

# FINANCIAL REPORT



June 30, 2013



## **CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS.....	1 – 2
FINANCIAL STATEMENTS	
Statement of Financial Position .....	3
Statement of Activities .....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	6 – 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 financial statements of the San Diego Society of Natural History (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

**Auditor's Responsibility** – Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

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

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

**Opinion** – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position the San Diego Society of Natural History as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information** – We have previously audited the Museum's June 30, 2012 financial statements, and our report dated September 13, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Matter** – Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Income/Expense Statement, City of San Diego TOT Funds on page 18 is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read 'C. M. Roberts', with a long horizontal line extending to the right.

Christopher M. Roberts, CPA  
for WEST RHODE & ROBERTS

San Diego, California  
October 3, 2013

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2013**  
**(With Summarized Financial Information for June 30, 2012)**

	2013	2012 (Note 19)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,843,730	\$ 1,798,987
Receivables	1,611,795	1,724,216
Inventories	10,132	14,202
Prepaid expenses and other assets	1,136,382	1,119,127
Investments	9,399,840	9,379,920
Beneficial interest in perpetual trust	2,403,494	2,309,417
Property, equipment, and leasehold improvements, less accumulated depreciation	22,595,863	24,154,275
Collections and exhibits	1	1
Total assets	<u>\$ 40,001,237</u>	<u>\$ 40,500,145</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 802,580	\$ 989,992
Accrued expenses	1,080,983	1,323,207
Deferred revenue	55,676	121,427
On-statement financing	34,708	72,574
Capital lease liability	57,252	103,242
Line of credit	515,128	65,000
Notes payable	12,579,185	13,352,921
Total liabilities	<u>15,125,512</u>	<u>16,028,363</u>
Commitments (Note 12)		
<b>Net assets:</b>		
Unrestricted	10,313,641	11,283,129
Temporarily restricted	2,970,552	1,903,187
	<u>13,284,193</u>	<u>13,186,316</u>
Permanently restricted:		
Museum endowments	7,473,034	7,261,045
Beneficial interest in perpetual trust	2,403,494	2,309,417
Endowments held by others	1,715,004	1,715,004
	<u>11,591,532</u>	<u>11,285,466</u>
Total net assets	<u>24,875,725</u>	<u>24,471,782</u>
Total liabilities and net assets	<u>\$ 40,001,237</u>	<u>\$ 40,500,145</u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2013**

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

2013

	2013				2012	
	Unrestricted		Total	Restricted	Total	(Note 19)
	Operations	Depreciation	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING SUPPORT AND REVENUE</b>						
Admissions and exhibit ticket sales	\$ 3,372,061	\$ -	\$ 3,372,061	\$ -	\$ -	\$ 3,372,061
Contributions	1,694,776	-	1,694,776	2,226,463	211,989	4,133,228
Government appropriations	950,839	-	950,839	102,692	-	1,053,531
Contracts	2,097,499	-	2,097,499	-	-	2,097,499
Education	212,973	-	212,973	-	-	212,973
Memberships	463,174	-	463,174	-	-	463,174
Other	251,596	-	251,596	-	-	251,596
Net assets released from restrictions:						
Satisfaction of program restrictions	2,195,018	-	2,195,018	(2,195,018)	-	-
Total support and revenue	11,237,936	-	11,237,936	134,137	211,989	11,584,062
<b>OPERATING EXPENSES</b>						
Exhibits	4,337,840	634,354	4,972,194	-	-	4,972,194
Science and research	3,030,778	356,379	3,387,157	-	-	3,387,157
Education/public programs	938,657	282,048	1,220,705	-	-	1,220,705
Membership	202,410	10,182	212,592	-	-	212,592
Management and general	960,553	132,369	1,092,922	-	-	1,092,922
Fundraising	796,306	20,365	816,671	-	-	816,671
Communications	839,777	56,003	895,780	-	-	895,780
Total operating expenses	11,106,321	1,491,700	12,598,021	-	-	12,598,021
Operating revenue and support in excess of expenses	131,615	(1,491,700)	(1,360,085)	134,137	211,989	(1,013,959)
<b>INVESTMENT GAINS (LOSSES)</b>						
Investment income	385	-	385	170,393	-	170,778
Gain on sale of assets	206,719	-	206,719	-	-	206,719
Net realized and unrealized gain (loss)	183,493	-	183,493	762,835	94,077	1,040,405
Total Investment gains (losses)	390,597	-	390,597	933,228	94,077	1,417,902
<b>TOTAL CHANGE IN NET ASSETS</b>	522,212	(1,491,700)	(969,488)	1,067,365	306,066	403,943
<b>NET ASSETS AT BEGINNING OF YEAR</b>	29,599,632	(18,316,502)	11,283,129	1,903,187	11,285,466	24,471,782
<b>NET ASSETS AT END OF YEAR</b>	\$ 30,121,844	\$ (19,808,202)	\$ 10,313,641	\$ 2,970,552	\$ 11,591,532	\$ 24,875,725
						\$ 24,471,782

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2013**

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

	2013	2012 (Note 19)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 403,943	\$ 343,638
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,491,700	1,511,301
Amortization	197,722	79,418
Gain on sale of assets	(206,719)	-
Allowance for uncollectability and discounts	(120,204)	(88,717)
Change in temporarily restricted net assets	(1,067,365)	(430,961)
Change in permanently restricted net assets	(306,066)	215,113
Unrestricted realized and unrealized (gain) loss	(183,493)	484,429
(Increase) decrease in operating assets:		
Receivables	232,625	(68,616)
Inventories	4,070	34,493
Prepaid expenses and other assets	(214,977)	(146,830)
Increase (decrease) in operating liabilities:		
Deferred revenue	(65,751)	63,878
Accounts payable and accrued expenses	(429,636)	261,945
Net cash (used in) provided by operating activities	<u>(264,151)</u>	<u>2,259,091</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Sale (purchase) of investments - unrestricted	61,043	(271,170)
Proceeds from sale of property and equipment	455,264	-
Purchase of property and equipment	<u>(173,380)</u>	<u>(63,012)</u>
Net cash provided by (used in) investing activities	<u>342,927</u>	<u>(334,182)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	515,128	165,000
Payments on line of credit	(65,000)	(100,000)
Change in temporarily restricted net assets	1,067,365	430,961
Change in permanently restricted net assets	306,066	(215,113)
Principal payments under capital lease obligations	(45,990)	(43,318)
Proceeds from notes payable	12,820,000	-
Payments of notes payable	<u>(13,631,602)</u>	<u>(732,060)</u>
Net cash provided by (used in) financing activities	<u>965,967</u>	<u>(494,530)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,044,743	1,430,379
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,798,987</u>	<u>368,608</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,843,730</u>	<u>\$ 1,798,987</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 542,501</u>	<u>\$ 730,436</u>

## **THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **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**

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#### **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.

During the year ended June 30, 2013, the Museum hosted the Traveling Exhibition, "Titanic: The Artifact Exhibition", to which it charged an additional fee in excess of the normal general admission price.

**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, 2013.

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. Improvements are depreciated over 30 years. Furniture and equipment are depreciated over 5 to 20 years.

**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.

## THE SAN DIEGO SOCIETY OF NATURAL HISTORY

### NOTES TO FINANCIAL STATEMENTS

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

**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.

**Collections** - The Museum houses over seven 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.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2. CONCENTRATION OF CREDIT RISK**

**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.

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	\$ 801,345
Grants	179,227
Pledges	135,372
City of San Diego	79,048
Other	58,937
Less allowance for doubtful accounts	<u>(75,000)</u>
	<u>1,178,929</u>
Due in one to five years	
Charitable remainder trusts	582,856
Pledges	50,000
Less discount to net present value at 4%	<u>(199,990)</u>
	<u>432,866</u>
Total receivables	<u>\$ 1,611,795</u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4. INVESTMENTS**

Investments, at fair value, consist of:

Funds held at San Diego Foundation	\$ 1,738,943
Mutual funds	7,413,838
Money market funds	6,637
Other	8,000
Pooled income fund	<u>241,902</u>
	9,409,320
Less discount to present value on pooled income fund	<u>(9,480)</u>
Total	<u><u>\$ 9,399,840</u></u>

**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, 2013, Using				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments	\$ 9,399,840	\$ 9,399,840	\$ -	\$ -
Beneficial interest in perpetual trust	<u>2,403,494</u>	<u>-</u>	<u>2,403,494</u>	<u>-</u>
	<u><u>\$ 11,803,334</u></u>	<u><u>\$ 9,399,840</u></u>	<u><u>\$ 2,403,494</u></u>	<u><u>\$ -</u></u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5. FAIR VALUE OF INVESTMENTS (continued)**

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 quoted market prices at June 30, 2013. The Museum also has a beneficial interest in a perpetual trust which is based upon significant unobservable inputs as performed by Wells Fargo Bank. In the year ending June 30, 2013, the account incurred an unrealized gain of \$94,078, from its balance of \$2,309,417 at June 30, 2012.

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 \$11,961	\$ 287,056
Non-qualified retirement plan funds held in trust	243,316
Prepaid expenses and deposits	<u>606,010</u>
	<u>\$ 1,136,382</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 \$118,055 in short term reserves and cash, \$2,285,439 of fixed income, equity, complementary strategies, and real asset funds at June 30, 2013. 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	6,826,367
Capital lease equipment	219,547
Construction in progress	<u>59,035</u>
	42,246,494
Less accumulated depreciation	<u>(19,650,631)</u>
	<u>\$ 22,595,863</u>

Depreciation expense was \$1,491,700 for the year ended June 30, 2013.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 9. ON-STATEMENT FINANCING**

The Museum entered into an on-statement financing arrangement with SDG&E in conjunction with their rebate and incentive program. The program allowed the museum to increase its energy efficiency. The on-statement financing is non-interest bearing and is payable in monthly installments of \$3,155 through June 2014. The total of the remaining payments is \$34,708 at June 30, 2013.

**NOTE 10. LINE OF CREDIT**

In December 2011, the Museum entered into a 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, at a rate of 3%, to pay costs relating to the project. As of June 30, 2013, the Museum had \$215,128 outstanding on the line of credit. The line of credit maturity date is December 31, 2015.

In August 2012, the Museum entered into a revolving line of credit agreement with First Republic Bank that allows the Museum to borrow up to \$500,000, at a variable interest rate of .25% plus the Prime interest rate, not to go below 4.5%. As of June 30, 2013, the Museum had \$300,000 outstanding on the line of credit. The line of credit expires on August 1, 2022.

**NOTE 11. NOTES PAYABLE**

On August 7, 2012 the Museum consolidated and refinanced its outstanding notes payables. The refinancing allowed the Museum to take advantage of the current lower interest rate environment and materially lowered the cost of its debt.

Notes payable at June 30, 2013 consists of the following:

\$11,790,372 note payable with First Republic Bank, secured by buildings and leasehold improvements. The interest rate on the loan is 4.35 percent, and is payable in monthly installments of \$65,794.65 through September 2037.

\$788,813 note payable with First Republic Bank, secured by buildings and leasehold improvements. The interest rate on the loan is 5.35 percent, and is payable in monthly installments of \$4,854.56 through September 2037.

Maturities of notes payable debt are as follows:

<u>Years Ending June 30,</u>	
2014	\$ 297,540
2015	310,914
2016	323,453
2017	339,437
2018	354,701
Thereafter	<u>10,953,140</u>
	<u>\$ 12,579,185</u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12. COMMITMENTS**

**Contracts** - The Museum has commitments with various companies that produce exhibits. At June 30, 2013, approximately \$453,947 is remaining to be paid on the contracts in the upcoming years. For the year ended June 30, 2013, 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, 2013, lease expense for these leases totaled approximately \$42,693.

In addition, the Museum entered into an agreement to lease warehouse space under a lease agreement expiring in June 2023. Payments on the lease commenced in July 2013.

**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, 2013, the Museum made lease payments of \$50,933, of which \$45,990 were amortized and \$4,943 were recorded as interest. Depreciation expense on the capital lease for the year ended June 30, 2013 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>
2014	\$ 111,819	\$ 50,933
2015	102,530	8,489
2016	74,904	-
2017	76,404	-
2018	77,940	-
Thereafter	439,668	-
	<u>\$ 883,265</u>	<u>\$ 59,422</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.

**NOTE 13. RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of:

Special projects campaign	\$ 925,075
Time Restricted	580,000
Science and research	430,993
Charitable remainder trusts	385,366
Endowment TR	372,790
Pooled income funds*	232,422
Education	43,906
	<u>\$ 2,970,552</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, 2013 net present value.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 13. RESTRICTED NET ASSETS (continued)**

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

Endowments held at the Museum	
General operations	\$ 1,700,470
Botany	1,677,826
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
Paleontology Fund	141,840
Entomology	100,147
Library	67,200
Herpetology	12,615
Member science endowment	6,488
	<u>7,473,034</u>
 Beneficial interest in perpetual trust	 <u>2,403,494</u>
 Endowments held at San Diego Foundation	
Scientific	1,492,053
General operations	222,951
	<u>1,715,004</u>
	<u>\$ 11,591,532</u>

**NOTE 14. NET ASSETS RELEASED FROM RESTRICTION**

Temporarily restricted net assets were released for the following purposes:

Debt payments	\$ 750,000
Endowment funds released	560,438
Time restricted	255,971
Science and research	234,472
Education	207,303
Special Projects campaign	126,851
Exhibits	59,983
	<u>\$ 2,195,018</u>

**NOTE 15. 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

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#### **NOTE 15. 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. There were no funds with deficiencies at June 30, 2013.

**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 15. ENDOWMENT (continued)**

**Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (165,093)	\$ -	\$ 11,285,466	\$ 11,120,373
Investment return:				
Investment income	-	170,393	-	170,393
Net appreciation (realized and unrealized)	-	762,835	173,329	936,164
Total investment return	-	933,228	173,329	1,106,557
Transfer to cover prior year corpus deficiency	165,093	(165,093)	-	-
Appropriation of assets for expenditure	-	(395,345)	(79,252)	(474,597)
Contributions	-	-	211,989	211,989
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 372,790</u>	<u>\$ 11,591,532</u>	<u>\$ 11,964,322</u>

**NOTE 16. BENEFIT PLANS**

**Non-qualified Plan** - The Museum has a non-qualified plan for the benefit of the CEO. During the year ended June 30, 2013, the Museum did not make any contributions to the plan. As of June 30, 2013, \$410,601 of unfunded contributions is owed by the Museum to the CEO's plan.

**NOTE 17. 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 18. 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 October 3, 2013 which is the date the financial statements are available for issuance, and concluded that there were no transactions that needed to be disclosed.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 19. JUNE 30, 2012 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, 2012 from which the summarized information was derived.

Certain June 30, 2012 balance sheet and expense groupings have been changed to match the June 30, 2013 presentation. These grouping changes have no effect on the net assets of the Museum.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**  
**SUPPLEMENTARY INFORMATION**  
**INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS**  
**Year Ended June 30, 2013**

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<b>EXPENSE CLASSIFICATION</b>	<u>Budget</u>	<u>Actual</u>	<u>TOT Funds</u>
Operating income	\$ 11,190,822	\$ 11,584,062	\$ -
Operating expense	<u>(11,129,606)</u>	<u>(12,598,021)</u>	<u>(308,693)</u>
Net income	<u>\$ 61,216</u>	<u>\$ (1,013,959)</u>	<u>\$ (308,693)</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, 2013, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated October 3, 2013.

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. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Organization's non-compliance with the requirements of the City of San Diego Commission for Arts and Culture Allocations Program.

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 is not intended to be and should not be used by anyone other than these specified parties.

Christopher M. Roberts, CPA  
for WEST RHODE & ROBERTS

San Diego, California  
October 3, 2013