Oregon Historical Society

2009 Financial Statements and Audit Letters

Meeting of the Board of Directors

April 17, 2010

CONFIDENTIAL

Prepared by

Gary McGee & Co., Certified Public Accountants

Oregon Historical Society

GM&Co. Client Service Team

Gary McGee, *Managing Director*
Nathalie Renner, *Senior Manager*
Nathan Bresser, *Senior Associate*
Jessica Shear, *Associate*

Information

GARY MCGEE & CO.
Certified Public Accountants
522 S.W. Fifth Avenue, Suite 1300
Portland, Oregon 97204
(503) 222-2515
(503) 222-6401 Fax
gary@garymcgee.com

GaryMcGee & Co.
CERTIFIED PUBLIC ACCOUNTANTS

LETTER TO THE BOARD OF DIRECTORS

The Board of Directors
Oregon Historical Society:

We have audited the consolidated financial statements of the Oregon Historical Society and Subsidiary as of and for the year ended December 31, 2009, and have issued our report thereon dated March 19, 2009. Our professional standards require that we communicate with you concerning certain matters that may be of interest to you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management is responsible. We have prepared the following comments to assist you in fulfilling that obligation.

1. The Auditors' Responsibility Under Professional Standards

Our responsibility under generally accepted auditing standards is to conduct an audit with the objective of forming and expressing an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with generally accepted accounting principles. An audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements that are not material to the financial statements, whether caused by error or fraud, are detected. Furthermore, the audit does not relieve management or those charged with governance of their responsibilities.

In planning and performing our audit of the financial statements, we considered the Society's internal control over financial reporting as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion.

2. Significant Accounting Policies and Unusual Transactions

The organization's significant accounting policies are disclosed in the notes accompanying the financial statements. During the year ended December 31, 2009 there were no changes in previously adopted accounting policies or their application, nor were there any significant unusual transactions or transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

522 SW Fifth Avenue, Suite 1300 Portland, Oregon 97204-2130 p: 503 222 2515 f: 503 222 6401 www.garymcgee.com

3. Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statements prepared by management, and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events, as well as assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. Our responsibility is to determine that the Board of Directors is informed about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.

The significant accounting estimates contained in the Society's financial statements as of and for the year ended December 31, 2009 include, among others, (1) the collectibility of receivables, (2) the valuation of the beneficial interest in assets held by the Oregon Community Foundation, (3) the valuation of assets related to split-interests agreements and the related liabilities to beneficiaries, (4) the net carrying value of inventories, (5) depreciation expense, (6) the fair value ascribed to in-kind gifts, and (7) the functional allocation of expenses.

4. Year-End Closing Entries, Significant Audit Adjustments, and Uncorrected Misstatements

Certain adjustments have been made to the Society's financial statements that were identified during the audit. In our judgment, these adjustments, either individually or in the aggregate, had a significant quantitative or qualitative effect on the Society's financial reporting process. For purposes of this section, an audit adjustment, whether or not recorded by the Society, is a proposed correction of the financial statements that, in our judgment and unless otherwise noted, may not have been detected except through the auditing procedures performed.

In addition to these adjustments, we also prepared certain year-end closing entries for the Society at management's request. These adjustments also are summarized below:

Increase in net assets according to the December 31, 2009 general ledger	$	590,660
Year-end closing entries:		
Adjust the carrying value of beneficial interest in trusts		86,785
Adjust depreciation expenses (Jefferson-Madison)		516
Record a 2009 income tax refund receivable (Jefferson-Madison)		14,032
Total year-end closing adjustments	$	101,333

Audit adjustments:		
To record the net cash surrender value of a donated life insurance policy	$	113,353
To capitalize donated equipment		23,543
To record the Portland Mall Revitalization tax assessment		(22,529)
To correct parking garage rental income		(5,570)
Total audit adjustments		108,797
Total closing and audit adjustments		210,130
Increase in net assets according to the December 31, 2009 financial statements	$	800,790

In addition to these adjustments, we reclassified $249,513 from temporarily restricted net assets to unrestricted net assets related to repayments to unrestricted net assets for under-water endowment funds, as well as $46,186 related to the release of restrictions associated with a distribution received from terminated charitable trusts for financial reporting purposes.

Finally, it also is our responsibility to inform the Board of Directors about any uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements are summarized as follows:

Record (as prepaid expenses) deposits made on upcoming exhibits	$	43,168
Net reclassification of temporarily restricted net assets to unrestricted ($15,000)		–
Understatement of decrease in net assets	$	43,168

The Board of Directors should be aware that matters underlying adjustments proposed by us but not recorded by the Society could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

5. No Disagreements With Management

We had no disagreements with management regarding the application of accounting principles, the basis for management's judgments about accounting estimates, the scope of our audit, disclosures to be included in the financial statements, or the wording of our report on the financial statements that, if not satisfactorily resolved, would have caused a modification of our independent accountants' report on the Society's financial statements.

6. No Consultation With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that there were no consultations with other independent public accountants regarding accounting or auditing matters relating to the current audit period.

7. No Significant Issues Discussed With Management Prior to Engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to our retention as the Society's independent accountants. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

8. No Difficulties Encountered in Performing the Audit

We experienced no difficulties working with management during the performance of our audit. We received the full cooperation of management and staff.

9. Material Written Communications

Enclosed you will find a copy of our firm's management letter. In addition to this letter, management can provide you with copies of other material written communications from our firm, including the engagement letter and the management representation letter.

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This report is intended solely for the information and use of management, the Board of Directors, and others within the Society, and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams & Co.

March 19, 2010

Oregon Historical Society

Consolidated Financial Statements and Other Information
as of and for the Year Ended December 31, 2009
and Report of Independent Accountants

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GaryMcGee & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2009, 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, 2008 and, in our report dated March 19, 2009, 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 2009 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, 2009, 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.

Gary McGee & Co.

March 19, 2010

522 SW Fifth Avenue, Suite 1300 Portland, Oregon 97204-2130 p: 503 222 2515 f: 503 222 6401 www.garymcgee.com

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009
(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009	2008
Assets:		
Cash and cash equivalents	$ 1,353,342	1,738,369
Contributions and grants receivable *(note 4)*	193,330	726,125
Accounts receivable	44,341	35,120
Prepaid expenses	153,226	163,678
Inventories	101,660	63,506
Other assets	113,353	–
Investments, at fair market value *(note 5)*	2,327,325	2,325,865
Beneficial interest in assets held by the Oregon Community Foundation *(note 6)*	6,593,645	5,371,577
Beneficial interest in charitable trusts *(note 7)*	590,791	533,723
Land, buildings and equipment *(notes 8 and 10)*	10,328,570	10,474,163
Collections *(note 9)*		
Total assets	$ 21,799,583	21,432,126
Liabilities:		
Accounts payable and accrued expenses	200,339	512,445
Deferred revenue	28,151	74,800
Liability to trust beneficiaries *(note 7)*	36,597	33,024
Long-term debt *(note 10)*	2,686,371	2,739,050
Deferred compensation *(note 11)*	68,164	93,636
Total liabilities	3,019,622	3,452,955
Net assets:		
Unrestricted:		
Board-designated reserves *(note 12)*	2,577,249	2,551,415
Cumulative endowment losses *(note 12)*	(787,826)	(1,963,432)
Net investment in capital assets	7,101,282	7,180,050
Net investment in operating subsidiary *(note 13)*	645,860	588,805
Total unrestricted	9,536,565	8,356,838
Temporarily restricted *(note 12)*	1,158,017	1,638,417
Permanently restricted for endowment *(note 12)*	8,085,379	7,983,916
Total net assets	18,779,961	17,979,171
Commitments and contingencies *(notes 10, 11 and 19)*		
Total liabilities and net assets	$ 21,799,583	21,432,126

See accompanying notes to consolidated financial statements.

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008
Public support:					
Contributions and grants	$ 1,331,851	700,877	–	2,032,728	2,820,644
Special events	104,963	–	–	104,963	–
Memberships	259,566	–	–	259,566	314,649
State appropriation	665,918	–	–	665,918	1,400,000
Other local government funding	18,374	197,576	–	215,950	195,988
Total public support	2,380,672	898,453	–	3,279,125	4,731,281
Revenues and gains:					
Admissions	146,788	–	–	146,788	167,055
Product sales	306,735	–	–	306,735	305,708
Rental income	589,610	–	–	589,610	529,175
Investment income	3,626	14,861	–	18,487	96,769
Other	64,502	–	–	64,502	66,025
Total revenues and gains	1,111,261	14,861	–	1,126,122	1,164,732
Appropriation of endowment assets for expenditure *(note 12)*	–	9,183	–	9,183	71,400
Net assets released from restrictions for operating purposes *(note 14)*	1,376,556	(1,376,556)	–	–	–
Total revenues, gains and other support	4,868,489	(454,059)	–	4,414,430	5,967,413
Expenses *(note 15)*:					
Program services	3,183,743	–	–	3,183,743	4,082,545
Supporting services	1,364,167	–	–	1,364,167	1,518,164
Jefferson-Madison Corporation	613,551	–	–	613,551	575,313
Total expenses	5,161,461	–	–	5,161,461	6,176,022
Net operating results	$ (292,972)	(454,059)	–	(747,031)	(208,609)

Continued

CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008
Non-operating activities:					
Endowment gifts	$ –	–	14,678	14,678	40,922
Contributions restricted for capital acquisition	–	200,000	–	200,000	–
In-kind contributions of capital assets	23,543	–	–	23,543	–
Net change in the beneficial interest in assets held by the Oregon Community Foundation *(note 6)*	1,175,606	46,462	–	1,222,068	(2,131,566)
Net change in the fair value of split-interest agreements	–	9,930	86,785	96,715	(194,027)
Net gain on the sale of collection items	–	–	–	–	167,200
Appropriation of endowment assets for expenditure *(note 12)*	–	(9,183)	–	(9,183)	(71,400)
Net assets released from restrictions for capital acquisition *(note 14)*	273,550	(273,550)	–	–	–
Total non-operating activities	1,472,699	(26,341)	101,463	1,547,821	(2,188,871)
Increase (decrease) in net assets	1,179,727	(480,400)	101,463	800,790	(2,397,480)
Net assets at beginning of year	8,356,838	1,638,417	7,983,916	17,979,171	20,376,651
Net assets at end of year	$ 9,536,565	1,158,017	8,085,379	18,779,961	17,979,171

See accompanying notes to consolidated financial statements.

OREGON HISTORICAL SOCIETY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

		Program services			
		Research services	Exhibits	Education	Total
Salaries and related costs	$	506,781	621,001	288,809	1,416,591
Professional services		16,012	250,176	15,060	281,248
Supplies		9,064	85,040	4,470	98,574
Printing		–	45,768	37,621	83,389
Telephone		–	317	–	317
Computer and network		8,761	60	2,282	11,103
Postage and shipping		(159)	25,600	7,576	33,017
Rental of equipment		315	8,755	5,111	14,181
Repair, maintenance and utilities		–	–	–	–
Travel and transportation		579	37,926	11,604	50,109
Training, subscriptions and dues		441	550	105	1,096
Advertising and promotion		–	79,571	2,930	82,501
Production and purchase costs		–	107,658	5,641	113,299
Collection acquisition costs *(note 9)*		17,623	4,151	–	21,774
Insurance		–	–	–	–
Taxes *(note 16)*		–	–	–	–
Interest		–	–	–	–
Other		19,287	17,730	263	37,280
Total expenses before depreciation and allocation of facility, security, communication, and other program support costs		578,704	1,284,303	381,472	2,244,479
Depreciation		178,175	274,948	31,084	484,207
Allocation of facility, security, communication, and other program support costs		167,874	255,639	31,544	455,057
Total expenses	$	924,753	1,814,890	444,100	3,183,743

See accompanying notes to consolidated financial statements.

2009

Supporting services			Jefferson-Madison Corporation	Total	2008
Admini-stration	Fund-raising	Total			
522,981	319,287	842,268	–	2,258,859	2,691,463
158,860	28,801	187,661	212,326	681,235	1,172,612
32,230	48,313	80,543	1,625	180,742	134,570
671	20,488	21,159	–	104,548	123,453
21,159	–	21,159	5,878	27,354	36,250
98,018	–	98,018	–	109,121	109,478
2,975	53,397	56,372	214	89,603	62,938
30,992	800	31,792	–	45,973	39,172
117,200	1,111	118,311	239,222	357,533	347,146
9,068	5,425	14,493	–	64,602	70,201
11,253	52	11,305	–	12,401	13,813
651	46,351	47,002	771	130,274	150,945
–	–	–	–	113,299	107,386
–	–	–	–	21,774	45,694
54,245	–	54,245	13,302	67,547	70,700
26,141	–	26,141	107,252	133,393	138,122
142,083	–	142,083	–	142,083	147,641
10,646	5,210	15,856	10,279	63,415	59,596
1,239,173	529,235	1,768,408	590,869	4,603,756	5,521,180
31,397	19,419	50,816	22,682	557,705	654,842
(477,490)	22,433	(455,057)	–	–	–
793,080	571,087	1,364,167	613,551	5,161,461	6,176,022

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009	2008
Cash flows from operating activities:		
Cash received from contributors, grantors and members	$ 3,688,017	4,455,245
Cash received from admissions and service recipients	449,653	543,617
Investment income received	18,487	96,769
Other receipts	654,112	762,400
Cash paid to employees and suppliers	(4,806,424)	(5,434,965)
Cash paid for interest	(135,348)	(138,907)
Net cash provided by (used in) operating activities	(131,503)	284,159
Cash flows from investing activities:		
Purchase of capital assets	(388,569)	(161,054)
Purchase of investments	–	(40,922)
Reinvestment of investment income	(1,460)	(59,113)
Net cash used in investing activities	(390,029)	(261,089)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment and capital acquisition	214,678	181,140
Payments to trust beneficiaries	(2,965)	(3,375)
Retirement of long-term debt	(75,208)	(71,547)
Net cash provided by financing activities	136,505	106,218
Net increase (decrease) in cash and cash equivalents	(385,027)	129,288
Cash and cash equivalents at beginning of year	1,738,369	1,609,081
Cash and cash equivalents at end of year	$ 1,353,342	1,738,369

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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.

In addition, the Society has relocated its museum store to the main entry pavilion to increase visibility, access and sales, and is in the process of leasing surplus retail and office space in its North Wing to ensure efficient space use and maximize revenue generation from its real property assets.

The Society currently enjoys a membership of approximately 4,785 members.

2. Program Services

During the year ended December 31, 2009, 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 2009, the Research Library, operating 12 hours a week, served over 1,348 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 website for easy access by patrons. The Library has digitized over 20,000 individual photographs from its collection, including Oregon cities and towns and all 7,000 images from its ships collection. 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 2009, 39,064 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 website 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 5,498 students from some 90 different schools and 15 various youth groups in 2009, and 723 adults in docent led tours (these numbers included within the overall visitation numbers given above).

Affiliates – The Society works closely with more than 160 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 (pledges), are recognized as revenues in the period received. 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 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.

Benefits Provided to Donors at Special Events – The Society conducts special fundraising events in which a portion of the gross proceeds paid by the participants represents payment for the direct cost of the benefits received by participants at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Society.

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, 2009, the Society recorded $748 in donated accounting and legal 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, 2009, the Society recorded $3,987 in donated materials and $23,543 in donated building improvements.

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

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. The cost and accumulated depreciation for property and equipment sold, retired, or otherwise disposed of are relieved from the accounts, and resulting gains or losses are reflected in income. 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 three to seven 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 $130,274 for the year ended December 31, 2009.

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, 2009, the Society's Board appropriated $9,183 for expenditure, which is less than the amount permitted by the Society's policy. See note 12.

Concentration of Credit Risk – The Society's investments consist primarily of money market funds. These financial instruments may subject the Society to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. 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.

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 19, 2010, 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 740, *Income Taxes.*

On January 1, 2009, the Society adopted recent provisions of FASB ASC No. 740, which clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. If the Society considers that a tax position is "more-likely-than-not" of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. The Society measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. These assessments can be complex and require significant judgment.

To the extent that the Society's estimates change or the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. If the initial assessment fails to result in the recognition of a tax benefit, the Society regularly monitors its position and subsequently recognizes the tax benefit if (i) there are changes in tax law or analogous case law that sufficiently raise the likelihood of prevailing on the technical merits of the position to more-likely-than-not, (ii) the statute of limitations expires, or (iii) there is a completion of an audit resulting in a settlement of that tax year with the appropriate agency.

Uncertain tax positions are classified as current only when the Society expects to pay cash within the next twelve months. Interest and penalties, if any, are recorded within the provision for income taxes in the Society's consolidated statement of activities and are classified on the consolidated statement of financial position with the related liability for unrecognized tax benefits.

As a result of the adoption of these new provisions of FASB ASC 740, no changes were necessary to the Society's net assets at December 31, 2008.

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 2008 – The accompanying financial information as of and for the year ended December 31, 2008 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, 2009:

Unconditional promises expected to be collected within:		
Less than one year	$	165,449
One year to five years		27,881
	$	193,330

5. Investments

Investments are carried at fair value, and consist of money market funds totaling $2,327,325 at December 31, 2009.

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 ("OCF"). In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the Society accounts for its interest in these funds using the equity method of accounting, which approximates the present value of the estimated expected future cash flow that will inure to the Society. 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, 2009 are summarized as follows:

Balance at beginning of year	$	5,371,577
Plus increase in the fair market value of the fund		1,222,068
Less the distribution of investment return to the Society [1]		–
Balance at end of year	$	6,593,645

[1] 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, 2009 was as follows: 45% equities (both domestic and international); 20% fixed income; 15% marketable alternative investments; 10% private equity; and 10% 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, 2009, there were no distributions made to the Society.

7. Beneficial Interest in Charitable Trusts

At December 31, 2009, 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 [1]	$	293,643
Interest in perpetual trust [2]		179,245
Assets held in trust [3]		117,903
	$	590,791

[1] 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, 2009 are valued at $1,411,064. A contribution receivable of $290,643 is recorded at December 31, 2009, 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 requires that the assets, valued at $275,259, be added to an 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, 2009 are valued at $896,225. An interest in perpetual trust of $179,245 is recorded at December 31, 2009, 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, 2009, the Society received a distribution of $14,861 from this trust. This distribution has been included in investment income in the statement of activities.

[3] 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, 2009, the trust's assets were invested in mutual funds and valued at $117,903. The Society has recorded a liability to the trust's beneficiaries totaling $36,597, 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, 2009 is as follows:

Land	$ 1,269,349
Buildings and related improvements	16,817,916
Furniture and equipment	2,124,099
Construction in-progress	1,650
	20,213,014
Less accumulated depreciation	(9,884,444)
	$ 10,328,570

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, 2009, costs associated with the acquisition of collection items totaled $21,774.

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 and calls for monthly payments of $17,538 in principal and at 5.0% interest beginning on February 1, 2005 through January of 2010. A balloon payment of $2,663,842 is due in January 2010.

Subsequent to December 31, 2009 (in January of 2010), the Society exercised an option to extend the loan for an additional five years. 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, 2009 totaled $135,245.

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.

Aggregate maturities of note principal on all debt for the five years subsequent to December 31, 2009 and thereafter are as follows:

Years Ending December 31,	
2010	$ 43,980
2011	50,762
2012	53,886
2013	57,216
2014	60,752
Thereafter	2,419,775
	$ 2,686,371

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 $82,799 for the year ended December 31, 2009.

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 services, 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, 2009. At December 31, 2009, the present value of future payments under these agreements totals $68,164.

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, 2009:

Board-Designated Reserves

As of December 31, 2009, the Board of Directors had designated $2,577,249 as a reserve fund.

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2009 represent $1,158,017 in contributions, grants, and other unexpended revenues and gains available for the following:

Expendable contributions and grants:	
Museum/collections	$ 411,883
Library	304,908
Technology initiative	122,227
Executive salaries	100,000
Education	51,169
Free days	9,825
Publications	6,376
Other programs	87,800
Charitable trusts	18,383
Expendable endowment earnings:	
Purpose restricted earnings not yet appropriated for expenditure:	
Museum/collections	34,032
Education	7,049
Awards	2,941
Library	1,424
	$ 1,158,017

Permanently Restricted Net Assets

At December 31, 2009, the society held $8,085,379 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
	1,872,786
Unrestricted	6,212,593
	$ 8,085,379

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, 2009, the Society had incurred cumulative investment losses on its endowment funds totaling $787,826 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, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	$ (1,963,432)	8,167	7,983,916	6,028,651
Contributions and grants	–	–	14,678	14,678
Net change in beneficial interest in assets held by the Oregon Community Foundation	1,175,606	46,462	–	1,222,068
Net change in the fair value of split-interest agreements	–	–	86,785	86,785
Appropriation of endowment assets for expenditure	–	(9,183)	–	(9,183)
Endowment net assets at end of year	$ (787,826)	45,446	8,085,379	7,342,999

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, 2009, excluding inter-company eliminations, is as follows:

Assets:		
Cash	$	156,041
Land, buildings and equipment, net		563,446
Other assets		20,432
Total assets	$	739,919
Liabilities and net assets:		
Inter-organizational payable, net		70,330
Other liabilities		23,729
Net assets		645,860
Total liabilities and net assets	$	739,919
Operating results:		
Increase in net assets	$	122,055

During the year ended December 31, 2009, the Jefferson-Madison Corporation distributed a dividend to the Society in the amount of $65,000.

14. Net Assets Released From Restrictions

During the year ended December 31, 2009, the sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors were as follows:

Satisfaction of restrictions:		
For operating purposes	$	1,376,556
To fund capital acquisitions		273,550
	$	1,650,106

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, 2009, the Society recorded $63,536 in income tax expense. In addition, the Society reported $69,857 in property tax payments. At December 31, 2009, the Society reported $14,593 in income tax refunds receivable. No deferred tax assets or liabilities are reported at December 31, 2009.

17. 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 organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

At December 31, 2009, the following financial assets are measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Investments	$ 2,327,325	–	–	2,327,325
Other assets – cash surrender value of life insurance policies	–	113,353	–	113,353
Interest in perpetual trust	–	–	179,245	179,245
Assets held in trust	117,903	–	–	117,903
Beneficial interest in assets held by the Oregon Community Foundation	–	–	6,593,645	6,593,645
	$ 2,445,228	113,353	6,772,890	9,331,471

The change in valuation of Level 3 assets using significant unobservable inputs is as follows:

Fair value at beginning of year	$	5,527,053
Net change in fair value of interest in perpetual trust		23,769
Net change in beneficial interest in assets held by the Oregon Community Foundation		1,222,068
Fair value at end of year	$	6,772,890

18. Significant Sources of Revenues

Approximately 39% of the Society's total operating revenues, for the year ended December 31, 2009, were received from the State of Oregon and the two large contributors.

19. Exhibition Commitments

As of December 31, 2009, the Society had outstanding commitments for the design of future exhibitions and related costs totaling $52,983.

20. Reclassification of 2008 Comparative Totals

Certain 2008 amounts presented herein have been reclassified to conform to the 2009 presentation.

21. 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 used in operating activities (as reported on the statement of cash flows):

Increase in net assets	$	800,790
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation		557,705
Net change in beneficial interest in assets held by the Oregon Community Foundation		(1,222,068)
Net change in the value of split-interest agreements		(96,715)
Cash received upon the termination of a charitable trust		46,185
In-kind donation of building improvements		(23,543)
Contributions restricted for long-term investment and capital acquisition		(214,678)
Financing of tax assessment through issuance of long-term note		22,529
Net changes in:		
Contributions and grants receivable		532,795
Accounts receivable		(9,221)
Prepaid expenses		10,452
Inventories		(38,154)
Other assets		(113,353)
Accounts payable and accrued expenses		(312,106)
Deferred revenue		(46,649)
Deferred compensation		(25,472)
Total adjustments		(932,293)
Net cash used in operating activities	$	(131,503)

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GOVERNING BOARD, EX OFFICIO MEMBERS OF THE BOARD, AND SENIOR MANAGEMENT

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James T. Richardson
Vice President

Dr. Lesley Hallick
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Community Volunteer

Cliff Bentz
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Marc Berg
Director of Homecare/
Hospice Services
Southwest Washington
Medical Center

Dr. Les Bergeron
Physician, retired

John W. (Rocky) Dixon
Endeavour Capital

Christopher Erickson
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The Heathman Hotel

William L. Failing, Jr.
Executive Director
The Oregon Korea Foundation

A.J. (Jim) Giustina
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Giustina Land and
Timber Company

Dr. Lesley Hallick
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Dan Heine
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Corey Byler Rew
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Melvin (Pete) Mark
Melvin Mark Companies

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The Standard

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Sheri Neal
Director
Finance

Geoff Wexler
Library Manager

Marsha Matthews
Director
Public Services

Richard Matthews
Director
Facilities

Sue Metzler
Director
Development and Marketing

Dwight Peterson
Director
Information Technology

INQUIRIES AND OTHER INFORMATION

OREGON HISTORICAL SOCIETY
1200 S.W. Park Avenue
Portland, Oregon 97205-2483

(503) 222-1741 Administrative offices
(503) 306-5198 OHS information line
(503) 221-2035 Fax

Information
orhist@ohs.org

Website
www.ohs.org

Oregon Historical Society

Schedule of Changes in Net Assets
Year Ended December 31, 2009

	Unrestricted						
	General operating funds	**Board-designated funds**	**Accumulated endowment losses**	**Net investment in capital assets**	**Jefferson-Madison Corp.**	**Elimi-nations**	**Total**
Public support:							
Contributions and grants	697,918	633,933	–	–	–	–	1,331,851
Special events	104,963	–	–	–	–	–	104,963
Memberships	259,566	–	–	–	–	–	259,566
State appropriation	665,918	–	–	–	–	–	665,918
Other local government funding	18,374	–	–	–	–	–	18,374
Total public support	1,746,739	633,933	–	–	–	–	2,380,672
Revenues and gains:							
Admissions	146,788	–	–	–	–	–	146,788
Product sales	306,735	–	–	–	–	–	306,735
Rental income	179,689	–	–	–	726,848	(316,927)	589,610
Investment income	3,596	–	–	–	30	–	3,626
Other	55,774	–	–	–	8,728	–	64,502
Total revenues and gains	692,582	–	–	–	735,606	(316,927)	1,111,261
Appropriation of endowment assets for expenditure	–	–	–	–	–	–	–
Net assets released from restrictions for operating purposes	1,376,556	–	–	–	–	–	1,376,556
Total revenues, gains and other support	3,815,877	633,933	–	–	735,606	(316,927)	4,868,489
Expenses:							
Program services	3,132,927	–	–	50,816	–	–	3,183,743
Supporting services	1,196,887	–	–	484,207	–	(316,927)	1,364,167
Jefferson-Madison Corporation	–	–	–	–	613,551	–	613,551
Total expenses	4,329,814	–	–	535,023	613,551	(316,927)	5,161,461
Net operating results	(513,937)	633,933	–	(535,023)	122,055	–	(292,972)
Transfers and other changes:							
Endowment gifts	–	–	–	–	–	–	–
Contributions restricted for acquisition of capital assets	–	–	–	–	–	–	–
Contributions of capital assets	–	–	–	23,543	–	–	23,543
Net change in beneficial interest in assets held by the Oregon Community Foundation	–	–	1,175,606	–	–	–	1,175,606
Net change in the fair value of split-interest agreements	–	–	–	–	–	–	–
Net gain on the sale of collection items	–	–	–	–	–	–	–
Appropriaton of endowmetn assets for expenditure	–	–	–	–	–	–	–
Use of restricted grants and contributions for capital acquisitions	–	–	–	273,550	–	–	273,550
Use of general operating funds for capital acquisitions	(83,954)	–	–	83,954	–	–	–
Use of general operating funds to underwrite debt principal payments	(75,208)	–	–	75,208	–	–	–
Dividend distribution	65,000	–	–	–	(65,000)	–	–
Transfer of general operating funds to the Board-designated debt reimbusement fund	(164,099)	164,099	–	–	–	–	–
Additional use of Board-designated funds to cover the operating deficit	772,198	(772,198)	–	–	–	–	–
Net transfers and other changes	513,937	(608,099)	1,175,606	456,255	(65,000)	–	1,472,699
Increase (decrease) in net assets	–	25,834	1,175,606	(78,768)	57,055	–	1,179,727
Net assets at beginning of year	–	2,551,415	(1,963,432)	7,180,050	588,805	–	8,356,838
Net assets at end of year	–	**2,577,249**	**(787,826)**	**7,101,282**	**645,860**	–	**9,536,565**

Donor restricted		Total
Expendable funds	Endowment funds	
700,877	–	2,032,728
–	–	104,963
–	–	259,566
–	–	665,918
197,576	–	215,950
898,453	–	3,279,125
–	–	146,788
–	–	306,735
–	–	589,610
14,861	–	18,487
	–	64,502
14,861	–	1,126,122
9,183	–	9,183
(1,376,556)	–	–
(454,059)	–	4,414,430
–	–	3,183,743
–	–	1,364,167
–	–	613,551
–	–	5,161,461
(454,059)	–	(747,031)
	14,678	14,678
200,000	–	200,000
		23,543
46,462	–	1,222,068
9,930	86,785	96,715
–	–	–
(9,183)	–	(9,183)
(273,550)	–	–
–	–	–
–	–	–
–	–	–
–	–	–
–	–	–
(26,341)	101,463	1,547,821
(480,400)	101,463	800,790
1,638,417	7,983,916	17,979,171
1,158,017	**8,085,379**	**18,779,961**

GaryMcGee & Co.
CERTIFIED PUBLIC ACCOUNTANTS

NO MATERIAL WEAKNESSES LETTER

The Board of Directors
Oregon Historical Society:

In planning and performing our audit of the consolidated financial statements of the Oregon Historical Society as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States, we considered the organization's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Gary McGee + Co.

March 19, 2010

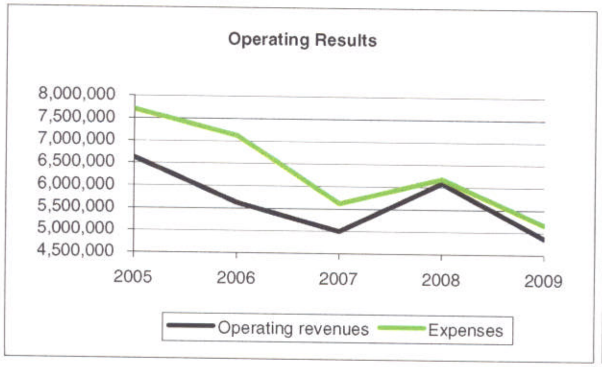
522 SW Fifth Avenue, Suite 1300 Portland, Oregon 97204-2130 p: 503 222 2515 f: 503 222 6401 www.garymcgee.com

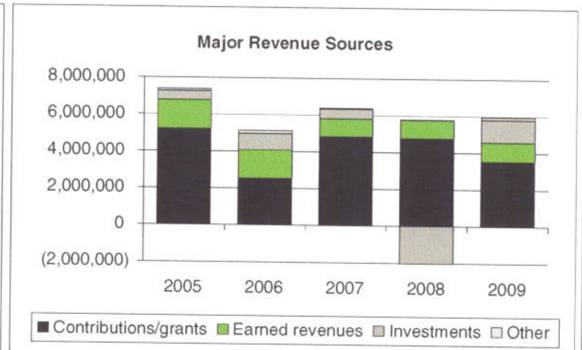
Oregon Historical Society

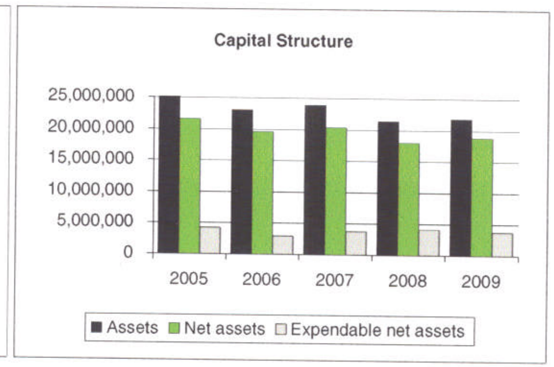
Historical Summary 2005-2009

#	YEARS ENDED DECEMBER 31,	2005	2006	2007	2008	2009	$ change	% change
1	Total revenues	7,369,864	5,136,452	6,376,351	3,778,542	**5,962,251**	+2,183,709	+57.8%
2	Total expenses	7,700,900	7,118,368	5,616,602	6,176,022	**5,161,461**	-1,014,561	-16.4%
3	Surplus (deficit)	(331,036)	(1,981,916)	759,749	(2,397,480)	**800,790**	+3,198,270	+133.4%
4	Operating revenues	6,621,080	5,626,727	4,993,299	6,086,851	**4,868,489**	-1,218,362	-20.0%
5	Operating surplus (deficit)	(1,079,820)	(1,491,641)	(623,303)	(89,171)	**(292,972)**	-203,801	-228.6%
6	Assets	25,085,327	23,052,888	23,882,225	21,432,126	**21,799,583**	+367,457	+1.7%
7	Net assets	21,598,818	19,616,902	20,376,651	17,979,171	**18,779,961**	+800,790	+4.5%
8	Expendable net assets [1]	4,259,694	2,979,068	3,791,398	4,135,193	**3,766,882**	-368,311	-8.9%
9	Private contributions, grants and membership support	5,209,377	1,993,780	4,131,028	3,176,215	**2,635,478**	-540,737	-17.0%
10	Governmental funding	0	536,946	700,000	1,595,988	**881,868**	-714,120	-44.7%
11	Admissions	448,909	530,320	137,840	167,055	**146,788**	-20,267	-12.1%
12	Product sales	608,474	568,967	328,564	305,708	**306,735**	+1,027	+0.3%
13	Rental Income	497,070	425,228	504,265	529,175	**589,610**	+60,435	+11.4%
14	Total investment return	483,319	916,502	518,472	(2,034,797)	**1,240,555**	+3,275,352	+161.0%
15	Other revenues	122,715	164,709	56,182	39,198	**161,217**	+122,019	+311.3%
16	Program service expenses	5,254,160	4,663,757	3,615,249	4,082,545	**3,183,743**	-898,802	-22.0%
17	Management and general expenses [2]	1,543,163	1,741,393	1,401,900	1,372,985	**1,406,631**	+33,646	+2.5%
18	Fundraising expenses	903,577	713,218	599,453	720,492	**571,087**	-149,405	-20.7%
19	Salaries and related costs	3,392,570	3,356,097	2,557,784	2,691,463	**2,258,859**	-432,604	-16.1%

[1] Expendable net assets excludes accumulated endowment losses because there is no current legal obligation to reinstate endowment funds to their original value for market value losses.
[2] Management and general expenses include the costs of operating the Jefferson-Madison Corporation







Oregon Historical Society

Evaluation of Key Ratios and Composite Index

	KEY RATIOS	2005	2006	2007	2008	2009	% change	3-Year Avg.
1	Primary reserve ratio	55.3%	41.9%	67.5%	67.0%	**73.0%**	+9.0%	69.1%
2	Net income ratio	-16.3%	-26.5%	-12.5%	-1.5%	**-6.0%**	-310.8%	-6.7%
3	Return on net assets	-4.9%	-6.9%	-3.2%	-0.4%	**-1.6%**	-272.4%	-1.7%
4	Viability ratio	1.447	1.035	1.349	1.510	**1.402**	-7.1%	142.0%
5	**Composite index (scale of 1 to 10)**	**-0.2**	**-2.5**	**0.8**	**2.8**	**2.1**	**-25.3%**	**1.9**

In determining the composite index, the primary reserve ratio is given a weighting of 35%, net income 10%, return on net assets 20%, and viability ratio 35%. A score of 1.0 is ascribed to a primary reserve ratio of 13.3%, a net income ratio of 0.7%, a return on net assets of 2.0%, and a viability ratio of .417:1.

	CONTRIBUTION & DEMAND RATIOS	2005	2006	2007	2008	2009	% change	3-Year Avg.
6	Private contributions as % of expenses	67.6%	28.0%	73.6%	51.4%	**51.1%**	-0.7%	58.7%
7	Governmental funding as % of expenses	0.0%	7.5%	12.5%	25.8%	**17.1%**	-33.9%	18.5%
8	Admissions as % of expenses	5.8%	7.5%	2.5%	2.7%	**2.8%**	+5.1%	2.7%
9	Product sales as % of expenses	7.9%	8.0%	5.8%	4.9%	**5.9%**	+20.1%	5.6%
10	Rental income as % of expenses	6.5%	6.0%	9.0%	8.6%	**11.4%**	+33.3%	9.7%
11	Total investment return as % of expenses	6.3%	12.9%	9.2%	-32.9%	**24.0%**	+173.0%	0.1%
12	Other revenues as % of expenses	1.6%	2.3%	1.0%	0.6%	**3.1%**	+392.1%	1.6%
13	Program service expenses as % of operating revenues	79.4%	82.9%	72.4%	67.1%	**65.4%**	-2.5%	68.3%
14	Management expenses as % of operating revenues	23.3%	30.9%	28.1%	22.6%	**28.9%**	+28.1%	26.5%
15	Fundraising expenses as % of operating revenues	13.6%	12.7%	12.0%	11.8%	**11.7%**	-0.9%	11.9%
16	Salaries as % of operating revenues	51.2%	59.6%	51.2%	44.2%	**46.4%**	+4.9%	47.3%

	OTHER PERFORMANCE INDICATORS	2005	2006	2007	2008	2009	% change	3-Year Avg.
17	Unrestrictred cash and investments on-hand at year-end	3,563,372	2,256,921	2,526,381	2,945,425	**2,531,444**	-14.1%	2,667,750
18	Cash needed for daily operations	21,391	19,773	15,602	17,156	**14,337**	-16.4%	15,698
19	Days of unrestricted cash and investment balances	167	114	162	172	**177**	+2.8%	170

Oregon Historical Society

Explanation and Analysis of Key Ratios

Primary Reserve Ratio

This ratio is calculated as expendable net assets[1] divided by total expenses. It provides a snapshot of the organization's financial strength and flexibility by indicating how long the organization could function using its expendable reserves without relying on additional net assets generated by operations.

Trend analysis of the ratio indicates whether or not the organization has increased its net assets in proportion to the rate of growth in its operating size. It is reasonable to expect expendable net assets to increase at least in proportion to the rate of growth in operating size. If they do not, the same dollar amount of expendable net assets will provide a smaller margin of protection against adversity as the organization grows in dollar level of expenses. A negative or decreasing trend overtime indicates a weakening financial condition.

In general, a ratio of 40% or better is advisable to give the organization the flexibility to transform the enterprise in the near future. The implication of 40% is that the organization would have the ability to cover about five months of expenses (i.e., 40% of 12 months). Organizations with such a ratio are generally able to rely on internal cash flow to meet short-term cash needs, are able to carry on a reasonable level of facilities maintenance, and are capable of managing modest unforeseen adverse financial events. If an organization is in the process of capital expansion, a temporary decline in the ratio would be expected. A ratio below 10% or 15% indicates that the organization's expendable net asset balances are in a position that generally requires short-term borrowing on a regular basis, and that the organization tends to struggle to have sufficient resources for reinvestment.

[1] Expendable net assets represent those assets that the organization can access quickly and use to satisfy current operating requirements and debt obligations. In the case of the Society, expendable net assets represent all net assets except those that are permanently restricted (i.e., true endowment corpus) and those that are invested in the Jefferson-Madison subsidiary and in other capital assets.

Net Income Ratio

This ratio results from dividing operating surplus by total operating revenues. At its very simplest, the ratio indicates whether total activities in a given year resulted in a surplus or a deficit. More importantly, it demonstrates whether the organization is living within its available resources. Most organizations should target generally 2 to 4% as a goal for this ratio over an extended period of time, although the target will likely vary from year to year.

Return on Net Assets

Calculated as the change in operating net assets divided by total net assets at the beginning of the period, this ratio demonstrates whether the performance of the organization's financial assets support its strategic direction. Because the long-term future of the organization depends, in part, on its ability to replace and enhance its capital base, managing its resource inflow streams is essential to achieving the organization's mission. The organization's Board must be wary of diversions that subvert progress toward achieving the mission.

This ratio basically determines whether the organization is financially better off than in previous years by measuring its total economic return. A decline in this ratio may be appropriate and even warranted if it reflects a strategy to better fulfill the organization's mission.

Organizations should establish a real rate of return target in the range of 3 to 4%. The real return plus the actual inflation index (e.g., the Consumer Price Index) will produce the nominal rate of return. Thus in a period of relatively low inflation, long-term nominal returns should average approximately 6% annually to ensure reasonable growth in resources.

Again, as with any ratio, there is no one correct number. For example, if an organization's strategic plan calls for activities that will consume substantial resources, such as program expansion, a high return on net assets may be required in order to maintain a properly capitalized institution. Remember also that the organization's physical facilities are carried at book value instead of market value. On the other hand, deferred maintenance of facilities will represent an unfunded liability that is not recorded.

Viability Ratio

This ratio divides expendable net assets by total long-term debt, and attempts to answer the question: "Is debt managed strategically to advance the organization's mission?"

The ratio measures one of the most basic determinants of clear financial health: the availability of expendable net assets to cover debt should the organization need to settle its obligations as of the balance sheet date. Although a ratio of 1:1 or greater indicates that, as of the balance sheet date, an organization has sufficient expendable net assets to satisfy debt obligations, it is generally believed that this ratio should fall somewhere between 1.25:1 and 2.0:1, or higher.