CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION

Combined Financial Statements

June 30, 2009 and 2008

REGALIA & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

(A California Not-For-Profit Corporation)
June 30, 2009

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R&A CPA
Regalia& Associates

CERTIFIED PUBLIC ACCOUNTANTS
103 TOWN & COUNTRY DRIVE, SUITE K, DANVILLE, CALIFORNIA 94526
DOUGLAS W. REGALIA, CPA, A PROFESSIONAL CORPORATION
DANA E. CHAVARRIA, CPA, SENIOR TAX MANAGER
MARIANNE RYAN, SENIOR AUDIT MANAGER
TRICIA WILSON, AUDIT & ACCOUNTING
JANICE TAYLOR, CPA, AUDIT & TAX
OFFICE: 925.314.0390 FAX: 925.314.0469

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
California Historical Society
California Historical Foundation

We have audited the accompanying combined statements of financial position of California Historical Society and California Historical Foundation (collectively referred to as the Society) as of June 30, 2009 and 2008 and the related combined statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These combined financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on the combined financial statements based on our audits. The summarized comparative information for the prior-year included on the combined statements of functional expenses was derived from the Society's June 30, 2008 financial statements. In our report dated November 26, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Society as of June 30, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Danville, California
October 30, 2009

Combined Statements of Financial Position
June 30, 2009 and 2008

		Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2009 Total	2008 Total
ASSETS						
Current assets:						
Cash	$	13,811	420,843	-	**434,654**	223,043
Grants and accounts receivable		-	35,550	-	**35,550**	85,859
Inventory		9,808	-	-	**9,808**	11,409
Prepaid expenses and other assets		19,571	-	-	**19,571**	31,153
Total current assets		43,190	456,393	-	**499,583**	351,464
Noncurrent assets:						
Investments and restricted cash		-	93,831	3,244,905	**3,338,736**	4,747,938
Collections (Notes 2 and 10)		-	-	-	**-**	-
Property and equipment, net		2,781,375	-	-	**2,781,375**	2,895,611
Total noncurrent assets		2,781,375	93,831	3,244,905	**6,120,111**	7,643,549
	$	2,824,565	550,224	3,244,905	**6,619,694**	7,995,013
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable and accrued liabilities	$	77,675	-	-	**77,675**	66,778
Deferred revenue		10,928	-	-	**10,928**	8,093
Total current liabilities		88,603	-	-	**88,603**	74,871
Net assets:						
Unrestricted		2,735,962	-	-	**2,735,962**	4,303,482
Temporarily restricted		-	550,224	-	**550,224**	371,755
Permanently restricted		-	-	3,244,905	**3,244,905**	3,244,905
Total net assets		2,735,962	550,224	3,244,905	**6,531,091**	7,920,142
	$	2,824,565	550,224	3,244,905	**6,619,694**	7,995,013

Combined Statements of Activities and Changes in Net Assets
Year Ended June 30, 2009
(With Comparative Totals for June 30, 2008)

Changes in net assets:		Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2009 Total	2008 Total
Revenue and support:						
Memberships and annual fund	$	247,216	-	-	**247,216**	272,800
Programs and activities		125,319	-	-	**125,319**	92,713
Contributions, grants and bequests		379,256	391,790	-	**771,046**	539,966
Endowment income appropriated		496,143	-	-	**496,143**	341,570
Bookstore		68,835	-	-	**68,835**	61,347
Collection sharing		200,000	-	-	**200,000**	300,000
Sales and other revenue		16,986	-	-	**16,986**	27,998
Total unrestricted revenue		1,533,755	391,790	-	**1,925,545**	1,636,394
Net assets released from restrictions and other transfers:						
Funds released for program activities		209,183	(209,183)	-	**-**	-
Transfer of investment funds for endowment purposes		(662,101)	76,971	585,130	**-**	-
Total revenue and support		1,080,837	259,578	585,130	**1,925,545**	1,636,394
Expenses:						
Programs and activities		977,382	-	-	**977,382**	984,666
Management and general		450,424	-	-	**450,424**	503,235
Fundraising and development		319,718	-	-	**319,718**	223,001
Total expenses excluding depreciation		1,747,524	-	-	**1,747,524**	1,710,902
Increase (decrease) in net assets before endowment investment earnings and depreciation		(666,687)	259,578	585,130	**178,021**	(74,508)
Investment income		-	-	122,836	**122,836**	499,457
Unrealized gains (losses) on investments		(246,820)	(81,109)	(707,966)	**(1,035,895)**	(1,209,068)
Total return		(246,820)	(81,109)	(585,130)	**(913,059)**	(709,611)
Appropriation of endowment assets for expenditure		(496,143)	-	-	**(496,143)**	(341,570)
Endowment investment income, net		(742,963)	(81,109)	(585,130)	**(1,409,202)**	(1,051,181)
Depreciation		(157,870)	-	-	**(157,870)**	(147,241)
Increase (decrease) in net assets		(1,567,520)	178,469	-	**(1,389,051)**	(1,272,930)
Net assets at beginning of year		4,303,482	371,755	3,244,905	**7,920,142**	9,193,072
Net assets at end of year	$	2,735,962	550,224	3,244,905	**6,531,091**	7,920,142

Combined Statements of Cash Flows
Years Ended June 30, 2009 and 2008

		2009	2008
Operating activities:			
Decrease in net assets	$	**(1,389,051)**	(1,272,930)
Adjustments to reconcile to cash provided by operating activities:			
Unrealized losses on investments		**1,035,895**	1,209,068
Depreciation		**157,870**	147,241
Realized investment income and income reinvested		**(105,020)**	(158,425)
Changes in:			
Grants and accounts receivable		**50,309**	(76,601)
Inventory		**1,601**	9,818
Prepaid expenses and other assets		**11,582**	(4,337)
Accounts payable and accrued liabilities		**10,897**	(42,340)
Deferred revenue		**2,835**	5,063
Cash used for operating activities		**(223,082)**	(183,443)
Investing activities:			
Funds received from sale of investments (net)		**478,327**	538
Funds used for purchase of property and equipment		**(43,634)**	(36,520)
Cash provided by (used for) investing activities		**434,693**	(35,982)
Increase (decrease) in cash		**211,611**	(219,425)
Cash at beginning of year		**223,043**	442,468
Cash at end of year	$	**434,654**	223,043
Additional cash flow information:			
Franchise taxes paid	$	**150**	150
Interest paid	$	**-**	-

Combined Statements of Functional Expenses
Year Ended June 30, 2009
(With Comparative Totals for June 30, 2008)

	Programs and Activities	Management and General	Fund-raising and Development	Totals Year Ended June 30 2009	Totals Year Ended June 30 2008
Advertising	$ -	-	-	-	2,060
Bad debt expense	-	26,766	-	26,766	
Bank, investment and financial fees, taxes	1,490	11,290	4,828	17,608	11,610
Conference and travel	4,747	3,794	1,256	9,797	21,324
Cost of museum bookstore operations	41,465	-	-	41,465	34,855
Dues, memberships, subscriptions	489	2,504	1,529	4,522	5,449
Equipment, maintenance, security	10,222	38,331	2,555	51,108	72,468
Hospitality and special events	1,325	1,657	51,955	54,937	29,062
Insurance	25,438	14,613	-	40,051	44,372
Outside and professional services	198,158	88,820	96,409	383,387	381,438
Program activities	17,299	755	5,906	23,960	18,493
Salaries and benefits	613,693	210,917	139,098	963,708	979,112
Supplies and postage	15,100	14,229	13,333	42,662	31,224
Storage	24,065	-	-	24,065	23,937
Taxes and filing fees	-	4,732	201	4,933	2,330
Telephone, internet and web site	2,514	25,172	2,648	30,334	24,479
Utilities	20,322	6,774	-	27,096	27,865
Other	1,055	70	-	1,125	824
Total expenses excluding depreciation	977,382	450,424	319,718	1,747,524	1,710,902
Depreciation	118,403	39,467	-	157,870	147,241
Total expenses	$ **1,095,785**	**489,891**	**319,718**	**1,905,394**	1,858,143

Notes to Combined Financial Statements
June 30, 2009 and 2008

1. Organization

California Historical Society and California Historical Foundation (collectively referred to as the Society) are California tax-exempt, non-profit corporations. California Historical Society was established in 1871 as a statewide organization devoted to collecting, preserving, interpreting, publishing and exhibiting the history of California. California Historical Foundation was established in 1992 to manage and invest endowment funds received by gift or will for the benefit of the Society. The Society provides educational programs, conducts historical tours, and publishes books, a magazine and other literature.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The combined financial statements of the Society have been prepared on the accrual basis of accounting in accordance with the Financial Accounting Standards in its SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. The Society has also adopted the provisions of SFAS No. 117-1 regarding net asset classification of funds for organizations subject to UPMIFA (Uniform Prudent Management of Institutional Funds Act). All significant balances and transactions between the Society's funds have been eliminated on the combined statements of financial position.

Support and Revenue Recognition

The Society records contributions in accordance with the recommendations of the Financial Accounting Standards Board in its SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statements of activities and changes in net assets as net assets released from restrictions.

Grants and Pledges Receivable

Grants and pledges receivable are recognized as unrestricted or temporarily restricted contributed revenue when the contractual obligation is received.

Museum Store

The Society manages a museum store located in the lobby of the Society's San Francisco headquarters. All financial transactions for the museum store are included in the combined financial statements of the Society.

Inventory

Inventory is carried at lower of cost or market and consists of books and other merchandise.

Property and Equipment

Property and equipment purchased by the Society are recorded at cost. Property and equipment donated to the Society are recorded at estimated fair value as of the date of the gift. Repairs and maintenance are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets of between 5 to 30 years.

2. Summary of Significant Accounting Policies *(continued)*

Investments and Endowment

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities and changes in net assets. Purchased investments are initially stated at cost. Investments received by gift are recorded at market value at the date of contribution. In accordance with the Financial Accounting Standards in its SFAS No. 124, *Accounting for Investments by Not For Profit Organizations* (and as amended by SFAS No. 117-1), the recorded amounts of all investments are adjusted annually to reflect current market values. Realized and unrealized gains and losses are included in investment income on the statements of activities and changes in net assets.

The Society follows the provisions of Financial Accounting Standards in its SFAS No. 157, *Fair Value Measurements* and has estimated the fair value of its investments using available market information and other valuation methodologies. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Society could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

The Society's endowment consists of a diverse mixture of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by FAS 117-1, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The 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 permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by SPMIFA.

Collections

Inexhaustible collections include research books, manuscripts, photographs, art objects, and other items of historical significance which have been donated to the Society. In conformity with the practice followed by many similar organizations and in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, the Society does not capitalize its collection materials. SFAS No. 116 precludes the capitalization of such items if collections are: (1) held for public exhibition, education, or research in furtherance of public service rather than financial gain, (2) protected, kept unencumbered, cared for, and preserved, and (3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

2. Summary of Significant Accounting Policies *(continued)*

Income Taxes

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Interpretation Number 48 (FIN 48), *Accounting for Uncertainty in Income Taxes.* Under FIN 48, the Society is required to report information regarding its exposure to various tax positions taken by the Society and requires a two-step process that separates recognition from measurement. The first step is determining whether a tax position has met the recognition threshold; the second step is measuring a tax position that meets the recognition threshold. Management believes that the Society has adequately addressed all tax positions and that there are no unrecorded tax liabilities.

The Society has received notification from the Internal Revenue Service and the State of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 27301d of the California Revenue and Taxation Code. This exemption is subject to periodic review by the federal and state taxing authorities and management is confident that the Society continues to satisfy all federal and state statutes in order to qualify for continued tax exemption status. The Society may periodically receive unrelated business income requiring the Society to file separate tax returns under federal and state statutes. Under such conditions, The Society calculates and accrues the applicable taxes payable.

Functional Allocation of Expenses

The costs of providing the Society's various programs and other activities have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain reclassifications have been made to the 2008 combined financial statements in order to conform to the presentation used in 2009.

3. Bank Savings Deposit Accounts

The Society has several interest-bearing bank savings deposit accounts at a financial institution including funds held in a "sweep" account in which funds are transferred to and from checking in order to maximize interest earned on all available deposits.

4. Property and Equipment

Property and equipment consist of the following at June 30, 2009 and 2008:

		2009	2008
Land and buildings	$	**4,556,723**	4,553,216
Equipment		**649,118**	608,991
Less: accumulated depreciation		**(2,424,466)**	(2,266,596)
Property and equipment, net	$	**2,781,375**	2,895,611

4. Property and Equipment *(continued)*

Depreciation expense amounted to $157,870 and $147,241 for the years ended June 30, 2009 and 2008, respectively. The Society has not obtained a recent appraisal of its non-capitalized collections. However, these collections have been insured at $16 million and covers (1) photographic prints and negatives, (2) reference and research papers and (3) fine arts and manuscripts.

As part of the purchase of its headquarters at 678 Mission Street in downtown San Francisco, California, the Society acquired an agreement between the former owner (Morris Plack) and the development company (Griffin/Related Properties) which has the rights to the adjoining property at the Northeast corner of Third and Mission Streets. During the fiscal year ended June 30, 1999, Griffin/Related Properties obtained approval from the San Francisco Redevelopment Agency to commence construction on its building. In connection with an agreement between the Society and the San Francisco Redevelopment Agency (SFRA) and Related Properties, the Society has obtained 15,000 square feet of office space under a 99-year operating lease for a rental payment of $1 per year. Upon expiration of the original term, the lease is then renewable for another 99 years under the same terms and conditions. See **footnote 14** on Page 14 regarding additional information pertaining to the Society's lease arrangement with its landlord.

5. Investments, Restricted Cash and Endowment

Investments and restricted cash consist of the following at June 30, 2009 and 2008:

	2009		2008	
	Cost	Market Value	Cost	Market Value
Dodge & Cox Balanced Fund	$ **4,374,631**	**3,338,736**	5,563,112	4,354,044
Cash equivalents (restricted cash)	**-**	**-**	393,894	393,894
Totals	$ **4,374,631**	**3,338,736**	5,957,006	4,747,938

During the years ended June 30, 2009 and 2008, proceeds from the sale of investments were reinvested into other investments. During the years ended June 30, 2009 and 2008, unrealized losses on investments amounted to $(1,035,895) and $(1,209,068), respectively.

Investments in equity securities with readily determinable fair value and all investments in debt securities are reported at fair value or amounts that approximate fair value. Cash and cash equivalents include funds held in highly liquid investments with maturity dates of less than three months. Realized gains amounted to $17,816 and $341,032 for the years ended June 30, 2009 and 2008, respectively, and are included in investment income on the combined statements of activities and changes in net assets.

Composition of investments utilizing fair value measurements at June 30, 2009 is as follows:

	Unrestricted	Level 1	Level 2	Level 3
Cash and cash equivalents	$ -	-	-	-
Dodge & Cox Balanced Fund	3,338,736	3,338,736	-	-
Totals	$ 3,338,736	3,338,736	-	-

5. Investments *(continued)*

Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets. Level 2 measurement reflects the value of the investments using significant other observable inputs. Level 3 measurement reflects the value of the investments using significant unobservable inputs. The Society had no investments classified as Level 3 at June 30, 2009.

The Society has an Investment Committee which has the responsibility for establishing the Society's return objectives (generally lower rates of return associated with more stable and safer investments) and to define the risk parameters (generally low risk securities, certificates of deposit and mutual funds). The committee routinely oversees investment performances and reviews cash flows necessary to sustain the Society's operating activities.

Endowment net asset composition by type of fund is summarized as follows as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	93,831	3,244,905	**3,338,736**
Board-designated endowment funds	-	-	-	**-**
Total funds	$ -	93,831	3,244,905	**3,338,736**

Changes in endowment net assets for the fiscal year ended June 30, 2009 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,131,278	371,755	3,244,905	**4,747,938**
Investment return:				
Investment income	-	-	105,020	**105,020**
Investment realized gains (net)	-	-	17,816	**17,816**
Investment unrealized losses	(246,820)	(81,109)	(707,966)	**(1,035,895)**
Total investment return	(246,820)	(81,109)	(585,130)	**(913,059)**
Appropriation of endowment assets	(496,143)	-	-	**(496,143)**
Transfer board-designated funds to replenish endowment assets	(388,315)	(196,815)	585,130	**-**
Endowment net assets, end of year	$ -	93,831	3,244,905	**3,338,736**

5. Investments *(continued)*

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with FAS 117-1, deficiencies of this nature that are reported in unrestricted net assets amounted to $-0- as of June 30, 2009. There is the possibility that future deficiencies could result from unfavorable market fluctuations which occur after the investment of permanently restricted contributions and ongoing appropriation for certain programs which were deemed prudent by the Board of Directors. The Society's investments may decline below their original basis due to market fluctuations and unrealized losses which are beyond the control of the Society's management. Deficiencies of this nature are reported in unrestricted net assets.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Investment Committee and the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the general market conditions (Dow Jones Industrial Average) while assuming a moderate level of investment risk. The Society expects its endowment funds, over time, to provide an average rate of return of between 4% to 6% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Society has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the previous 12 quarters (and through the calendar year-end preceding the fiscal year in which the distribution is planned). In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 4 to 6 percent annually. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Notes to Combined Financial Statements

6. Net Assets

The Society recognizes support from temporarily restricted and permanently restricted net assets when the restrictions imposed by the donors have been satisfied or expired. Temporarily restricted net assets consist of the following at June 30, 2009 and 2008:

		2009	2008
Available for acquisition of collections (**see footnote 10**)	$	**250,677**	255,801
Available for programs		**299,547**	115,954
	$	**550,224**	371,755

Permanently restricted net assets consist of the following at June 30, 2009 and 2008:

		2009	2008
Restricted for endowment	$	**3,244,905**	3,244,905

Endowment funds, classified as permanently restricted net assets, represent cash contributions that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. Earnings (including realized and unrealized gains) from investments may be used for general operating purposes and are annually transferred to unrestricted net assets in accordance with SFAS 117-1 as detailed in footnote 5.

7. North Baker Estate

In August 1991, the Society was notified that it was the beneficiary of a significant bequest from the estate of North Baker, former president of the Board of Trustees. During the year ended June 30, 1993, certain assets of the North Baker Estate were sold and the Society received $1,829,730 as beneficiary which is restricted for endowment. In addition, the Society is entitled to 25% of the earnings from two trusts which have been established from the residual of the estate. During the years ended June 30, 2009 and 2008, the Society received $78,457 and $64,065, respectively, in distributions from the North Baker trusts. The approximate, combined value of these trusts at June 30, 2009 and 2008 was in excess of $5.4 million and $5.7 million, respectively.

8. Deferred Revenue

Deferred revenue of $10,928 and $8,093 at June 30, 2009 and 2008, respectively, represent funds received in advance of walking tours and other program activities for the following fiscal year. Such amounts have been reflected as short-term liabilities and will be classified as program and activity revenue on the combined statements of activities and changes in net assets in the subsequent fiscal period.

9. Contributed Services

A substantial number of unpaid volunteers have made significant contributions of time to various departments or programs of the Society. The value of this contributed time is not reflected in the combined financial statements since it is not susceptible to objective measurement or valuation.

10. Collections

Collections include books, artwork, paintings, sculptures, original documents and other physical property related to the history of California.

During the year ended June 30, 2009, the Society: **(a)** acquired (Karl Wilhelm) William Hahn, The Trip to Glacier Point (The Excursion Party), 1874 : a gift of the Cinco Hermanos Fund (which purchased the items at Sotheby's in New York for $120,000), and **(b)** reflected a deaccession of certain collection items which had an estimated value of $10,944.

During the year ended June 30, 2008, no collection items were given away, damaged, destroyed, lost, or otherwise deaccessed.

Included in temporarily restricted net assets at June 30, 2009 and 2008 are $250,677 and $255,801, respectively, in funds received from prior sales of collection items (**see footnote 6**). During the years ended June 30, 2009 and 2008, the Society utilized $16,068 and $2,578 in temporarily restricted fund, respectively, for the purchase of collections items (as permitted under SFAS #116). For insurance purposes, the Society has estimated the fair value of all collection items to be approximately $475,600.

11. Lease Commitments

The Society leases storage space and certain office machinery and equipment under long-term operating lease arrangements expiring at various dates through 2011. The leases require monthly payments totaling approximately $3,000 as of June 30, 2009. Minimum annual payments on operating leases extending beyond one year are as follows:

Year ending June 30, 2009	$	12,192
Year ending June 30, 2010		12,192
Year ending June 30, 2011		12,192
Year ending June 30, 2012		1,618

Rental expense relating to storage, office machinery and equipment amounted to $35,722 and $38,417 for the years ended June 30, 2009 and 2008, respectively.

12. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to fulfill grant requirements, which are not reflected in the financial statements. Management believes that such commitments or contingencies will not have a materially adverse effect on the financial statements. Certain of the grants and contracts are subject to audit and final acceptance by the granting agency. Current and future funding of such grants could be subject to adjustment upon audit.

Notes to Combined Financial Statements

13. Collection Sharing Agreement

During the year ended June 30, 2007, the Society and the Autry National Center ("Autry") entered into a Non-Profit Joint Venture and Collection Sharing Agreement (the "Agreement"). This collection sharing arrangement inaugurated a long-term presence of the Society and its collection into Southern California and enhances the long-term plans of the Society to improve its facility and operations in Northern California while permitting Autry to display historic pieces of the Society's collection. The initial collection sharing involves 68 "paintings" and the California Historic Costume Collection. The term of the Agreement is 60 years, with the option of two additional consecutive 20 year periods. Autry has agreed to pay an aggregate sum of $3,500,000 to the Society through a series of period payments over 15 years. During the years ended June 30, 2009 and 2008, the Society received $200,000 and $300,000, respectively, under the agreement, and these amounts are reflected as collection sharing revenue on the combined statements of activities and changes in net assets. The Society will continue to receive payments of $200,000 per year under the agreement through March 31, 2020.

14. Contingent Liability

The Society has been notified by its landlord Third and Mission Associates, LLC (TMA) that $307,600 in delinquent common area maintenance (CAM) charges related to its third floor office space are due and payable. TMA also maintains that it is due a rebate from either the Society or the County of San Francisco on real property taxes attributed to and paid on behalf of the Society's third floor space. Concurrently, the Society desires to relinquish occupancy of the third floor to TMA. Therefore, in order to provide a possible resolution, both parties have entered into a Memorandum of Understanding (MOU) which states, in part, that neither party shall bring action against the other until June 30, 2010. Both parties agree to work together for a tax rebate. TMA will attempt to obtain a new tenant for the third floor. Once an acceptable tenant is found, the parties will determine a fair price for the Society's relinquishment of its third floor occupancy by entering into a standard Argus real estate valuation, as if the third floor space were being sold by the Society to TMA on a fee basis. The value will be paid by TMA to the Society and the Society, in turn, will remit any unpaid CAM charges to TMA. Management believes that the Society will receive a lump sum payout from this agreement and that no accrual for estimated losses is required as of June 30, 2009.

15. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts 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 reported period. Accordingly, actual results could differ from those estimates.

16. Subsequent Events

The Society has evaluated subsequent events through October 30, 2009, the date the financial statements were available to be issued.