted Prices for Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Split-interest agreements	\$ 210,625	\$ 210,625	-	-
Endowment investments	55,416,590	39,736,163	-	\$ 15,680,427
Other investments	3,463,738	3,463,738	-	-

The fair values of investments in the statement of financial position classified according to the method for determining such fair values are as follows at June 30, 2008:

	Fair Value	Quoted Prices for Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Split-interest agreements	\$ 107,772	\$ 107,772	-	-
Endowment investments	76,817,711	60,831,179	-	\$ 15,986,532
Other investments	3,439,988	3,439,988	-	-

The reconciliation of the changes in the fair value of those investments classified as limited partnerships (Level 3 above) during the year is as follows:

	2009
Balance at the beginning of the year	\$ 15,986,532
Additional investment	5,000,000
Change in fair value	<u>(5,306,105)</u>
Balance at the end of the year	<u>\$ 15,680,427</u>

#### 15. Subsequent Events

The Society has evaluated all subsequent events through March 15, 2010, the date the financial statements were available to be issued.

On August 4, 2009, the Society paid off the outstanding bonds payable. See further information in Note 10.

#### 16. Trustee Designated, Temporarily Restricted and Permanently Restricted Net Assets

A summary of changes during the year ended June 30, 2009 in Trustee designated, temporarily restricted and permanently restricted net assets included in the statement of activities classified by purpose is shown on page 17.

**Massachusetts Historical Society, Inc.**  
**Notes Accompanying the Financial Statements**  
**For the Years Ended June 30, 2009 and 2008**

**16. Trustee Designated, Temporarily Restricted and Permanently Restricted Net Assets**

	Balance June 30, 2008	Contributions and other additions	Investment income, net	Realized and unrealized losses	Expenditures and Appropriations	Balance June 30, 2009
<b>Trustee Designated Net Assets</b>						
General support	\$ 1,017,544	\$ -	\$ 12,934	\$ (247,870)	\$ (48,809)	\$ 733,799
Liberary operations	715,493	-	6,124	(117,368)	(23,111)	581,138
Publications	3,226,633	-	41,013	(785,995)	(154,773)	2,326,878
Special purposes	-	-	-	-	-	-
	<u>\$ 4,959,670</u>	<u>\$ -</u>	<u>\$ 60,071</u>	<u>\$ (1,151,233)</u>	<u>\$ (226,693)</u>	<u>\$ 3,641,815</u>
<b>Temporarily Restricted Net Assets</b>						
General support	\$25,220,599	\$ -	\$ 471,409	\$ (8,273,451)	\$ (820,185)	\$16,598,372
Liberary operations	8,758,915	-	136,611	(2,618,062)	(367,459)	5,910,005
Publications	4,502,448	-	73,930	(1,416,854)	(252,048)	2,907,476
Special purposes	3,554,192	143,980	50,386	(385,155)	(244,428)	3,118,975
	<u>\$42,036,154</u>	<u>\$ 143,980</u>	<u>\$ 732,336</u>	<u>\$ (12,693,522)</u>	<u>\$ (1,684,120)</u>	<u>\$28,534,828</u>
<b>Permanently Restricted Net Assets</b>						
General support	\$ 8,938,609	\$ 23,111	\$ -	\$ -	\$ -	\$ 8,961,720
Liberary operations	1,988,143	1,000	-	-	-	1,989,143
Publications	1,588,345	-	-	-	-	1,588,345
Special purposes	1,010,812	700	-	-	-	1,011,512
	<u>\$13,525,909</u>	<u>\$ 24,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,550,720</u>