

**SAN DIEGO SOCIETY OF NATURAL
HISTORY**



FINANCIAL REPORT

JUNE 30, 2014



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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, 2014, 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

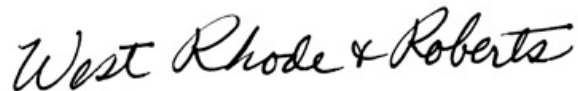
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Society of Natural History as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the San Diego Society of Natural History's June 30, 2013, financial statements, and our report dated October 3, 2013, 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, 2014, 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 is 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 cursive script that reads "West Rhode & Roberts".

WEST RHODE & ROBERTS

San Diego, California
September 25, 2014

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
STATEMENT OF FINANCIAL POSITION
June 30, 2014
(With Summarized Financial Information for June 30, 2013)

	2014	2013 (Note 17)
ASSETS		
Cash and cash equivalents	\$ 7,696,681	\$ 2,843,730
Receivables	7,823,081	1,611,795
Prepaid expenses and other assets	737,924	1,146,514
Investments	13,236,458	9,399,840
Beneficial interest in perpetual trust	2,630,785	2,403,494
Property, equipment, and leasehold improvements, less accumulated depreciation	21,710,871	22,595,863
Collections and exhibits	1	1
Total assets	<u>\$ 53,835,801</u>	<u>\$ 40,001,237</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,981,774	\$ 1,883,563
Deferred revenue	116,429	55,676
On-statement financing	-	34,708
Capital lease liability	8,426	57,252
Line of credit	215,128	515,128
Notes payable	8,407,568	12,579,185
Total liabilities	<u>10,729,325</u>	<u>15,125,512</u>
Commitments		
Net assets:		
Unrestricted	12,754,515	10,313,641
Temporarily restricted	15,858,972	2,970,552
	<u>28,613,487</u>	<u>13,284,193</u>
Permanently restricted:		
Museum endowments	10,147,200	7,473,034
Beneficial interest in perpetual trust	2,630,785	2,403,494
Endowments held by others	1,715,004	1,715,004
	<u>14,492,989</u>	<u>11,591,532</u>
Total net assets	<u>43,106,476</u>	<u>24,875,725</u>
Total liabilities and net assets	<u>\$ 53,835,801</u>	<u>\$ 40,001,237</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	2014						2013
	Unrestricted			Restricted			Total
	Operations	Depreciation	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Note 17)
OPERATING SUPPORT AND REVENUE							
Admissions and exhibit ticket sales	\$ 2,856,153	\$ -	\$ 2,856,153	\$ -	\$ -	\$ 2,856,153	\$ 3,217,035
Contributions (Note 18)	1,354,741	-	1,354,741	18,188,296	2,674,166	22,217,203	4,133,228
Government grants	5,045,792	-	5,045,792	53,096	-	5,098,888	1,053,531
Contracts	2,442,691	-	2,442,691	-	-	2,442,691	2,097,499
Education	177,742	-	177,742	-	-	177,742	212,973
Memberships	432,262	-	432,262	-	-	432,262	463,174
Other	377,608	-	377,608	-	-	377,608	406,622
Net assets released from restrictions:							
Satisfaction of restrictions (Note 13)	7,083,261	-	7,083,261	(6,994,293)	(88,968)	-	-
Total support and revenue	19,770,250	-	19,770,250	11,247,099	2,585,198	33,602,547	11,584,062
OPERATING EXPENSES							
Exhibitions	8,276,352	612,850	8,889,202	-	-	8,889,202	4,972,194
Science and research	3,568,323	344,298	3,912,621	-	-	3,912,621	3,387,157
Education/public programs	937,172	272,487	1,209,659	-	-	1,209,659	1,220,705
Membership	224,610	9,837	234,447	-	-	234,447	212,592
Management and general	1,033,047	127,882	1,160,929	-	-	1,160,929	1,092,922
Institutional advancement	918,403	19,674	938,077	-	-	938,077	816,671
Communications and public relations	917,026	54,104	971,130	-	-	971,130	895,780
Total operating expenses	15,874,933	1,441,132	17,316,065	-	-	17,316,065	12,598,021
Operating revenue and support in excess of expenses	3,895,317	(1,441,132)	2,454,185	11,247,099	2,585,198	16,286,482	(1,013,959)
INVESTMENT GAINS (LOSSES)							
Investment income	-	-	-	554,149	46,893	601,042	170,778
(Loss) gain on sale of assets	(13,311)	-	(13,311)	-	-	(13,311)	206,719
Net realized and unrealized gain	-	-	-	1,087,172	269,366	1,356,538	1,040,405
Total investment gains (losses)	(13,311)	-	(13,311)	1,641,321	316,259	1,944,269	1,417,902
Change in net assets	3,882,006	(1,441,132)	2,440,874	12,888,420	2,901,457	18,230,751	403,943
NET ASSETS AT BEGINNING OF YEAR	30,121,843	(19,808,202)	10,313,641	2,970,552	11,591,532	24,875,725	24,471,782
NET ASSETS AT END OF YEAR	\$ 34,003,849	\$ (21,249,334)	\$ 12,754,515	\$ 15,858,972	\$ 14,492,989	\$ 43,106,476	\$ 24,875,725

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u> (Note 17)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 18,230,751	\$ 403,943
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,441,132	1,491,700
Amortization	11,964	197,722
Loss (gain) on sale of assets	13,311	(206,719)
Allowance for uncollectability and discounts	180,000	(120,204)
Contributions restricted for endowments	(2,901,457)	(306,066)
Contributed stock	(604,175)	-
Realized and unrealized gain on investments	(1,356,538)	(183,493)
Change in operating assets and liabilities:		
Receivables	(6,388,287)	232,625
Prepaid expenses and other assets	396,627	(210,907)
Accounts payable and accrued expenses	63,467	(429,636)
Deferred revenue	<u>60,753</u>	<u>(65,751)</u>
Net cash provided by operating activities	<u>9,147,548</u>	<u>803,214</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchase) sale of investments	(2,103,196)	61,043
Proceeds from sale of property and equipment	-	455,264
Purchase of property and equipment	<u>(572,415)</u>	<u>(173,380)</u>
Net cash (used in) provided by investing activities	<u>(2,675,611)</u>	<u>342,927</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	515,128
Payments on line of credit	(300,000)	(65,000)
Contributions restricted for endowments	2,901,457	306,066
Principal payments under capital lease obligations	(48,826)	(45,990)
Proceeds from notes payable	-	12,820,000
Payments of notes payable	<u>(4,171,617)</u>	<u>(13,631,602)</u>
Net cash used in financing activities	<u>(1,618,986)</u>	<u>(101,398)</u>
Increase in cash and cash equivalents	4,852,951	1,044,743
Cash and cash equivalents at beginning of year	<u>2,843,730</u>	<u>1,798,987</u>
Cash and cash equivalents at end of year	<u>\$ 7,696,681</u>	<u>\$ 2,843,730</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 558,821</u>	<u>\$ 542,501</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. GENERAL PURPOSE AND ACTIVITIES

The San Diego Society of Natural History (the Museum) was founded in 1874 by a group of citizen-naturalists and is the second oldest scientific institution in Southern California and the third oldest in the western United States.

The Museum's mission is to *interpret the natural world through research, education, and exhibits; to promote understanding of the evolution and diversity of Southern California and the peninsula of Baja California; and to inspire in all a respect for nature and the environment.*

The Museum's Biodiversity Research Center of the Californias focuses on the biology, ecology, paleontology, and geology of southern California and the Baja Peninsula. The Museum's 7.3 million specimens represent a permanent record of our natural heritage. They contain materials that support the research of many scientific disciplines, including those working to define and preserve biodiversity and monitor global change.

The Environmental Science Education Center offers programs for lifelong learning, from pre-school through senior adults. Programs are offered in the Museum, in schools and other community locations, as well as outdoors, and include public lectures. The range of K-12 programs includes hands-on, standards based science workshops, which are enlivened by encased and touchable natural specimens.

The Museum occupies a 150,000-square-foot facility in San Diego's Balboa Park. Public access to the building includes viewing exhibitions on five floors; 3-D films in the 300-seat Charmaine and Maurice Kaplan giant-screen theater; lectures and discussions held in the theatre and education classes in the Museum's four classrooms.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Classification of Net Assets – The Museum reports information regarding its financial position and activities in three classes of net assets – unrestricted, temporarily restricted, and permanently restricted - 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.

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.

Prepaid Expenses and Other Assets – Prepaid expenses include loan issuance costs which are amortized on the straight-line method over the term of the loan, and traveling exhibition costs.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions Receivable – Contributions are recognized upon the earlier of the receipt of a donor's unconditional pledge or upon receipt of the contribution or membership dues. 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. An allowance for uncollectable pledges is recorded based on past experience and an analysis of current balances. Pledges are written off in the year deemed uncollectible.

As noted in Note 18, the Museum was notified during the year that it is the beneficiary in a charitable remainder trust. At June 30, 2014, the final value of this contribution could not be determined and has not been recorded in the statement of activities.

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.

Under the Museum's bylaws, the Board of Trustees Finance and Investment Committees have overall responsibility for the establishment of policies and general governance related to investments of the Museum.

Beneficial Interests in Perpetual Trusts – The Museum is named as beneficiary on a perpetual trust held by a third party. This is an arrangement in which the donor established 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's assets in perpetuity, but never receives the assets held in trust. The trust is recorded as permanently restricted net assets.

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 at a bank. During the life of the donors, income from the pooled funds is distributed to the donors. Upon the 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.

Physical Facilities – The Museum constructed the original building and the expansion 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. Under the terms of the lease, the City is responsible for the maintenance of the exterior of the building.

In accordance with accounting principles generally accepted in the United States of America (US GAAP), 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 SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$5,000 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.

Collections – The Museum houses over seven million natural history specimens in collections dating back as far as the 1870s. Specimens include plants, birds, mammals, insects, reptiles, amphibians, marine invertebrates, fossils, and minerals mainly from the Western United States and Baja California, Mexico. In addition, the Museum's library includes some 25,000 titles in 56,000 volumes with many significant and rare volumes on natural history. The Museum's collections are expensed when acquired. In accordance with the practice generally followed by museums, the value of the collections housed by the Museum are excluded from the financial statements and are reflected on the statements of financial position at the nominal value of \$1. Contributed collections are not reflected in the financial statements. There were no proceeds from deaccessions during the year ended June 30, 2014.

Contribution Revenue – 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 Grants – 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 and Education – The Museum records revenue when goods or services are provided.

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

Exhibition Costs – Exhibition costs are usually expensed when incurred; however, traveling exhibition costs included in prepaid expense are expensed over the term of the exhibition.

Traveling exhibitions are exhibitions 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 term of the exhibition. During the year ended June 30, 2014, the Museum

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

hosted the traveling exhibition, "Real Pirates", to which it charged an additional fee in excess of the normal general admission price.

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

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 property is recorded at their fair 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 US GAAP, 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.

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 (ASC) 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 it has no uncertain tax positions requiring accrual or disclosure.

NOTE 3. 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.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES

Receivables consist of:

Due in less than one year	
Contributions	\$ 3,894,970
Grants	874,949
Contracts	968,809
Pledges	624,475
Other	24,084
Less allowance for doubtful accounts	<u>(255,000)</u>
	<u>6,132,287</u>
Due in one to five years	
Charitable remainder trusts	656,386
Pledges	1,405,583
Less discounts to net present value at 4%	<u>(371,175)</u>
	<u>1,690,794</u>
Total receivables	<u><u>\$ 7,823,081</u></u>

NOTE 5. INVESTMENTS

Investments, at fair value, consist of:

	<u>Total</u>
Mutual funds	\$ 9,821,582
Funds held at San Diego Foundation	1,897,353
Money market funds	1,268,111
Pooled income fund	244,794
Other	<u>8,000</u>
	13,239,840
Less discount to present value on pooled income fund	<u>(3,382)</u>
Total	<u><u>\$ 13,236,458</u></u>

NOTE 6. FAIR VALUE OF INVESTMENTS

FASB ASC 820 (ASC 820), Fair Value Measurements establishes a framework for measuring fair value. Fair value is defined as the price that the Museum would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the most advantageous market of the asset on the measurement date. ASC 820 also establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier hierarchy on inputs is summarized in the three broad levels listed as follows:

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

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 6. FAIR VALUE OF INVESTMENTS (continued)

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, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>Assets</u>				
Investments	\$ 11,339,105	\$ -	\$ -	\$ 11,339,105
Funds held at San Diego Foundation	-	1,897,353	-	1,897,353
Beneficial interest in perpetual trust	-	2,630,785	-	2,630,785
	<u>\$ 11,339,105</u>	<u>\$ 4,528,138</u>	<u>\$ -</u>	<u>\$ 15,867,243</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 quoted market prices at June 30, 2014. The Museum also has a beneficial interest in a perpetual trust which is based upon significant unobservable inputs as performed by Wells Fargo Bank.

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 US GAAP.

NOTE 7. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of:

Loan issuance costs, net of accumulated amortization of \$23,925	\$ 275,092
Prepaid expenses and deposits	462,832
	<u>\$ 737,924</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 8. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Property, equipment, and leasehold improvements consist of:

Leasehold improvements	\$ 35,498,004
Furniture, fixtures, and equipment	6,917,459
Capital lease equipment	219,547
Construction in progress	211,526
	<u>42,846,536</u>
Less accumulated depreciation	<u>(21,135,665)</u>
	<u><u>\$ 21,710,871</u></u>

Depreciation expense was \$1,441,132 for the year ended June 30, 2014.

NOTE 9. 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 exhibition 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, 2014, the Museum had \$215,128 outstanding on the line of credit. The line of credit maturity date is December 31, 2015.

In August 2013, 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, 2014, the Museum had no amounts outstanding on the line of credit. The line of credit expires on August 1, 2022.

NOTE 10. NOTES PAYABLE

In 2012, the Museum refinanced its outstanding notes and bond 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, 2014, consists of the following:

\$7,902,801 tax-exempt note payable with First Republic Bank, secured by buildings and leasehold improvements. The interest rate on the loan is 4.35%, and is payable in monthly installments of \$65,794.65 through September 2037.

\$504,767 note payable with First Republic Bank, secured by buildings and leasehold improvements. The interest rate on the loan is 5.35%, and is payable in monthly installments of \$4,854.56 through September 2037.

The Museum received a restricted gift for the repayment of debt and both loans will be retired in the year ending June 30, 2015, see Note 18, Subsequent Events.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 11. COMMITMENTS

Exhibition Contracts – The Museum has commitments with various companies that produce exhibitions. At June 30, 2014, approximately \$150,000 is remaining to be paid on the contracts in the upcoming years. For the year ended June 30, 2014, exhibition rental expense totaled approximately \$803,204.

Permanent Exhibition Contracts – The Museum has commitments with various companies that fabricate exhibitions. This contract is funded through a grant from the State of California and costs are paid as incurred. At June 30, 2014, approximately \$2.2 million is remaining to be paid on the contracts in the upcoming years.

Operating Leases – The Museum leased a vehicle under a lease agreement expiring in 2014 and copier equipment under two lease agreements expiring on or before December 2014. For the year ended June 30, 2014, lease expense for these leases totaled approximately \$54,650.

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 2014.

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, 2014, the Museum made lease payments of \$50,933, of which \$48,826 were amortized and \$2,107 were recorded as interest. Depreciation expense on the capital lease for the year ended June 30, 2014 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>
2015	\$ 110,594	\$ 8,426
2016	88,476	-
2017	76,404	-
2018	77,940	-
2019	81,048	-
Thereafter	358,620	-
	<u>\$ 793,082</u>	<u>\$ 8,426</u>

Employment Contracts – The Museum has an employment contract with the CEO for an annual salary through June 30, 2016. 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 SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 12. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of:

Debt repayment	\$ 8,538,014
Special projects campaign	4,115,077
Endowment over corpus	1,614,772
Science, research and education	604,487
Charitable remainder trusts	445,211
Time restricted	300,000
Pooled income funds*	241,411
	<u>\$ 15,858,972</u>

*The Museum maintains a pooled income fund at Union Bank of California. The fund is reported at its June 30, 2014, net present value.

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

Endowments held at the Museum	
General operations	\$ 4,293,970
Science, research and education	5,853,230
	<u>10,147,200</u>
Beneficial interest in perpetual trust	<u>2,630,785</u>
Endowments held at San Diego Foundation	
Science, research and education	1,492,053
General operations	222,951
	<u>1,715,004</u>
	<u>\$ 14,492,989</u>

NOTE 13. NET ASSETS RELEASED FROM RESTRICTION

Temporarily restricted net assets were released for the following purposes:

Debt payments	\$ 4,883,447
Special projects campaign	861,441
Science, research and education	550,066
Endowment funds released	488,307
Time restricted	300,000
	<u>\$ 7,083,261</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

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 US GAAP, net assets associated with endowment funds are classified based on 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.

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.

Endowment Investment and Spending Policies – 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. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 8.5 to 9% annually. Actual returns in any given year may vary from this amount.

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 Museum's spending policy is approved by the board each year. For the year ended June 30, 2014, the amount to be distributed was equal to 5% 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.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level required by the donor or law or the historical value of the endowment gift. There were no funds with deficiencies at June 30, 2014.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO FINANCIAL STATEMENTS

NOTE 14. ENDOWMENT (continued)

Donor-restricted endowment net asset composition as of June 30, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 372,790	\$ 11,591,532	\$ 11,964,322
Investment return:				
Investment income	-	554,149	46,893	601,042
Net appreciation (realized and unrealized)	-	1,087,172	269,366	1,356,538
Total investment return	-	1,641,321	316,259	1,957,580
Appropriation of assets for expenditure	-	(399,339)	(88,968)	(488,307)
Contributions	-	-	2,674,166	2,674,166
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,614,772</u>	<u>\$ 14,492,989</u>	<u>\$ 16,107,761</u>

NOTE 15. BENEFIT PLANS

Non-Qualified Plan – The Museum had a non-qualified deferred compensation plan for the benefit of the CEO. The plan was funded and paid during the year ended June 30, 2014. The CEO became vested in the plan in August 2013 in the amount of \$666.603.

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. JUNE 30, 2013, 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, 2013, from which the summarized information was derived.

Certain June 30, 2013, balance sheet and expense groupings have been changed to match the June 30, 2014, presentation. These grouping changes have no effect on the net assets of the Museum.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

NOTES TO 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 September 25, 2014, which is the date the financial statements are available for issuance, and concluded that the following transactions needed to be disclosed:

In April of 2014, the Museum received notification it was the beneficiary of three trusts from the same donor who had passed away. The funds from the three gifts were restricted to retirement of the Museum's bank debt with any remaining funds designated for the Museum's permanently restricted endowment. The settlement of the three trusts was not expected to be completed by the year end. The structure of the loans allowed the Museum to prepay 30% of the principal each year of the loan before its anniversary date of August 10, therefore the payoff of the bank debt occurred in three payments.

The total amount of the gift was approximately \$15 million dollars and was recorded in the June 30, 2014, financial statements. The Museum received approximately \$11.1 million prior to June 30, 2014, and has a receivable recorded for the remaining \$3.9 million at June 30, 2014.

Prior to the year ended June 30, 2014, the Museum retired 30 percent of the bank debt which left the outstanding amount at \$8,407,568 as of June 30, 2014. Since an estimate of the total amount of the three trusts was known in June of 2014 the Museum was able to reasonably estimate the remaining amount after the bank retirement, and therefore transferred \$2.5 million to its endowment on June 20, 2014.

In July 2014, the Museum received an additional \$3,894,970. In August 2014, the remaining \$8,407,568 of the bank loans were paid off.

In addition, the Museum was notified that it is one of the final beneficiaries of Inter Vivos CRUT from this donor. As of September 25, 2014, it had not settled and thus the value is still unknown. Accordingly, no amounts have been recorded on the accompanying financial statements.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
SUPPLEMENTARY INFORMATION
INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS
Year Ended June 30, 2014

EXPENSE CLASSIFICATION	<u>Budget</u>	<u>Actual</u>	<u>TOT Funds</u>
Operating income	\$ 16,433,050	\$ 33,602,547	\$ -
Operating expense	<u>(16,433,050)</u>	<u>(17,316,065)</u>	<u>367,489</u>
Net income	<u>\$ -</u>	<u>\$ 16,286,482</u>	<u>\$ 367,489</u>



***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 (the Museum) as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated September 25, 2014.

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 Museum'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
September 25, 2014