

Massachusetts Historical Society, Inc.

Financial Statements

**For the Years Ended
June 30, 2010 and 2009**

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of financial position of **Massachusetts Historical Society, Inc.** (a nonprofit organization) as of June 30, 2010 and 2009, 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, 2010. 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, 2009 financial statements and in our report dated March 15, 2010, 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, 2010 and 2009, and its cash flows for the years then ended, and the changes in its net assets for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.



Newton, Massachusetts
February 17, 2011

Massachusetts Historical Society, Inc.
Statements of Financial Position
June 30, 2010 and 2009

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<i>Assets</i>				
Cash and cash equivalents	\$ 394,256	\$ 195,000	\$ -	\$ 589,256
Accounts and grants receivable, net	15,030	1,606,891	-	1,621,921
Pledges receivable, net	1,650	436,020	-	437,670
Split-interest agreements	-	206,940	-	206,940
Endowment investments	16,830,748	25,207,429	15,313,089	57,351,266
Other investments	1,891,180	368,796	-	2,259,976
Escrow funds restricted to bond debt service	-	-	-	75,641
Prepaid expenses	44,584	-	-	44,584
Property and equipment, net	9,605,356	-	-	9,605,356
Total assets	\$ 28,782,804	\$ 28,021,076	\$ 15,313,089	\$ 72,116,969
<i>Liabilities and Net Assets</i>				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 318,736	\$ -	\$ -	\$ 318,736
Deferred grant and other revenue	60,696	-	-	60,696
Split-interest agreements	-	117,232	-	117,232
Deferred lease revenue	427,772	-	-	427,772
Bonds payable	-	-	-	4,199,671
Total liabilities	807,204	117,232	-	924,436
<i>Net assets</i>				
Unrestricted	22,666,766	-	-	22,666,766
Trustee designated	5,308,834	-	-	5,308,834
Total unrestricted	27,975,600	-	-	27,975,600
Temporarily restricted	-	27,903,844	-	27,903,844
Permanently restricted	-	-	15,313,089	15,313,089
Total net assets	27,975,600	27,903,844	15,313,089	71,192,533
Total liabilities and net assets	\$ 28,782,804	\$ 28,021,076	\$ 15,313,089	\$ 72,116,969

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.
Statement of Activities
For the Year Ended June 30, 2010
(with Comparative Totals for 2009)

	2010			2009
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Gifts	738,213	624,115	131,935	1,494,263
Bequests	-	-	1,630,434	1,630,434
Grants	891,282	1,421,977	-	2,313,259
Endowment support for operations	3,530,000	-	-	3,530,000
Endowment support for debt reduction	1,700,000	-	-	1,700,000
Deaccession proceeds	111,165	-	-	111,165
Members and Fellows dues	102,480	-	-	102,480
Royalties, reproductions and rights	62,644	-	-	62,644
Seminars and events	40,183	-	-	40,183
Sales of publications	11,128	-	-	11,128
Miscellaneous income	28,365	5,004	-	33,369
Investment income from other investments	85	-	-	85
Endowment activity				
Investment income, net of fees	179,307	423,273	-	602,580
Realized and unrealized gains (losses) on investments	1,423,721	3,360,971	-	4,784,692
Endowment draw for operations	(3,530,000)	-	-	(3,530,000)
Endowment draw for debt reduction	(1,700,000)	-	-	(1,700,000)
Net assets released from restrictions	6,466,324	(6,466,324)	-	-
Operating expenses	10,054,897	(630,984)	1,762,369	(15,824,829)
Programs	3,504,028	-	-	3,504,028
Management and general	829,224	-	-	829,224
Fundraising	478,508	-	-	478,508
	4,811,760	-	-	4,811,760
Change in net assets	5,243,137	(630,984)	1,762,369	6,374,522
Net assets at beginning of year	22,732,463	28,534,828	13,550,720	64,818,011
Net assets at end of year	\$ 27,975,600	\$ 27,903,844	\$ 15,313,089	\$ 71,192,533

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.

**Statements of Functional Expenses
For the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Programs		
Salaries, taxes and benefits	\$ 2,534,368	\$ 2,602,493
Occupancy costs	234,764	254,847
Depreciation	235,728	239,119
HEFA bond interest and fees	-	121,864
Computer supplies, software and support	10,310	11,788
Program expenses	298,926	271,156
Books and manuscripts	32,778	59,158
Printing	25,007	79,565
Conservation	15,901	16,819
Offsite storage	43,664	47,513
Seminars and conferences	6,670	66,635
Consulting and outside services	10,928	40,920
Cultivation, meetings and events	721	588
Sponsorship expense	-	21,500
Other expenses	54,263	20,630
	<u>\$ 3,504,028</u>	<u>\$ 3,854,595</u>
Management and general		
Salaries, taxes and benefits	\$ 510,368	\$ 584,653
Occupancy costs	63,879	41,134
Depreciation	27,733	28,132
HEFA bond interest and fees	63,197	14,337
Computer supplies, software and support	5,790	12,228
Books and manuscripts	1,778	1,469
Auditing	54,312	45,300
Legal	14,381	13,505
Consulting and outside services	17,191	70,992
Cultivation, meetings and events	33,662	22,994
Other expenses	36,933	37,649
	<u>\$ 829,224</u>	<u>\$ 872,393</u>
Fundraising		
Salaries, taxes and benefits	\$ 357,284	\$ 478,049
Occupancy costs	17,498	26,169
Depreciation	13,866	14,066
HEFA bond interest and fees	-	7,169
Computer supplies, software and support	11,558	8,192
Printing	13,382	19,522
Consulting and outside services	3,000	31,321
Cultivation, meetings and events	50,681	60,442
Other expenses	11,239	8,753
	<u>\$ 478,508</u>	<u>\$ 653,683</u>

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.

**Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009**

	2010	2009
Cash flows from operating activities		
Change in net assets	\$ 6,374,522	\$ (21,205,500)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	277,327	281,317
Unrealized losses from split-interest agreements	3,471	3,239
Gifts and grants for endowment	(1,777,404)	(484,146)
Investment income, net of management fees, reinvested	(602,580)	(1,006,930)
Decrease (increase) in fair value of investments	(4,784,692)	18,716,960
Decrease (increase) in		
Accounts and grants receivable	(1,015,812)	(5,421)
Pledges receivable	(373,883)	42,200
Split-interest agreements	214	(106,092)
Prepaid expenses	20,158	10,349
Increase (decrease) in		
Accounts payable and accrued expenses	(226,473)	168,772
Liability for split-interest agreements	(8,689)	63,145
Deferred revenue	(277,958)	(87,199)
Net cash used in operating activities	(2,391,799)	(3,609,306)
Cash flows from investing activities		
Capital expenditures	(167,468)	(168,388)
Gifts, grants, and capital campaign gifts invested	1,777,404	101,049
Investment sales	8,355,386	4,151,487
Investment purchases	(3,699,028)	(101,049)
Net cash provided by investing activities	6,266,294	3,983,099
Cash flows from financing activities		
Repayment of bonds payable	(4,199,671)	(83,400)
Change in escrow funds restricted to bond debt service	75,641	(7,243)
Net cash used in financing activities	(4,124,030)	(90,643)
Net increase (decrease) in cash and cash equivalents	(249,535)	283,150
Cash and cash equivalents at beginning of year	838,791	555,641
Cash and cash equivalents at end of year	\$ 589,256	\$ 838,791
<i>Supplemental Disclosure of Cash Flow Information</i>		
Bond interest paid	\$ 9,309	\$ 103,738

The accompanying notes are an integral part of these financial statements

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

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 accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 in accordance with accounting principles generally accepted in the United States of America.

Estimates

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

Cash and Cash Equivalents

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

Accounts, Grants and Pledges Receivable

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

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (Continued)

Accounts, Grants and Pledges Receivable (Continued)

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants or pledges receivable.

Pledges receivable are unconditional promises to give that are recognized as revenues in the period received and as assets. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges receivable that are expected to be collected 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 13. 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 appropriation under the Society's spending policy.

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.

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.

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (Continued)

Escrow Funds Restricted to Bond Debt Service

The balance in the escrow funds at June 30, 2009 was restricted to debt service of the outstanding bonds and decreased annually proportionate to the outstanding balance of the bonds. The escrow funds were used when the bonds were paid off during the year ended June 30, 2010.

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 membership dues until the revenue is earned.

Collections

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

The collections, which were acquired through purchases and donor contributions since the Society's inception, are not recognized as assets on the statements of financial position. 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. The Society is also exempt from Massachusetts income taxes. However, income from certain activities not directly related to the Society's tax-exempt purpose may be subject to taxation as unrelated business income at both the state and federal levels. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Society evaluates all significant tax positions as required by generally accepted accounting principles in the United States. As of June 30, 2010, the Society does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. The Society's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of June 30, 2010, the Society's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

Total Return Spending Policy

The Society utilizes a total return policy with respect to its use of endowment assets. The Trustees set an annual spending amount from endowment assets computed on a trailing 12 quarter 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, 2010 and 2009 was 5% in each year. The Trustees also approved the appropriation of \$50,000 in each year for the payment of investment advisory services. In 2010, the Trustees also approved the appropriation of \$1,700,000 as part of the funds needed to pay off its outstanding bonds.

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 to Financial Statements For the Years Ended June 30, 2010 and 2009

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 trailing quarterly 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 appropriation 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, 2009, from which the summarized information was derived.

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

3. Accounts and Grants Receivable

Accounts and grants receivable at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 15,030	\$ 40,719
Grants receivable		
Federal agencies due in		
Less than one year	1,115,499	402,203
One to three years	430,400	-
Total Federal grants	<u>1,545,899</u>	<u>402,203</u>
Other grants receivable	64,420	168,845
Total grants receivable	<u>1,610,319</u>	<u>571,048</u>
Allowance for doubtful accounts	<u>(3,428)</u>	<u>(5,658)</u>
Net accounts and grants receivable	<u>\$ 1,621,921</u>	<u>\$ 606,109</u>

4. Pledges Receivable

Pledges receivable are recorded for unconditional promises to give to the strategic initiative fund, the annual fund, temporarily restricted gifts for current programs and a prior capital campaign. Pledges receivable at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Amounts due in		
Less than one year	\$ 239,943	\$ 55,600
One to two years	203,000	15,000
Total due	<u>442,943</u>	<u>70,600</u>
Allowance for doubtful accounts	<u>(5,273)</u>	<u>(6,813)</u>
Net pledges receivable	<u>\$ 437,670</u>	<u>\$ 63,787</u>

5. Split-Interest Agreements

The Society administers various agreements through charitable remainder trusts and annuities. These agreements provide for the payment of distributions to the grantor or other designated beneficiaries over the terms of the agreement. At the end of the term, the remaining assets are available for the Society's use. The portion of the agreements attributable to the present value of the future benefits to be received by the Society is recorded in the statement of activities as a temporarily restricted gift in the period the agreement is established. There were no contributions in 2010. Contributions totaled \$120,194 for the year ended June 30, 2009. Assets held in the agreements are reported at fair market value in the Society's statements of financial position. On an annual basis, the Society revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future liability for payments to grantors at June 30, 2010 is calculated using discount rates ranging from 2.4% to 6.2% and applicable mortality tables.

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

6. Endowment Investments

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

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 132,291	\$ 326,494
Equity securities	29,433,803	25,961,595
U.S. and other sovereign debt obligations	13,125,272	13,448,074
Limited partnerships	14,659,900	15,680,427
Total	<u>\$ 57,351,266</u>	<u>\$ 55,416,590</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:

	<u>2010</u>	<u>2009</u>
Unrestricted funds		
General support funds	\$ 13,413,094	\$ 13,346,615
Funds designated by the Trustees for specific purposes	3,417,654	3,408,137
	<u>\$ 16,830,748</u>	<u>\$ 16,754,752</u>
Temporarily restricted funds		
General support funds	\$ 16,438,486	\$ 16,378,470
Library funds	5,929,168	5,910,005
Publication funds	2,617,852	2,606,142
Special purpose funds	221,923	216,501
	<u>\$ 25,207,429</u>	<u>\$ 25,111,118</u>
Permanently restricted funds		
General support funds	\$ 9,684,154	\$ 8,961,720
Library funds	2,897,143	1,989,143
Publication funds	1,588,345	1,588,345
Special purpose funds	1,143,447	1,011,512
	<u>\$ 15,313,089</u>	<u>\$ 13,550,720</u>

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

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 910,240	\$ 1,277,576
Realized and unrealized gains (losses)	4,784,692	(18,716,960)
Investment fees	(307,660)	(300,934)
	<u>\$ 5,387,270</u>	<u>\$(17,740,318)</u>

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

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

7. Other Investments

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

	<u>2010</u>	<u>2009</u>
Cash equivalents – U.S. Treasury Cash Reserves Fund	\$ 2,259,976	\$ 3,463,738

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

	<u>2010</u>	<u>2009</u>
Unrestricted funds – Designated by Trustees		
Collection acquisitions fund	\$ 339,493	\$ 233,678
Capital projects reserve	513,087	403,227
Strategic initiative gifts reserve	1,038,600	-
	1,891,180	636,905
Temporarily restricted funds		
Temporarily restricted gifts and grants	368,796	418,931
Bond debt sinking fund	-	2,407,902
	368,796	2,826,833
Total	\$ 2,259,976	\$ 3,463,738

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

Interest and dividends	\$ 85	\$ 30,289
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8. Property and Equipment

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

	<u>2010</u>	<u>2009</u>
Land	\$ 200,000	\$ 200,000
Building and building renovations	12,855,237	12,747,252
Furniture and equipment	655,735	596,252
	13,710,972	13,543,504
Accumulated depreciation	(4,105,616)	(3,828,289)
	\$ 9,605,356	\$ 9,715,215

Depreciation expense for the years ended June 30, 2010 and 2009 amounted to \$277,327 and \$281,317, respectively.

As of June 30, 2010 and 2009, 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, 2010 and 2009.

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

9. Deferred Grant and Other Revenue

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

	<u>2010</u>	<u>2009</u>
Federal grants	\$ -	\$ 264,056
Member and Fellows dues	<u>60,696</u>	<u>67,930</u>
	<u>\$ 60,696</u>	<u>\$ 331,986</u>

10. Long-Term Debt

The Society entered into a long-term debt agreement with the Massachusetts Health and Education Facilities Authority in April 2003. Proceeds from the loan were used to finance building renovations to the Society's property. The loan called for an interest-only period of 24 months followed by a payment term of 20 years at a variable interest rate which was .30% at June 30, 2009.

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 bonds should be paid off. On August 4, 2009, using the funds in the bond sinking fund and \$1,700,000 from unrestricted 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 made contributions to the plan of 8% in 2010 and 10% in 2009 of the compensation of all eligible employees and there are no employee contributions required. The Society's contributions to the plan were \$184,500 and \$228,380 for the years ended June 30, 2010 and 2009, 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.

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 receivable, grants receivable and pledges receivable; and other investments. The Society's cash balances at its commercial bank totaling \$204,756 per the banks records at June 30, 2010 are insured by the Federal Deposit Insurance Corporation up to \$250,000 per account. Balances in excess of \$250,000 are transferred to a U.S. Treasury Cash Reserves Funds account. Accounts receivable, grants receivable and pledges receivable are limited due to the large number of contributors comprising the Society's contributor base and their dispersion across different industries, government sectors, and geographic areas. Other investments are invested in a U.S. Treasury Cash Reserves Fund account.

Massachusetts Historical Society, Inc.

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

13. 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, 2010.

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

Fixed income obligations: Valued at the closing price reported in the active market in which the individual securities are traded.

Limited partnerships and special situations: 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.

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, 2010:

	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	\$ 206,940	\$ 206,940	\$ -	\$ -
Endowment investments	57,351,266	42,691,366	-	14,659,900
Other investments	2,259,976	2,259,976	-	-

Massachusetts Historical Society, Inc.

**Notes to Financial Statements
For the Years Ended June 30, 2010 and 2009**

13. 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 reconciliation of the changes in the fair value of those investments classified as limited partnerships (Level 3 above) during the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Balance at the beginning of the year	\$15,680,427	\$ 15,986,532
Additional investments	3,000,000	5,000,000
Redemptions	(5,405,922)	-
Increase (decrease) in fair value	1,385,395	(5,306,105)
Balance at the end of the year	<u>\$14,659,900</u>	<u>\$ 15,680,427</u>

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.

14. Subsequent Events

The Society has evaluated all subsequent events through February 17, 2011, the date the financial statements were available to be issued.

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

A summary of changes during the year ended June 30, 2010 in Trustee designated, temporarily restricted and permanently restricted net assets included in the statement of activities classified by purpose is shown on page 17.

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Notes Accompanying the Financial Statements
For the Years Ended June 30, 2010 and 2009

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

	Balance June 30, 2009	Transfers	Contributions and Other Additions	Investment Income, net	Realized and Unrealized Gains	Expenditures and Appropriations	Balance June 30, 2010
Trustee Designated Net Assets							
General support	\$ 733,799	\$ 403,227	\$ 1,315,927	\$ 7,851	\$ 62,341	\$ (235,610)	\$ 2,287,535
Library operations	581,138	-	111,165	3,718	29,519	(37,616)	687,924
Publications	2,326,878	-	-	24,896	197,684	(216,083)	2,333,375
Special purposes	-	-	-	-	-	-	-
	\$ 3,641,815	\$ 403,227	\$ 1,427,092	\$ 36,465	\$ 289,544	\$ (489,309)	\$ 5,308,834
Temporarily Restricted Net Assets							
General support	\$ 19,802,180	\$ -	\$ 2,158,261	\$ 274,125	\$ 2,176,658	\$ (5,276,323)	\$ 19,134,901
Library operations	5,910,005	-	-	91,002	722,600	(794,439)	5,929,168
Publications	2,606,142	-	-	44,877	356,352	(389,519)	2,617,852
Special purposes	216,501	-	4,000	13,269	105,361	(117,208)	221,923
	\$ 28,534,828	\$ -	\$ 2,162,261	\$ 423,273	\$ 3,360,971	\$ (6,577,489)	\$ 27,903,844
Permanently Restricted Net Assets							
General support	\$ 8,961,720	\$ -	\$ 722,434	\$ -	\$ -	\$ -	\$ 9,684,154
Library operations	1,989,143	-	908,000	-	-	-	2,897,143
Publications	1,588,345	-	-	-	-	-	1,588,345
Special purposes	1,011,512	-	131,935	-	-	-	1,143,447
	\$ 13,550,720	\$ -	\$ 1,762,369	\$ -	\$ -	\$ -	\$ 15,313,089