



Gary McGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Oregon Historical Society

Financial Statements and Other Information
as of and for the Year Ended December 31, 2017
and Report of Independent Accountants

OREGON HISTORICAL SOCIETY

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REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Trustees
Oregon Historical Society:*

We have audited the accompanying financial statements of the Oregon Historical Society, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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; 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 audit. 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 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 organization'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 organization'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 the Oregon Historical Society as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Summarized Comparative Information

We have previously audited the Oregon Historical Society's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Guyi Gu & Co. LLP

March 14, 2018

OREGON HISTORICAL SOCIETY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(WITH COMPARATIVE AMOUNTS FOR 2016)

	2017	2016
Assets:		
Cash and cash equivalents	\$ 2,470,082	2,054,106
Accounts receivable	71,303	21,964
Contributions and grants receivable <i>(note 4)</i>	1,165,114	526,033
Inventories and prepayments	432,877	364,922
Other assets	70,113	79,573
Investments <i>(note 5)</i>	9,433,959	8,249,496
Beneficial interest in assets held by the Oregon Community Foundation <i>(note 6)</i>	8,075,400	7,344,328
Beneficial interest in charitable trusts <i>(note 7)</i>	498,095	436,457
Restricted deposits and funded reserves <i>(note 8)</i>	50,071	50,056
Land, buildings, and equipment <i>(note 9)</i>	9,120,730	9,236,021
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Collections <i>(note 11)</i>		
Total assets	\$ 31,387,744	28,362,956
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Liabilities:		
Accounts payable and accrued expenses	614,393	646,487
Deferred revenue	214,624	107,293
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Total liabilities	829,017	753,780
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Net assets:		
Unrestricted:		
Available for operations	2,288	107,219
Board-designated reserves <i>(note 13)</i>	7,089,103	6,533,931
Cumulative endowment deficit	-	(517,241)
Net investment in capital assets	9,120,730	9,236,021
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Total unrestricted	16,212,121	15,359,930
Temporarily restricted <i>(note 13)</i>	4,028,257	2,442,635
Permanently restricted <i>(note 13)</i>	10,318,349	9,806,611
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Total net assets	30,558,727	27,609,176
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Commitments and contingencies <i>(notes 10, 12, and 18)</i>		
Total liabilities and net assets	\$ 31,387,744	28,362,956

See accompanying notes to financial statements.

OREGON HISTORICAL SOCIETY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017			Total	2016
	Unrestricted	Temporarily restricted	Permanently restricted		
Public support:					
Contributions and grants	\$ 1,134,082	2,264,661	450,100	3,848,843	3,822,980
Memberships	248,979	—	—	248,979	219,834
Multnomah County levy (note 14)	2,887,534	—	—	2,887,534	2,406,186
Other governmental funding (note 15)	967,030	44,337	—	1,011,367	1,058,457
Total public support	5,237,625	2,308,998	450,100	7,996,723	7,507,457
Revenues and gains:					
Admissions	202,323	—	—	202,323	157,643
Product sales	228,826	—	—	228,826	229,736
Rental income	225,873	—	—	225,873	191,799
Program income	192,879	—	—	192,879	81,746
Investment return (note 5)	1,016,206	200,794	—	1,217,000	702,468
Net change in the beneficial interest in assets held by the Oregon Community Foundation (note 6)	854,209	261,160	—	1,115,369	433,309
Net change in the fair value of split-interest agreements	—	—	61,638	61,638	(2,453)
Net gain on the sale of collection items (note 11)	—	500	—	500	15,538
Other	62,359	—	—	62,359	37,847
Total revenues and gains	2,782,675	462,454	61,638	3,306,767	1,847,633
Net assets released from restrictions (note 16)	1,185,830	(1,185,830)	—	—	—
Total revenues, gains, and other support	9,206,130	1,585,622	511,738	11,303,490	9,355,090
Expenses (note 17):					
Program services	6,302,612	—	—	6,302,612	6,248,255
Supporting services	2,051,327	—	—	2,051,327	2,036,804
Total expenses	8,353,939	—	—	8,353,939	8,285,059
Increase in net assets	852,191	1,585,622	511,738	2,949,551	1,070,031
Net assets at beginning of year	15,359,930	2,442,635	9,806,611	27,609,176	26,539,145
Net assets at end of year	\$ 16,212,121	4,028,257	10,318,349	30,558,727	27,609,176

See accompanying notes to financial statements.

OREGON HISTORICAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017	2016
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	\$ 6,838,671	6,581,283
Cash received from admissions and service recipients, and others	976,532	696,566
Distribution of investment return earned on assets held by the Oregon Community Foundation (<i>note 6</i>)	384,297	384,399
Investment income received	252,271	242,805
Cash paid to employees and suppliers	(7,566,129)	(7,371,088)
Net cash provided by operating activities	885,642	533,965
Cash flows from investing activities:		
Purchase of capital assets	(661,256)	(841,434)
Proceeds received from the sale of capital assets	-	4,000
Purchase of investments	(125,848)	(9,431)
Proceeds from the sale of investments	102,947	78,531
Reinvestment of investment income	(196,833)	(193,977)
Deposits to restricted cash reserves	(15)	(15)
Net cash used in investing activities	(881,005)	(962,326)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment and capital acquisition	411,339	434,939
Net cash provided by financing activities	411,339	434,939
Net increase in cash and cash equivalents	415,976	6,578
Cash and cash equivalents at beginning of year	2,054,106	2,047,528
Cash and cash equivalents at end of year	\$ 2,470,082	2,054,106

See accompanying notes to financial statements.

OREGON HISTORICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR 2016)

	2017			
	Program services			
	Research services	Exhibits	Education	Total
Salaries and related costs	\$ 1,101,253	1,327,969	407,278	2,836,500
Professional services	114,557	904,842	99,542	1,118,941
Supplies	22,185	41,155	11,509	74,849
Printing	15,907	31,705	43,072	90,684
Telephone	-	517	-	517
Computer and network	13,148	-	83	13,231
Postage and shipping	3,773	18,283	9,967	32,023
Rental of equipment	3,318	12,952	3,337	19,607
Repair, maintenance, and utilities	-	920	-	920
Rent	-	-	-	-
Travel and transportation	34,291	46,826	44,292	125,409
Training, subscriptions, and dues	1,642	3,150	2,639	7,431
Advertising and promotion	50,525	101,053	50,673	202,251
Production and purchase costs	-	81,200	540	81,740
Collection acquisition costs (<i>note 11</i>)	463	6,757	-	7,220
Insurance	-	-	-	-
Taxes	-	-	-	-
Other	2,080	65,782	16,970	84,832
Total expenses before depreciation and allocation of facility, security, communication, and other program support costs	1,363,142	2,643,111	689,902	4,696,155
Depreciation	266,270	416,682	29,613	712,565
Allocation of facility, security, communication, and other program support costs	334,807	515,351	43,734	893,892
Total expenses	\$ 1,964,219	3,575,144	763,249	6,302,612

See accompanying notes to financial statements.

Supporting services				
Admini- stration	Fund- raising	Total	Total	2016
787,706	558,642	1,346,348	4,182,848	3,851,485
316,159	11,215	327,374	1,446,315	1,794,717
71,947	23,928	95,875	170,724	204,049
2,019	24,735	26,754	117,438	122,526
29,226	–	29,226	29,743	26,107
142,798	–	142,798	156,029	135,365
1,169	16,093	17,262	49,285	119,917
22,870	8,999	31,869	51,476	42,455
352,981	–	352,981	353,901	438,130
124,844	–	124,844	124,844	124,844
18,977	88,228	107,205	232,614	202,041
20,070	3,203	23,273	30,704	23,348
686	–	686	202,937	201,023
–	–	–	81,740	89,275
–	–	–	7,220	7,967
62,358	–	62,358	62,358	67,138
13,038	–	13,038	13,038	12,460
155,094	24,230	179,324	264,156	117,835
2,121,942	759,273	2,881,215	7,577,370	7,580,682
33,203	30,801	64,004	776,569	704,377
(941,096)	47,204	(893,892)	–	–
1,214,049	837,278	2,051,327	8,353,939	8,285,059

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

1. Organization

The Oregon Historical Society has been collecting, preserving, exhibiting, and publishing Oregon's history for over 100 years. The Society's mission is to preserve our state's history and make it accessible to everyone in ways that advance knowledge and inspire curiosity about all the people, places, and events that have shaped Oregon. To achieve this mission, the organization fulfills a vast array of services for the state. One of the primary functions is protecting and archiving historical Oregon treasures. Oregonians can experience these artifacts through Web sites, such as TimeWeb and The Oregon History Project, by visiting the Society's Research Library, through educational programs that include classroom tours, and through the exhibitions at the Oregon Historical Society Museum.

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.

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 4,465 members.

2. Program Services

During the year ended December 31, 2017, the Society incurred program service expenses in the following major categories:

Research Services – The Oregon Historical Society Davies Family Research Library is one of the largest historical libraries in the country and maintains an unparalleled collection relating to the history of Oregon and the Pacific Northwest. Its holdings include thousands of books, government documents, and serials; maps; manuscript collections; oral history interviews and other sound recordings; as well as millions of photographs; millions of feet of archival film footage; and a growing collection of digitized and born-digital images, documents, sound, and video.

These collections broaden and enrich the understanding and interpretation of the cultural, political, religious, social, economic, scientific, and technological life in Oregon. In 2017, the Research Library staff received 2,674 in-person research visits, provided orientations for 435 students from secondary and college classes, and fielded 2,173 remote reference inquiries via mail, phone, and e-mail from all over the world. The reading room is open 32 hours per week.

The Research Library online catalog is the primary point of discovery for researchers seeking to use its holdings. Archival collections are also described in more detail in ArchivesWest, an online consortial resource for academic and research libraries in the Pacific Northwest and some Mountain states. A new site for accessing digital collections, OHS Digital Collections, was launch in May. A robust suite of Digital History Web sites, including the Oregon History Project, the Oregon Encyclopedia, and the Oregon Wayfinder, provide primary sources and authoritative content that support education and research, with broad appeal to a general audience. The Research Library provides research support to all Society programs and departments and collaborates widely with community partners from around the state.

The Society also 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 the general audience. The QUARTERLY is supported by an advisory committee comprised of scholars, public historians, and educators from throughout the state.

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.

In 2012, a new American Association of State and Local History award winning permanent exhibition, *Oregon Voices*, was completed, combining the technology of today with stories from the past. This interactive exhibit gives visitors a chance to explore the issues and events that shaped Oregon from 1950 forward.

The Society mounts eight to ten travelling and temporary exhibitions on varied themes each year. 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 2017, 65,735 visitors came to the Oregon Historical Society to view its exhibits and participate in various programs.

Education – The education department at Oregon Historical Society provides tours, traveling trunks, curriculum, and interactive exhibits for visitors of all ages, with a focus on grades K-20. OHS offers 11 travelling trunks on urban, rural, and multicultural topics, each filled with objects and images for hands-on and experiential learning, traveling throughout the State of Oregon to grades K-20 classrooms and a range of organizations, including senior home facilities. The trunks and exhibits are accompanied by curriculum for classroom teachers and students.

The education department also manages the Oregon History Day program, which is a part of the renowned, award-winning National History Day program. Approximately two dozen teachers and about a 1,000 students from all regions of the state participate in Oregon History Day by conducting historical research and creating an exhibit, Web site, documentary, performance or paper. In 2017, approximately 188 students presented their history day project to teams of three judges, representing local teachers, archivists, librarians, historians, and museum professionals. Every June, the State of Oregon participates in the national contest, which is held near Washington, D.C. In 2017, 42 Oregon students travelled to the University of Maryland.

The education department developed its first permanent exhibit for youth, called the History Hub, which opened November 1, 2016. The History Hub was a 1.5-year project and involved a 24-member Advisory Committee and three partner institutions: Portland Public Schools Indian Education Program, Southern Oregon Historical Society, and Oregon Black Pioneers. History Hub summative evaluations prove that the exhibit is highly interactive and engaging, as well as culturally and socially relevant for its youth audience, especially students in grades 4-8 and their teachers and families. The Education program served 9,010 students in docent-led tours in 2017, which includes 403 college students and 12 adults. The traveling trunk program also served 4,934 students throughout Oregon.

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.

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. In the opinion of management, such differences, if any, would not be significant.

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 – The Society receives contributed services from a large number of volunteers who participate in a range of activities. In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the values of such services, which the organization considers not practicable to estimate, have not been recognized in the statement of activities. 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, 2017, the Society recorded \$88,949 in contributed advertising services, \$2,925 in contributed design services, \$2,244 in donated information technology services, and \$2,136 in contributed printing services.

In-kind contributions of equipment and other capital assets and materials, as well as the free use of facilities, are recorded where there is an objective basis upon which to value these contributions and where the contributions are an integral part of the organization's activities. During the year ended December 31, 2017, the Society recorded \$14,636 in contributed materials and supplies, \$5,802 in capital assets, and \$400 in the free use of facilities.

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. Cash and cash equivalents held as part of the Society's investment portfolio, and where management's intention is to use the cash to acquire investments to be held long-term, are classified as investments.

Investments – All investments are carried at fair value. The net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Investment income is accrued as earned, and reported net of investment advisory fees. Security transactions are recorded on a trade date basis.

The Society has some exposure to investment risks, including interest rate, market and credit risks, for marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

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 fair 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 related improvements 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. Appropriations and other governmental funding is 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 agreements 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.

Advertising and Promotional Expenses – Advertising and promotional costs are charged to expense as they are incurred. Advertising expenses totaled \$202,937 for the year ended December 31, 2017.

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 Trustees 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 Trustees 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 Trustees 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, 2017, the Society's Board appropriated \$462,497 for expenditure in accordance with this policy. See note 13.

Concentrations of Credit Risk – The Society's financial instruments consist primarily of cash equivalents, mutual funds, other exchange-traded products, and funds held at the Oregon Community Foundation ("OCF"), which may subject the organization to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

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 Society'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 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 14, 2018, 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 Trustees 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 (“IRC”) and comparable state law. In addition, the Society has been recognized as a public charity under IRC Sections 170(b)(1)(A)(vi) and 509(a)(1).

Summarized Financial Information for 2016 – The accompanying financial information as of and for the year ended December 31, 2016 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. Contributions and Grants Receivable

Contributions and grants receivable are summarized as follows at December 31, 2017:

<i>Unconditional promises expected to be collected in:</i>	
Less than one year	\$ 686,628
One year to five years	478,486
	\$ 1,165,114

Included in gross contributions receivable at December 31, 2017 is \$400,000 in endowment pledges.

5. Investments

The following is a summary of investments held at December 31, 2017:

<i>Mutual funds:</i>	
Intermediate-term bond	\$ 2,440,025
Mid-cap value	689,306
Large-cap blend	622,991
Non-traditional bond	615,202
Foreign large-cap blend	341,290
<i>Exchange-traded products:</i>	
Emerging markets	1,726,766
Large-cap growth	1,086,329
Small-cap blend	785,630
Large-cap blend	508,053
Foreign large-cap blend	293,333
Mid-cap value	136,783
Total investments	9,245,708
Cash equivalents	188,251
	\$ 9,433,959

Investments are held for the following purposes:

Donor-restricted endowment funds	\$ 1,737,575
Board-designated reserves	6,968,919
Other donor-restricted funds	727,465
	\$ 9,433,959

Investment return for the year ended December 31, 2017 is summarized as follows:

Interest and dividends	\$ 252,271
Net increase in the fair value of investments	964,729
	\$ 1,217,000

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

The Society has established the Oregon Historical Society Endowment Fund at the Oregon Community Foundation, which holds and invests it as a component fund for the benefit of the Society. The Society has granted OCF variance power over these funds. In accordance with FASB ASC No. 958-605, the Society accounts for its interest in these funds using the equity method of accounting, and carries the beneficial interest in the accompanying financial statements based on an estimate of the present value of the expected future cash flows that will inure to the Society. The assets in the funds are permanently restricted for endowment.

Changes in the Society's beneficial interest in these funds for the year ended December 31, 2017 are summarized as follows:

Balance at beginning of year	\$ 7,344,328
Plus increase in the fair market value of the fund	1,115,369
Less the distribution of investment return to the Society ¹	(384,297)
Balance at end of year	\$ 8,075,400

¹ Under the terms of its agreement with the Society, 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. 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 Trustees and the approval of OCF. During the year ended December 31, 2017, the Society received \$384,297 in distributions.

7. Beneficial Interest in Charitable Trusts

At December 31, 2017, the Society is the beneficiary of two charitable trusts, as follows:

Contributions receivable from charitable remainder trust ¹	\$ 301,606
Interest in perpetual trust ²	196,489
	\$ 498,095

¹ The Society is the partial beneficiary of a charitable remainder trust established by the will of a donor. Upon the death of the income beneficiary, the Society will receive a portion of the remaining assets of the trust. Total trust assets at December 31, 2017 are valued at \$1,138,235. A contribution receivable of \$301,606 is recorded at December 31, 2017, representing the actuarially-determined present value of the estimated future cash flows that will inure to the Society, using a discount rate of 4.0%. The trust has been restricted by the donor to be added to the existing endowment fund.

² 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, 2017 are valued at \$982,447. An interest in perpetual trust of \$196,489 is recorded at December 31, 2017, 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, 2017, the Society received a distribution of \$9,780 from this trust. This distribution has been included among investment income in the statement of activities.

8. Restricted Deposits and Funded Reserves

Under an agreement with the Sovereign Building owner, the Society is required to maintain a capital improvement reserve fund in an amount not less than the anticipated annual shared repair and maintenance costs of the integrated facilities of the Sovereign Building and the Society's building. At December 31, 2017, the Society held \$50,071 in a separate reserve account.

9. Land, Buildings, and Equipment

A summary of the Society's capital assets at December 31, 2017 is as follows:

Land	\$ 1,242,203
Buildings and related improvements	17,300,770
Furniture and equipment	2,501,793
	<hr/>
	21,044,766
Less accumulated depreciation	(11,924,036)
	<hr/>
	\$ 9,120,730

10. Line of Credit

At December 31, 2017, the Society maintained an unsecured line of credit in the amount of \$500,000, bearing interest at the prime rate (currently 4.5%). No balance was outstanding at December 31, 2017.

11. 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. For the year ended December 31, 2017, costs associated with the acquisition of collection items totaled \$7,220.

In addition, pursuant to the Society's policy, proceeds from the sale of collection items and related insurance settlements are recorded as temporarily restricted net assets for the acquisition or care of the collection. During the year ended December 31, 2017, the Society recognized \$500 in gains associated with the sale of collection items.

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.

12. Retirement Plan and Deferred Compensation Arrangements

The Society provides substantially all full-time, and certain part-time, employees with a retirement plan, as described under section 401(k) of the Internal Revenue Code. Under the plan, all employees may make voluntary contributions to the plan on a pre-tax basis up to the limits allowed by law. The Society matches 100% of each eligible employee's contribution up to 5.0% 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. Contributions to the plan from both employees and the Society vest as accrued. During the year ended December 31, 2017, the Society contributed \$143,384 to this plan.

In addition, the Society has entered into a deferred compensation agreement with a retired executive. Under the agreement, the annual benefit has been determined by a formula that 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 life of the executive or the person's surviving spouse. During the year ended December 31, 2017, the Society made payments under this agreement totaling \$5,216.

13. Restrictions and Limitations on Net Asset Balances

The following provides information about restrictions and limitations ascribed to the Society's net assets at December 31, 2017:

Board-Designated Reserves

As of December 31, 2017, the Board of Trustees had designated \$7,089,103 as a reserve fund. These funds act as the Society's reserves to protect the institution from a rapid downturn in public funding, recession, and unexpected transitions. These funds are also a resource to finance deferred maintenance, emergency repairs, other enhancement projects with a finite life and unforeseen opportunities.

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 represent \$4,028,257 contributions, grants, and other unexpended revenues and gains available for the following:

Contributions and grants restricted for the benefit of:

Museum/collections	\$ 2,436,104
Library renovation	642,630
Library	321,378
Education	157,734
Biography Project	38,000
Publications	7,547
Other programs	32,143
	<hr/>
	3,635,536

Unappropriated endowment return restricted to:

Library	59,454
Education	56,143
Museum/collections	50,016
Publications	15,937
Maritime history	12,131
Unrestricted	199,040
	<hr/>
	392,721
	<hr/>
	\$ 4,028,257

Permanently Restricted Net Assets

At December 31, 2017, the Society held \$9,820,254 in donor-restricted endowment funds, and \$498,095 representing the Society's beneficial interest in charitable trusts. The investment return generated each year associated with these permanently restricted net assets is either unrestricted or restricted by donors for the following purposes:

Investment return restricted for:

Education	\$ 1,074,371
Museum/collections	850,000
Library	527,646
Publications	111,700
Maritime history	55,600
Investment return not restricted	7,200,937
	<hr/>
	9,820,254
Beneficial interest in trusts (benefiting the Society's general operations) (note 7)	498,095
	<hr/>
	\$ 10,318,349

Continued

Endowment Summary

The following summarizes the Society's donor-restricted, endowment-related activities for the year ended December 31, 2017:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	\$ (517,241)	42,564	9,370,154	8,895,477
Contributions	-	-	450,100	450,100
Net change in beneficial interest in assets held by the Oregon Community Foundation	854,209	261,160	-	1,115,369
Investment return	13,732	200,794	-	214,526
Appropriation of endowment assets for expenditure	(350,700)	(111,797)	-	(462,497)
Endowment net assets at end of year	\$ -	392,721	9,820,254	10,212,975

14. Multnomah County Levy

With the passage of Measure 26-174 in November of 2016, Multnomah County voters agreed to a five-year extension of a levy, originally approved in November of 2010. The renewed levy is projected to generate gross revenues of between \$2.54 and \$3.1 million annually. The levy's purpose is to revitalize certain Society services on behalf of County residents and others. In return, the Society has agreed keep the library open to the public 32 hours per week, keep the museum open 47 hours a week, provide free admission to all school groups and residents of Multnomah County, and provide other services and programs. During the year ended December 31, 2017, the Society received \$3,047,534 of levy funding, of which \$160,000 was passed through to four other east county historical societies.

15. Other Governmental Funding

The following table summarizes other governmental support received for operating purposes during the year ended December 31, 2017:

State appropriation from the Oregon Economic Development Department	\$ 385,715
Proceeds from sales of Pacific Wonderland license plates ¹	579,714
Grants from:	
State Library of Oregon Library Support and Development Services	43,342
Oregon Parks and Recreation	2,596
	\$ 1,011,367

¹ According to legislation adopted by the Oregon legislature, proceeds from the sales of Pacific Wonderland license plates are divided evenly between the Oregon Historical Society and the Oregon State Capitol Foundation. The Society uses the funds to support the research library, educational programs for students and the general public, production of THE OREGON HISTORICAL QUARTERLY, and support of permanent and rotating museum exhibits.

16. Net Assets Released from Restrictions

During the year ended December 31, 2017, \$1,185,830 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	\$ 1,116,477
To fund capital acquisitions	69,353
	<hr/>
	\$ 1,185,830

17. 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.

18. Operating Lease

The Society leases certain administrative and museum space under operating leases that expires in May of 2024. Future minimum payments under this agreement for the years subsequent to December 31, 2017 are summarized as follows:

<i>Years ending December 31,</i>	
2018	\$ 124,844
2019	124,844
2020	124,844
2021	124,844
2022	124,844
Thereafter	177,061
	<hr/>
	\$ 801,281

Rent expense for the year ended December 31, 2017 totaled \$124,844.

19. Fair Value Measurements

Included in the accompanying financial statements are certain financial instruments carried at fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

The Society's financial assets and liabilities carried at fair value 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 and the lowest ranking to fair values determined using methodologies and models with unobservable inputs, as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Society's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Continued

At December 31, 2017, the following financial assets are measured at fair value on a recurring basis:

	Level 1	Level 3	Total
Investments (note 5)	\$ 9,245,708	–	9,245,708
Beneficial interest in assets held by the Oregon Community Foundation (note 6)	–	8,075,400	8,075,400
Contributions receivable from charitable remainder trusts (note 7)	–	301,606	301,606
Interest in perpetual trust (note 7)	–	196,489	196,489
	\$ 9,245,708	8,573,495	17,819,203

The changes in valuation of Level 3 assets using significant unobservable inputs are as follows:

	Contributions receivable from charitable remainder trusts	Interest in perpetual trust	Beneficial interest in assets held by the Oregon Community Foundation	Total
Fair value at beginning of year	\$ 257,684	178,773	7,344,328	7,780,785
Increase in the carrying value of contributions receivable from charitable remainder trusts	43,922	–	–	43,922
Net change in the value of a perpetual trust	–	17,716	–	17,716
Distribution of investment return	–	–	(384,297)	(384,297)
Net change in the beneficial interest in assets held by the Oregon Community Foundation	–	–	1,115,369	1,115,369
Fair value at end of year	\$ 301,606	196,489	8,075,400	8,573,495
	[A]	[B]	[C]	

[A] Measured at fair value based upon a discounted cash flow analysis of the expected income, taking the fair value of the assets held in trust and the life expectancy of the current beneficiaries into consideration (see note 7).

[B] Measured at fair value based upon a discounted cash flow analysis of the expected income, taking the fair value of the assets held in trust into consideration (see note 7).

[C] Measured at fair value based upon a discounted cash flow analysis of the expected income, which is equivalent to the fair value of the underlying assets held by the Oregon Community Foundation. Management's estimate of fair value is based solely upon information provided by the Oregon Community Foundation (see note 6).

20. Statement of Cash Flows Reconciliation

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

Increase in net assets	\$ 2,949,551
<hr/>	
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Depreciation	776,569
Proceeds from contributions restricted for long-term investment	(411,339)
Net increase in the fair value of investments	(964,729)
Cash distribution received from the Oregon Community Foundation for operational purposes	384,297
Net change in beneficial interest in assets held by the Oregon Community Foundation	(1,115,369)
Net change in the value of split-interest agreements	(61,638)
Loss on disposal of capital assets	5,780
In-kind contribution of capital asset	(5,802)
<i>Net changes in:</i>	
Accounts receivable	(49,339)
Contributions and grants receivable	(639,081)
Inventories and prepayments	(67,955)
Other assets	9,460
Accounts payable and accrued expenses	(32,094)
Deferred revenue	107,331
<hr/>	
Total adjustments	(2,063,909)
<hr/>	
Net cash provided by operating activities	\$ 885,642
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21. Reclassification of 2016 Comparative Totals

Certain 2016 amounts presented herein have been reclassified to conform to the 2017 presentation.

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AND SENIOR MANAGEMENT**

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*Oregon Historical Quarterly
Editor & Director of
Community Engagement*

OREGON HISTORICAL SOCIETY

INQUIRIES AND OTHER INFORMATION

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