

# **Oregon Historical Society**

Consolidated Financial Statements and Other Information  
as of and for the Year Ended December 31, 2010  
and Report of Independent Accountants



OREGON HISTORICAL SOCIETY AND SUBSIDIARY

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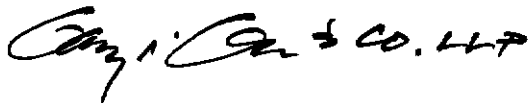
**REPORT OF INDEPENDENT ACCOUNTANTS**

*The Board of Directors  
Oregon Historical Society:*

We have audited the accompanying consolidated statement of financial position of the Oregon Historical Society and Subsidiary as of December 31, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Oregon Historical Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the consolidated financial statements of the Oregon Historical Society and Subsidiary as of December 31, 2009 and, in our report dated March 19, 2010, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Oregon Historical Society and Subsidiary as of December 31, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.



March 18, 2011

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2010

(WITH COMPARATIVE AMOUNTS FOR 2009)

	2010	2009
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,045,253	1,353,342
Short-term investments <i>(note 4)</i>	1,901,722	2,327,325
Contributions and grants receivable <i>(note 5)</i>	152,605	193,330
Accounts receivable	16,434	44,341
Prepaid expenses	113,497	153,226
Inventories	56,426	101,660
Other assets	110,111	113,353
Beneficial interest in assets held by the Oregon Community Foundation <i>(note 6)</i>	7,236,023	6,593,645
Beneficial interest in charitable trusts <i>(note 7)</i>	539,557	590,791
Land, buildings, and equipment <i>(notes 8 and 10)</i>	9,903,058	10,328,570
Collections <i>(note 9)</i>		
Total assets	\$ 21,074,686	21,799,583
<b>Liabilities:</b>		
Accounts payable and accrued expenses	211,159	200,339
Deferred revenue	10,951	28,151
Liability to trust beneficiaries <i>(note 7)</i>	33,699	36,597
Long-term debt <i>(note 10)</i>	2,713,891	2,686,371
Deferred compensation <i>(note 11)</i>	40,521	68,164
Total liabilities	3,010,221	3,019,622
<b>Net assets:</b>		
Unrestricted:		
Board-designated reserves <i>(note 12)</i>	2,060,382	2,577,249
Cumulative endowment losses <i>(note 12)</i>	(389,052)	(787,826)
Net investment in capital assets	6,611,038	7,101,282
Net investment in operating subsidiary <i>(note 13)</i>	763,093	645,860
Total unrestricted	9,045,461	9,536,565
Temporarily restricted <i>(note 12)</i>	975,201	1,158,017
Permanently restricted for endowment <i>(note 12)</i>	8,043,803	8,085,379
Total net assets	18,064,465	18,779,961
Commitments and contingencies <i>(notes 10 and 11)</i>		
Total liabilities and net assets	\$ 21,074,686	21,799,583

See accompanying notes to consolidated financial statements.

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

	2010			Total	2009
	Unrestricted	Temporarily restricted	Permanently restricted		
<b>Public support:</b>					
Contributions and grants	\$ 774,334	551,864	—	1,326,198	2,032,728
Memberships	277,256	—	—	277,256	259,566
State appropriation	512,190	—	—	512,190	665,918
Other local government funding	—	63,016	—	63,016	215,950
<b>Total public support</b>	<b>1,563,780</b>	<b>614,880</b>	<b>—</b>	<b>2,178,660</b>	<b>3,174,162</b>
<b>Revenues and gains:</b>					
Admissions	155,970	—	—	155,970	146,788
Product sales	232,678	—	—	232,678	306,735
Program income	48,200	—	—	48,200	104,963
Rental income	639,713	—	—	639,713	589,610
Investment income	5,739	15,408	—	21,147	18,487
Other	130,145	27,608	—	157,753	64,502
<b>Total operating revenues and gains</b>	<b>1,212,445</b>	<b>43,016</b>	<b>—</b>	<b>1,255,461</b>	<b>1,231,085</b>
Appropriation of endowment assets for expenditure ( <i>note 12</i> )	261,787	100,919	—	362,706	9,183
Net assets released from restrictions for operating purposes ( <i>note 14</i> )	958,502	(958,502)	—	—	—
<b>Total operating revenues, gains, and other support</b>	<b>3,996,514</b>	<b>(199,687)</b>	<b>—</b>	<b>3,796,827</b>	<b>4,414,430</b>
<b>Expenses (<i>note 15</i>):</b>					
Program services	2,881,226	—	—	2,881,226	3,183,743
Supporting services	1,446,203	—	—	1,446,203	1,364,167
Jefferson-Madison Corporation	564,913	—	—	564,913	613,551
<b>Total expenses</b>	<b>4,892,342</b>	<b>—</b>	<b>—</b>	<b>4,892,342</b>	<b>5,161,461</b>
<b>Net operating results</b>	<b>\$ (895,828)</b>	<b>(199,687)</b>	<b>—</b>	<b>(1,095,515)</b>	<b>(747,031)</b>

*Continued*

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)**

YEAR ENDED DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

	2010			Total	2009
	Unrestricted	Temporarily restricted	Permanently restricted		
<b>Non-operating activities:</b>					
Endowment gifts	\$ -	-	-	-	14,678
Contributions restricted for capital acquisition	-	-	-	-	200,000
In-kind contributions of capital assets	-	-	-	-	23,543
Net change in the beneficial interest in assets held by the Oregon Community Foundation (note 6)	660,561	121,804	-	782,365	1,222,068
Net change in the fair value of split-interest agreements	-	1,936	(41,576)	(39,640)	96,715
Appropriation of endowment assets for expenditure (note 12)	(261,787)	(100,919)	-	(362,706)	(9,183)
Net assets released from restrictions for capital acquisition (note 14)	5,950	(5,950)	-	-	-
Total non-operating activities	404,724	16,871	(41,576)	380,019	1,547,821
Increase (decrease) in net assets	(491,104)	(182,816)	(41,576)	(715,496)	800,790
Net assets at beginning of year	9,536,565	1,158,017	8,085,379	18,779,961	17,979,171
Net assets at end of year	\$ 9,045,461	975,201	8,043,803	18,064,465	18,779,961

See accompanying notes to consolidated financial statements.

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

	<b>Program services</b>			
	<b>Research services</b>	<b>Exhibits</b>	<b>Education</b>	<b>Total</b>
Salaries and related costs	\$ 411,113	677,538	240,879	1,329,530
Professional services	4,650	64,023	11,980	80,653
Supplies	13,733	84,591	7,431	105,755
Printing	7,239	15,244	35,764	58,247
Telephone	-	332	-	332
Computer and network	849	-	1,395	2,244
Postage and shipping	7,633	19,932	16,134	43,699
Rental of equipment	1,068	9,947	-	11,015
Repair, maintenance, and utilities	145	6,319	-	6,464
Travel and transportation	8,446	15,004	13,545	36,995
Training, subscriptions, and dues	524	760	80	1,364
Advertising and promotion	21,016	42,167	24,064	87,247
Production and purchase costs	-	107,395	858	108,253
Collection acquisition costs (note 9)	18,464	151	-	18,615
Insurance	-	-	-	-
Taxes (note 16)	-	-	-	-
Interest	-	-	-	-
Other	14,020	12,709	410	27,139
<b>Total expenses before depreciation and allocation of facility, security, communication, and other program support costs</b>	<b>508,900</b>	<b>1,056,112</b>	<b>352,540</b>	<b>1,917,552</b>
Depreciation	187,465	300,376	16,895	504,736
Allocation of facility, security, communication, and other program support costs	170,314	268,952	19,672	458,938
<b>Total expenses</b>	<b>\$ 866,679</b>	<b>1,625,440</b>	<b>389,107</b>	<b>2,881,226</b>

See accompanying notes to consolidated financial statements.



2010

Supporting services			Jefferson-Madison Corporation		
Admini- stration	Fund- raising	Total		Total	2009
610,881	175,679	786,560	—	2,116,090	2,258,859
339,192	20,375	359,567	196,729	636,949	681,235
34,089	3,076	37,165	2,162	145,082	180,742
—	27,410	27,410	—	85,657	104,548
20,929	—	20,929	5,771	27,032	27,354
82,739	—	82,739	—	84,983	109,121
67,794	10,078	77,872	287	121,858	89,603
27,425	—	27,425	—	38,440	45,973
127,996	—	127,996	213,906	348,366	357,533
10,015	37,620	47,635	—	84,630	64,602
9,564	—	9,564	—	10,928	12,401
88	15,704	15,792	3,507	106,546	130,274
—	—	—	—	108,253	113,299
—	—	—	—	18,615	21,774
55,916	—	55,916	13,288	69,204	67,547
10,424	—	10,424	89,897	100,321	133,393
161,707	—	161,707	2,587	164,294	142,083
7,479	3,712	11,191	8,896	47,226	63,415
1,566,238	293,654	1,859,892	537,030	4,314,474	4,603,756
27,477	17,772	45,249	27,883	577,868	557,705
(479,046)	20,108	(458,938)	—	—	—
1,114,669	331,534	1,446,203	564,913	4,892,342	5,161,461

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Cash received from contributors, grantors, and members	\$ 2,203,560	3,583,054
Cash received from admissions and service recipients	447,555	554,616
Investment income received	21,147	18,487
Distribution of investment return earned on assets held by the Oregon Community Foundation ( <i>note 6</i> )	317,263	-
Other receipts	797,466	654,112
Cash paid to employees and suppliers	(4,067,539)	(4,806,424)
Cash paid for interest	(159,728)	(135,348)
Net cash used in operating activities	(440,276)	(131,503)
<b>Cash flows from investing activities:</b>		
Purchase of capital assets	(152,356)	(388,569)
Purchase of investments	(1,750,000)	-
Proceeds from the sale of investments	2,187,976	-
Transfer of funds to the Oregon Community Foundation ( <i>note 6</i> )	(177,276)	-
Reinvestment of investment income	(1,672)	(1,460)
Net cash provided by (used in) investing activities	106,672	(390,029)
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investment and capital acquisition	-	214,678
Proceeds from the issuance of long-term debt	85,000	-
Payments to trust beneficiaries	(2,005)	(2,965)
Retirement of long-term debt	(57,480)	(75,208)
Net cash provided by financing activities	25,515	136,505
Net decrease in cash and cash equivalents	(308,089)	(385,027)
Cash and cash equivalents at beginning of year	1,353,342	1,738,369
Cash and cash equivalents at end of year	\$ 1,045,253	1,353,342

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2010

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**1. Organization**

The Oregon Historical Society has been collecting, preserving, exhibiting, and publishing Oregon's history for over 100 years. Today, the Society's complex is a landmark in the heart of Portland's Cultural District, and offers Oregon's rich multicultural history through museum exhibitions, research collections, publications, and public programs. The Park Blocks facility also serves as the Society's headquarters, housing the history museum's multiple galleries, the research library, and the Society's administrative offices, as well as the education program.

The Society also owns and operates a 100,000 square-foot collections support facility in east Multnomah County, where the bulk of its collections are processed and managed for exhibition and research use, one of the best such facilities in the United States.

The Society currently enjoys a membership of approximately 4,079 members.

**2. Program Services**

During the year ended December 31, 2010, the Society incurred program service expenses in the following major categories:

**Research Services** – The Research Library of the Oregon Historical Society offers an unparalleled collection concerning the history of Oregon and the region. It contains more than 35,000 books, 25,000 maps, 2.5 million photographs and negatives, 8 million feet of film, 8,000 oral history tapes, and 12,000 linear feet of manuscript material.

These collections, along with thousands of serials, journals, newsletters, government documents, posters, and microfilm materials, broaden and enrich the understanding and interpretation of the cultural, political, religious, social, economic, scientific, and technological life in Oregon. In 2010, the Research Library, operating 12 hours a week, served over 2,380 patrons in person and via mail and electronic media from all over the world.

The Society's library staff has cataloged thousands of books, ephemera, oral histories, manuscripts, and image collections, and made them available on the Society's web site for easy access by patrons. The Library has over 30,000 digitized photographs from its collection, and now has over 3,000 digital images available to order online via the Society's web site. The Research Library provides research support to all Society programs and departments.

**Exhibits** – The Society collects, preserves, documents, and exhibits the state's material culture with more than 85,000 artifacts. Its major permanent exhibition, *Oregon My Oregon*, has won two national awards – an Award of Merit from the American Association for State and Local History, and a MUSE award from the American Association of Museums Media and Technology Committee. The Society mounts eight to ten traveling and temporary exhibitions on varied themes per year. The on-site exhibits are shown in its seven galleries. The Society also loans objects to more than 30 historical institutions on a yearly basis. In 2010, 43,703 visitors came to the Oregon Historical Society to view its exhibits and participate in various programs.

The Society publishes the *Oregon Historical Quarterly*, which has been a benefit of membership since 1900. The *Quarterly* is a peer-reviewed, public history journal that brings documented history about Oregon and the Pacific Northwest to both scholars and a general audience. The *Quarterly* is supported by an advisory committee comprised of scholars, public historians, and educators from throughout the state.

**Education** – In 2001, the Society began a dynamic education program, the *Teaching Oregon History Project*. Using the rich resources of the Society’s research library and archives, the project identifies primary source materials that engage the imaginations and intellects of Oregon’s students. Narratives, documents, biographies, lesson plans, and curricula are made available through the Society’s web site and in print. In addition, the Society distributes existing curriculum materials to public and private schools in Oregon, including artifact kits and slide shows; it arranges school tours of the museum galleries and library, and presents education workshops. The *Oregon History Project* received the CLIO Award from the American Library Association, and two national awards from the National Council of State Historic Preservation Officers. The Education program served 7,202 students from some 130 different schools and various youth groups in 2010, and 625 adults in docent led tours (these numbers are included in the overall visitation numbers given above).

**Affiliates** – The Society works closely with more than 130 affiliate societies and historical museums located throughout the state to provide information and technical support in historical agency management activities and works with and supports the Oregon Century Farm & Ranch Program, the Oregon Geographic Names Board, the Oregon Cultural Trust, and the Oregon Heritage Commission.

### 3. Summary of Significant Accounting Policies

The significant accounting policies followed by the Oregon Historical Society are described below to enhance the usefulness of the financial statements to the reader.

**Basis of Accounting** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

**Principles of Consolidation** – The accompanying financial statements include the accounts of the Society and its wholly-owned, for-profit subsidiary, the Jefferson-Madison Corporation. All significant intercompany investments, accounts, and transactions have been eliminated.

The accompanying financial statements do not include the accounts of the Oregon Historical Society-UK Trust, a separately governed entity with registered offices in England and Wales. The Society does not control or direct the actions of the Trust.

**Basis of Presentation** – The Society has adopted the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 958-605, *Revenue Recognition*, and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time. These balances represent the unexpended portion of externally restricted contributions and investment return to be used for specific programs and activities, such as exhibitions, education programs, or research, as directed by the donor.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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

**Contributions** – Contributions, which include unconditional promises to give (i.e., pledges), are recognized as revenue in the period the promise was received by the Society. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management estimates an allowance for uncollectible contributions receivable based on past collection history.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire capital assets with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

**In-Kind Contributions** – Significant services received which create or enhance a non-financial asset or require specialized skills that the organization would have purchased if not donated are recognized in the statement of activities. During the year ended December 31, 2010, the Society recorded \$5,194 in donated accounting services, and \$939 in donated fundraising services.

In-kind donations of equipment and other materials are recorded when there is an objective basis upon which to value the contribution and where the contribution is an essential part of the organization's activities. During the year ended December 31, 2010, the Society recorded \$12,934 in donated materials.

**Cash Equivalents** – For purposes of the financial statements, the Society considers all liquid investments having initial maturities of three months or less to be cash. Only the balances held in the Society’s operating checking account are reported in the accompanying statement of financial position as cash and cash equivalents. All other cash and cash equivalent balances, including unrestricted and temporarily restricted funds invested in money market funds that will be used to satisfy current operational requirements, are classified as investments.

**Investments** – Investments consists primarily of certificates of deposit with initial maturities of greater than three months. Interest income is accrued as earned.

**Beneficial Interest in Assets Held by the Oregon Community Foundation** – In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the Society accounts for its interest in these funds at fair value using the equity method of accounting, which approximates the present value of the expected future cash flows that will inure to the Society.

**Inventories** – Inventories, which consist primarily of inventories held for sale by the Society’s gift shop, are carried at the lower of cost or market value. Cost is determined using the average cost method.

**Capital Assets and Depreciation** – Land, buildings, and equipment are carried at cost, and at market value when acquired by gift. Depreciation is generally provided on a straight-line basis over the estimated useful lives of the respective assets, which is 31 years for buildings and 3 to 7 years for furniture and equipment.

**Revenue Recognition** – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned. Bequests are recorded as revenue at the time the Society has an established right to the bequest and the proceeds are measurable. Membership payments received from Society members are considered equivalent to unrestricted contributions and are recognized as revenue when received.

**Outstanding Legacies** – The Society is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Society’s share of such bequests is recorded when the probate courts declare the testamentary instrument valid and the proceeds are measurable.

**Beneficial Interest in Charitable Trusts** – The Society receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by either a trustee or the Society, and distributions are made to the beneficiaries during the term of the agreement. These funds are generally invested in mutual funds, and the Society records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets’ carrying values are reported as a change in the value of split-interest trusts in the accompanying financial statements, and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

**Obligations Under Split-Interest Agreements** – Obligations under split-interest agreements are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives of the beneficiaries or another specified period. Present values are determined using discount rates established by the Internal Revenue Service and actuarially determined expected lives. Obligations under split-interest agreements are revalued annually at December 31 to reflect actual experience; the discount rate is not changed. The net revaluations, together with any remaining recorded obligations after all trust or gift obligations under terminated agreements have been satisfied, are recorded as net changes in the value of split-interest agreements.

**Advertising and Promotional Expenses** – Advertising and promotional costs are charged to expense as they are incurred. Advertising expenses totaled \$106,546 for the year ended December 31, 2010.

### **Endowment Funds and Interpretation of**

**Relevant Law** – Effective January 1, 2008, the State of Oregon adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), which governs Oregon charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board of Directors has interpreted Oregon’s adoption of UPMIFA as requiring the Society to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the Society has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment’s purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment’s original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Society classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a manner consistent with the purpose or time restrictions, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, in accordance with FASB ASC No. 958-320, *Investments—Debt and Equity Securities*, the portion of a donor restricted endowment that is classified as permanently restricted is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the Society to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by the Society’s appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces unrestricted net assets.

In accordance with UPMIFA, the Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its endowment, while also seeking to maintain the long-term purchasing power of the endowment assets. Therefore the Board of Directors considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Society and the fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Society; and
- The investment policies of the Society.

To meet that objective, the Society’s policies limit the spending of investment income and appreciation to a maximum of 5.0% of the average fair value of such investments measured over a thirteen-quarter trailing average.

During the year ended December 31, 2010, the Society’s Board appropriated \$362,706 for expenditure.

**Concentrations of Credit Risk** – The Society’s investments consist primarily of financial instruments including cash equivalents and certificates of deposit. These financial instruments may subject the organization to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). To address this risk, the Society holds its certificates of deposits with the network of banking institutions participating in the Certificate of Deposit Account Registry Service (CDARS). This network guarantees that the Society’s deposits are held in increments of less than the standard FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance. At December 31, 2010, the Society held no amount in excess of the FDIC insured limits.

Certain receivables may also subject the Society to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the organization’s management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Finally, the Society’s beneficial interest in assets held by the Oregon Community Foundation (“OCF”) is dependent upon changes in the market value of the underlying investments and the ability of OCF to honor its commitment.

**Subsequent Events** – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through March 18, 2011, which is the date the financial statements were available to be issued.

**Conflict of Interest Policies** – Included among the Society’s Board members, committee members, and executives are volunteers from the community who provide valuable assistance to the Society in the development of policies and programs, and in the evaluation and oversight of services. The Society has established a conflict of interest policy whereby Board and committee members, as well as all Society employees, must advise the Board of Directors of any direct or indirect interest in any transaction or relationship with the Society, and do not participate in discussions and decisions regarding any action affecting their individual, professional, or business interests.

**Income Taxes** – The Society is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. The Society’s wholly-owned subsidiary, the Jefferson-Madison Corporation, is a taxable corporation and, therefore, a provision for income taxes is generally provided in the statement of activities. Income taxes are determined on the liability method in accordance with FASB ASC No. 740, *Income Taxes*. For tax purposes both the Society’s and the Jefferson-Madison Corporation’s open audit periods are for the years ended December 31, 2007 through December 31, 2009.

The Society has adopted the recognition requirements for uncertain income tax positions as required by FASB ASC No. 740-10 (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). Under this standard, income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities.



The Society has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Society believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Society's financial condition, results of operations, or cash flows. Accordingly, the Society has not recorded any reserves, or related accruals for interest and penalties for uncertain tax positions at December 31, 2010.

**Operating Results** – Results from operations in the statement of activities reflect all transactions increasing or decreasing unrestricted net assets except for net investment gains and losses or investment income in excess of the Society's spending policy, net assets released from restrictions related to capital additions or the acquisition of long-lived assets, gifts restricted by donors for capital purposes, changes in the value of split-interest agreements, and gains and losses on the sale of long-lived assets that are incidental or peripheral to central operations.

**Summarized Financial Information for 2009** – The accompanying financial information as of and for the year ended December 31, 2009 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

**Other Significant Accounting Policies** – Other significant accounting policies are set forth in the financial statements and the following notes.

#### 4. Short-term Investments

Short-term investments are summarized as follows at December 31, 2010:

Certificates of deposit	\$ 1,750,000
Cash equivalents	151,722
	<hr/>
	\$ 1,901,722
	<hr/>

#### 5. Contributions and Grants Receivable

Contributions and grants receivable are summarized as follows at December 31, 2010:

<i>Unconditional promises expected</i>	
<i>to be collected within:</i>	
Less than one year	\$ 125,824
One year to five years	26,781
	<hr/>
	\$ 152,605
	<hr/>

As of December 31, 2010, the Society had been awarded three conditional grants. Two awards, totaling \$219,000 represent government grants, the receipt of which is conditioned upon the incurrence of allowable costs. The third award, totaling \$50,000, is a private foundation grant, the receipt of which is conditioned upon the submission of a strategic plan. These awards have not been recorded in the accompanying financial statements because the associated conditions had not been satisfied as of December 31, 2010.

## 6. Beneficial Interest in Assets Held by the Oregon Community Foundation

In 2007, the Society established the Oregon Historical Society Endowment Fund at the Oregon Community Foundation. The assets in the fund are permanently restricted for endowment.

Changes in the Society's beneficial interest in these funds for the year ended December 31, 2010 are summarized as follows:

Balance at beginning of year	\$ 6,593,645
Plus additions to the fund	177,276
Plus increase in the fair market value of the fund	782,365
Less the distribution of investment return to the Society <sup>1</sup>	(317,263)
Balance at end of year	\$ 7,236,023

<sup>1</sup> Under the terms of its agreement with the Society, OCF maintains variance power over, and legal ownership of, these funds. The funds are invested at the discretion of OCF's Board of Directors and are held in a mixture of asset classes designed to maximize return while minimizing risk. OCF's target asset allocation at December 31, 2010 was as follows: 40% equities (both domestic and international); 15% fixed income; 20% marketable alternative investments; 10% private equity; and 15% inflation hedge investments. The valuations disclosed in the above table have been provided by OCF. The Society generally receives periodic distributions of the net investment return earned on these assets (generally 5.0% of the average fair market value of the funds using a trailing 13-quarter average). Additional distributions can be made at any time by the affirmative vote of a majority of the Society's Board of Directors and the approval of OCF. During the year ended December 31, 2010, the Society received \$317,263 in distributions.

## 7. Beneficial Interest in Charitable Trusts

At December 31, 2010, the Society is the beneficiary of a number of charitable remainder trusts, perpetual trusts, and other gifts established by the wills of donors, as follows:

Contributions receivable from charitable remainder trusts <sup>1</sup>	\$ 229,131
Interest in perpetual trust <sup>2</sup>	189,875
Assets held in trust <sup>3</sup>	120,551
	\$ 539,557

<sup>1</sup> The Society is the beneficiary of two charitable remainder trusts established by the wills of donors. Upon the deaths of the income beneficiaries, the Society will receive a portion of the remaining assets of each of the trusts. Total trust assets at December 31, 2010 are valued at \$1,442,146. A contribution receivable of \$229,131 is recorded at December 31, 2010, representing the actuarially determined present value of the estimated future cash flows that will inure to the Society, using discount rates ranging from 4.0 to 5.0%. Of the trusts, one valued at \$208,811, has been restricted by the donor to be added to the existing endowment fund.

<sup>2</sup> The Mason Charitable Trust is a perpetual trust established by David T. Mason and Loa H. Howard Mason. The Society will receive in perpetuity a percentage of the income generated annually by the trust subject to the discretion of the trustee, but not less than 20% and not exceeding 40%. Trust assets at December 31, 2010 are valued at \$949,374. An interest in perpetual trust of \$189,875 is recorded at December 31, 2010, representing the present value of the estimated future cash flows that will inure to the Society, presuming a payout percentage of 20%. During the year ended December 31, 2010, the Society received a distribution of \$15,410 from this trust. This distribution has been included in investment income in the statement of activities.

<sup>3</sup> The Society is the trustee and the remainderman of the Jubitz Charitable Remainder Unitrust, established by Monroe A. Jubitz in 1993. The terms of the trust agreement require that the income earned by the trust's assets be paid annually to the trust's beneficiaries up to a maximum annual payout of 8.5% of the trust's fair market value. Following 20 years, the Society will receive the remainder of the trust's assets for endowment purposes. At December 31, 2010, the trust's assets were invested in mutual funds and valued at \$120,551. The Society has recorded a liability to the trust's beneficiaries totaling \$33,699, which represents the present value of the future payments to be made, using a discount rate of 8.5%.

## 8. Land, Buildings, and Equipment

A summary of the Society's capital assets at December 31, 2010 is as follows:

Land	\$ 1,269,349
Buildings and related improvements	16,824,488
Furniture and equipment	2,271,533
	<hr/>
	20,365,370
Less accumulated depreciation	(10,462,312)
	<hr/>
	\$ 9,903,058
	<hr/>

## 9. Collections and Exhibition Costs

Each year, the Society receives the donation of a number of valuable research collections. As a result, the Society's collections contain thousands of rare books, pamphlets, manuscripts, maps, and photographs, which are held for public exhibition, education, or research in furtherance of public services and the Society's overall mission. Consistent with the policy followed by many museums and historical societies, and as permitted under FASB ASC No. 958-605, *Revenue Recognition*, contributions of historical treasures, artifacts, and similar assets held as part of the Society's collections are not recognized or capitalized in the financial statements. Such items that have been acquired through purchase have similarly not been capitalized. In addition, expenditures for exhibits and exhibition programs are not capitalized, nor are the costs associated with exhibitions and programs that will not open to the public until a future period. For the year ended December 31, 2010, costs associated with the acquisition of collection items totaled \$18,615.

## 10. Long-Term Debt

On December 22, 2004, the Society issued a note to an insurance company in return for \$3.0 million in debt proceeds. The debt is secured by the Society's warehouse. In January of 2010, the Society exercised an option to extend the note for an additional five years, to January of 2015. The new terms of the loan call for monthly payments of \$17,122 in principal and at 6.0% interest beginning on February 1, 2010 through December of 2015. A balloon payment of \$2,401,444 is due in January 2015. Interest expense associated with this debt for the year ended December 31, 2010 totaled \$156,186. At December 31, 2010, a balance of \$2,614,152 was outstanding under this agreement.

In addition, on November 12, 2009, the Society entered into four unsecured agreements with the City of Portland totaling \$22,529 to pay the Portland Mall Revitalization Assessments over a period of 10 to 20 years. The terms of the agreements include monthly payments varying from \$19 to \$101 in principal and at 6.75% variable interest beginning in December 2009 and ending in December 2029. Interest expense associated with this debt for the year ended December 31, 2010 totaled \$954. At December 31, 2010, a balance of \$22,236 was outstanding under these agreements.

Finally, on June 24, 2010, Jefferson-Madison entered into an unsecured loan agreement totaling \$85,000 at 5.5% interest. The terms of the agreement call for monthly payments of \$1,627 in principal and interest beginning in July 2010 and ending in June 2015. Interest expense associated with this debt for the year ended December 31, 2010 totaled \$2,587. At December 31, 2010, a balance of \$77,503 was outstanding under this agreement.

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2010 and thereafter are as follows:

<i>Years Ending December 31,</i>	
2011	\$ 66,356
2012	70,359
2013	74,645
2014	79,178
2015	2,405,608
Thereafter	17,745
	<hr/>
	\$ 2,713,891

### 11. Retirement Plan and Deferred Compensation Arrangements

The Society provides substantially all full-time, and certain part-time, employees with a tax-sheltered annuity plan as described under Section 403(b) of the Internal Revenue Code. The Society matches 100% of each eligible employee's contribution to the plan up to 6.5% of their total annual compensation. Only employees who have completed at least six consecutive months of work at the Society are eligible to participate in the employer-matching part of the plan. All employees may make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law, from their first day of employment. Employees select from among several investment options. Contributions to the plan from both the employees and the Society vest as accrued. Society contributions to the plan totaled \$80,848 for the year ended December 31, 2010.

In addition, the Society has entered into two deferred compensation agreements with retired executives. Under both agreements, the annual benefit has been determined by a formula which includes years of service, final average salary, and offsets for Society-funded portions of Social Security and employee contributions to the tax-sheltered annuity. The benefits are to be paid over the lives of the executives or their surviving spouses. Both agreements are unfunded at December 31, 2010. At December 31, 2010, the present value of future payments under these agreements totals \$40,521.

### 12. Restrictions and Limitations on Net Asset Balances

The following provides information about restrictions and limitations ascribed to the organization's net assets at December 31, 2010:

#### *Board-Designated Reserves*

As of December 31, 2010, the Board of Directors had designated \$2,060,382 as a reserve fund.

#### *Temporarily Restricted Net Assets*

Temporarily restricted net assets at December 31, 2010 represent \$975,201 in contributions, grants, and other unexpended revenues and gains available for the following:

#### *Expendable contributions and grants:*

Museum/collections	\$ 345,922
Library	260,212
Education	104,339
Technology initiative	87,619
Future periods	50,000
Other programs	40,458
Charitable trusts	20,320
	<hr/>
	908,870

#### *Expendable endowment earnings:*

Purpose-restricted earnings not yet appropriated for expenditure:	
Museum/collections	25,208
Library	20,227
Awards	8,032
Education	5,360
Other	7,504
	<hr/>
	66,331

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\$ 975,201

### Permanently Restricted Net Assets

At December 31, 2010, the Society held \$8,043,803 in endowment funds. The investment income earned on the balances of these permanently restricted net assets is either restricted or unrestricted as follows:

#### Investment return restricted for:

Education and Folklife	\$ 1,074,371
Museum/collections	350,000
Library	281,115
Publications	111,700
Maritime history	55,600
	<hr/>
	1,872,786
Unrestricted	6,171,017
	<hr/>
	\$ 8,043,803

### Cumulative Endowment Adjustment

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. As of December 31, 2010, the Society had incurred cumulative investment losses on its endowment funds totaling \$389,052 in excess of unappropriated accumulated endowment earnings. Accordingly, in order to report the losses as required by FASB ASC No. 958-320, *Investments*, the excess losses and appropriations have been classified as transactions of the unrestricted net asset class and will be reinstated out of future endowment earnings.

### Endowment Summary

The Society's endowment consists of nine individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment are classified and reported based on the existence or absence of donor-imposed restrictions. The following summarizes the Society's endowment-related activities for the year ended December 31, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	\$ (787,826)	45,446	8,085,379	7,342,999
Net change in beneficial interest in assets held by the Oregon Community Foundation	660,561	121,804	–	782,365
Net change in the fair value of split-interest agreements	–	–	(41,576)	(41,576)
Appropriation of endowment assets for expenditure	(261,787)	(100,919)	–	(362,706)
Endowment net assets at end of year	\$ (389,052)	66,331	8,043,803	7,721,082

### 13. Jefferson-Madison Corporation

The Jefferson-Madison Corporation was organized by the Society in 1982 as a wholly-owned, for-profit corporation to hold and manage certain rental property owned by the Society. Condensed financial information for this subsidiary as of and for the year ended December 31, 2010, excluding inter-company eliminations, is as follows:

<i>Assets:</i>	
Cash	\$ 224,335
Land, buildings, and equipment, net	677,868
Other assets	12,045
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Total assets	\$ 914,248
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<i>Liabilities and net assets:</i>	
Inter-organizational payable, net	44,587
Long-term debt	82,996
Other liabilities	23,572
Net assets	763,093
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Total liabilities and net assets	\$ 914,248
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<i>Operating results:</i>	
Increase in net assets	\$ 117,233
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### 14. Net Assets Released from Restrictions

During the year ended December 31, 2010, \$964,452 in net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors, as follows:

<i>Satisfaction of restrictions:</i>	
For operating purposes	\$ 958,502
To fund capital acquisitions	5,950
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	\$ 964,452
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### 15. Expenses

The costs of providing the various programs and other activities of the Society have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Costs by their natural classification are presented in the statement of functional expenses.

### 16. Income Taxes

During the year ended December 31, 2010, the Society recorded \$50,935 in income tax expense. In addition, the Society reported \$49,386 in property tax payments. At December 31, 2010, the Society reported \$12,045 in income tax refunds receivable. No deferred tax assets or liabilities are reported at December 31, 2010.

## 17. Fair Value Measurements

The accompanying financial statements report the Society's financial instruments at fair value.

These assets have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

At December 31, 2010, both assets held in trust totaling \$120,551 (see note 7), and the Society's beneficial interest in assets held by the Oregon Community Foundation totaling \$7,236,023 (see note 6) are reported at fair market value on a recurring basis. Assets held in trusts consist of mutual funds traded in active markets and therefore fair value is determined using level 1 inputs. The Society's beneficial interest in assets held by the Oregon Community Foundation is measured at fair value using information received from OCF (i.e., level 3).

## 18. Multnomah County Levy

With the passage of Measure 26-118 in November of 2010, Multnomah County voters agreed to a five-year levy which will permit the Society to revitalize certain services on behalf of County residents and others. Funding from the levy – an estimated \$1.8 million to \$2.0 million in annual revenues – is expected to be available to the Society beginning in July of 2011. With these funds, the Society has agreed to increase its weekly library hours from 12 to 32, to keep the museum open 40 hours a week, to provide free admission to all school groups and to all residents of Multnomah County, and to provide other services and programs.

## 19. Reclassification of 2009 Comparative Totals

Certain 2009 amounts presented herein have been reclassified to conform to the 2010 presentation.

## 20. Statement of Cash Flows Reconciliation

The following presents a reconciliation of the decrease in net assets (as reported on the statement of activities) to net cash used in operating activities (as reported on the statement of cash flows):

Decrease in net assets	\$ (715,496)
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<i>Adjustments to reconcile decrease in net assets to net cash used in operating activities:</i>	
Depreciation	577,868
Cash distribution received from the Oregon Community Foundation for operations	317,263
Net change in beneficial interest in assets held by the Oregon Community Foundation	(782,365)
Net change in the value of split-interest agreements	39,640
<i>Net changes in:</i>	
Contributions and grants receivable	40,725
Accounts receivable	27,907
Prepaid expenses	39,729
Inventories	45,234
Other assets	3,242
Accounts payable and accrued expenses	10,820
Deferred revenue	(17,200)
Deferred compensation	(27,643)
<hr/>	
Total adjustments	275,220
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Net cash used in operating activities	\$ (440,276)
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Salem Fire Department*

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Corey Byler Rew  
Lorenzen & Hojem*

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Libby McCaslin  
*Keller Family Foundation*

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*Professor  
Lewis and Clark College*

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Washington State  
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*Attorney  
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Development and Marketing*

Dwight Peterson  
*Director  
Information Technology*



OREGON HISTORICAL SOCIETY AND SUBSIDIARY

**INQUIRIES AND OTHER INFORMATION**

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