



CALIFORNIA
HISTORICAL
SOCIETY since 1871

CALIFORNIA HISTORICAL SOCIETY

Financial Statements

June 30, 2013 and 2012

CALIFORNIA HISTORICAL SOCIETY

(A California Not-For-Profit Corporation)
June 30, 2013

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees California Historical Society

We have audited the accompanying financial statements of California Historical Society (a California nonprofit organization) which comprise the statements of financial position as of June 30, 2013 and 2012 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Historical Society as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Regalia & Associates

*Danville, California
October 18, 2013*

CALIFORNIA HISTORICAL SOCIETY

Statement of Financial Position

June 30, 2013

(with Summarized Financial Information for the Year Ended June 30, 2012)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2013 Total	2012 Total
ASSETS					
Current assets:					
Cash	\$ 29,534	\$ -	\$ -	\$ 29,534	\$ 38,904
Grants and accounts receivable	-	311,630	-	311,630	1,601
Prepaid expenses and other assets	24,592	-	-	24,592	32,270
Total current assets	54,126	311,630	-	365,756	72,775
Noncurrent assets:					
Investments and restricted cash	259,634	207,713	3,244,905	3,712,252	3,807,524
Collections (Notes 2 and 10)	-	-	-	-	-
Property and equipment, net	2,269,546	-	-	2,269,546	2,421,749
Total noncurrent assets	2,529,180	207,713	3,244,905	5,981,798	6,229,273
Total assets	\$2,583,306	\$ 519,343	\$ 3,244,905	\$ 6,347,554	\$6,302,048
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 139,028	\$ -	\$ -	\$ 139,028	\$ 125,551
Deferred revenue	2,100	-	-	2,100	-
Total current liabilities	141,128	-	-	141,128	125,551
Net assets:					
Unrestricted	2,442,178	-	-	2,442,178	2,440,805
Temporarily restricted	-	519,343	-	519,343	490,787
Permanently restricted	-	-	3,244,905	3,244,905	3,244,905
Total net assets	2,442,178	519,343	3,244,905	6,206,426	6,176,497
Total liabilities and net assets	\$2,583,306	\$ 519,343	\$ 3,244,905	\$ 6,347,554	\$6,302,048

CALIFORNIA HISTORICAL SOCIETY

**Statement of Activities and Changes in Net Assets
Year Ended June 30, 2013**

(with Summarized Financial Information for the Year Ended June 30, 2012)

<i>Changes in net assets:</i>	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	2013 Total	2012 Total
Revenue and support:					
Memberships and annual fund	\$ 238,064	\$ -	\$ -	\$ 238,064	\$ 257,957
Programs and activities	80,984	-	-	80,984	90,463
Contributions, grants and bequests	971,883	70,637	-	1,042,520	687,978
Endowment income appropriated	368,993	-	-	368,993	266,253
Merchandise sales	58,224	-	-	58,224	25,715
Collection sharing	200,000	-	-	200,000	200,000
Rentals, royalties, and other revenue	144,331	-	-	144,331	57,591
Total unrestricted revenue	<u>2,062,479</u>	<u>70,637</u>	<u>-</u>	<u>2,133,116</u>	<u>1,585,957</u>
Net assets released from restrictions and other transfers:					
Funds released for program activities	42,081	(42,081)	-	-	-
Total revenue and support	<u>2,104,560</u>	<u>28,556</u>	<u>-</u>	<u>2,133,116</u>	<u>1,585,957</u>
Expenses:					
Program services:					
Programs and activities	1,325,861	-	-	1,325,861	1,090,870
Management and general	557,732	-	-	557,732	475,217
Fundraising and development	112,546	-	-	112,546	84,495
Total expenses excluding depreciation	<u>1,996,139</u>	<u>-</u>	<u>-</u>	<u>1,996,139</u>	<u>1,650,582</u>
Increase (decrease) in net assets					
before endowment investment income and depreciation	108,421	28,556	-	136,977	(64,625)
Investment interest and dividends	-	-	131,355	131,355	118,182
Realized gain (losses) on investments	-	-	94,433	94,433	(36,036)
Unrealized gains (losses) on investments	49,236	-	143,205	192,441	(51,578)
Total investment return	<u>49,236</u>	<u>-</u>	<u>368,993</u>	<u>418,229</u>	<u>30,568</u>
Appropriation of endowment assets for expenditure (net of other transfers)	-	-	(368,993)	(368,993)	(266,253)
Endowment investment income, net	49,236	-	-	49,236	(235,685)
Depreciation	(156,284)	-	-	(156,284)	(171,565)
Increase (decrease) in net assets	1,373	28,556	-	29,929	(471,875)
Net assets at beginning of year	<u>2,440,805</u>	<u>490,787</u>	<u>3,244,905</u>	<u>6,176,497</u>	<u>6,648,372</u>
Net assets at end of year	<u>2,442,178</u>	<u>519,343</u>	<u>3,244,905</u>	<u>6,206,426</u>	<u>\$6,176,497</u>

CALIFORNIA HISTORICAL SOCIETY

Statements of Cash Flows Years Ended June 30, 2013 and 2012

	2013	2012
<i>Operating activities:</i>		
Increase (decrease) in net assets	\$ 29,929	\$ (471,875)
Adjustments to reconcile to cash provided by (used for) operating activities:		
Unrealized (gains) losses on investments	(192,441)	51,578
Depreciation	156,284	171,565
Collection items purchased	-	34,280
Realized investment income and income reinvested	(225,788)	(82,146)
Changes in:		
Grants and accounts receivable	(310,029)	14,740
Prepaid expenses and other assets	7,678	(16,788)
Accounts payable and accrued liabilities	13,477	85,937
Deferred revenue	2,100	(17,205)
Cash used for operating activities	(518,790)	(229,914)
<i>Investing activities:</i>		
Net funds received from disposition of investments	513,501	356,697
Funds used for acquisition of collection items	-	(34,280)
Funds used for acquisition of property and equipment	(4,081)	(115,523)
Cash provided by investing activities	509,420	206,894
Decrease in cash	(9,370)	(23,020)
Cash at beginning of year	38,904	61,924
Cash at end of year	\$ 29,534	\$ 38,904
<i>Additional cash flow information:</i>		
Franchise taxes paid	\$ 150	\$ 150
Interest paid	\$ -	\$ -

CALIFORNIA HISTORICAL SOCIETY

**Statement of Functional Expenses
Year Ended June 30, 2013**

(with Summarized Financial Information for the Year Ended June 30, 2012)

	Programs and Activities	Manage- ment and General	Fund- raising and Dev- elopment	Totals Year Ended June 30 2013	Totals Year Ended June 30 2012
Advertising	\$ -	\$ -	\$ 1,471	\$ 1,471	\$ -
Accounting and audit	-	76,189	-	76,189	70,600
Bank and Financial Service Fees	-	12,578	-	12,578	10,759
Catering and Hospitality	16,212	-	9,653	25,865	16,724
Collections Conservation	-	-	-	-	5,000
Collections Management	35,456	-	-	35,456	113,932
Conferences and Meetings	1,715	6,920	225	8,860	2,810
Cost of Sales	26,452	-	-	26,452	5,748
Dues and Subscriptions	6,422	959	3,957	11,338	4,066
Equipment Rental	920	12,543	-	13,463	21,159
Insurance	24,524	18,953	-	43,477	43,363
Internet and Website	11,587	22,340	797	34,724	18,646
Legal Fees	-	1,530	-	1,530	-
Postage and Shipping	8,737	7,348	2,063	18,148	24,164
Printing	41,358	3,001	3,989	48,348	75,455
Production and Exhibition	175,963	-	-	175,963	87,627
Professional Fees - Other	128,296	14,020	6,900	149,216	105,518
Programs and Other	3,473	1,670	417	5,560	24,451
Repairs and Maintenance	9,747	11,765	-	21,512	49,658
Salaries and benefits	809,015	290,109	79,043	1,178,167	898,212
Supplies	14,484	16,247	2,083	32,814	21,646
Telephone	15	12,344	-	12,359	10,103
Travel	11,485	5,506	1,873	18,864	16,783
Utilities	-	43,710	75	43,785	24,158
Total expenses excluding depreciation	1,325,861	557,732	112,546	1,996,139	1,650,582
Depreciation	121,333	34,951	-	156,284	171,565
Total expenses	\$ 1,447,194	\$ 592,683	\$ 112,546	\$ 2,152,423	\$ 1,822,147

Notes to Financial Statements
June 30, 2013 and 2012

1. Organization

California Historical Society (the Society) is a California tax-exempt, non-profit corporation 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. In May 2013, the California Historical Foundation was formally terminated as a separate nonprofit organization and its assets, liabilities, and net assets were transferred to (and absorbed by) 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 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.

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.

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)**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, 2013.

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 Trustees 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.

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 statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Notes to 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 it has adequately evaluated its current tax positions and has concluded that as of June 30, 2013, the Society does not have any uncertain tax positions for which a reserve or an accrual for a tax liability would be necessary.

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 23701d 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.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements in order to conform to the presentation used in 2013.

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. Cash consists of funds held in a checking account and amounted to \$29,534 and \$38,904 at June 30, 2013 and 2012, respectively.

4. Property and Equipment

Property and equipment consist of the following at June 30, 2013 and 2012:

	2013	2012
Land and buildings	\$ 4,613,645	\$ 4,613,645
Equipment	755,309	751,228
Less: accumulated depreciation	(3,099,408)	(2,943,124)
Property and equipment, net	\$ 2,269,546	\$ 2,421,749

Depreciation expense amounted to \$156,284 and \$171,565 for the years ended June 30, 2013 and 2012, 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.

(continued)

CALIFORNIA HISTORICAL SOCIETY

Notes to Financial Statements

4. Property and Equipment *(continued)*

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/Third and Mission, LTD) 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. As of October 18, 2013 (the date of the Independent Auditors' Report), there is a stalemate between the Society and the Griffin/Related Properties/Third and Mission, LTD regarding the details of the lease agreement, but fortunately agreement between the Society and the City of San Francisco on the payment structure of the lease proceeds. See **footnote 14** on pages 14 and 15 regarding additional information pertaining to the Society's lease arrangement and the proposed sale of a portion of its building.

5. Investments, Restricted Cash and Endowment

Investments and restricted cash consist of the following at June 30, 2013 and 2012:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 212,341	\$ 212,341	\$ 33,677	\$ 33,677
Mutual funds principally invested in bonds	1,172,928	1,241,173	1,353,641	1,335,390
Mutual funds principally invested in equity securities	1,160,741	1,228,278	1,341,656	1,323,566
Other mutual funds and exchange traded funds	973,800	1,030,460	1,130,128	1,114,891
Totals	\$ 3,519,810	\$ 3,712,252	\$ 3,859,102	\$ 3,807,524

During the years ended June 30, 2013 and 2012, proceeds from the sale of investments were reinvested into other investments. Investment income consists of interest and dividends and amounted to \$131,355 and \$118,182 for the years ended June 30, 2013 and 2012, respectively. Realized gains (losses) amounted to \$94,433 and (\$36,036) for the years ended June 30, 2013 and 2012, respectively. During the years ended June 30, 2013 and 2012, unrealized gains (losses) on investments amounted to \$192,441 and (\$51,578), respectively. All investments are maintained in an account at an investment brokerage firm.

Cash equivalents include funds held in highly liquid investments with maturity dates of three months or less. Composition of investments utilizing fair value measurements at June 30, 2013 is as follows:

	Unrestricted	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 212,341	\$ 212,341	\$ -	\$ -
Mutual funds principally invested in bonds	1,241,173	1,241,173	-	-
Mutual funds principally invested in equity securities	1,228,278	1,228,278	-	-
Other mutual funds and exchange traded funds	1,030,460	1,030,460	-	-
Totals	\$ 3,712,252	\$ 3,712,252	\$ -	\$ -

CALIFORNIA HISTORICAL SOCIETY

Notes to Financial Statements

5. Investments, Restricted Cash and Endowment *(continued)*

Fair value measurements establish a fair value hierarchy that prioritizes the input used to measure fair value. This hierarchy consists of three broad levels: (a) Level 1 measurement reflects the value of the investments at quoted prices in active markets for identical assets, generally without any adjustments, (b) Level 2 assets and liabilities are valued based on "observable inputs" other than quoted active market prices, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, and interest rates and yield curves, and (c) Level 3 assets and liabilities are valued based on "unobservable inputs," such as a company's own estimates and pricing models. The Society had no investments classified as Level 2 or Level 3 at June 30, 2013.

In May 2013 the California Historical Foundation was dissolved and the role of oversight of the endowment fund was transferred to the newly established Investment and Endowment Committee which now 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 Investment and Endowment 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, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 523,439	\$ 3,244,905	\$ 3,735,692
Board-designated endowment funds	(56,092)	-	-	(56,092)
Total funds	\$ (56,092)	\$ 523,439	\$ 3,244,905	\$ 3,712,252

Changes in endowment net assets for the fiscal year ended June 30, 2013 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 71,832	\$ 490,787	\$ 3,244,905	\$ 3,807,524
Investment return:				
Investment income	-	-	131,355	131,355
Investment realized gains, net	-	-	94,433	94,433
Investment unrealized gains, net	49,236	-	143,205	192,441
Total investment return	49,236	-	368,993	418,229
Contributions/transfers	(177,160)	32,652	-	(144,508)
Appropriation of endowment assets	-	-	(368,993)	(368,993)
Endowment net assets at end of year	\$ (56,092)	\$ 523,439	\$ 3,244,905	\$ 3,712,252

Notes to Financial Statements

5. Investments, Restricted Cash and Endowment *(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 ASC 958.205.55.31, there were no deficiencies of this nature that were required to be reported in unrestricted net assets as of June 30, 2013. 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 Trustees. 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 Board of Trustees 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 Trustees, 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 while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Society utilizes 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 (before distributions). Actual returns in any given year may vary from this amount. 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.

CALIFORNIA HISTORICAL SOCIETY

Notes to 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, 2013 and 2012:

	2013	2012
Available for acquisition of collections (<i>see footnote 10</i>)	\$ 464,549	\$ 469,221
Available for programs	58,890	30,997
	\$ 523,439	\$ 490,787

Permanently restricted net assets consist of the following at June 30, 2013 and 2012:

	2013	2012
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 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 in funds 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 housed at The San Francisco Foundation. The approximate, combined value of these trusts at June 30, 2013 and 2012 was in excess of \$8.950 million and \$8.925 million, respectively. The Society has no equitable ownership interests in the core principal balances and the combined value of these trusts is provided for informational purposes only. These trusts are subject to community foundation fund agreements which, according to United States Treasury Regulations, grant The San Francisco Foundation's Board of Directors authority to modify restrictions and conditions of the fund agreement. As a result of this authority, referred to as variance power, all component funds are considered to be part of a single public charity, in this case The San Francisco Foundation. During the years ended June 30, 2013 and 2012, the Society received \$67,881 and \$73,063, respectively, in distributions from the North Baker trusts.

8. Deferred Revenue

Deferred revenue of \$2,100 at June 30, 2013 represents funds received in advance of walking tours and other program activities for the 2013-2014 fiscal year. The balance has been reflected as a short-term liability and will be recognized as program and activity revenue on the statement of activities and changes in net assets during the year ending June 30, 2014.

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 financial statements since it is not susceptible to objective measurement or valuation.

Notes to 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, 2013, the Society expended funds to expand its collections at a cost of \$5,837.

During the year ended June 30, 2012, the Society acquired the Mike Miller Papers Collection at a cost of \$30,000. The Society also acquired and installed a public web-accessible catalog which enables the organization to attach digital images to its catalog records instead of paging the at-risk originals. The portion of cost of the catalog attributed to the Collections Acquisition Fund was \$4,235. The Society also expended \$45 in other collection items. Total funds expended on Collection Acquisitions for the year ended June 30, 2012 amounted to \$34,280. In accordance with ASC 958.360.25-3, these expenditures have not been capitalized and are reflected on the statement of functional expenses as collection conservation costs.

Included in temporarily restricted net assets at June 30, 2013 and 2012 are \$464,549 and \$469,221, respectively, in funds received from prior sales of collection items ([see footnote 6](#)). During the years ended June 30, 2013 and 2012, the Society utilized \$5,837 and \$36,118, respectively, in temporarily restricted fund 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 2015. The leases require monthly payments totaling approximately \$1,727 as of June 30, 2013. Minimum annual payments on operating leases extending beyond one year are as follows: **Year ending June 30, 2014: \$8,532;** and **Year ending June 30, 2015: \$2,133.** Rental expense relating to storage, office machinery and equipment amounted to \$31,328 and \$62,761 for the years ended June 30, 2013 and 2012, respectively.

12. Commitments and Contingencies

In the normal course of business there are outstanding various commitments and contingent liabilities, such as commitments to enter into contracts and future concerts, which are not reflected in the financial statements. Such commitments and contingencies also include risks associated with various economic and operating factors, which include (a) Grant restrictions and donor conditions which obligate the Society to fulfill certain requirements as set forth in grant instruments, (b) Funding levels which vary based on factors beyond the Society's control, such as generosity of donors and general economic conditions, (c) Employment and service agreements with key management personnel, and (d) Financial risks associated with funds on deposit at bank and investment brokerage accounts. Management believes that such commitments, contingencies and risks will not have a material 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 prior costs of such grants are subject to adjustment upon audit.

Notes to 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 each of the years ended June 30, 2013 and 2012, the Society received \$200,000 under the agreement, and these amounts are reflected as collection sharing revenue on the statement 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

In a previous year, the Society was 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 were 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.

The Society desires and intends to relinquish occupancy of the third floor to TMA. In order to provide a workable resolution, both parties entered into a Memorandum of Understanding (MOU) which stated, in part, that neither party shall bring action against the other until June 30, 2010. Although this date has lapsed, both parties have agreed to continue to work together. TMA has been searching for a new tenant for the third floor and, once an acceptable tenant has been found, the parties will determine a fair price for the Society’s relinquishment of its third floor occupancy. This event would then be treated as a “sale” as if the third floor space were being sold by the Society to TMA on a fee basis.

In early 2011, a suitable arrangement had been negotiated and the Society was close to finalizing an agreement with TMA which would have resulted in a “sale” of the third floor space at 680 Mission Street. Such sale would provide for a \$500,000 down-payment to the Society to be utilized towards the build out of collections space in the basement. Additionally, the Society would receive \$1.25 million in equal installments over a period of ten years. However, because the original property currently owned by TMA was previously controlled by the San Francisco Redevelopment Agency (SFRA), this transaction required the approval of the SFRA.

During June 2011, the Society received notification from the SFRA that the deal was on hold because both the SFRA attorney and SFRA director could not finalize approval of the agreement. As previously noted (**in footnote 4**), Governor Jerry Brown signed legislation to abolish California’s existing redevelopment agencies. The City, as successor to the former Redevelopment Agency, has expressed its intention to take \$900,000 from the proposed transaction in order to fund childcare in the Yerba Buena area. The Society’s management believes that the City’s block grant requirements could be met by an educational program *(continued)*

Notes to Financial Statements

14. Contingent Liability *(continued)*

produced by the Society which would target children of low-income families. The Society's advisors will study the legality of the \$900,000 proposed take-back. Management believes that there is no other clear path of authority except through the Board of Supervisors and the Mayor. The Society's management discussed the situation with a member of the Board of Supervisors, and continued to work diligently with City staff.

During the year ended June 30, 2013, the Society moved closer to closing the \$2.25 million arrangement related to the lease back of the third floor space at 680 Mission. Of this amount, the Society anticipates \$500,000 to be earmarked for capital improvements and disbursed to the Society by June 30, 2014. The Society anticipates the \$1.75 million remainder to be disbursed annually over seven to ten years. In addition to the \$2.25 million settlement, the Society has requested a \$500,000 donation in recognition of the increase in value of the real estate, which has doubled since the negotiations began. The Society has also asked for absolution of \$128,000 in CAM charges and real estate taxes.

As of October 18, 2013, the date of the Independent Auditors' Report, no final agreement has been achieved. The Society has not accrued any amount in its financial statements for any possible income, receivable, expense, or liability related to this transaction.

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. 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 statement of financial position based on hourly rates in effect at the end of the fiscal year. Accrued payroll liabilities amounted to \$55,612 and \$43,793 as of June 30, 2013 and 2012, respectively, and are included with accounts payable and accrued liabilities on the statement of financial position.

17. Subsequent Events

The Society has evaluated subsequent events through October 18, 2013, the date the financial statements were available to be issued. Except for the consequences of the elimination of redevelopment agencies throughout California and the unknown impact on the transactions discussed in **footnote 4** and **footnote 14**, it is the opinion of management that there are no other subsequent events which need to be disclosed.