



# CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION

*Combined Financial Statements*

*June 30, 2010 and 2009*

# CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION

(A California Not-For-Profit Corporation)  
June 30, 2010

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**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, 2010 and 2009 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, 2009 financial statements. In our report dated October 30, 2009, we expressed an unqualified opinion on those combined 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 combined 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, 2010 and 2009, 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.

*Regalia & Associates*

*Danville, California*  
*December 10, 2010*

# CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION

## Combined Statement of Financial Position

June 30, 2010 and 2009

*(with Summarized Financial Information for the Year Ended June 30, 2009)*

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2010 Total	2009 Total
<b>ASSETS</b>					
Current assets:					
Cash	\$ 72,241	-	-	72,241	3,131
Grants and accounts receivable	-	16,019	-	16,019	35,550
Inventory	-	-	-	-	9,808
Prepaid expenses and other assets	41,932	-	-	41,932	19,571
<b>Total current assets</b>	<b>114,173</b>	<b>16,019</b>	<b>-</b>	<b>130,192</b>	<b>68,060</b>
Noncurrent assets:					
Investments and restricted cash	122,468	334,928	3,244,905	3,702,301	3,770,259
Collections (Notes 2 and 10)	-	-	-	-	-
Property and equipment, net	2,651,767	-	-	2,651,767	2,781,375
<b>Total noncurrent assets</b>	<b>2,774,235</b>	<b>334,928</b>	<b>3,244,905</b>	<b>6,354,068</b>	<b>6,551,634</b>
	<b>\$ 2,888,408</b>	<b>350,947</b>	<b>3,244,905</b>	<b>6,484,260</b>	<b>6,619,694</b>
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 72,736	-	-	72,736	77,675
Deferred revenue	13,575	-	-	13,575	10,928
<b>Total current liabilities</b>	<b>86,311</b>	<b>-</b>	<b>-</b>	<b>86,311</b>	<b>88,603</b>
Net assets:					
Unrestricted	2,802,097	-	-	2,802,097	2,735,962
Temporarily restricted	-	350,947	-	350,947	550,224
Permanently restricted	-	-	3,244,905	3,244,905	3,244,905
<b>Total net assets</b>	<b>2,802,097</b>	<b>350,947</b>	<b>3,244,905</b>	<b>6,397,949</b>	<b>6,531,091</b>
	<b>\$ 2,888,408</b>	<b>350,947</b>	<b>3,244,905</b>	<b>6,484,260</b>	<b>6,619,694</b>

# CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION

## Combined Statement of Activities and Changes in Net Assets Year Ended June 30, 2010

*(with Summarized Financial Information for the Year Ended June 30, 2009)*

<i>Changes in net assets:</i>	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2010 Total	2009 Total
Revenue and support:					
Memberships and annual fund	\$ 239,778	-	-	239,778	247,216
Programs and activities	61,050	-	-	61,050	125,319
Contributions, grants and bequests	468,048	19,239	-	487,287	771,046
Endowment income appropriated	216,129	-	-	216,129	496,143
Bookstore	25,754	-	-	25,754	68,835
Collection sharing	200,000	-	-	200,000	200,000
Sales and other revenue	75,146	-	-	75,146	16,986
Total unrestricted revenue	1,285,905	19,239	-	1,305,144	1,925,545
Net assets released from restrictions and other transfers:					
Funds released for program activities	218,516	(218,516)	-	-	-
Total revenue and support	1,504,421	(199,277)	-	1,305,144	1,925,545
Expenses:					
Programs and activities	960,069	-	-	960,069	977,382
Management and general	410,137	-	-	410,137	450,424
Fundraising and development	179,445	-	-	179,445	319,718
Total expenses excluding depreciation	1,549,651	-	-	1,549,651	1,747,524
Increase (decrease) in net assets before endowment investment earnings and depreciation					
	(45,230)	(199,277)	-	(244,507)	178,021
Investment interest and dividends	85,402	-	-	85,402	105,020
Realized gains (losses) on investments	(715)	-	-	(715)	17,816
Unrealized gains (losses) on investments	197,801	-	216,129	413,930	(1,035,895)
Total investment return	282,488	-	216,129	498,617	(913,059)
Appropriation of endowment assets for expenditure					
	-	-	(216,129)	(216,129)	(496,143)
Endowment investment income, net	282,488	-	-	282,488	(1,409,202)
Depreciation	(171,123)	-	-	(171,123)	(157,870)
Increase (decrease) in net assets	66,135	(199,277)	-	(133,142)	(1,389,051)
Net assets at beginning of year	2,735,962	550,224	3,244,905	6,531,091	7,920,142
Net assets at end of year	\$ 2,802,097	350,947	3,244,905	6,397,949	6,531,091

# CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION

## Combined Statements of Cash Flows Years Ended June 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
<i>Operating activities:</i>		
Decrease in net assets	\$ (133,142)	(1,389,051)
Adjustments to reconcile to cash provided by operating activities:		
Unrealized (gains) losses on investments	(413,931)	1,035,895
Depreciation	171,123	157,870
Collection items purchased	16,314	-
Realized investment income and income reinvested	(84,687)	(105,020)
Changes in:		
Grants and accounts receivable	19,531	50,309
Inventory	9,808	1,601
Prepaid expenses and other assets	(22,361)	11,582
Accounts payable and accrued liabilities	(4,939)	10,897
Deferred revenue	2,647	2,835
Cash used for operating activities	<b>(439,637)</b>	<b>(223,082)</b>
<i>Investing activities:</i>		
Funds received from sale of investments (net)	566,576	46,804
Funds used for acquisition of collection items	(16,314)	-
Funds used for acquisition of property and equipment	(41,515)	(43,634)
Cash provided by investing activities	<b>508,747</b>	<b>3,170</b>
Increase (decrease) in cash	<b>69,110</b>	<b>(219,912)</b>
Cash at beginning of year	<b>3,131</b>	<b>223,043</b>
Cash at end of year	<b>\$ 72,241</b>	<b>3,131</b>
<i>Additional cash flow information:</i>		
Franchise taxes paid	\$ 150	150
Interest paid	\$ -	-

**CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION**

**Combined Statement of Functional Expenses  
Year Ended June 30, 2010**

*(with Summarized Financial Information for the Year Ended June 30, 2009)*

	Programs and Activities	Manage- ment and General	Fund- raising and Dev- elopment	Totals Year Ended June 30 2010	Totals Year Ended June 30 2009
Accounting	\$ -	34,436	-	<b>34,436</b>	80,538
Audit	-	8,165	-	<b>8,165</b>	8,080
Bad debt expense	-	-	-	-	26,766
Bank Fees	-	16,776	-	<b>16,776</b>	17,608
Catering and Hospitality	5,645	2,076	4,039	<b>11,760</b>	53,608
Collections Conservation	69,656	-	-	<b>69,656</b>	83,163
Collections Management	25,582	-	-	<b>25,582</b>	44,807
Conferences and Meetings	1,960	742	294	<b>2,996</b>	2,119
Cost of Sales	11,651	-	-	<b>11,651</b>	41,465
Dues and Subscriptions	350	2,456	1,130	<b>3,936</b>	4,522
Equipment Rental	402	10,423	-	<b>10,825</b>	11,657
Insurance Expense	25,267	19,017	-	<b>44,284</b>	40,051
Internet and Website	2,206	15,599	1,498	<b>19,303</b>	21,435
Legal Fees	-	11,534	90	<b>11,624</b>	-
Postage and Shipping	4,749	10,952	4,983	<b>20,684</b>	35,070
Printing	53,128	2,659	6,807	<b>62,594</b>	85,337
Production and Exhibition	60,266	-	-	<b>60,266</b>	42,468
Professional Fees - Other	20,825	668	21,480	<b>42,973</b>	88,618
Programs - Other	1,211	-	-	<b>1,211</b>	1,540
Public Relations	-	-	10,500	<b>10,500</b>	10,500
Rent	52,000	-	-	<b>52,000</b>	24,065
Repairs and Maintenance	-	16,355	-	<b>16,355</b>	9,134
Salaries and benefits	612,002	208,589	123,751	<b>944,342</b>	963,708
Supplies	4,714	2,666	4,740	<b>12,120</b>	7,592
Telephone	-	9,415	-	<b>9,415</b>	8,899
Travel	8,455	4,738	133	<b>13,326</b>	7,678
Utilities	-	32,871	-	<b>32,871</b>	27,096
Total expenses excluding depreciation	960,069	410,137	179,445	<b>1,549,651</b>	1,747,524
Depreciation	128,342	42,781	-	<b>171,123</b>	157,870
Total expenses	\$ <b>1,088,411</b>	<b>452,918</b>	<b>179,445</b>	<b>1,720,774</b>	1,905,394

Notes to Combined Financial Statements  
June 30, 2010 and 2009

**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 Board in its Accounting Standards Codification (ASC) 958.205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958.205, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Society has also adopted the provisions of ASC 958.205.55.31 thru 958.205.55.53, *Presentation of Financial Statements – Endowment Disclosures* (which incorporated the previously issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*).

*Support and Revenue Recognition*

The Society records contributions in accordance with the recommendations of ASC 958.605, *Revenue Recognition of Not-for-Profit Entities*. 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*

Up through August 2009, the Society managed a museum store located in the lobby of the Society's San Francisco headquarters. Merchandise sales have been reflected in the accompanying financial statements.

*Inventory*

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



## Notes to Combined Financial Statements

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

*Investments and Endowment*

The Society follows the provisions of ASC 958.320, *Investments – Debt and Equity Securities of Not-for-Profit Entities*, 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, 2010.

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. As required by ASC 958.320, the recorded amounts of all investments are adjusted annually to reflect current market values, and current estimates of fair value may differ significantly from the statements presented. Realized and unrealized gains and losses are included in investment income on the statements of activities and changes in net assets.

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 ASC 958.360.25-3, *Property, Plant and Equipment (including Collections) of Not-for-Profit Entities*, the Society does not capitalize its collection materials. ASC 958.360.25-3 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.

**Notes to Combined Financial Statements**

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

*Income Taxes*

Financial statement presentation follows the recommendations of ASC 740, *Income Taxes*. Under ASC 740, 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 (such as advertising revenue) 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 2009 combined financial statements in order to conform to the presentation used in 2010.

**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, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Land and buildings	\$ 4,558,673	4,556,723
Equipment	688,683	649,118
Less: accumulated depreciation	<u>(2,595,589)</u>	<u>(2,424,466)</u>
Property and equipment, net	<u>\$ 2,651,767</u>	<u>2,781,375</u>

**Notes to Combined Financial Statements**

**4. Property and Equipment** *(continued)*

Depreciation expense amounted to \$171,123 and \$157,870 for the years ended June 30, 2010 and 2009, 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 15** 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, 2010 and 2009:

	2010		2009	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 99,111	99,111	431,523	431,523
Mutual funds	4,224,154	3,603,190	4,374,631	3,338,736
<b>Totals</b>	<b>\$ 4,323,265</b>	<b>3,702,301</b>	4,806,154	3,770,259

During the years ended June 30, 2010 and 2009, proceeds from the sale of investments were reinvested into other investments. During the years ended June 30, 2010 and 2009, unrealized gains (losses) on investments amounted to \$413,930 and \$(1,035,895), respectively. Cash and cash equivalents are held at Morgan Stanley. Mutual funds consist of investments in Dodge & Cox mutual funds under an account at Charles Schwab.

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 equivalents include funds held in highly liquid investments with maturity dates of three months or less. Realized gains (losses) amounted to (\$715) and \$17,816 for the years ended June 30, 2010 and 2009, respectively, and are included in investment income on the combined statement of activities and changes in net assets.

Composition of investments utilizing fair value measurements at June 30, 2010 is as follows:

	Unrestricted	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 99,111	99,111	-	-
Mutual funds	3,603,190	3,603,190	-	-
<b>Totals</b>	<b>\$ 3,702,301</b>	<b>3,702,301</b>	-	-

# CALIFORNIA HISTORICAL SOCIETY AND FOUNDATION

## Notes to Combined Financial Statements

### 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 2 or Level 3 at June 30, 2010.

The Society has an Investment Committee (California Historical Foundation Board of Trustees) 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, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	334,928	3,244,905	3,579,833
Board-designated endowment funds	122,468	-	-	122,468
<b>Total funds</b>	<b>\$ 122,468</b>	<b>334,928</b>	<b>3,244,905</b>	<b>3,702,301</b>

Changes in endowment net assets for the fiscal year ended June 30, 2010 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	93,831	3,244,905	3,338,736
Investment return:				
Investment income	85,402	-	-	85,402
Investment realized losses (net)	(715)	-	-	(715)
Investment unrealized gains	197,801	-	216,129	413,930
<b>Total investment return</b>	<b>282,488</b>	<b>-</b>	<b>216,129</b>	<b>498,617</b>
Contributions/transfers	(160,020)	241,097	-	81,077
Appropriation of endowment assets	-	-	(216,129)	(216,129)
<b>Endowment net assets, end of year</b>	<b>\$ 122,468</b>	<b>334,928</b>	<b>3,244,905</b>	<b>3,702,301</b>

## Notes to Combined Financial Statements

**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, there were no deficiencies of this nature that were required to be reported in unrestricted net assets as of June 30, 2010. 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 Investment Committee 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, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Available for acquisition of collections (see footnote 10)	\$ 234,363	250,677
Available for programs	116,584	299,547
	<b>\$ 350,947</b>	<b>550,224</b>

Permanently restricted net assets consist of the following at June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Restricted for endowment	\$ 3,244,905	3,244,905

Endowment funds, classified as permanently restricted net assets, represent donor contributions that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. By law, the Society is permitted to transfer all earnings (including realized and unrealized gains) to unrestricted net assets. Such transfers may be used for general operating purposes in accordance with ASC 958.320 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, 2010 and 2009, the Society received \$74,760 and \$78,457, respectively, in distributions from the North Baker trusts. The approximate, combined value of these trusts at June 30, 2010 and 2009 was in excess of \$8.02 million and \$5.4 million, respectively.

**8. Deferred Revenue**

Deferred revenue of \$13,575 and \$10,928 at June 30, 2010 and 2009, 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.



**Notes to Combined Financial Statements**

**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, 2010, the Society: **(a)** acquired an Arvid Victor Anderson 1897 painting “*San Francisco Bay from Fort Mason*” from the Montgomery Gallery for \$15,000, and **(b)** acquired a Samuel Crim book from a retail establishment for \$1,314. In accordance with ASC 958.360.25-3, these expenditures have not been capitalized and are reflected on the statement of functional expenses as acquisition costs.

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 loss of certain collection items as a result of water damage which had an estimated value of \$10,944 (all of which was covered by collection insurance).

Included in temporarily restricted net assets at June 30, 2010 and 2009 are \$234,363 and \$250,677, respectively, in funds received from prior sales of collection items (**see footnote 6**). During the years ended June 30, 2010 and 2009, the Society utilized \$16,314 and \$16,068 in temporarily restricted fund, respectively, for the purchase of collections items (as permitted under ASC 958.360.25-3). For insurance purposes, the Society has estimated the fair value of all collection items to be approximately \$16 million (**see footnote 4**).

**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, 2010. Minimum annual payments on operating leases extending beyond one year are as follows:

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 \$59,325 and \$35,722 for the years ended June 30, 2010 and 2009, 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.

**13. Use of Estimates**

The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

## Notes to Combined Financial Statements

**14. 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 each of the years ended June 30, 2010 and 2009, the Society received \$200,000 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.

**15. 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. In 2009, the Society provided documentation to the County Assessor and provided direct assistance to secure a tax rebate in excess of \$250,000 to TMA for property taxes previously paid on space that the Society rents on the third floor and lower level of 680 Mission Street, San Francisco. 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, 2010.

**16. Compensated Absences (Accrued Payroll and Related Benefits)**

Financial statement presentation follows the recommendations of ASC 710.25, *Compensated Absences*. Under ASC 710.25, the Society is required to record a liability for the estimated amounts of compensation for future absences. Employees are permitted to accrue a specific number of hours of vacation which is payable upon termination of the employee. Sick leave is not paid upon termination. Annual leave accruals are recorded in the financial statements as an accrued liability on the combined statements of financial position based on hourly rates in effect at the end of the fiscal year.

**17. Subsequent Events**

The Society has evaluated subsequent events through December 10, 2010, the date the combined financial statements were available to be issued, and there are no subsequent events which need to be disclosed.