

**NEW ENGLAND ELECTRIC RAILWAY  
HISTORICAL SOCIETY**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**FINANCIAL STATEMENTS**

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1960 - 2010

## INDEPENDENT AUDITORS' REPORT

January 31, 2011

To the Board of Trustees  
New England Electric Railway Historical Society  
Kennebunkport, ME

We have audited the accompanying statements of financial position of New England Electric Railway Historical Society (the "Society") as of December 31, 2009 and 2008, and the related statements of activities and changes in net assets, and cash flows for the years then ended. 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.

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 audit 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 New England Electric Railway Historical Society as of December 31, 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.

*Cummings, Lamont + McNamee P.A.*

**Certified Public Accountants**  
**Kennebunk, Maine**

### CERTIFIED PUBLIC ACCOUNTANTS

305 Lafayette Center  
P.O. Box 328  
Kennebunk, Maine 04043-0328  
TEL 207 985-3339  
FAX 207 985-1339

One New Hampshire Avenue, Suite 305  
Portsmouth, NH 03801  
TEL 603 430-6200  
FAX 603 430-6209

P.O. Box 459  
14 Bow Street  
Exeter, NH 03833-0459  
TEL 603 772-3460  
FAX 603 772-7097

69 South Main Street  
Rochester, NH 03867-2707  
TEL 603 335-3006  
FAX 603 335-4927

<http://www.clmcpa.com>  
e-mail: [clm@clmcpa.com](mailto:clm@clmcpa.com)

Karen J. Searle, MST, CPA  
Michael J. Asselin, CPA  
Raymond L. Bald, CPA, CFE  
Cindy B. Keohan, MBA  
Wanda J. Ring, CPA

Alice W. Ferran, MBA, CPA, PFS  
Randall E. Dunham, MBA, CPA/ABV,  
CVA, CFFA, CFF

Brian P. Lortie, CPA, MST  
Don A. Caignan, CPA

Member:  
American Institute of CPAs

Licensed in Maine, New Hampshire  
and Massachusetts

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31,**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash and cash equivalents:		
Unrestricted	\$ 403,827	\$ 258,800
Restricted	698,600	853,407
Investments:		
Unrestricted	27,588	20,928
Restricted	466,740	400,340
Other receivables:		
Unrestricted	1,954	2,156
Restricted	40,728	13,690
Prepaid expenses:		
Unrestricted	20,285	12,032
Restricted	90	90
Inventories	60,195	72,766
Pledges receivable:		
Unrestricted	-	924
Restricted	74,691	104,568
Property and equipment, net	<u>1,261,642</u>	<u>1,257,317</u>
 Total Assets	 <u><u>\$ 3,056,340</u></u>	 <u><u>\$ 2,997,018</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 15,401	\$ 39,707
Accrued payroll and taxes	6,794	4,532
Current portion of long-term debt	6,913	8,488
Deferred revenue	4,990	5,660
Other accrued liabilities	87,181	46,017
Long-term debt	<u>47,600</u>	<u>54,513</u>
 Total Liabilities	 <u>168,879</u>	 <u>158,917</u>
 <b>NET ASSETS</b>		
Unrestricted:		
Board designated	169,488	53,496
Undesignated	229,995	218,194
Designated - property and equipment	1,207,129	1,194,316
Temporarily restricted	921,261	1,063,059
Permanently restricted	<u>359,588</u>	<u>309,036</u>
 Total Net Assets	 <u>2,887,461</u>	 <u>2,838,101</u>
 Total Liabilities and Net Assets	 <u><u>\$ 3,056,340</u></u>	 <u><u>\$ 2,997,018</u></u>

*See Notes to Financial Statements*

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**YEAR ENDED DECEMBER 31, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Earned Revenue				
Admissions	\$ 90,328	\$ 925	\$ -	\$ 91,253
Annual membership dues	29,457	-	-	29,457
Life membership dues	900	-	-	900
Revenue from auxiliary operation	<u>82,064</u>	<u>267,443</u>	<u>-</u>	<u>349,507</u>
Total Earned Revenue	<u>202,749</u>	<u>268,368</u>	<u>-</u>	<u>471,117</u>
Contributed Support				
Grants	-	47,117	-	47,117
Contribution and bequests	79,615	149,267	3,996	232,878
Contributions-in-kind	24,166	56,463	-	80,629
Contributed Services	<u>12,004</u>	<u>-</u>	<u>-</u>	<u>12,004</u>
Total Contributed Support	<u>115,785</u>	<u>252,847</u>	<u>3,996</u>	<u>372,628</u>
Other Revenue				
Interest and dividend income	4,423	8,511	9,619	22,553
Realized and unrealized gains (losses) on investments	4,246	19,140	52,566	75,952
Miscellaneous income	<u>20,976</u>	<u>7,953</u>	<u>-</u>	<u>28,929</u>
Total Other Revenue	<u>29,645</u>	<u>35,604</u>	<u>62,185</u>	<u>127,434</u>
Net assets released from restrictions	<u>714,246</u>	<u>(698,617)</u>	<u>(15,629)</u>	<u>-</u>
Total Support and Revenue	<u>1,062,425</u>	<u>(141,798)</u>	<u>50,552</u>	<u>971,179</u>
<b>EXPENSES</b>				
Program Services				
Curatorial and exhibits	<u>622,916</u>	<u>-</u>	<u>-</u>	<u>622,916</u>
Supporting Services				
Membership	21,926	-	-	21,926
General and administrative	184,156	-	-	184,156
Fundraising	4,296	-	-	4,296
Auxiliary operation	<u>88,525</u>	<u>-</u>	<u>-</u>	<u>88,525</u>
Total Supporting Services	<u>298,903</u>	<u>-</u>	<u>-</u>	<u>298,903</u>
Total Expenses	<u>921,819</u>	<u>-</u>	<u>-</u>	<u>921,819</u>
CHANGE IN NET ASSETS	140,606	(141,798)	50,552	49,360
NET ASSETS, BEGINNING OF YEAR	<u>1,466,006</u>	<u>1,063,059</u>	<u>309,036</u>	<u>2,838,101</u>
NET ASSETS, END OF YEAR	<u>\$ 1,606,612</u>	<u>\$ 921,261</u>	<u>\$ 359,588</u>	<u>\$ 2,887,461</u>

*See Notes to Financial Statements*

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**YEAR ENDED DECEMBER 31, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
Earned Revenue				
Admissions	\$ 92,195	\$ -	\$ -	\$ 92,195
Annual membership dues	32,855	-	-	32,855
Life membership dues	3,450	-	-	3,450
Revenue from auxiliary operation	<u>99,285</u>	<u>35,680</u>	<u>-</u>	<u>134,965</u>
Total Earned Revenue	<u>227,785</u>	<u>35,680</u>	<u>-</u>	<u>263,465</u>
Contributed Support				
Grants	250	39,300	-	39,550
Contribution and bequests	128,742	113,699	38,731	281,172
Contributions-in-kind	<u>46,270</u>	<u>11,373</u>	<u>-</u>	<u>57,643</u>
Total Contributed Support	<u>175,262</u>	<u>164,372</u>	<u>38,731</u>	<u>378,365</u>
Other Revenue				
Interest and dividend income	5,984	22,421	10,628	39,033
Realized and unrealized gains (losses) on investments	(7,326)	(41,547)	(100,698)	(149,571)
Miscellaneous income	<u>15,014</u>	<u>-</u>	<u>-</u>	<u>15,014</u>
Total Other Revenue	<u>13,672</u>	<u>(19,126)</u>	<u>(90,070)</u>	<u>(95,524)</u>
Net assets released from restrictions	<u>247,425</u>	<u>(246,932)</u>	<u>(493)</u>	<u>-</u>
Total Support and Revenue	<u>664,144</u>	<u>(66,006)</u>	<u>(51,832)</u>	<u>546,306</u>
<b>EXPENSES</b>				
Program Services				
Curatorial and exhibits	<u>363,274</u>	<u>-</u>	<u>-</u>	<u>363,274</u>
Supporting Services				
Membership	17,327	-	-	17,327
General and administrative	197,511	-	-	197,511
Fundraising	3,205	-	-	3,205
Auxiliary operation	<u>96,476</u>	<u>-</u>	<u>-</u>	<u>96,476</u>
Total Supporting Services	<u>314,519</u>	<u>-</u>	<u>-</u>	<u>314,519</u>
Total Expenses	<u>677,793</u>	<u>-</u>	<u>-</u>	<u>677,793</u>
CHANGE IN NET ASSETS	(13,649)	(66,006)	(51,832)	(131,487)
NET ASSETS, BEGINNING OF YEAR	<u>1,479,655</u>	<u>1,129,065</u>	<u>360,868</u>	<u>2,969,588</u>
NET ASSETS, END OF YEAR	<u>\$ 1,466,006</u>	<u>\$ 1,063,059</u>	<u>\$ 309,036</u>	<u>\$ 2,838,101</u>

*See Notes to Financial Statements*

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31,**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 49,360	\$ (131,487)
Adjustments to reconcile change in net assets to net cash provided by (used in) in operating activities:		
Depreciation	65,672	67,505
Net realized and unrealized (gains) losses on investments	(75,952)	149,578
Gains (losses) on sale of property and equipment	-	236
Changes in operating assets and liabilities:		
Other receivables	(26,836)	3,440
Prepaid expenses	(8,253)	10,628
Inventories	12,571	11,025
Pledges recievable	30,801	28,953
Accounts payable	(24,306)	22,926
Accrued payroll and taxes	2,262	1,540
Deferred revenue	(670)	(8,120)
Other accrued liabilities	41,164	23,792
	<u>65,813</u>	<u>180,016</u>
Net cash provided by (used in) operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(13,695)	(15,214)
Sales of investments	16,587	-
Cash paid for purchase of property and equipment	(69,997)	(20,570)
	<u>(67,105)</u>	<u>(35,784)</u>
Net cash provided by (used in) investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(8,488)	(7,519)
	<u>(8,488)</u>	<u>(7,519)</u>
Net cash provided by (used in) financing activities		
NET INCREASE (DECREASE) IN CASH	(9,780)	136,713
CASH, BEGINNING OF YEAR	<u>1,112,207</u>	<u>975,494</u>
CASH, END OF YEAR	<u>\$ 1,102,427</u>	<u>\$ 1,112,207</u>

*See Notes to Financial Statements*

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31,**

	<u>2009</u>	<u>2008</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid (refunded)	\$ -	\$ -
Interest expense paid	\$ 2,582	\$ 3,576

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

There were no noncash investing and financing activities for the years ended December 31, 2009 and 2008.

*See Notes to Financial Statements*

# NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

### Note 1 - Nature of the Organization

New England Electric Railway Historical Society (the "Society"), the owner and operator of the Seashore Trolley Museum in Kennebunkport, Maine, and the operator of the National Streetcar Museum in Lowell, Massachusetts, (each a "Museum", collectively the "Museums") is a Maine nonprofit educational organization dedicated to the purposes of providing a source of information of a scientific and educational nature relating to the historical and mechanical use and development of electric street railways and collecting, preserving and maintaining, for study and exhibition, electric street railway cars of the various periods and all types, forms and examples of electric street railway equipment; and doing all things necessary and properly pertaining to the accomplishment of the above mentioned purposes.

The Society operates a museum store as an auxiliary operation.

### Note 2 - Summary of Significant Accounting Policies

The financial statements of the Society have been prepared in accordance with the principles of fund accounting. Income is recognized when earned and expenses are recognized when the obligation is incurred.

**Method of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Financial Statement Presentation** - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, *Financial Statements of Not-for-Profit Organizations*. Under the standard, 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. A description of the three net asset categories follows.

**Unrestricted net assets** - Net assets that are not subject to donor-imposed restrictions. This category also includes net fixed assets and net assets which have been designated by the Board of Trustees.

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

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

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Note 2 - Summary of Significant Accounting Policies (continued)**

Revenue Recognition - The Society recognizes all contributed support as income in the period received. Contributed support is reported as unrestricted or as restricted depending on the existence of donor stipulations that limit the use of the support. When a restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Revenue derived from annual membership dues is recorded over the period to which the dues relate. Life membership dues are considered income in the year received. Grant revenue is recognized to the extent expenditures are made which can be charged against the grant.

Merchandise sales from the Museum store and admissions to the Museum are recorded at the time of the sale.

Cash and Cash Equivalents - For financial statement purposes, the Society considers all highly liquid debt instruments purchased with a maturity of one year or less to be cash equivalents. Cash and cash equivalents consist of savings accounts, money market accounts, and money market mutual funds, and are carried at cost, which approximates fair market value.

Investments - Investments in marketable securities and mutual funds with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Gains and losses are included in other revenue on the statements of activities and changes in net assets.

Other Receivables - Other receivables consist of accounts receivables due from various companies.

Inventories - The Society operates a museum store with related electric railway memorabilia and souvenirs held for sale. Inventory consists of museum store goods and merchandise and is stated at the lower of average cost or market, on a first-in, first-out basis.

Pledges - The Society may have certain non-binding pledges for its capital and operating funds from members and friends. These conditional pledges are not recorded until the related cash payments or asset transfers are received by the Society. Unconditional pledges are recorded when the Society receives legally binding notification of the contribution. No allowance for uncollectible pledges is considered necessary for the years ended December 31, 2009 and 2008.

Property and Equipment - Property and equipment, both purchased and donated, are recorded at cost and fair value at date of receipt, respectively, and depreciated on the straight-line method over their estimated useful lives ranging from five to forty years.

Collections - The Society does not capitalize its collections. However, each significant collection item is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed. The collections are subject to a policy that requires proceeds from their sales to be used to make betterments to other existing items or to acquire other items for collections.

Income Taxes - The Society is exempt from Federal and State income taxes under the provisions of the Internal Revenue Code as an entity described in Section 501(c)(3). In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

Note 2 - Summary of Significant Accounting Policies (continued)

The Federal (and State of Maine) income tax returns of the Society are subject to examination, generally for three years after they were filed. The Society does not believe that there are any uncertain tax positions taken in preparation of the tax returns that would impact these financial statements.

Concentration of Credit Risk - The Society maintains its cash equivalents in local financial institutions which provide Federal Deposit Insurance Corporation coverage up to \$250,000 and in investment accounts which provide Securities Investor Protection Corporation protection up to \$500,000. Unsecured cash equivalents as of December 31, 2009 and 2008 are \$321,376 and \$362,208, respectively.

Advertising Costs - The Society uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2009 and 2008 was \$19,227 and \$25,382, respectively.

Functional Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Note 3 - Fair Values of Assets

Effective January 1, 2008, the Society adopted Statement of Financial Accounting Standards, *Fair Value Measurements*, which provides a framework for measuring fair value under Generally Accepted Accounting Principles. *Fair Value Measurements* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. *Fair Value Measurements* requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. *Fair Value Measurements* also established a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

- 1) Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other resources;
- 2) Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- 3) Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Note 3 - Fair Values of Assets (continued)**

For the year ended December 31, 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following table sets forth by level, within the fair value hierarchy, the Society's investments at fair value at December 31, 2009.

<u>Description</u>	<u>Fair Values</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual Funds	\$ 494,328	\$ 494,328	\$ -	\$ -
Pledges Receivable	<u>74,691</u>	<u>-</u>	<u>-</u>	<u>74,691</u>
Total	<u>\$ 569,019</u>	<u>\$ 494,328</u>	<u>\$ -</u>	<u>\$ 74,691</u>

Fair value for investments is determined by reference to quoted market prices and other relevant information generated by market transactions.

Pledges receivable, gross at December 31, 2008	\$ 105,924
Pledge payments received during 2009	(30,924)
Less: Discount, at .15% (United States Treasury bills 3-month rate)	<u>(309)</u>
Pledges receivable at December 31, 2009	<u>\$ 74,691</u>

**Note 4 - Investments**

The fair market value of investments consists of the following at December 31:

	<u>2009</u>	<u>2008</u>
Mutual Funds	<u>\$ 494,328</u>	<u>\$ 421,268</u>
Total	<u>\$ 494,328</u>	<u>\$ 421,268</u>

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Note 4 - Investments (continued)**

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 4,423	\$ 8,511	\$ 9,619	\$ 22,553
Realized and unrealized gains	<u>4,246</u>	<u>19,140</u>	<u>52,566</u>	<u>75,952</u>
Total Investment Return	<u>\$ 8,669</u>	<u>\$ 27,651</u>	<u>\$ 62,185</u>	<u>\$ 98,505</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 5,984	\$ 22,421	\$ 10,628	\$ 39,033
Realized and unrealized gains	<u>(7,326)</u>	<u>(41,547)</u>	<u>(100,698)</u>	<u>(149,571)</u>
Total Investment Return	<u>\$ (1,342)</u>	<u>\$ (19,126)</u>	<u>\$ (90,070)</u>	<u>\$ (110,538)</u>

In January 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (the "Staff Position"). The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The New England Electric Railway Historical Society's endowment consists of eight (8) individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the New England Electric Railway Historical Society has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets:

- a) the original value of gifts donated to the permanently restricted endowment funds,
- b) the original value of subsequent gifts to the permanently restricted endowment funds, and,

NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

Note 4 - Investments (continued)

- c) accumulations, which are defined as the continuous growth of capital by retention of interest or earnings, to the permanently restricted endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In the absence of specific direction, the accumulations are made to the funds in which they occur.

The remaining portion of any donor-restricted endowment funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, 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 various funds,
- 2) the purposes 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, and,
- 7) the Society's investment policies.

**Investment Return Objectives, Risk Parameters and Strategies:** The Society has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Society expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy.** The Society has a spending policy of appropriating, for current expenses, each year in December, no more than 5.00-percent of the average balance of its board-designated endowment fund and donor-designated endowment funds as of September 30 of the current year, and September 30 for the past two years.

In addition, the withdrawals shall not draw the balance of the fund below sum of all principal permanently deposited to the Fund over the years.

In establishing this policy, the Society considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, currently all of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Society expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3.00-percent annually, which is consistent with the Society's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Note 4 - Investments (continued)**

Endowment net asset composition by type of fund as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 359,588	\$ 359,588
Board-designated endowment funds	<u>24,621</u>	<u>-</u>	<u>-</u>	<u>24,621</u>
Total funds	<u>\$ 24,621</u>	<u>\$ -</u>	<u>\$ 359,588</u>	<u>\$ 384,209</u>

Changes in endowment net assets as of December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 20,487	\$ -	\$ 309,036	\$ 329,523
Contributions and additions	900	-	3,996	4,896
Investment income	629	-	9,619	10,248
Net appreciation (depreciation)	3,467	-	52,566	56,033
Net assets released from restrictions	<u>(862)</u>	<u>-</u>	<u>(15,629)</u>	<u>(16,491)</u>
Endowment net assets, end of year	<u>\$ 24,621</u>	<u>\$ -</u>	<u>\$ 359,588</u>	<u>\$ 384,209</u>

**Note 5 - Pledges Receivable**

The Society records unconditional promises to give as receivables and revenue when received. The Society distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value. A pledge was received in 2007 for the five year lease of a facility.

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Note 5 - Pledges Receivable (continued)**

Pledges are expected to be realized in the following periods:

	<u>2009</u>
In one year or less	\$ 30,000
Between one year and five years	<u>45,000</u>
	75,000
Less:	
Discount at .15%	<u>(309)</u>
Pledges receivable	<u>\$ 74,691</u>

**Note 6 - Property and Equipment**

The following summarizes land, buildings, and equipment at December 31,:

	<u>2009</u>	<u>2008</u>
Construction in progress	\$ 64,481	\$ 701
Land and improvements	432,266	432,266
Buildings and improvements	1,450,478	1,449,500
Track and wire	291,101	290,399
Machinery and equipment	<u>237,074</u>	<u>232,535</u>
	2,475,400	2,405,401
Accumulated depreciation	<u>(1,213,758)</u>	<u>(1,148,084)</u>
Property and Equipment, net	<u>\$ 1,261,642</u>	<u>\$ 1,257,317</u>

**Note 7 - Line of Credit**

In 2009, the Society obtained a \$30,000 line of credit with a six-month draw period repayable over five years. The interest rate is fixed at 5.75%, and interest only payments are due over the first six-months, then monthly principal and interest payments are due based on a seven-year amortization. A final balloon payment will be due at the end of the five year term. This loan is cross-collateralized with the loan described in Note 8. There was no outstanding principal balance under the line of credit at December 31, 2009.

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Note 8 - Long-Term Debt**

Long-term debt consisted of the following at December 31,:

	<u>2009</u>	<u>2008</u>
Note payable to bank, refinanced in 2009 for 5 years, interest at 5.75%, payable in monthly installments of interest and principal of \$830. Monthly interest and principal payments are based on a 7 year amortization schedule	\$ 54,513	\$ 63,001
Less: current portion	<u>6,913</u>	<u>8,488</u>
Long-term debt	<u>\$ 47,600</u>	<u>\$ 54,513</u>

Aggregate maturities of long-term debt for the five years subsequent to December 31, 2009 are as follows:

2010	\$ 6,913
2011	7,322
2012	7,754
2013	8,212
2014	8,697
Thereafter	<u>15,615</u>
Total	<u>\$ 54,513</u>

**Note 9 - Restrictions and Limitations of Net Asset Balances**

Permanently restricted asset balances represent funds that must be maintained in perpetuity as endowment. The income earned on these funds may be used for the general operations of the Society.

Temporarily restricted net assets consisted of the following at December 31,:

	<u>2009</u>	<u>2008</u>
Program Activities:		
Restoration of vehicle collection	\$ 563,892	\$ 590,444
Museum development	322,880	422,675
Miscellaneous	<u>34,489</u>	<u>49,940</u>
Total	<u>\$ 921,261</u>	<u>\$ 1,063,059</u>

At December 31, 2009 and 2008, certain unrestricted net assets had been designated by the Board of Trustees for the following purposes:

	<u>2009</u>	<u>2008</u>
Program Activities:		
Restoration of vehicle collection	\$ -	\$ 9,545
Endowment	24,621	20,487
Museum Development	120,544	-
Miscellaneous	<u>24,323</u>	<u>23,464</u>
Total	<u>\$169,488</u>	<u>\$ 53,496</u>

NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

Note 10 - Grants

During 2006, the Society received a state and federal grant for the restoration of an Atlantic Shore Line Railway locomotive that operated in the State of Maine, with a maximum limit of \$132,464 to be received. The grant is under a cost reimbursement contract whereby the expenses incurred under the grant require advance approval by the State of Maine, Department of Transportation. The grant was not expended during 2006.

During 2009 and 2008, \$42,617 and \$37,800, respectively, of the grant was expended, and recognized as income. Total grant funds receivable as of December 31, 2008 were \$42,617. There were no grant funds receivable as of December 31, 2009.

During 2009, the Society received a grant for the restoration of an Atlantic Shore Line Railway locomotive that operated in the State of Maine for \$4,500 from the National Railway Historical Society. During 2009, the \$4,500 was received and recognized as grant income.

Note 11 - Contributions In-kind and Contributed Services

The Society recognizes various types of in-kind support, including donations of materials, supplies, office expenses, and other items. Generally accepted accounting principles in the United States of America requires recognition of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In 2009, there were 853 hours of service that did meet those criteria. Management estimates the fair value of those services to be \$12,004. However, most of the services received by the Society do meet those criteria. Management estimates the fair value of the services not meeting the criteria to be \$270,011 for 2009 and \$315,633 for 2008, with a total of 18,001 volunteer hours for 2009 and 21,042 volunteer hours for 2008.

Directors and officers have made a significant contribution of their time to the Society and its programs. No amounts have been recognized in the accompanying statement of activities and changes in net assets because the criteria for recognition of such efforts under generally accepted accounting principles have not been satisfied.

The amounts reflected in the accompanying financial statements as contributions in-kind are offset by like amounts included in expenses.

Note 12 - Commitments and Contingencies

The Society maintains operating space in Lowell, Massachusetts as a small museum store and office space under an operating lease agreement for purposes of operating the National Streetcar Museum and displays. The agreement does not include a rental payment but does call for the Society to be responsible for all utilities, and is for a term of five years, ending June 30, 2012. The estimated present value of the rent under this lease agreement as of December 31, 2009 is \$74,691 and is included in pledges receivable. Rent expense for the years ended December 31, 2009 and 2008 was \$30,000 each year.

Rent expense will be recognized annually as follows:

2010	\$	30,000
2011		30,000
2012		<u>15,000</u>
Total	\$	<u>75,000</u>

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

**Note 12 - Commitments and Contingencies (continued)**

In February 2008, the Society entered into a 60-month operating lease agreement for a copier. Rental payments are \$95 per month plus tax. In 2009, a twelve-month lease agreement was entered into with monthly payments of \$35. Rent Expense for the year ended December 31, 2009 was \$1,578. Total minimum annual rentals are as follows:

2010	\$	1,193
2011		1,193
2012		1,193
2013		<u>137</u>
Total	\$	<u>3,716</u>

**Note 13 - Subsequent Events**

Subsequent events have been evaluated by management through January 31, 2011, which is the date the financial statements were available to be issued. During 2010, \$30,000 was withdrawn from the Line of Credit for construction costs. There were no other subsequent events requiring disclosure.



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## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

January 31, 2011

To the Board of Trustees  
New England Electric Railway Historical Society  
Kennebunkport, ME

Our report on our audits of the basic financial statements of New England Electric Railway Historical Society for December 31, 2009 and 2008 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules of Functional Expenses for 2009 and 2008 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cummings, Lamont + McNamee P.A.*

*Certified Public Accountants  
Kennebunk, Maine*

### CERTIFIED PUBLIC ACCOUNTANTS

305 Lafayette Center  
P.O. Box 328  
Kennebunk, Maine 04043-0328  
TEL 207 985-3339  
FAX 207 985-1339

One New Hampshire Avenue, Suite 305  
Portsmouth, NH 03801  
TEL 603 430-6200  
FAX 603 430-6209

P.O. Box 459  
14 Bow Street  
Exeter, NH 03833-0459  
TEL 603 772-3460  
FAX 603 772-7097

69 South Main Street  
Rochester, NH 03867-2707  
TEL 603 335-3006  
FAX 603 335-4927

■  
<http://www.clmcpa.com>  
e-mail: [clm@clmcpa.com](mailto:clm@clmcpa.com)

■  
Karen J. Searle, MST, CPA  
Michael J. Asselin, CPA  
Raymond L. Bald, CPA, CFE  
Cindy B. Keohan, MBA  
Wanda J. Ring, CPA

■  
Alice W. Ferran, MBA, CPA, PFS  
Randall E. Dunham, MBA, CPA/ABV,  
CVA, CFFA, CFF  
Brian P. Lortie, CPA, MST  
Don A. Carignan, CPA

■  
Member:  
American Institute of CPAs

■  
Licensed in Maine, New Hampshire  
and Massachusetts

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**SCHEDULE OF FUNCTIONAL EXPENSES**

**YEAR ENDED DECEMBER 31, 2009**

	<u>Curatorial and Exhibits</u>	<u>Membership</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Auxiliary Operation</u>	<u>Total</u>
Salaries and related expenses	\$ 126,429	\$ -	\$ 51,222	\$ -	\$ 20,840	\$ 198,491
Contributed services	11,044	-	500	-	460	12,004
Professional fees	22,501	424	20,356	-	93	43,374
Utilities	22,758	1,966	7,438	-	160	32,322
Conservation and maintenance	288,800	7	7,720	-	284	296,811
Taxes and fees	2	-	3,626	-	230	3,858
Insurance	-	-	17,284	-	-	17,284
Rent and equipment rental	31,337	-	5,471	-	304	37,112
Administration	19,196	18,378	52,624	4,296	3,290	97,784
Interest	167	-	2,415	-	-	2,582
Miscellaneous	61,749	272	416	-	115	62,552
Cost of goods sold	-	-	-	-	51,973	51,973
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses Before Depreciation	583,983	21,047	169,072	4,296	77,749	856,147
Depreciation	38,933	879	15,084	-	10,776	65,672
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	<u>\$ 622,916</u>	<u>\$ 21,926</u>	<u>\$ 184,156</u>	<u>\$ 4,296</u>	<u>\$ 88,525</u>	<u>\$ 921,819</u>

*See Auditors' Report on Page 18*

**NEW ENGLAND ELECTRIC RAILWAY HISTORICAL SOCIETY**

**SCHEDULE OF FUNCTIONAL EXPENSES**

**YEAR ENDED DECEMBER 31, 2008**

	<u>Curatorial and Exhibits</u>	<u>Membership</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Auxiliary Operation</u>	<u>Total</u>
Salaries and related expenses	\$ 104,913	\$ -	\$ 46,163	\$ -	\$ 26,547	\$ 177,623
Professional fees	10,564	412	11,309	-	-	22,285
Utilities	24,304	1,543	10,961	-	1,161	37,969
Conservation and maintenance	112,611	115	24,247	-	846	137,819
Taxes and fees	56	-	3,990	-	84	4,130
Insurance	-	-	18,427	-	-	18,427
Rent and equipment rental	31,047	-	5,638	-	412	37,097
Administration	8,984	14,378	57,027	3,205	4,339	87,933
Interest	-	-	3,576	-	-	3,576
Miscellaneous	31,030	-	22	-	334	31,386
Cost of goods sold	-	-	4	-	52,039	52,043
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses Before Depreciation	323,509	16,448	181,364	3,205	85,762	610,288
Depreciation	39,765	879	16,147	-	10,714	67,505
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	<u>\$ 363,274</u>	<u>\$ 17,327</u>	<u>\$ 197,511</u>	<u>\$ 3,205</u>	<u>\$ 96,476</u>	<u>\$ 677,793</u>

*See Auditors' Report on Page 18.*