



**NATIONAL TRUST FOR HISTORIC PRESERVATION  
IN THE UNITED STATES**

Consolidated Financial Statements

September 30, 2008

(With Independent Auditors' Report Thereon)

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
IN THE UNITED STATES**

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**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report**

The Board of Directors  
National Trust for Historic Preservation in the United States:

We have audited the accompanying consolidated balance sheet of the National Trust for Historic Preservation in the United States and subsidiaries (the Trust) as of September 30, 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of NTCIC and NTCIC II, which statements reflect total assets constituting 1.7 percent and total revenues and gains constituting 7 percent of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for NTCIC and NTCIC II, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Trust for Historic Preservation in the United States and subsidiaries as of September 30, 2008 and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in note 18 to the accompanying consolidated financial statements of the Trust, net assets as of September 30, 2007 have been restated to correct a misstatement from the Trust's previously issued consolidated financial statements, which were audited by other auditors.



Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules in the supplementary information section are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

June 9, 2009

**THE NATIONAL TRUST FOR HISTORIC PRESERVATION IN THE  
UNITED STATES AND ITS SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED BALANCE SHEET**

September 30, 2008

**Assets**

Current assets:	
Cash and cash equivalents	\$ 7,373,283
Accounts receivable (note 1(p))	4,013,198
Contributions receivable, net (note 4 and 5)	5,928,666
Merchandise inventory	741,051
Prepaid expenses and other assets	1,436,361
Properties held for resale	3,406,850
Total current assets	<u>22,899,409</u>
Investments (notes 5 and 7):	
Revolving loan funds	6,645,299
Endowments and similar funds	198,807,599
Other investments	9,494,774
Total investments	<u>214,947,672</u>
Contributions receivable, net of current amounts (note 5)	12,074,039
Historic sites (note 1(c))	—
Properties held for resale	1,100,000
Property and equipment, net (note 3)	2,526,424
Total assets	<u>\$ 253,547,544</u>

See accompanying notes to the consolidated financial statements.

**THE NATIONAL TRUST FOR HISTORIC PRESERVATION IN THE  
UNITED STATES AND ITS SUBSIDIARIES AND AFFILIATE**

**CONSOLIDATED BALANCE SHEET**

September 30, 2008

**Liabilities and Net Assets**

Current liabilities:	
Accounts payable	\$ 3,961,949
Accrued expenses	2,567,484
Deferred revenue	2,210,818
Note payable (note 10)	<u>766,000</u>
Total current liabilities	9,506,251
Notes payable, net of current amounts (note 10)	7,334,591
Amounts held for others (note 5)	12,421,734
Other liabilities (note 6)	<u>2,216,143</u>
Total liabilities	<u>31,478,719</u>
Net assets (note 12):	
Unrestricted	67,346,080
Temporarily restricted	76,004,782
Permanently restricted	<u>78,717,963</u>
Total net assets	<u>222,068,825</u>
Commitments and contingencies (notes 6, 7, 8, 14, 16, and 17)	
Total liabilities and net assets	<u>\$ 253,547,544</u>

See accompanying notes to the consolidated financial statements.

**THE NATIONAL TRUST FOR HISTORIC PRESERVATION IN THE  
UNITED STATES AND ITS SUBSIDIARIES AND AFFILIATE**

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues, gains, and other support:				
Grant income	\$ 2,690,958	—	—	2,690,958
Contributions (note 5)	27,514,344	4,769,008	—	32,283,352
Membership dues	1,971,070	—	—	1,971,070
Admissions and special events	4,950,280	—	—	4,950,280
Investment income (note 7)	10,268,293	1,570,512	—	11,838,805
Contract services	6,231,032	—	—	6,231,032
Sales of articles	1,213,514	—	—	1,213,514
Advertising	1,210,473	—	—	1,210,473
Rental income	578,045	—	—	578,045
Public service announcements (note 5)	6,518,337	—	—	6,518,337
Royalty income	1,644,962	—	—	1,644,962
Miscellaneous	964,608	—	—	964,608
Net assets released from restrictions	12,090,054	(12,090,054)	—	—
	<u>77,845,970</u>	<u>(5,750,534)</u>	<u>—</u>	<u>72,095,436</u>
Total operating revenues, gains, and other support				
Operating expenses:				
Program services:				
Historic sites	21,185,543	—	—	21,185,543
Preservation services	18,778,342	—	—	18,778,342
Publications	3,103,627	—	—	3,103,627
Education	13,510,210	—	—	13,510,210
	<u>56,577,722</u>	<u>—</u>	<u>—</u>	<u>56,577,722</u>
Total program services				
Support services:				
Membership outreach	3,173,962	—	—	3,173,962
General and administration	3,850,809	—	—	3,850,809
Fund-raising	6,624,862	—	—	6,624,862
	<u>13,649,633</u>	<u>—</u>	<u>—</u>	<u>13,649,633</u>
Total support services				
	<u>70,227,355</u>	<u>—</u>	<u>—</u>	<u>70,227,355</u>
Total operating expenses				
Operating revenues, gains, and other support over (under) operating expenses	7,618,615	(5,750,534)	—	1,868,081
Nonoperating support:				
Investment return in excess of amounts designated for operations (note 7)	(16,881,337)	(30,627,340)	—	(47,508,677)
Unexpended restricted contributions (notes 1(m) and 5)	—	7,829,862	4,635,568	12,465,430
Purchase of historical site	(2,062,429)	—	—	(2,062,429)
	<u>(11,325,151)</u>	<u>(28,548,012)</u>	<u>4,635,568</u>	<u>(35,237,595)</u>
Changes in net assets				
Net assets at September 30, 2007, as restated (note 18)	<u>78,671,231</u>	<u>104,552,794</u>	<u>74,082,395</u>	<u>257,306,420</u>
Net assets at September 30, 2008	<u>\$ 67,346,080</u>	<u>76,004,782</u>	<u>78,717,963</u>	<u>222,068,825</u>

See accompanying notes to the consolidated financial statements.

**THE NATIONAL TRUST FOR HISTORIC PRESERVATION IN THE  
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CONSOLIDATED STATEMENT OF CASH FLOW

Year ended September 30, 2008

Cash flows from operating activities:	
Changes in net assets	\$ (35,237,595)
Adjustments to reconcile changes in net assets to cash used by operating activities:	
Depreciation and amortization expense	553,038
Loss on disposal of property and equipment	43,877
Net realized and unrealized loss on investment	38,551,390
Contributions restricted for long-term investment	(6,467,240)
Bad debt expense	142,275
Decrease (increase) in assets:	
Accounts receivable	503,854
Contributions receivable	(1,496,951)
Properties held for resale	1,169,588
Merchandise inventory	(70,688)
Prepaid expenses	37,146
Increase (decrease) in liabilities:	
Accounts payable	(1,499,131)
Accrued expenses	719,788
Deferred revenue	(709,023)
Amounts held for others	741,929
Other liabilities	142,085
	<hr/>
Net cash used in operating activities	(2,875,658)
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Cash flows from investing activities:	
Purchase of investments	(15,923,981)
Proceeds from sale of investments	15,698,168
Revolving fund notes receivables payments received	832,721
Revolving fund notes advanced	(1,671,576)
Purchases of property and equipment	(1,076,346)
	<hr/>
Net cash used in investing activities	(2,141,014)
	<hr/>
Cash flows from financing activities:	
Contributions restricted for long-term investment	6,467,240
Increase in line-of-credit balance	1,440,000
Proceeds from loan	500,000
Principal payments on notes payable	(1,000,000)
	<hr/>
Net cash provided by financing activities	7,407,240
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Net increase in cash and cash equivalents	2,390,568
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Cash and cash equivalents, beginning of year	4,982,715
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Cash and cash equivalents, end of year	7,373,283
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Supplemental cash flow information:	
Interest paid	\$ 339,690

See accompanying notes to the consolidated financial statements.

**THE NATIONAL TRUST FOR HISTORIC PRESERVATION IN THE  
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended September 30, 2008

	Program services				Support services				2008 Total expenses	
	Historic sites	Preservation services	Publications	Education	Total program services	Membership outreach	General and administration	Fund-raising		Total support services
Employee cost:										
Salaries	\$ 6,107,530	7,631,990	1,153,349	2,736,803	17,629,672	582,084	2,578,258	3,330,445	6,490,787	24,120,459
Payroll taxes and benefits	1,036,426	1,432,616	241,712	455,762	3,166,516	111,037	496,557	666,860	1,274,454	4,440,970
	<u>7,143,956</u>	<u>9,064,606</u>	<u>1,395,061</u>	<u>3,192,565</u>	<u>20,796,188</u>	<u>693,121</u>	<u>3,074,815</u>	<u>3,997,305</u>	<u>7,765,241</u>	<u>28,561,429</u>
Professional services	2,942,513	2,321,604	267,053	1,799,324	7,330,494	507,676	133,185	1,083,639	1,724,500	9,054,994
Travel	337,454	1,179,320	50,542	503,453	2,070,769	33,144	68,681	282,854	384,679	2,455,448
Office supplies	161,817	104,536	13,077	43,474	322,904	8,705	22,842	26,193	57,740	380,644
Printing	676,332	152,253	703,296	587,189	2,119,070	852,621	7,533	396,749	1,256,903	3,375,973
Postage	62,544	50,135	390,451	94,277	597,407	959,176	3,413	342,196	1,304,785	1,902,192
Telecommunications	103,659	117,470	3,132	21,262	245,523	6,546	7,656	16,461	30,663	276,186
Computer	108,134	76,802	38,411	257,486	480,833	13,541	105,137	29,138	147,816	628,649
Reference	156,321	115,068	24,329	59,295	355,013	12,922	23,364	18,274	54,560	409,573
Occupancy	827,580	555,826	79,493	230,329	1,693,228	11,517	213,775	229,825	455,117	2,148,345
Maintenance	1,063,112	74,866	25,550	46,987	1,210,515	16,259	37,225	54,210	107,694	1,318,209
Cost of goods sold	561,204	1,678	61,920	41,914	666,716	50	632	5,583	6,265	672,981
Insurance	557,290	73,454	7,600	9,416	647,760	4,251	10,027	11,802	26,080	673,840
Real estate	2,257,263	—	—	169	2,257,432	—	—	—	—	2,257,432
Grants	177,785	4,718,486	—	13,012	4,909,283	—	—	—	—	4,909,283
Property development	3,590,120	—	—	—	3,590,120	—	—	—	—	3,590,120
Miscellaneous	216,266	57,568	12,217	48,301	334,352	34,391	89,979	81,960	206,330	540,682
Public service announcements	—	—	—	6,518,337	6,518,337	—	—	—	—	6,518,337
Depreciation and amortization	242,193	114,670	31,495	43,420	431,778	20,042	52,545	48,673	121,260	553,038
	<u>14,041,587</u>	<u>9,713,736</u>	<u>1,708,566</u>	<u>10,317,645</u>	<u>35,781,534</u>	<u>2,480,841</u>	<u>775,994</u>	<u>2,627,557</u>	<u>5,884,392</u>	<u>41,665,926</u>
Total expenses	21,185,543	18,778,342	3,103,627	13,510,210	56,577,722	3,173,962	3,850,809	6,624,862	13,649,633	70,227,355
Purchase of historic site	2,062,429	—	—	—	2,062,429	—	—	—	—	2,062,429
Total expenses and collections	<u>\$ 23,247,972</u>	<u>18,778,342</u>	<u>3,103,627</u>	<u>13,510,210</u>	<u>58,640,151</u>	<u>3,173,962</u>	<u>3,850,809</u>	<u>6,624,862</u>	<u>13,649,633</u>	<u>72,289,784</u>

See accompanying notes to the consolidated financial statements.

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
IN THE UNITED STATES**

Notes to Consolidated Financial Statements

September 30, 2008

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

The National Trust for Historic Preservation in the United States (the Trust) is a private, nonprofit organization chartered by Congress. The Trust's mission is to provide leadership, education, and advocacy to save America's diverse historic places and revitalize our communities.

The National Trust Community Investment Corporation (NTCIC) was organized as a wholly owned for-profit subsidiary of the Trust in 2000. It is governed by its own board of directors, bylaws, and operating procedures. NTCIC serves as the managing member of a number of limited liability companies that invest in properties that qualify for the federal and state historic tax credits and the New Markets Tax Credit. Nearly all of its investments are in qualified low-income census tracts. Its articles of incorporation allow it to provide other similar financial investment services related to the mission of historic preservation in the United States.

NTCIC II, Inc. (NTCIC II) was organized as a wholly owned for-profit subsidiary of the Trust in May of 2003. It is governed by its own board of directors, bylaws, and operating procedures. NTCIC II is the managing member of a number of limited liability companies that invest in properties that qualify for the federal and state historic tax credits but do not qualify for the New Markets Tax Credit. Its investments are not restricted to low-income communities. NTCIC II serves as the managing member of the National Trust Community Investment Fund II, LLC, which was formed for the purpose of investing in various limited partnerships and limited liability corporations, which have been organized to acquire, rehabilitate, develop, own, and operate properties. The properties have qualified for rehabilitation tax credits under the Internal Revenue code. Its articles of incorporation allow it to provide other similar financial investment services related to the mission of historic preservation in the United States.

In July 2006, NT CDFI, Inc. (NT CDFI), established in 2004 as a for-profit subsidiary of NTCIC, was converted to a not-for-profit subsidiary of the National Trust. NT CDFI is responsible for the operations of the National Trust Loan Funds, the revolving loan funds of the Trust established with donor contributions, program-related investments from foundations, and low-interest loans from financial institutions. NT CDFI is governed by its own board of directors, bylaws, and operating procedures and has a primary mission of providing loans to benefit preservation based community development.

National Trust Insurance Services, LLC (NTIS), was formed by the Trust in 2003 to provide insurance services for the preservation community. NTIS was established to qualify as a licensed insurance producer. NTIS is 99% owned by the Trust. The remaining ownership interest is held by Maury, Donnelly & Parr, who will act as the agent for NTIS and will market and fulfill all insurance products as an experienced insurance producer. NTIS is operated through an Operating Agreement that specifies the terms of the relationship. The purposes stated in the Operating Agreement include providing insurance services for historic homeowners, Main Street organizations, Main Street businesses, historic sites, statewide and local organizations and historic hotels.

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Heritage Travel, Inc. (HTI) was formed on January 23, 2008 as a for-profit subsidiary to provide and promote services related to heritage travel. It is governed by its own board of directors, bylaws and operating procedures. The National Trust was issued shares in the corporation in return for its initial investment and maintains majority control of the corporation. The relationship between the National Trust and Heritage Travel, Inc. is governed by an Operations Agreement that provides for services and facilities in exchange for fees.

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets of the Trust, NTCIC, NTCIC II, NT CDFI, NTIS and HTI (collectively, the Organization). All significant inter-organizational accounts and transactions have been eliminated.

**(b) *Basis of Presentation***

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

**Permanently Restricted**

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Trust. Generally, the donors of these assets permit the Trust to use all or part of the income earned on related investments for general or specific purposes, primarily preservation and maintenance of designated historic properties.

**Temporarily Restricted**

Temporarily restricted net assets subject to donor-imposed stipulations that may or will be met by actions of the Trust and NT CDFI and/or the passage of time. Donations for specific purposes and gifts of properties are classified as temporarily restricted net assets.

**Unrestricted**

Net assets that are not subject to donor-imposed stipulations. Revenues from sources other than contributions and investment income are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

**(c) *Accounting for Historic Sites***

**Historic Sites Owned by the Trust**

The Trust owns certain historic sites that are operated as museums or are otherwise integral to the Trust's preservation programs.

The historic sites listed below presented in italics are managed for the Trust by local nonprofit preservation organizations, government entities, or other groups under various cooperative arrangements.

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
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Notes to Consolidated Financial Statements

September 30, 2008

**Historic Sites Open to the Public**

*Belle Grove, Middletown, Virginia*  
*Brucemore, Cedar Rapids, Iowa*  
Chesterwood, Stockbridge, Massachusetts  
*Cliveden, Philadelphia, Pennsylvania*  
*Cooper-Molera Adobe, Monterey, California*  
Decatur House, Washington, D.C.  
Drayton Hall, Charleston County, South Carolina  
*Farnsworth House, Plano, Illinois*  
*Filoli, San Mateo County, California*  
*Frank Lloyd Wright Home & Studio, Oak Park, Illinois*  
*Gaylord Building, Lockport, Illinois*  
*James Madison's Montpelier, Montpelier Station, Virginia*  
*Kykuit, Pocantico Hills, New York*  
Lyndhurst, Tarrytown, New York  
*Oatlands, Leesburg, Virginia*  
Philip Johnson Glass House, New Canaan, Connecticut  
Pope-Leighey House, Mount Vernon, Virginia  
Shadows-on-the-Teche, New Iberia, Louisiana  
Woodlawn Plantation, Mount Vernon, Virginia  
Woodrow Wilson House, Washington, D.C.

**Historic Site Not Currently Open to the Public**

Villa Finale, San Antonio, Texas

**Property the Trust May Own with Intent of Sale**

Certain other properties may be held with the intent of sale. Upon sale, the Trust ensures the preservation of these historic properties by imposing perpetual preservation easements. Historic properties held with the intent of sale have been acquired by the Trust through outright gifts, bequests, gifts with retained life estates, purchases and other means.

**Accounting Practice for Trust-Owned Property**

Historic sites owned by the Trust, including objects and furnishings, which were acquired through purchases and contributions since the Trust's inception, are not recognized as assets on the statement of financial position. Purchases of historic sites are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed properties intended to be historic sites are not reflected on the statement of activities. Related expenditures for restoration, stabilization, reconstruction, and development are charged to expense as incurred. Properties accepted with the intent of sale are recognized as revenue at the time of receipt at the estimated sale value less costs for historic evaluation, repair, and maintenance costs, and impact of the easement.

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Proceeds from deaccessions or insurance recoveries, if any, are reflected as increases in the appropriate net asset classes. There were none during fiscal year 2008.

**Leased and Contract Sites (not owned by the Trust)**

The Trust has entered into a long-term lease with the University of Chicago for the museum use of the Frederick C. Robie House, Chicago, Illinois. The Robie House is managed for the Trust by the Frank Lloyd Wright Preservation Trust under a cooperative agreement. The Trust has also entered into a cooperative agreement with the Armed Forces Retirement Home of Washington for the restoration and interpretation of President Lincoln at the Soldiers' Home.

The Trust also has formal long-term contractual relationships with four organizations and one nation: the Lower East Side Tenement Museum (in New York City); the Touro Synagogue Foundation (Touro Synagogue in Newport, Rhode Island); the Museum of African American History in Boston and Nantucket (African Meeting House and Abiel Smith School in Boston, and the African Meeting House and Higginbotham House on Nantucket Island); the Pueblo of Acoma (Acoma Sky City in Acoma, New Mexico) and The National Society of the Colonial Dames of America in the State of Colorado (Hotel de Paris Museum). These sites, which through contracts identify themselves as National Trust historic sites, are not owned or managed by the Trust, and there is no direct financial relationship except that these sites are eligible to apply to the Trust's Historic Sites Fund. The contracts define the mutual obligations and benefits accruing to the Trust and each respective organization, including services and activities available to the sites through the association with the Trust.

**(d) Cash and Cash Equivalents**

Cash equivalents consist of amounts invested in money-market accounts. Cash and cash equivalents held in investment accounts and in the revolving loan fund are excluded as they are considered to be held for long-term purposes. During the normal course of business, the Trust may have cash and cash equivalents at financial institutions in excess of federally insured limits.

**(e) Merchandise Inventory**

Inventory, consisting primarily of books and other merchandise, is stated at the lower of cost or market. Cost is determined on an average-cost basis.

**(f) Investments**

Investments are reported at fair value. Investments in marketable securities are reported at fair value using quoted market prices. The Trust reports investments in limited partnerships, overseas investment companies, and real estate investment trusts at estimated fair values provided by the fund managers or general partners based on quoted market prices, if available, or other valuation methods. Management reviews and evaluates the values provided by the fund manager and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Income is recognized from interest and dividends as earned. The Trust maintains master investment accounts for its endowment and similar funds. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the

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Notes to Consolidated Financial Statements

September 30, 2008

individual endowments based on the relationship of the fair value of each endowment to the total fair value of the master investment accounts, as adjusted for additions to or deductions from these accounts.

**(g) *Revolving Loan Fund***

The revolving loan fund consists of cash, cash equivalents, notes receivable, debt securities and equities. The notes receivable are recorded at their net realizable value.

**(h) *Contributions***

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, historic sites, and similar assets held as part of collections are not recognized or capitalized.

Contributions received with donor restrictions are recorded as temporarily or permanently restricted revenue based on donor intent. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose for historic properties and preservation services has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired and placed in service.

Unconditional promises received with payments due in future periods are reported as temporarily restricted, unless the contribution is clearly intended to support current period activities or is received with permanent restrictions.

Contributions to be received after one year are discounted using risk-free interest rates. Amortization of the discount is recorded as additional contribution revenue and applied in accordance with donor-imposed restrictions, if any, on the contributions.

Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Allowances of \$85,500 were recorded for fiscal year ended September 30, 2008.

**(i) *Split-Interest Agreements***

The Trust is the beneficiary in various split-interest agreements with donors primarily consisting of charitable gift annuities, irrevocable charitable remainder unitrusts, and retained life estates. In the year of the gift of charitable gift annuities and irrevocable charitable remainder unitrusts for which the Trust serves as the trustee (the agreements), the Trust recognizes contribution revenue on the net amount of assets and liabilities of the agreements, either as temporarily or permanently restricted based on donors' restrictions. Assets held under the agreements are stated at fair value and are included in contributions receivable and other investments, respectively.

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Notes to Consolidated Financial Statements

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The Trust pays a variable annuity amount equal to the specified percentage of the fair value of assets on the date of payment to the donors or the donors' designees for the remainder of their lives. The liability under these agreements is recognized at the present value of estimated future payments based on actuarial assumptions and is included in amounts held for others and other liabilities, respectively. Adjustments to the liability to reflect changes in actuarial assumptions and amortization of discount are recognized in contributions revenue in the statement of activities. Discount rates are based on U.S. risk-free treasury rates commensurate with the expected remaining life of the donors or donors' designees and range from 3.375% to 7.4% at September 30, 2008. The estimated life expectancies used are determined from Social Security Administration Period Life Tables, which range from 4 to 24 years at September 30, 2008.

The Trust is also named as a beneficiary of the remaining assets of irrevocable charitable remainder unitrusts whose trust funds are managed by third parties. In the year of the gift, revenue is recognized for the fair values of the Trust's beneficial interest in the trust funds, as either temporarily or permanently restricted based on donors' restrictions and is included in contribution revenue. Assets are recognized at fair value on the date of the gift and are included in contributions receivable. The carrying values of the Trust's beneficial interest in trust fund assets are adjusted to reflect changes in actuarial assumptions and are recognized in contributions revenue. Discount rates are based on U.S. risk-free treasury rates commensurate with the expected remaining life of the donors or donors' designees which was 3.375% at September 30, 2008. The estimated life expectancies used are determined from Social Security Administration Period Life Tables, which range from 3 to 15 years at September 30, 2008.

The Trust is also a beneficiary in irrevocable retained life estates wherein the Trust has a remainder interest in property with the donor. The donor has the right to live in the property until their death at which time the Trust takes possession of the property. In the year of the gift, revenue is recognized for the fair values of the property, as either temporarily or permanently restricted based on donors' restrictions and is included in contribution revenue. Property under retained life estates is stated at fair value and is included in contributions receivable.

**(j) *Property, Equipment, and Computer Software***

All property, equipment, and computer software are capitalized at their historical cost.

Depreciation of equipment and vehicles and amortization of computer software is computed on the straight-line basis over estimated useful lives of 3 to 10 years. The headquarters building and its fixtures are depreciated over the building's estimated useful life of 30 years using the straight-line basis. Costs associated with renovation and construction projects at historic sites, which are not part of the historic site, are depreciated over 20 to 30 years using the straight-line basis once the project has been placed in service.

**(k) *Measure of Operations***

The Organization defines operations as all revenues and expenses that are an integral part of its current year programs and supporting activities. Investment returns in excess of the Trust's aggregate board-authorized spending rate, if any, plus the unexpended portion of the current year's temporarily

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restricted contributions and all contributions to permanently restricted net assets are recognized as nonoperating support.

The Trust's authorized spending rate was 5% in 2008. Unexpended temporarily restricted contributions are purpose-restricted contributions that were not expended in the current year and uncollected unrestricted pledges.

**(l) *Functional Allocation of Expenses***

The costs of providing various programs and support activities have been summarized on a functional basis in the statements of activities. Most expenses are directly charged to the respective program or supporting activity. Certain costs have been allocated among the programs and support services benefited based upon management's estimate of each program's share of the allocated costs. Total expenses on the statement of activities does not articulate to the statement of functional expenses due to the separate recognition for the purchase of a historic site on the statement of activities in the amount of \$2,062,429, which is included in historic site program expenses on the statement of functional expenses.

The Trust paid professional fundraisers \$379,207 in 2008 to consultants for services related to capital campaigns, planned giving and general appeals and is included as fundraising expense.

**(m) *Income Tax Status***

The Trust and NT CDFI are Section 501(c)(3) organization exempt from income tax as provided under Section 501(a) of the Internal Revenue Code. Unrelated business income is subject to income tax.

NTIS is treated as a partnership under the Internal Revenue Code. Accordingly, the members of the limited liability company are taxed on their proportionate share of NTIS's taxable income. Therefore, no provisions or liability for federal or state income taxes has been included in the consolidated financial statements.

NTCIC and NTCIC II account for income taxes using Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires that deferred income taxes be recognized for the difference between the financial and the tax-reporting basis of assets and liabilities. At September 30, 2008, a provision for (benefit from) deferred income taxes was required of \$(185,824). These amounts are included as other liabilities and other assets at September 30, 2008 on the accompanying balance sheets. Current tax expense incurred at September 30, 2008 is \$175,045.

Heritage Travel, Inc. was formed on January 23, 2008 as a for-profit subsidiary to provide and promote services related to heritage travel. It is governed by its own board of directors and operating procedures. The National Trust was issued shares in the corporation in return for its investment and maintains majority control of the corporation. The relationship between the National Trust and Heritage Travel, Inc. is to be governed by an Operations Agreement that provides for services and facilities in exchange for specified payments.

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**(n) Fair Value of Financial Instruments**

The following methods and assumptions were used by the Trust in estimating fair-value disclosures for financial instruments:

*Notes payable* – The fair value of notes payable is estimated using rates currently available to the Trust for debt with similar terms and remaining maturities. The fair values of notes payable at September 30, 2008 approximated \$8,100,000.

*Notes receivable* – The fair value of notes receivable is estimated using rates currently available to the Organization for receivables with similar terms and remaining maturities. The fair value of notes receivable at September 30, 2008 approximated \$1,595,000.

*Investments in limited partnerships* – Fair value of limited partnership interests held by the Trust is based on estimated fair value determined by management based on amounts reported by the general partners. The fair value amounts are derived from quoted market prices, where available, and the remaining portion of the fair value is estimated by the partnership.

*Investments in overseas investment companies* – Fair value of interests in overseas investment companies is based on amounts reported by the investment managers. The fair value amounts are estimated by the managers in the absence of readily ascertainable market values. Management reviews and evaluates the values provided by the fund manager and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

*All other assets and liabilities* – Fair value of all other financial instruments approximates their reported value.

**(o) Estimates**

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

**(p) Accounts Receivable**

Accounts receivable consist primarily of amounts due from advertising placed in the Organization's publications, royalties due, Historic Site receivables, government grants, conferences and accrued interest.

Accounts receivable are stated at their net realizable value and are deemed fully collectible. Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad

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debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Management considers all accounts at September 30, 2008 to be fully collectible.

**(q) Revenue Recognition**

***Grant Income***

Amounts received from grants (principally U.S. government), except for federally sponsored endowment funds, are recognized as income to the extent of related expenses incurred for grant purposes. Federally sponsored endowment funds are recognized as revenue at the time of receipt.

***Membership Dues and Subscription Fees***

Revenue from membership dues and subscription fees is recognized over the period to which the dues relate. The Trust receives advance payments for membership, which are principally for a period of one year. These advance payments are deferred and recognized ratably as membership revenue over the related term. A portion of membership dues is considered a contribution and is recognized immediately. In 2008 the Trust recognized as contributions dues in excess of \$8.

***Admissions and Special Events***

Revenue from admissions and special events relate to the entrance fees and various special events at the twenty house museums managed by the Trust which helps to educate the public about historical preservation and are recognized when earned.

***Contract Services***

Revenue from contract services relate to educational services to local nonprofit revitalization organizations and consulting, planning and training services to assist communities with the revitalization of their traditional commercial districts and are recognized when services are provided.

***NTCIC and NTCIC II Revenue Recognition***

NTCIC and NTCIC II recognize revenue on acquisition, incentive asset management, asset management, consulting and administration fees when earned, with any amounts to be paid in future periods recorded as a receivable. Interest income is recognized on any long-term receivable that is noninterest bearing using an estimated interest rate based on the amounts and timing of the future cash flows. In addition, fees received in advance are deferred and recognized when earned.

***Donated Professional Services***

Donated professional services are recognized as revenue at their fair market value at the time the services are rendered.

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***Royalty Income***

Royalty revenue consists primarily of various third-party trademark agreements for the use of the Trust's name on certain commercial products and marketing arrangements.

**(r) *Guarantees***

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB interpretation No. 34* (FIN 45), for all guarantees entered into after January 1, 2003, the Trust's obligation under the guarantee agreement is estimated by calculating the net present value of future cash flows attributable to the difference between the contractual variable rates in the underlying debt agreement. The Trust uses the U.S. risk-free treasury rate as the discount rate, which was 3.827% at September 30, 2008. Determining the fair value measurement of a contingent liability requires management to make significant estimates and assumptions as to the comparability of similar instruments with established market values and factors.

**(s) *Investments in Operating Entities***

NTCIC I and NTCIC II account for its investments in operating entities under the equity method. Under the equity method of accounting, the investments are recorded at cost and adjusted for NTCIC I and II's share of income or loss of the entities, additional investments, and cash distributions from the entities. Since NTCIC and NTCIC II have no obligation to fund liabilities of the Investment Entities beyond its investments, including loans and advances, investments in the Investment Entities may not be reduced below zero. To the extent that equity losses are incurred when NTCIC and NTCIC II carrying values of its investments in the Investment Entities have reached a zero balance, any losses will be suspended to be used against future income.

**(t) *Impairment of Long-Lived Assets***

Each year, management determines whether any property and equipment or other long-lived assets have been impaired based on the criteria established in SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. The Organization made no adjustments to the carrying value of long-term assets during the year ended September 30, 2008.

**(u) *Recently Issued Accounting Standards***

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 defines fair value, established a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Organization is required to adopt SFAS No. 157 beginning on October 1, 2008. The adoption of SFAS No. 157 is not expected to have a material impact on the consolidated financial statements.

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(v) ***Recently Enacted Endowment Legislation***

Until Fiscal Year 2008, the Trust's management and investment of donor-restricted endowment funds has generally been subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA), a model law adopted by most states and the District of Columbia. In a number of jurisdictions, however, UMIFA has recently been superseded by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), a new model law developed by the Uniform Law Commission. Among UPMIFA's most significant changes is the elimination of UMIFA's concept of historic dollar value threshold, the amount below which a charitable organization like the Trust could not spend from a donor-restricted endowment fund. UPMIFA follows a more comprehensive approach to prudent institutional spending standards, using a multi-factor set of criteria for both management of funds and for accumulation-expenditure determinations.

In late 2007, the District of Columbia Council enacted its version of UPMIFA, the provisions of which apply to funds existing on or established after its effective date of January 23, 2008. Although the Trust operates nationally, given its nexus to the District of Columbia, the Trust will look primarily to the D.C. UPMIFA statute as the basis for fund classification and management determinations and fund accumulation-expenditure determinations for donor-restricted endowment funds. Based on its interpretation of the provisions of UPMIFA, the Trust has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate as of September 30, 2008 based on accounting standards in effect.

In August 2008, FASB Staff Position No. FAS 117-1, *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* (FSP), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The Trust will adopt the FSP for the year ending September 30, 2009, and will review net asset classifications for existing donor-restricted endowment funds under the criteria of UPMIFA. Any fund classification adjustments may require the September 30, 2008 consolidated financial statements to be retrospectively adjusted to reflect reclassification of net assets from unrestricted to temporarily restricted. However, because current Trust practice is to classify donor-restricted endowment earnings as temporarily restricted, no significant retrospective adjustments are currently anticipated.

Finally, another key component of the FSP is a requirement for expanded disclosures for all endowment funds (both donor-restricted and board-designated). These additional disclosure provisions, however, will be effective for the Trust's September 30, 2009 financial statements.

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**(2) Description of Program and Support Services**

Descriptions of the program and support services in the accompanying consolidated financial statements are as follows:

*Historic Sites* – Preserves and manages for public benefit the Trust’s property, real and personal; reviews new properties for potential acquisition; administers programs to acquire and oversee preservation easements on other historic sites nationwide.

*Preservation Services* – Provides (1) education, information, and technical assistance; (2) financial assistance; (3) oversight and administration of six regional offices and two field offices; (4) technical assistance, services, training, and educational products on downtown revitalization through the National Main Street Center, the Heritage Tourism Program, the Rural Heritage Program, and the Statewide Partnership Program; and (5) NTCIC, NTCIC II, NTIS, and NT CDFI programs.

Within the preservation services category, the Law and Public Policy departments advocate national historic preservation policy positions before government agencies, Congress, and state and local legislative bodies, and in courts of law (both as a party litigant and as a friend of the court); conduct research on public policy issues relating to historic preservation; and provides professional expertise on the protection of historic resources and educational materials to the legal and preservation communities, including a legal periodical on historic preservation law.

*Publications* – Educates, fosters knowledge, stimulates interest, and facilitates participation in public and private historic preservation through the printing and publication of the Trust’s general materials, newsletters, professional journals, and magazines; and manages the Trust’s relationship with Wiley Publishing, Inc.’s Preservation Press.

*Education* – Encourages an understanding of historic preservation through conferences and seminars, communications, training, study tours, internships, merchandising, public service announcements, and preservation-related products.

*Membership Outreach* – Educates the general public on the value of and techniques for preserving our nation’s architectural and cultural heritage, and develops membership.

*General and Administration* – Includes the functions necessary to maintain an equitable employment program; ensures an adequate working environment; provides general management, coordination, and articulation of the Trust’s programs and operation; secures proper administrative functioning of the board of trustees and board of advisors; provides legal counsel; manages the Trust’s information technology requirements; and manages the financial, endowment, and budgetary responsibilities of the Trust.

*Fund-raising* – Provides the structure necessary to encourage and secure financial support from individuals, foundations, corporations, and other grant makers.

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**(3) Property and Equipment**

Property and equipment at September 30, 2008 is comprised of the following:

Land	\$	812,965
Buildings and improvements		5,441,414
Furniture and equipment		3,299,336
		9,553,715
Less accumulated depreciation		(7,027,291)
Total	\$	2,526,424

**(4) Split-Interest Agreements**

The Trust is a beneficiary of split-interest agreements in the form of charitable gift annuities included in investments, and charitable remainder unitrusts, pooled income funds, and retained life estates are included in contributions receivable on the statement of financial position, and include the following values at September 30, 2008:

Charitable gift annuities	\$	1,270,211
Charitable remainder unitrust held by third parties		1,150,968
Charitable remainder unitrust held by the Trust		780,515
Pooled income funds		91,493
Properties with life tenants		3,267,000
Total assets held under split-interest agreements	\$	6,560,187

As of September 30, 2008, liabilities associated with split-interest agreements total \$1,491,000, which include a liability of approximately \$996,000 related to obligations under charitable gift annuities recorded in other liabilities, and approximately \$495,000 related to obligations under charitable remainder unitrusts held by the Trust recorded in amounts held for others on the statement of financial position. Liability balances represent the present value of future cash flows expected to be paid to the donor or the donor's designee over the estimated remaining term of the agreement.

During 2008, the Trust recognized \$684,992 in accretion of discounts related to split-interest agreements and \$892,849 in losses related to the value of split-interest agreements expected to be received which are recorded in contribution revenue in the temporarily restricted net assets on the statement of activities.

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**(5) Contributions and Amounts Held for Others**

**(a) Contributions Receivable**

Contributions receivable are summarized as follows at September 30, 2008:

Unconditional promises expected to be collected in:	
Less than one year	\$ 5,928,666
One to five years	7,827,531
More than five years	5,680,976
	19,437,173
Less allowances for uncollectible pledges	(85,500)
Less unamortized discount	(1,348,968)
	18,002,705
Less current contributions receivable	(5,928,666)
Contributions receivable, net of current	\$ 12,074,039

Amounts presented above have been discounted to present value using the U.S. risk-free treasury rate on the date of contribution. The discount rates used to calculate the present value of contributions receivable range from 2.98% to 4.5%. In 2008, the Trust recognized \$156,489 in accretion of discounts which is reported as contribution revenue in the net asset class in which the original promise was recorded.

Commitments from donors for conditional promises to give total \$6,242,385 at September 30, 2008. These pledges will be accrued in future periods as the conditions are met.

**(b) Public Service Announcements and Donated Services**

In 2004, the Trust partnered with Home and Garden Television (HGTV) and The History Channel to produce public service announcements on television. For the year ended September 30, 2008, the fair value of the airtime for advertisements for HGTV and the History Channel is approximately \$6,518,000. Public Service Announcements are recorded as a component of operating revenue and education expense on the consolidated statement of activities.

Contributed services received are comprised of primarily pro bono legal, architectural, and graphic design services for the Historic Sites and Preservation Services programs. Total contributed services in fiscal year 2008 were valued at \$1,513,000 and are reported within contributions revenues and various expenses in the accompanying statement of activities.

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**(c) Amounts Held for Others**

At September 30, 2008, amounts held for others reported as liabilities are comprised of the following:

Amounts held on behalf of donors for charitable remainder trusts	\$ 494,976
Endowment held for the benefit of Congressional Cemetery	3,584,202
Endowment held for the benefit of Cliveden	1,004,262
Endowment held for Woodlawn	148,529
Endowment held for Montpeleir	6,978,280
Endowment for the benefit of Belle Grove	136,582
Endowment held for the benefit of Val-Kil property	74,903
Total amounts held for others	\$ <u>12,421,734</u>

**(6) Other Liabilities**

**(a) Loans Payable**

In September 2004, the Trust received \$1 million from the Landmark Preservation Council of Illinois (LPCI) to assist the Trust in purchasing Farnsworth House. The Trust has agreed to repay LPCI from proceeds received from the sale of 30 acres of excess land surrounding the Farnsworth House. The payable is secured by a lien on the Farnsworth property. The excess land, valued at \$1.1 million, is included in property held for resale and the payable is included in other liabilities on the consolidated balance sheets.

**(b) Guarantee**

On December 1, 2004, the Trust executed a Guaranty Agreement with Wachovia Bank, N.A. (the agreement) with respect to the obligations of the Montpelier Foundation (the Foundation) under a Credit and Reimbursement Agreement between Wachovia and the Foundation for the issuance of \$9.1 million in variable rate tax exempt bonds by the Industrial Development Authority of the County of Orange, VA. The financing will fund improvements to Montpelier, a Trust historic site, including the construction of a visitors' center, a new bridge and a new entrance. The Trust would be obligated to pay any outstanding obligation, without limitations, to Wachovia in the event the Foundation defaults under the Credit and Reimbursement Agreement. The maximum potential amount of future payments under the guaranty is \$9.1 million at September 30, 2008. Any funds held by the Trust on behalf of Montpelier Foundation and Montpelier may be used to reimburse the Trust or offset costs or payments incurred by the Trust under the agreement. The amount held on behalf of Montpelier at September 30, 2008 is included in amounts held for others in the statement of financial position.

As of September 30, 2008, a liability in the amount of \$219,776 is included in the accompanying balance sheet, which represents the Trust's estimate of the fair value of the outstanding guaranty.

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This amount is included with other liabilities and expensed to the Montpelier endowment's temporarily restricted net assets.

**(7) Investments**

The revolving loan funds (see note 8) include all assets restricted or designated to the revolving fund program. The endowment and similar funds include all permanently restricted contributions, temporarily restricted unrealized and realized cumulative gains, and assets designated by the board for long-term purposes. Funds held for others are a component of the endowment funds (see note 5c). Other investments represent excess liquidity that the Organization has invested to obtain higher yields.

The composition of investments owned by the Trust at September 30, 2008 is presented below:

	<u>Revolving loan funds</u>	<u>Endowment and similar funds</u>	<u>Other investments</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,405,175	12,591,860	4,017,679	18,014,714
Notes receivable	1,742,011	—	—	1,742,011
Debt securities	3,278,527	34,789,662	4,600,797	42,668,986
Equities	166,994	87,137,389	840,154	88,144,537
Other receivables	—	3,968,084	—	3,968,084
Limited partnerships	—	29,276,549	—	29,276,549
Overseas investment companies	—	24,589,883	—	24,589,883
Other	—	6,425,436	—	6,425,436
Accrued interest receivable	52,592	28,736	36,144	117,472
	<u>\$ 6,645,299</u>	<u>198,807,599</u>	<u>9,494,774</u>	<u>214,947,672</u>

As of September 30, 2008, the fair values of approximately \$162 million of the investments have been estimated by management using information provided by the third party general partners or investment managers in the absence of readily ascertainable values as of that date. These estimated fair values may differ from the values that would have been used had a ready market existed, and the differences could be material.

Each limited partnership can require capital contributions on an as-needed basis. Under the limited-partnership agreements, the Trust has committed to investing an additional \$21,169,925 as of September 30, 2008.

Other investments of \$9,494,774 includes \$8,140,372 of operational cash invested in Bank of America's Short-Term Asset Management Funds, \$1,270,212 in investments held in conjunction with charitable gift annuities, and \$84,190 in equity investments in NTCIC.

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The composition of investment loss for the year ended September 30, 2008 is as follows:

Interest and dividends	\$ 3,731,728
Investment expenses	(850,210)
Amounts designated for operations	<u>8,957,287</u>
Investment income for operations	<u>11,838,805</u>
Net loss on investments	(38,551,390)
Amounts designated for operations	<u>(8,957,287)</u>
Total investment (loss) in excess of amounts designated for operations	<u>(47,508,677)</u>
Total investment loss	<u><u>\$ (35,669,872)</u></u>

**(8) Loan Funds**

The loan funds of the Trust are managed by and through NT CDFI, Inc. a wholly owned nonprofit subsidiary of the Trust (referred to in note 1 (a)). The loan funds were established with donor contributions, program-related investments from foundations, and low-interest loans from financial institutions to provide assistance in the preservation of historic properties, neighborhoods and communities. This assistance is provided primarily through the market-rate secured loans to support historic preservation that stimulate revitalization in underserved and distressed communities. Borrowers repay loans from project cash flow, permanent financing and capital contribution payments.

Loans are carried at unpaid principal balances less an allowance for loan losses. A reserve for loan losses is provided which is believed adequate based upon management's periodic evaluation of the collectibility of specific loans, credit factors, economic conditions, historic trends and other risks inherent in the portfolios. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries.

The previous National Preservation Loan Fund (NPLF) has been incorporated directly into the operations of NT CDFI, Inc. NT CDFI assistance can be used for pre-development, acquisition, rehabilitation and related capital costs for preservation oriented residential, commercial and public projects. Interest rates in 2008 averaged 6.95% respectively and loans generally were a minimum of 5 years.

At September 30, 2008, the balance of committed loans that have not been disbursed to borrowers is approximately \$864,000.

***Inner City Ventures Fund***

The Inner City Ventures Fund (ICVF) is organized as a program of the Trust. It provides financial and technical assistance to qualified organizations that serve low and moderate-income households or provide economic benefit in low and moderate income communities. The ICVF is managed by NT CDFI through an Operations Agreement between NT CDFI and the Trust.

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ICVF assistance can be used for pre-development, acquisition, rehabilitation and related capital costs for preservation oriented residential, commercial, and public projects. Interest rates in 2008 averaged 5.9% and loan terms generally were a maximum of 5 years.

**(9) Rental Income and Expense**

The Trust maintains its owned headquarters at 1785 Massachusetts Avenue, Washington, D.C. Office space in the headquarters building that is not occupied is leased to unrelated parties for five years, expiring in January 2009. The Trust also rents buildings at historic sites as housing with various expiration dates.

Future minimum rental income from noncancelable operating leases is as follows:

Year ending September 30:		
2009	\$	224,652
2010		79,954
2011		62,625
2012		31,300
2013		33,120
Thereafter		<u>118,680</u>
	\$	<u><u>550,331</u></u>

The Trust rents certain office space (principally for regional offices) and equipment under operating leases. Total rental expense under such leases was \$513,388 in 2008. Minimum lease commitments on office space and equipment are as follows:

Year ending September 30:		
2009	\$	296,231
2010		172,526
2011		107,414
2012		32,400
2013		32,400
Thereafter		<u>105,300</u>
	\$	<u><u>746,271</u></u>

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**(10) Notes Payable**

Notes payable at September 30, 2008 consists of the following:

Washington Mutual note interest at 2% with quarterly interest due the first of each quarter until November 30, 2012, when the principal is due in full. The note is unsecured.	\$ 1,000,000
Bank of America note with full recourse, interest at 3.5% payable quarterly. Principal payment in the amount of \$766,000 due on October 21, 2008.	766,000
Bank of America note with full recourse, interest at 2% payable quarterly. The note has a rolling ten-year term with a maturity date of up to fifteen years from the initial closing October 21, 1999. The note is unsecured.	875,000
Bank of America \$7,000,000 line-of-credit, interest equal to BBA LIBOR Daily Floating plus 0.75% payable monthly. Principal payments due in equal installments beginning July 2, 2010 and ending June 1, 2015. The note is unsecured.	4,959,591
Fannie Mae \$5,000,000 line-of-credit, agreement dated October 6, 2006, with maturity date of October 30, 2011. Interest rate at September 30, 2008 was 5.2237% (12-month - LIBOR and adjusted annually on January 1). Interest due quarterly calculated on 360 day per year factor on outstanding balance.	500,000
Notes payable, total	<u>8,100,591</u>
Less current portion	<u>766,000</u>
Notes payable, long-term portion	<u><u>\$ 7,334,591</u></u>

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September 30, 2008

The Organization recognized \$251,033 of interest expense in 2008. Interest expense is allocated between preservation services and historic sites program expenses in the statement of activities. Additionally, the Organization recognized \$88,657 in interest expense and contribution revenue in 2008, representing the difference between actual and market interest rates estimated at 2.29% for one note and 3.79% for two other notes. Certain loans payable contain requirements for the Organization to meet certain financial covenants. As of September 30, 2008, the Organization was in compliance with all of the covenants. Future principal payments of notes payable outstanding at September 30, 2008 are as follows:

Year ending September 30:	
2009	\$ 766,000
2010	247,980
2011	991,918
2012	1,491,918
2013	1,991,918
Thereafter	<u>2,610,857</u>
	<u>\$ 8,100,591</u>

The Fannie Mae line-of-credit in the amount of \$5,000,000 is available for the purpose of making loans to developers and nonprofit or governmental entities to support single-family, multi-family or mixed use projects that contain no more than twenty percent (20%) of space dedicated to nonresidential uses through rehabilitation and/or historically compatible new construction.

**(11) Allocation of Joint Costs**

The Trust conducts membership development activities that include appeals for contributions, primarily direct mail campaigns, which qualify for allocation among the functions benefited. In 2008, the Trust incurred approximately \$1,570,000 of joint costs for these activities, respectively. Approximately \$451,000 of these costs was allocated to fund-raising and approximately \$1,141,000 was allocated to membership outreach.

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
IN THE UNITED STATES**

Notes to Consolidated Financial Statements

September 30, 2008

**(12) Net Assets**

Unrestricted net assets consist of the following at September 30, 2008:

	<u>Available for operations</u>	<u>Board designated</u>	<u>Underwater Endowments</u>	<u>Total</u>
Net investment in property and equipment	\$ 2,526,424	—	—	2,526,424
Other operating reserves	141,433	—	—	141,433
Funds functioning as endowment funds	—	58,326,424	—	58,326,424
Other Board designated	—	7,429,206	—	7,429,206
Underwater endowments	—	—	(1,077,407)	(1,077,407)
	<u>\$ 2,667,857</u>	<u>65,755,630</u>	<u>(1,077,407)</u>	<u>67,346,080</u>

Temporarily restricted net assets consist of the following at September 30, 2008:

CDFI Subsidiary	\$ 2,053,788
Contributions for specific properties or programs or subject to time restrictions	23,245,770
Cumulative gains on endowment funds for the preservation and maintenance of specific historic properties or programs	<u>50,705,224</u>
	<u>\$ 76,004,782</u>

Permanently restricted net assets at September 30, 2008 consist of investments in perpetuity, the income form which is expendable to support:

Specific properties	\$ 43,743,172
Specific other programs	19,864,570
Unrestricted uses	<u>15,110,221</u>
	<u>\$ 78,717,963</u>

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
IN THE UNITED STATES**

Notes to Consolidated Financial Statements

September 30, 2008

**(13) Designated by Board of Trustees**

Funds designated by the Board of Trustees represent the portion of unrestricted funds that have been set aside for specific purposes or as quasi-endowments by action of the Board of Trustees. Following is a summary of activity in funds designated by the Trustees:

Balance, beginning of year	\$ 72,668,930
Board designations net of gains/losses on quasi-endowments	(3,647,311)
Funds expended for Board-designated purposes	<u>(3,265,989)</u>
	<u>(6,913,300)</u>
Board-designated net assets	<u><u>\$ 65,755,630</u></u>

**(14) Retirement Plan**

The Trust adopted a noncontributory defined contribution pension plan effective January 1, 1986. The plan provides benefits to all eligible employees of the Trust. Contributions are currently determined based on 5% of the eligible employees' earnings for the calendar year. Employer contributions for eligible employees were approximately \$799,000 in 2008. Participants are 20% vested after 2 years of service, 50% vested after 3 years of service, 75% vested after 4 years of service and 100% vested after 5 years of service. Forfeitures of nonvested participant balances are used to offset future employer contributions.

**(15) Nonqualified Deferred Retirement Savings Plan**

The Trust adopted a nonqualified deferred retirement savings plan (457(b)) for senior management and highly compensated employees on January 1, 2003. The plan currently allows eligible employees less than 50 years old to defer up to an additional \$15,500 annually and \$20,000 for employees 50 or more years old.

**(16) Contingencies**

**(a) Government Grants**

The Trust receives federal grants which are subject to audit. Until such audits have been completed and final settlement reached, there exists a contingency to refund amounts received in excess of allowable costs. Management believes that adjustments, if any, would not have a significant effect on the consolidated financial statements.

**(b) Litigation**

The Organization is a defendant in certain legal matters. It is the opinion of management that the ultimate outcome of such matters will not have a material adverse affect on the consolidated financial statements.

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
IN THE UNITED STATES**

Notes to Consolidated Financial Statements

September 30, 2008

**(17) Risks and Uncertainties**

The Trust's invested assets consist of equities, debt securities, limited partnerships, overseas investment companies, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of uncertainty related to changes in interest rates, market volatility, and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the statement of financial position as of September 30, 2008. However, the diversification of the Trust's invested assets among these various asset classes is designed to mitigate the impact of any dramatic change on any one asset class.

**(18) Restatement**

The Organization restated its September 30, 2007 net asset balances to properly present its property and equipment and amounts held for others.

During 2008, management determined that approximately \$14,000,000 of the amounts reported in property and equipment were assets of a related party that is not consolidated in the Trust's consolidated financial statements, and are not considered an asset of the Trust.

The Trust accepts funds deposited by third parties for the purpose of participation in the Trust's investment portfolio. The Trust has historically reported these funds in Amounts Held for Others at the corpus amount rather than the fair market value and reported the related accumulated investment gains or losses within temporarily restricted net assets. During 2008, the Trust determined that the accumulated gains/losses related to the amounts held for others do not represent net assets of the Trust.

Below is a summary of the adjustments made by the Organization to the September 30, 2007 beginning balances:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Net Assets</u>
September 30, 2007, previously reported balances	\$ 78,671,231	122,554,859	74,082,395	275,308,485
Adjustment to restate beginning property and equipment	—	(14,688,727)	—	(14,688,727)
Adjustments to restate beginning amounts held by others	—	(3,313,338)	—	(3,313,338)
September 30, 2007, restated balances	<u>\$ 78,671,231</u>	<u>104,552,794</u>	<u>74,082,395</u>	<u>257,306,420</u>

**NATIONAL TRUST FOR HISTORIC PRESERVATION  
IN THE UNITED STATES**

Notes to Consolidated Financial Statements

September 30, 2008

**(19) Subsequent Events**

**(a) *Guarantee of Interest Rate Swap***

On December 18, 2008, the Trust executed a Guaranty Agreement with Wachovia Bank, N.A. with respect to the obligations of the Montpelier Foundation (the Foundation) under an ISDA Master Agreement, Schedule to Master Agreement and Confirmation (the Swap Agreement). This Guaranty Agreement guaranties a swap that stabilizes the interest rate paid by the Foundation under the Credit and Reimbursement Agreement between Wachovia and the Foundation for the issuance of \$9.1M in variable rate tax exempt bonds by the Industrial Development Authority of the County of Orange, VA, described in note 6.

At the date of swap inception, the Trust's estimated liability under the guarantee agreement is \$232,780, which represents the net present value of future cash flows attributable to the difference between the contractual variable rates in the underlying debt agreement. The estimated liability will be recalculated and included in other liabilities and expensed to the Montpelier endowment's temporarily restricted net assets as September 30, 2009.

**(b) *Value of Investments***

Further disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair value of the Organization's investments subsequent to September 30, 2008. Based on information available from fund managers, the Trust estimates that the value of the investments as of March 31, 2009 has declined approximately \$40.4 million compared to the value as of September 30, 2008.

In addition, subsequent to year end, certain restrictions on redemption of investments totaling approximately \$7,700,000 were imposed.

**THE NATIONAL TRUST FOR HISTORIC PRESERVATION IN THE  
UNITED STATES AND ITS SUBSIDIARIES AND AFFILIATE**

CONSOLIDATING SCHEDULE - BALANCE SHEET

September 30, 2008

Assets	<u>National Trust</u>	<u>Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 5,001,245	2,372,038	—	7,373,283
Accounts receivable, net	4,049,062	2,619,723	(2,655,587)	4,013,198
Contributions receivable, net	5,928,666	—	—	5,928,666
Merchandise inventory	741,051	—	—	741,051
Prepaid expenses and other assets	1,321,913	114,634	(186)	1,436,361
Properties held for resale	3,406,850	—	—	3,406,850
Investment in subsidiaries	2,147,752	—	(2,147,752)	—
Total current assets	<u>22,596,539</u>	<u>5,106,395</u>	<u>(4,803,525)</u>	<u>22,899,409</u>
Investments:				
Revolving loan funds	4,098,438	2,546,861	—	6,645,299
Endowments and similar funds	198,807,599	—	—	198,807,599
Other investments	9,410,584	84,190	—	9,494,774
Total investments	<u>212,316,621</u>	<u>2,631,051</u>	<u>—</u>	<u>214,947,672</u>
Contributions receivable net of current Historic sites	12,074,039	—	—	- 12,074,039
Properties held for resale	1,100,000	—	—	1,100,000
Property and equipment, net	2,419,312	107,112	—	2,526,424
Total assets	<u>250,506,511</u>	<u>7,844,558</u>	<u>(4,803,525)</u>	<u>253,547,544</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 4,545,731	2,071,795	(2,655,577)	3,961,949
Accrued expenses	2,333,056	234,428	—	2,567,484
Deferred revenue	1,875,046	335,772	—	2,210,818
Note payable	766,000	—	—	766,000
Total current liabilities	<u>9,519,833</u>	<u>2,641,995</u>	<u>(2,655,577)</u>	<u>9,506,251</u>
Notes payable	6,334,591	1,000,000	—	7,334,591
Amounts held for others	12,421,734	—	—	12,421,734
Other liabilities	2,216,143	—	—	2,216,143
Total liabilities	<u>30,492,301</u>	<u>3,641,995</u>	<u>(2,655,577)</u>	<u>31,478,719</u>
Net assets:				
Unrestricted:				
Unrestricted	67,345,253	2,148,775	(2,147,948)	67,346,080
Temporarily restricted	73,950,994	2,053,788	—	76,004,782
Permanently restricted	78,717,963	—	—	78,717,963
Total net assets	<u>220,014,210</u>	<u>4,202,563</u>	<u>(2,147,948)</u>	<u>222,068,825</u>
Total liabilities and net assets	<u>\$ 250,506,511</u>	<u>7,844,558</u>	<u>(4,803,525)</u>	<u>253,547,544</u>

**THE NATIONAL TRUST FOR HISTORIC PRESERVATION IN THE  
UNITED STATES AND ITS SUBSIDIARIES AND AFFILIATE**

CONSOLIDATING SCHEDULE OF ACTIVITIES

September 30, 2008

	<b>National Trust for Historic Preservation in the United States</b>	<b>Subsidiaries and Affiliate</b>	<b>Eliminations</b>	<b>Total</b>
Operating revenues, gains, and other support:				
Grant income	\$ 2,690,958	—	—	2,690,958
Contributions (note 5)	32,275,790	573,632	(566,070)	32,283,352
Membership dues	1,971,070	—	—	1,971,070
Admissions and special events	4,950,280	—	—	4,950,280
Investment income (note 7)	10,636,100	115,680	1,087,025	11,838,805
Contract services	3,264,995	4,395,356	(1,429,319)	6,231,032
Sales of articles	1,213,514	—	—	1,213,514
Advertising	1,210,473	—	—	1,210,473
Rental income	709,187	—	(131,142)	578,045
Public service announcements (note 5)	6,518,337	—	—	6,518,337
Royalty income	1,644,962	—	—	1,644,962
Miscellaneous	742,615	221,993	—	964,608
	<u>67,828,281</u>	<u>5,306,661</u>	<u>(1,039,506)</u>	<u>72,095,436</u>
Operating expenses:				
Program services:				
Historic sites	21,185,543	—	—	21,185,543
Preservation services	14,806,798	6,099,686	(2,128,142)	18,778,342
Publications	3,103,627	—	—	3,103,627
Education	13,510,210	—	—	13,510,210
	<u>52,606,178</u>	<u>6,099,686</u>	<u>(2,128,142)</u>	<u>56,577,722</u>
Support services:				
Membership outreach	3,173,962	—	—	3,173,962
General and administration	3,850,809	—	—	3,850,809
Fund-raising	6,624,862	—	—	6,624,862
	<u>13,649,633</u>	<u>—</u>	<u>—</u>	<u>13,649,633</u>
Total operating expenses	<u>66,255,811</u>	<u>6,099,686</u>	<u>(2,128,142)</u>	<u>70,227,355</u>
Operating revenues, gains, and other support over (under) operating expenses	1,572,470	(793,025)	1,088,636	1,868,081
Nonoperating support:				
Investment return in excess of amounts designated for operations (note 7)	(47,490,799)	(16,602)	(1,276)	(47,508,677)
Unexpended restricted contributions (notes 1(k) and 5)	12,465,430	—	—	12,465,430
Equity Distribution	—	(830)	830	—
Purchase of historic site	(2,062,429)	—	—	(2,062,429)
	<u>(35,515,328)</u>	<u>(810,457)</u>	<u>1,088,190</u>	<u>(35,237,595)</u>
Net assets at September 30, 2007, as restated (note 18)	<u>255,529,538</u>	<u>3,917,756</u>	<u>(2,140,874)</u>	<u>257,306,420</u>
Net assets at September 30, 2008	<u>\$ 220,014,210</u>	<u>3,107,299</u>	<u>(1,052,684)</u>	<u>222,068,825</u>