

FINANCIAL REPORT



June 30, 2012



CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS.....	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 – 16
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION.....	17
SUPPLEMENTARY INFORMATION	
Income/Expense Statement, City of San Diego TOT Funds.....	18
REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF THE CITY OF SAN DIEGO COMMISSION FOR ARTS AND CULTURE ALLOCATIONS PROGRAM	19



3104 Fourth Avenue
San Diego, California 92103
619.615.5380 Fax 619.615.5389

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Trustees
The San Diego Society of Natural History
San Diego, California

We have audited the accompanying statement of financial position of The San Diego Society of Natural History (the Museum) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Museum'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 Museum's 2011 financial statements, and in our report dated September 22, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Christopher M. Roberts, CPA
for WEST RHODE & ROBERTS

San Diego, California
September 13, 2012

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
STATEMENT OF FINANCIAL POSITION
June 30, 2012
(With Summarized Financial Information for June 30, 2011)

	2012	2011 (Note 20)
ASSETS		
Cash and cash equivalents	\$ 1,798,987	\$ 368,608
Receivables	1,724,216	1,566,883
Inventories	14,202	48,695
Prepaid expenses and other assets	1,119,127	1,051,715
Investments	9,379,920	9,470,257
Beneficial interest in perpetual trust	2,309,417	2,432,339
Property, equipment, and leasehold improvements, less accumulated depreciation	24,154,275	25,602,564
Collections and exhibits	1	1
Total assets	<u>\$ 40,500,145</u>	<u>\$ 40,541,062</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 989,992	\$ 865,153
Accrued expenses	1,323,207	1,186,101
Deferred revenue	121,427	57,549
Capital lease liability	103,242	146,560
Line of credit	65,000	-
Notes payable	13,425,495	14,157,555
Total liabilities	<u>16,028,363</u>	<u>16,412,918</u>
Commitments (Note 10)		
Net assets:		
Unrestricted	11,283,129	11,155,339
Temporarily restricted	1,903,187	1,472,226
	<u>13,186,316</u>	<u>12,627,565</u>
Permanently restricted:		
Museum endowments	7,261,045	7,135,601
Beneficial interest in perpetual trust	2,309,417	2,649,974
Endowments held by others	1,715,004	1,715,004
	<u>11,285,466</u>	<u>11,500,579</u>
Total net assets	<u>24,471,782</u>	<u>24,128,144</u>
Total liabilities and net assets	<u>\$ 40,500,145</u>	<u>\$ 40,541,062</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

(With Summarized Financial Information for the Year Ended June 30, 2011)

	2012					2011	
	Unrestricted		Restricted			Total	(Note 20)
	Operations	Depreciation	Total Unrestricted	Temporarily Restricted	Permanently Restricted		
SUPPORT AND REVENUE							
Admissions and exhibit ticket sales	\$ 4,924,866	\$ -	\$ 4,924,866	\$ -	\$ -	\$ 4,924,866	\$ 2,522,958
Contributions	1,904,947	-	1,904,947	2,688,943	125,444	4,719,334	3,708,313
Government appropriations	873,057	-	873,057	-	-	873,057	715,331
Contracts	1,871,486	-	1,871,486	-	-	1,871,486	1,898,917
Store	-	-	-	-	-	-	363,071
Education	211,921	-	211,921	-	-	211,921	198,250
Memberships	404,025	-	404,025	-	-	404,025	416,020
Other	395,219	-	395,219	-	-	395,219	174,832
Net assets released from restrictions:							
Satisfaction of program restrictions	2,204,847	-	2,204,847	(2,204,847)	-	-	-
Total support and revenue	12,790,368	-	12,790,368	484,096	125,444	13,399,908	9,997,692
EXPENSES							
Program expenses							
Exhibits	4,514,759	591,110	5,105,869	-	-	5,105,869	3,715,920
Science and research	2,714,383	361,062	3,075,445	-	-	3,075,445	3,437,542
Education/public programs	1,200,068	285,755	1,485,823	-	-	1,485,823	1,618,876
Store cost of goods sold	-	-	-	-	-	-	-
and operating expenses	68,587	51,580	120,167	-	-	120,167	543,250
Membership	165,627	10,316	175,943	-	-	175,943	158,852
Total program expenses	8,663,424	1,299,823	9,963,247	-	-	9,963,247	9,474,440
Supporting services							
Management and general	864,796	134,108	998,904	-	-	998,904	599,708
Fundraising	836,982	20,632	857,614	-	-	857,614	1,163,230
Marketing	842,487	56,738	899,225	-	-	899,225	666,963
Total supporting services	2,544,265	211,478	2,755,743	-	-	2,755,743	2,429,901
Total expenses	11,207,689	1,511,301	12,718,990	-	-	12,718,990	11,904,341
Revenue and other support in excess of expenses	1,582,679	(1,511,301)	71,378	484,096	125,444	680,918	(1,906,649)
INVESTMENT GAINS (LOSSES)							
Investment income	21,487	-	21,487	125,662	-	147,149	186,277
Net realized and unrealized gain (loss)	34,925	-	34,925	(178,797)	(340,557)	(484,429)	2,013,349
Total investment gains (losses)	56,412	-	56,412	(53,135)	(340,557)	(337,280)	2,199,626
TOTAL CHANGE IN NET ASSETS	1,639,091	(1,511,301)	127,790	430,961	(215,113)	343,638	292,977
NET ASSETS AT BEGINNING OF YEAR	27,960,541	(16,805,202)	11,155,339	1,472,226	11,500,579	24,128,144	23,835,167
NET ASSETS AT END OF YEAR	\$ 29,599,632	\$ (18,316,503)	\$ 11,283,129	\$ 1,903,187	\$ 11,285,466	\$ 24,471,782	\$ 24,128,144

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

(With Summarized Financial Information for the Year Ended June 30, 2011)

	2012	2011 (Note 20)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 343,638	\$ 292,977
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,511,301	1,547,251
Gain on sale of property and equipment	-	(3,864)
Allowance for uncollectability and discounts	(88,717)	144,761
Change in temporarily restricted net assets	(430,961)	532,715
Change in permanently restricted net assets	215,113	(397,978)
Realized and unrealized (gain) loss	484,429	(2,013,349)
(Increase) decrease in operating assets:		
Receivables	(68,616)	(438,993)
Inventories	34,493	116,322
Prepaid expenses	(67,412)	(33,386)
Increase (decrease) in operating liabilities:		
Deferred revenue	63,878	28,766
Accounts payable and accrued expenses	261,945	(110,522)
Net cash (used in) provided by operating activities	<u>2,259,091</u>	<u>(335,300)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Sale (purchase) of investments - unrestricted	(271,170)	904,404
Proceeds from sale of property and equipment	-	3,864
Purchase of property and equipment	<u>(63,012)</u>	<u>(69,731)</u>
Net cash provided by (used in) investing activities	<u>(334,182)</u>	<u>838,537</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	165,000	-
Payments on line of credit	(100,000)	(1,250,000)
Change in temporarily restricted net assets	430,961	(532,715)
Change in permanently restricted net assets	(215,113)	397,978
Principal payments under capital lease obligations	(43,318)	(40,802)
Proceeds from notes payable	-	1,100,000
Payments of notes payable	<u>(732,060)</u>	<u>(602,992)</u>
Net cash (used in) financing activities	<u>(494,530)</u>	<u>(928,531)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,430,379	(425,294)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>368,608</u>	<u>793,902</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,798,987</u></u>	<u><u>\$ 368,608</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u><u>\$ 730,436</u></u>	<u><u>\$ 770,016</u></u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - The San Diego Society of Natural History (the Museum) operates The Natural History Museum of San Diego and its related activities.

Income Tax Status - The Museum, a California not-for-profit corporation, is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State Revenue and Taxation Code. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Tax*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Museum has reviewed its positions for all open tax years and has determined that no provision for income tax positions is required.

Method of Accounting – The financial statements of the Museum have been prepared utilizing the accrual basis of accounting.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly the net assets of the Museum and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Museum or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions requiring that the principal be maintained permanently by the Museum. Generally, the donors permit the Museum to use all or part of the income earned for either general or donor-specified purposes.

Support and Revenue Recognition –

Contributions - The Museum records contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

The Museum reports gifts of cash and other assets as temporarily restricted support if they are received with stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts received during the year with donor restrictions that are satisfied before the year-end are reported as unrestricted contributions.

Government Appropriations – The policy of the Museum is to recognize the revenue to the extent of eligible costs incurred, up to the maximum subcontract or grant amount.

Scientific Grants and Contracts – The Museum recognizes revenue as services are provided.

Admissions, Store, and Education - The Museum records revenue when goods or services are provided.

Memberships - The Museum recognizes revenue at the time of renewal.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Traveling Exhibits – Traveling exhibits are exhibits in which the Museum may charge an additional fee in excess of the normal admission price. The Museum recognizes revenue when earned and expenses are recognized over the life of the exhibit.

Receivables - Receivables include unconditional promises to give and are recorded when the promise to contribute is made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free rates applicable in the years in which those promises are received. Amortization of the discounts related to pledges receivable are recognized over the period of the promise as contribution revenue.

Receivables also include amounts billed on grants and contracts for services provided through June 30, 2012.

The Museum does not obtain collateral for these receivables.

An allowance for doubtful accounts is based on past experience and an analysis of current balances. Receivables are written off in the year deemed uncollectible.

Physical Facilities - The Museum renovated the original building and constructed the expansion building it occupies. After completion, the Museum transferred title to the City of San Diego (the City). The Museum occupies the building under a 35-year lease agreement with the City expiring 2033, which permits the Museum use of the structure at no charge.

In accordance with accounting principles generally accepted in the United States of America, the original value of the building is to be reflected in the Museum's financial statements. However, if the building had been reported at its fair market value at the date the agreement with the City originally commenced, it would have been fully depreciated in prior years. Therefore, it is not reflected in the accompanying statement of financial position. The cost of construction to expand and renovate the original building has been capitalized in the statement of financial position as leasehold improvements and is being amortized over the life of the lease.

The agreement with the City also provides for the Museum's free use of the land in Balboa Park on which the structure is situated. No amounts have been reflected in the financial statements for use of the land, inasmuch as no objective basis is available to measure its value.

Property, equipment, and leasehold improvements are carried at cost for items purchased or improvements made, or fair value at the date of the gift for donated items. Items which cost or have a fair value at the date of the gift of \$2,000 or more are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Cash and Cash Equivalents – The Museum considers all cash accounts that are not subject to withdrawal restrictions or penalties, and certificate of deposits with an original maturity date of less than 90 days to be cash equivalents.

Investments - Investments in debt and equity securities with readily determinable fair values are reported at fair values. Net realized and unrealized gains or losses are reflected as increases or decreases in unrestricted net assets, unless the use is restricted by the donor.

Prepaid Expenses and Other Assets – Prepaid expenses include bond premium and issuance costs which are amortized on the straight-line method over the 30-year term of the bond and traveling exhibit costs.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Collections - The Museum houses over nine million natural history specimens in collections dating back as far as the 1870s. The specimens include plants, birds, mammals, insects, reptiles, amphibians, marine invertebrates, fossils, and minerals mainly from Western United States, Baja California, and Northern Mexico. In addition, the Museum's library includes some 25,000 titles in 90,000 volumes with several significant and rare volumes on natural history. The Museum's collections are expensed when acquired.

Exhibit Costs – Exhibit costs are usually expensed when incurred; however, traveling exhibit costs included in prepaid expense are expensed over the life of the exhibit.

Bond Issuance Costs – The bond issuance costs are recorded at cost and amortized over the life of the bond term using the straight-line method.

Charitable Remainder Trusts - The Museum is the beneficiary of charitable remainder trusts, which provide for payments of distributions to designated beneficiaries over the trusts' terms (usually the designated beneficiary's lifetime). At the end of a trust's term, the remaining assets are available to the Museum for the purpose specified by the donor.

Assets held in the charitable remainder trusts are managed by donor designated trustees, and are not accessible by the Museum until the end of the trusts' terms. The assets are recorded as temporarily restricted contributions at their present value, calculated using risk-free interest rates over the estimated period until the Museum is to receive an irrevocable right to the assets.

Pooled Income Funds - Included in investments are pooled income funds, which are held and managed by the Museum. During the life of the donors, income from the pooled funds is distributed to the donors. Upon donor's death, the principal is to be distributed to the Museum. A discount to present value is recorded and the net amount is included in temporarily restricted net assets.

Beneficial Interests in Perpetual Trusts Held by Others – A perpetual trust held by a third party is an arrangement in which the donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Museum has the right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The trust is recorded as permanently restricted net assets.

Donated Materials, Services, and Other Assets - The Museum receives donated materials and professional services, which are recorded as a contribution and an expense in the statement of activities, at fair value. Donated services related to the construction to expand and renovate the Museum were capitalized at its value. Donated property is recorded at its appraised value.

Advertising Costs - Advertising costs are expensed as incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities 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.

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

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 2. CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Museum to credit risk, consist primarily of cash, receivables, and investments.

Cash - The Museum maintains its cash in bank accounts, which at times may exceed federally insured limits. The Museum has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash.

Investments - The Museum maintains its short-term investments in several different instruments with various investment firms. Marketable securities are exposed to various risks, such as interest rate, market, and credit risk. It is reasonably possible, given the level of risk associated with marketable securities that changes in the near term could materially affect the amount reported in the financial statements.

Pledges Receivable - Pledges receivable include charitable remainder trusts, which are exposed to various risks such as interest rates and donor life expectancies. Changes in the near term are not expected to materially affect the amounts reported in the financial statements. Pledges are subject to credit risk.

NOTE 3. RECEIVABLES

Receivables consist of:

Due in less than one year	
Contracts	\$ 602,317
Pledges	140,579
City of San Diego	81,209
Grants	39,053
Other	157,905
Less allowance for doubtful accounts	<u>(197,290)</u>
	<u>823,773</u>
Due in one to five years	
Charitable remainder trusts	550,738
Pledges	547,609
Less discount to net present value at 4%	<u>(197,904)</u>
	<u>900,443</u>
Total receivables	<u>\$ 1,724,216</u>

NOTE 4. INVESTMENTS

Investments, at fair value, consist of:

	<u>Total</u>
Funds held at San Diego Foundation	\$ 1,681,142
Funds held in trust	1,168,642
Mutual funds	6,275,013
Money market funds	16,064
Other	8,000
Pooled income fund	<u>246,811</u>
	9,395,672
Less discount to present value on pooled income fund	<u>(15,752)</u>
Total	<u>\$ 9,379,920</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 5. FAIR VALUE OF INVESTMENTS

The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification No. 820 (ASC 820), Fair Value Measurements, that establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Museum's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Fair Value Measurement at June 30, 2011, Using				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total			
Assets				
Investments	\$ 9,379,920	\$ 8,211,278	\$ 1,168,642	\$ -
Beneficial interest in perpetual trust	2,309,417	-	2,309,417	-
	<u>\$ 11,689,337</u>	<u>\$ 8,211,278</u>	<u>\$ 3,478,059</u>	<u>\$ -</u>

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. The Museum has investments which are based upon both quoted market prices and significant other observable inputs at June 30, 2012.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 5. FAIR VALUE OF INVESTMENTS (continued)

The management of the Museum is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility the management of the Museum has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with GAAP.

NOTE 6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of:

Bond issuance costs, net of	
accumulated amortization of \$164,700	\$ 158,365
Bond issuance costs, net of	
accumulated amortization of \$14,010	37,435
Non-qualified retirement plan funds held in trust	207,146
Prepaid expenses and deposits	716,181
	<u>\$ 1,119,127</u>

NOTE 7. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Museum has exclusive rights to the income from a trust held in perpetuity by Wachovia Bank in the name of Hallam J. Koons. The Museum's beneficial interest in the trust is reported in the accompanying statements of financial position at the fair value of the assets of the trust, which consists of \$69,337 in short term reserves and cash, \$2,240,080 of fixed income, equity, complementary strategies and real asset funds at June 30, 2012. The distributions from the trust are restricted for publications of its scientific and educational materials.

NOTE 8. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Property, equipment, and leasehold improvements consist of:

Leasehold improvements	\$ 35,141,545
Furniture, fixtures, and equipment	6,712,482
Warehouse	397,205
Capital lease equipment	219,547
	<u>42,470,779</u>
Less accumulated depreciation	<u>(18,316,504)</u>
	<u>\$ 24,154,275</u>

Depreciation expense was \$1,511,301 for the year ended June 30, 2012.

NOTE 9. LINE OF CREDIT

In December 2011, the Museum entered into a new line of credit loan agreement with Jacobs Family Trust and Price Family Charitable Fund for the Museum to borrow funds for the purpose of renovating a gallery and constructing a new exhibit that is being funded by the California Department of Parks and Recreation. The Museum may borrow up to \$2,000,000 to pay costs relating to the project. As of June 30, 2012 the Museum had \$65,000 outstanding on the line of credit.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 10. NOTES PAYABLE

Notes payable consists of:

Bonds issued through the County of San Diego, secured by buildings and leasehold improvements, principal due on various dates through 2028, plus interest at 5.5 to 5.7 percent, payable in January and July	\$ 11,200,000
Bonds payable, bank, secured by equipment, principal due on various dates through 2026, plus interest at 5.5 percent, payable in July	1,091,920
Note payable, J. W. Sefton Foundation, monthly payment of \$40,000, including interest at 6 percent, due May 2013	560,000
Note payable, Melvin Garb Foundation, monthly payment of \$7,500, including interest at 6 percent, due May 2013	105,000
Note payable, Harold R Stern Foundation, monthly payment of \$7,500, including interest at 6 percent, due May 2013	105,000
Note payable, Bank of America, secured by real property, monthly payment of \$2,656, including interest at 7.4 percent, due December 2016	121,782
Note payable, City National Bank, secured by real property, monthly payment of \$1,637, including interest at 8.0 percent, due September 2012	169,219
Loan payable, SDG&E, for energy efficient improvement for the museum, monthly payments of \$3,155, non-interest bearing, due June 2014	72,574
	<u>\$ 13,425,495</u>

Maturities of notes payable debt are as follows:

<u>Years Ending June 30,</u>	
2013	\$ 1,449,498
2014	511,610
2015	481,673
2016	486,026
2017	475,583
Thereafter	10,021,105
	<u>\$ 13,425,495</u>

At June 30, 2012, funds held in trust totaling \$1,168,642 are invested in treasury obligations and an annuity contract with Transamerica Occidental Life Insurance Company. These funds included in investments are held in reserve for payment of principal and interest on the County of San Diego bond indebtedness.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 11. COMMITMENTS

Contracts - The Museum has commitments with various companies that produce exhibits. At June 30, 2012, approximately \$347,083 is remaining to be paid on the contracts in the upcoming years. For the year ended June 30, 2012, exhibit rental expense totaled approximately \$753,965.

Operating Leases - The Museum leases two vehicles under lease agreements expiring in 2014 and copier equipment under two lease agreements expiring on or before December, 2014. For the year ended June 30, 2012, lease expense totaled approximately \$11,544.

Capital Lease - The Museum leases equipment under a lease agreement expiring in August, 2014, at a discount rate of 6%. For the year ended June 30, 2012, the Museum made lease payments of \$50,933, of which \$43,318 were amortized and \$7,615 were recorded as interest. Depreciation expense on the capital lease for the year ended June 30, 2012 was \$43,903.

Future minimum lease payments required under the operating and capital lease agreements are as follows:

<u>Years Ending June 30,</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
2013	\$ 42,514	\$ 50,933
2014	20,740	50,933
2015	10,010	8,489
	<u>\$ 73,264</u>	<u>\$ 110,355</u>

Employment Contracts - The Museum has a contract with the CEO for an annual salary and annual deposit to a Retirement Plan through July 31, 2013. In addition, the Museum has agreements with the Vice President of Institutional Advancement and the VP of Public Programs & Research on an at-will basis. The agreements provide a twelve month salary severance if the employees are terminated without cause. All three individuals have voluntarily reduced their annual salaries, which will be restored in fiscal year 2013.

*Salaries fully restored in fiscal year 2013.

NOTE 12. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of:

Time Restricted	\$ 835,971
Charitable remainder trusts	352,834
Science and research	253,935
Pooled income funds*	231,059
Education	124,611
Exhibits	104,777
	<u>\$ 1,903,187</u>

*The Museum maintains a pooled income fund at Union Bank of California. Donors to the pooled income fund retain the right to the income earned on the principal for their lifetime or other stipulated periods, at which time, the principal becomes unrestricted. The fund is reported at its June 30, 2012 net present value.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 12. RESTRICTED NET ASSETS (continued)

Permanently restricted net assets consist of endowments, the income from which is expendable for:

Endowments held at the Museum	
Botany	\$ 1,677,826
General operations	1,603,481
Ornithology	1,378,002
Marine invertebrates/paleontology	1,167,672
Biodiversity Research Center of the California's	872,925
Education	202,000
Maintenance and library research	145,849
Entomology	100,147
Library	67,200
Paleontology Fund	26,840
Herpetology	12,615
Member science endowment	6,488
	<u>7,261,045</u>
 Beneficial interest in perpetual trust	 <u>2,309,417</u>
 Endowments held at San Diego Foundation	
Scientific	1,492,053
General operations	222,951
	<u>1,715,004</u>
	<u>\$ 11,285,466</u>

NOTE 13. NET ASSETS RELEASED FROM RESTRICTION

Temporarily restricted net assets were released for the following purposes:

Debt payments	\$ 1,000,000
Endowment funds released	295,885
Science and Research	293,679
Education	291,157
Time Restricted	200,000
Exhibits	124,126
	<u>\$ 2,204,847</u>

NOTE 14. ENDOWMENT

The Museum's endowment consists of 23 individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified based in the existence or absence of donor imposed restrictions. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 13. ENDOWMENT (continued)

Interpretation of Relevant Law – The Board of Directors of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum 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 Museum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Expected tax consequences of investment decisions
- Other resources of the Museum
- The investment policies of the Museum

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$(165,093) as of June 30, 2012 and were the result of unfavorable market conditions.

Spending Policy, Return Objectives and Risk Parameters – The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 8.5 to 9 percent annually. Actual returns in any given year may vary from this amount.

The Museum has a policy of appropriating for distribution each year 6% of its endowment fund, based on the average value as calculated using a rolling three year average. It is also the Museum's policy not to take distributions from an endowment's principal value.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, The Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 14. ENDOWMENT (continued)

**Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 349,020	\$ 11,500,579	\$ 11,849,599
Investment return:				
Investment income	-	125,662	-	125,662
Net appreciation (realized and unrealized)	-	(178,797)	(281,693)	(460,490)
Total investment return	-	(53,135)	(281,693)	(334,828)
Transfer to cover prior year corpus deficiency	(165,093)	165,093	-	-
Appropriation of assets for expenditure	-	(460,978)	(58,864)	(519,842)
Contributions	-	-	125,444	125,444
Endowment net assets, end of year	<u>\$ (165,093)</u>	<u>\$ -</u>	<u>\$ 11,285,466</u>	<u>\$ 11,120,373</u>

NOTE 15. BENEFIT PLANS

Non-qualified Plan - The Museum has a non-qualified plan for the benefit of the CEO. During the year ended June 30, 2012, the Museum did not make any contributions to the plan. As of June 30, 2012, \$296,000 plus approximately \$39,000 of accrued interest on unfunded contributions is owed by the Museum to the CEO's plan.

NOTE 16. CONTINGENCIES

Grants and Contracts - The Museum has grants and contracts with government agencies which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits would not have a material impact on the Museum's financial statements.

NOTE 17. ENDOWMENT INTERFUND ASSET PURCHASE

On June 29, 2012, the Museum's Unrestricted Fund borrowed \$325,000, at an annual discount rate of 7%, from their endowment fund, which was secured by the Museum's receivables. This amount was repaid using the annual distribution from the endowment fund on July 1, 2012.

NOTE 18. FINANCIAL STRATEGY

During the year ended June 30, 2012, the Museum incurred a positive change in net assets of \$343,638.

Over the last two years, the Museum successfully completed a significant restructure that has continued its goal towards long term sustainability.

The Board of Trustees has approved a budget for the fiscal year 2013. The Museum's results will be monitored closely to help ensure that expenses do not exceed revenue and that operations are at a level that can be sustained given the Museum's sources of revenue.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 19. SUBSEQUENT EVENTS

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Museum recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Museum's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Museum has evaluated subsequent events through September 13, 2012, which is the date the financial statements are available for issuance, and concluded that there was the following transaction that needed to be disclosed:

Debt Refinancing

On August 7, 2012, the Museum entered into a master loan agreement with First Republic Bank which consolidated all of the Museum's note payable balances except for the Museum's balance with SDG&E. This new loan agreement will have a new tax exempt note payable balance of \$12,018,000, which will be payable in monthly installments of \$65,794.65 plus a taxable note payable balance of \$802,000, which will be payable in monthly installments of \$4,854.56 through August 1, 2037.

NOTE 20. JUNE 30, 2011 FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2011 from which the summarized information was derived.



3104 Fourth Avenue
San Diego, California 92103
619.615.5380 Fax 619.615.5389

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Trustees
The San Diego Society of Natural History

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christopher M. Roberts, CPA
for WEST RHODE & ROBERTS

San Diego, California
September 13, 2012

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
SUPPLEMENTARY INFORMATION
INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS
Year Ended June 30, 2012

EXPENSE CLASSIFICATION	<u>Budget</u>	<u>Actual</u>	<u>TOT Funds</u>
Operating income	\$ 9,617,851	\$ 13,399,908	\$ -
Operating expense	<u>(8,978,717)</u>	<u>(12,718,990)</u>	<u>(324,837)</u>
Net income	<u>\$ 639,134</u>	<u>\$ 680,918</u>	<u>\$ (324,837)</u>



3104 Fourth Avenue
San Diego, California 92103
619.615.5380 Fax 619.615.5389

**REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF THE CITY OF SAN DIEGO
COMMISSION FOR ARTS AND CULTURE ALLOCATIONS PROGRAM**

Board of Trustees
The San Diego Society of Natural History

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position of The San Diego Society of Natural History as of June 30, 2012, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated September 13, 2012.

In connection with our audit, nothing came to our attention that caused us to believe that The San Diego Society of Natural History failed to comply with the requirements of the City of San Diego Commission for Arts and Culture Allocations Program. However, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

This report is intended solely for the information and use of the Board of Trustees and management of The San Diego Society of Natural History, and the City of San Diego Commission for Arts and Culture Allocations Program, and should not be used for any other purpose.

Christopher M. Roberts, CPA
for WEST RHODE & ROBERTS

San Diego, California
September 13, 2012