

# FINANCIAL REPORT



**SAN DIEGO  
NATURAL HISTORY  
MUSEUM**

**June 30, 2009**



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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 statement of financial position of The San Diego Society of Natural History (the Museum) as of June 30, 2009, 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 2008 financial statements, and in our report dated September 2, 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2009, 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.

James H. West, CPA  
for WEST RHODE & ROBERTS

San Diego, California  
September 9, 2009

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2009**  
*(With Summarized Financial Information for June 30, 2008)*

	2009	2008 (Note 17)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,904,591	\$ 690,207
Receivables	1,468,502	2,468,061
Inventories	143,165	137,323
Prepaid expenses and other assets	1,204,716	1,258,912
Investments	7,492,974	9,347,477
Beneficial interest in perpetual trust	1,850,844	2,347,105
Property, equipment, and leasehold improvements, less accumulated depreciation	28,236,364	29,766,648
Collections and exhibits	1	1
Total assets	<b>\$ 42,301,157</b>	<b>\$ 46,015,734</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 1,111,071	\$ 1,121,229
Accrued expenses	878,094	1,232,527
Deferred revenue	37,510	128,930
Line of credit	2,570,000	200,000
Notes payable	13,992,106	14,453,466
Total liabilities	18,588,781	17,136,152
 Commitments (Note 9)		
<b>Net assets:</b>		
Unrestricted	11,925,920	16,762,258
Temporarily restricted	1,818,145	1,658,201
	13,744,065	18,420,459
Permanently restricted:		
Museum endowments	6,402,463	6,397,014
Beneficial interest in perpetual trust	1,850,844	2,347,105
Endowments held by others	1,715,004	1,715,004
	9,968,311	10,459,123
Total net assets	23,712,376	28,879,582
Total liabilities and net assets	<b>\$ 42,301,157</b>	<b>\$ 46,015,734</b>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2009**

*(With Summarized Financial Information for the Year Ended June 30, 2008)*

	2009			Total	2008 Total (Note 17)
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>SUPPORT AND REVENUE</b>					
Admissions and exhibit ticket sales	\$ 4,655,767	\$ -	\$ -	\$ 4,655,767	\$12,010,615
Contributions	2,099,300	1,969,440	5,449	4,074,189	5,923,920
Government appropriations	452,733	72,898	-	525,631	548,535
Grants and contracts	1,672,390	23,000	-	1,695,390	1,587,464
Store	713,045	-	-	713,045	2,765,592
Education	359,685	-	-	359,685	696,998
Memberships	329,787	-	-	329,787	548,415
Other	375,290	-	-	375,290	335,921
Net assets released from restrictions:					
Satisfaction of program restrictions	1,905,394	(1,905,394)	-	-	-
Total support and revenue	<u>12,563,391</u>	<u>159,944</u>	<u>5,449</u>	<u>12,728,784</u>	<u>24,417,460</u>
<b>EXPENSES</b>					
Program expenses					
Exhibits	5,437,513	-	-	5,437,513	9,533,028
Science and research	4,067,990	-	-	4,067,990	3,583,657
Education/public programs	1,948,109	-	-	1,948,109	2,346,758
Store cost of goods sold and operating expenses	787,406	-	-	787,406	1,924,498
Membership	308,958	-	-	308,958	260,834
Total program expenses	<u>12,549,976</u>	<u>-</u>	<u>-</u>	<u>12,549,976</u>	<u>17,648,775</u>
Supporting services					
Management and general	1,184,551	-	-	1,184,551	1,250,562
Fundraising	1,195,658	-	-	1,195,658	1,331,171
Marketing	1,023,367	-	-	1,023,367	964,094
Total supporting services	<u>3,403,576</u>	<u>-</u>	<u>-</u>	<u>3,403,576</u>	<u>3,545,827</u>
Total expenses	<u>15,953,552</u>	<u>-</u>	<u>-</u>	<u>15,953,552</u>	<u>21,194,602</u>
Revenue and other support in excess of expenses	<u>(3,390,161)</u>	<u>159,944</u>	<u>5,449</u>	<u>(3,224,768)</u>	<u>3,222,858</u>
<b>INVESTMENT LOSSES</b>					
Investment income	108,295	-	-	108,295	74,560
Net unrealized (loss)	(1,554,472)	-	(496,261)	(2,050,733)	(650,088)
Total Investment losses	<u>(1,446,177)</u>	<u>-</u>	<u>(496,261)</u>	<u>(1,942,438)</u>	<u>(575,528)</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>(4,836,338)</u>	<u>159,944</u>	<u>(490,812)</u>	<u>(5,167,206)</u>	<u>2,647,330</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>16,762,258</u>	<u>1,658,201</u>	<u>10,459,123</u>	<u>28,879,582</u>	<u>26,232,252</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$11,925,920</u>	<u>\$ 1,818,145</u>	<u>\$ 9,968,311</u>	<u>\$23,712,376</u>	<u>\$28,879,582</u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2009**  
*(With Summarized Financial Information for the Year Ended June 30, 2008)*

	2009	2008 (Note 17)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (5,167,206)	\$ 2,647,330
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,566,886	1,509,843
Allowance for doubtful accounts	(36,854)	(9,770)
Allowance for obsolete inventory	28,412	32,000
Change in temporarily restricted net assets	(159,944)	1,610,845
Change in permanently restricted net assets	490,812	(3,939,869)
Net unrealized loss	2,050,733	650,088
(Increase) decrease in operating assets:		
Receivables	1,036,413	560,222
Inventories	(34,254)	214,382
Prepaid expenses	54,196	1,466,851
Increase (decrease) in operating liabilities:		
Deferred revenue	(91,420)	(1,204,695)
Accounts payable and accrued expenses	(364,591)	(823,051)
Net cash provided by (used in) operating activities	(626,817)	2,714,176
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(36,602)	(127,647)
Net cash (used in) investing activities	(36,602)	(127,647)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds (payments) on line of credit	2,370,000	(1,748,460)
Net (sales) purchases of investments	300,031	(314,741)
Change in temporarily restricted net assets	159,944	(1,610,845)
Change in permanently restricted net assets	(490,812)	1,592,764
Payment of notes payable	(461,360)	(457,130)
Net cash provided by (used in) financing activities	1,877,803	(2,538,412)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,214,384	48,117
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	690,207	642,090
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 1,904,591	\$ 690,207
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 743,204	\$ 839,181
Non-cash items		
Receipt of beneficial interest in perpetual trust	\$ -	\$ 2,506,291

**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, which includes a gift shop.

**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 California Revenue and Taxation Code.

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

**Financial Statement Presentation** - The Museum follows Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Non-Profit Organizations*, for presentation of its financial statements which requires that net assets and support, revenue, gains, expenses, and losses be classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

- Unrestricted net assets represent funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed restrictions, or a specific passage of time before the Museum may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions, requiring that the assets be maintained in perpetuity, usually for the purpose of generating investment income to fund current operations.

**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 charges 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. 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 is included in contribution income. .

Receivables also include amounts billed on grants and contracts for services provided through June 30, 2009. Management has determined that an allowance for all receivables at June 30, 2009 should be \$80,917, to take into account any amounts that may become uncollectible.

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.

**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)**

**Inventories** - Gift shop inventories, which consist primarily of books, periodicals, and other gift items related to the Museum's tax-exempt purpose, are stated at lower of cost (first-in, first-out) or market.

**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 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.

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

**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.

**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.

In addition, the Museum invests in various investments, including, mutual funds, and money market accounts. Investment securities, in general, are subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments could occur in the near term and that such change could materially affect amounts reported on the financial statements.

**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. INVESTMENTS**

Investments, at fair value, consist of:

	<u>Total</u>
Funds held at San Diego Foundation	\$ 1,414,945
Funds held in trust	1,168,535
Mutual funds	4,493,774
Money market funds	201,559
Other	13,000
Pooled income fund	<u>241,164</u>
	7,532,977
Less discount to present value on pooled income fund	<u>(40,003)</u>
Total	<u>\$ 7,492,974</u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4. RECEIVABLES**

Receivables consist of:

Due in less than one year	
Pledges	\$ 277,188
Grants	20,000
Contracts	397,971
City of San Diego	102,404
Other	64,287
Less allowance for doubtful accounts	<u>(80,917)</u>
	<u>780,933</u>
 Due in one to five years	
Charitable remainder trusts	510,182
Pledges	431,500
Less discount to net present value at 6%	<u>(254,113)</u>
	<u>687,569</u>
 Total receivables	 \$ 1,468,502

**NOTE 5. PREPAID EXPENSES AND OTHER ASSETS**

Prepaid expenses and other assets consist of:

Bond issuance costs, net of accumulated amortization of \$134,993	\$ 188,065
Bond issuance costs, net of accumulated amortization of \$6,119	45,326
Non-qualified retirement plan funds held in trust	146,596
Prepaid expenses and deposits	<u>824,729</u>
	<u>\$ 1,204,716</u>

**NOTE 6. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS**

Property, equipment, and leasehold improvements consist of:

Leasehold improvements	\$ 35,132,124
Furniture, fixtures, and equipment	6,359,135
Warehouse	<u>397,205</u>
	41,888,464
Less accumulated depreciation	<u>(13,652,100)</u>
	<u>\$ 28,236,364</u>

Depreciation expense was \$1,566,886 for the year ended June 30, 2009.

**NOTE 7. LINE OF CREDIT**

The Museum has an unsecured bank line of credit for \$2,575,000 which expires October 31, 2009. The availability of the line is subject to the Continuing Satisfaction of Covenants relating to the amount of available cash, total borrowings, and cash flow. At June 30, 2009, \$2,570,000 was outstanding.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. 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	\$ 12,400,000
Bonds payable, bank, secured by equipment, principal due on various dates through 2026, plus interest at 5.5 percent, payable in July	1,223,383
Note payable, Bank of America, secured by real property, monthly payment of \$2,656, including interest at 7.4 percent, due December 2016	183,214
Note payable, 1st Pacific Bank, secured by real property, monthly payment of \$1,637, including interest at 8.0 percent, due September 2012	185,509
	<u>\$ 13,992,106</u>

Maturities of notes payable debt are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2010	532,823
2011	534,691
2012	536,705
2013	701,561
2014	534,276
Thereafter	11,152,050
	<u>\$ 13,992,106</u>

At June 30, 2009, funds held in trust totaling \$1,168,534 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.

**NOTE 9. COMMITMENTS**

**Contracts** - The Museum has commitments with various companies that produce exhibits. At June 30, 2009, approximately \$1,031,000 is remaining to be paid on the contracts in the upcoming years. For the year ended June 30, 2009, exhibit rental expense totaled approximately \$506,000.

**Leases** - The Museum leases vehicles under three lease agreements expiring on or before May 20, 2011 and copier equipment under a lease expiring in June 2013. For the year ended June 30, 2009, lease expense totaled approximately \$25,240.

Future minimum lease payments required under the operating lease agreements are:

<u>Years Ending June 30,</u>	<u>Amount</u>
2010	\$ 27,272
2011	26,812
2012	21,756
2013	18,900
	<u>\$ 94,740</u>

**Employment Contracts** – The Museum has a contract with the CEO for an annual salary of \$172,550 and \$74,000 annual deposit to the 2007 Retirement Plan and Trust through July 31, 2013. In addition, the Museum has a agreement with the VP of Institutional Advancement for an annual salary of \$140,000 on an at-will basis. However, the agreement provides a six month salary severance if employee is terminated without cause.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10. UNRESTRICTED NET ASSETS**

Unrestricted net assets consist of:

Designated for property, equipment, and leasehold improvements	\$ 14,244,258
Undesignated	<u>(2,318,338)</u>
	\$ 11,925,920

**NOTE 11. RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of:

Charitable remainder trusts	\$ 426,696
Science and research	496,863
Pooled income funds*	217,572
Education	409,789
Other exhibits	<u>267,225</u>
	\$ <u>1,818,145</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, 2009 net present value.

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

Endowments held at the Museum	
Botany	\$ 1,677,826
Marine invertebrates/paleontology	1,167,672
Biodiversity Research Center of the California's	872,925
Ornithology	1,378,002
Education	202,000
General operations	744,949
Maintenance and library research	145,849
Entomology	100,097
Library	67,200
Paleontology Fund	26,840
Herpetology	12,615
Member science endowment	<u>6,488</u>
	<u>6,402,463</u>
Beneficial interest in perpetual trust	<u>1,850,844</u>
Endowments held at San Diego Foundation	
Scientific	1,492,053
General operations	<u>222,951</u>
	<u>1,715,004</u>
Total	\$ <u>9,968,311</u>

## THE SAN DIEGO SOCIETY OF NATURAL HISTORY

### NOTES TO FINANCIAL STATEMENTS

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#### **NOTE 12. 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.

**Interpretation of Relevant Law** – The Board of Directors of the Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization 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 organization 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 organization
- The investment policies of the organization.

**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 SPMIFA 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 was approximately \$(1,357,000) as of June 30, 2009 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 organization must hold in perpetuity. The organization 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 value as of the June 30<sup>th</sup> of the preceding fiscal year. It is also the Museum's policy not to take distributions from the endowments 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 12. ENDOWMENT (continued)**

**Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2009**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year \$	-	\$ -	\$ 10,459,123	\$ 10,459,123
Investment return:				
Investment income	-	219,275	-	219,275
Net depreciation (realized and unrealized)	-	(1,170,774)	(496,261)	(1,667,035)
Total investment return	-	(951,499)	(496,261)	(1,447,760)
Transfer to cover corpus deficiency	(1,357,000)	1,357,000	-	-
Appropriation of assets for expenditure		(405,501)		
Contributions	-	-	5,449	5,449
Endowment net assets, end of year	<u>\$(1,357,000)</u>	<u>\$ -</u>	<u>\$ 9,968,311</u>	<u>\$ 9,016,812</u>

**NOTE 13. NET ASSETS RELEASED FROM RESTRICTION**

Temporarily restricted net assets were released for the following purposes:

Exhibits	\$ 410,326
Science and research	1,240,303
Education	254,765
	<u>\$ 1,905,394</u>

**NOTE 14. BENEFIT PLANS**

**Defined Contribution Plan** - The Museum has a defined contribution retirement plan under which contributions are made to an insurance company for the benefit of the participants. The Museum contributes an amount equal to five percent of the employees' salaries, as of December 31, 2008, the Museum discontinued the match. Contributions for the year ended June 30, 2009 were approximately \$67,837.

**Non-qualified Plan** - The Museum has a non-qualified plan for the benefit of the CEO. During the year ended June 30, 2009, the Museum contributed \$74,000 to the plan.

**NOTE 15. 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.

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 16. 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 \$69,683 in short term reserves and cash, \$1,556,323 of fixed income and equity securities at June 30, 2009. The Museum expects to begin receiving distributions from the trust in fiscal year 2009 which are restricted for publications of its scientific and educational materials.

**NOTE 17. JUNE 30, 2008 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, 2008 from which the summarized information was derived.

**NOTE 18. FINANCIAL STRATEGY**

During the year ended June 30, 2009, the Museum incurred a change in net assets of \$(5,167,206), of which \$(490,812), represented a decrease in the permanently restricted fund. During the year ended June 30, 2008, the Museum had a total change in net assets of \$2,647,330, of which \$3,939,869 represented an increase in the permanently restricted fund.

The Museum has taken a number of steps to ensure that the Museum does not sustain these significant losses in the future. The steps taken are as follows:

1. The Museum reduced its workforce and implemented salary and benefit reductions for all staff. The full impact of these cost reductions will be experienced during the year ended June 30, 2010.
2. The fundraising staff has been restructured in order to increase the capacity to raise contributory revenue.
3. In October, 2009 a new 3-D Theater will open which is expected to yield additional revenue in the 2010 fiscal year and beyond.
4. Revenue is also expected to be enhanced in 2010 as a result of a revenue share agreement with the Milwaukee Public Museum. The Museum is partnering with the Milwaukee Public Museum on their Dead Sea Scrolls exhibit, scheduled to open in January 2010, in return for a share of the admission proceeds.
5. The Museum's Science and Research division is actively seeking to increase its contract work over amounts sought in prior years.

In addition, the Board of Trustees, has approved a budget for the fiscal year 2010. The Museum's results will be monitored closely to help ensure that expenses do not exceed revenue and additional adjustments to expenses will be made if deemed necessary.

Management has a budget in place for 2010, and additional actions, should they be necessary that when implemented, would reduce or eliminate the deficit by 2011.



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### **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 16 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.

James H. West, CPA  
for WEST RHODE & ROBERTS

San Diego, California  
September 9, 2009

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**  
**SUPPLEMENTARY INFORMATION**  
**INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS**  
**Year Ended June 30, 2009**

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<b>EXPENSE CLASSIFICATION</b>	<u>Budgeted</u>	<u>Actual</u>	<u>TOT Funds</u>
Personnel:			
Artistic	\$ 2,000,000	\$ 2,457,243	\$ 200,000
Education	800,000	629,987	100,000
Operating:			
Marketing	<u>800,000</u>	<u>566,704</u>	<u>109,734</u>
Total	<u>\$ 3,600,000</u>	<u>\$ 3,653,934</u>	<u>\$ 409,734</u>



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**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, 2009, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated September 9, 2009.

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.

James H. West, CPA  
for WEST RHODE & ROBERTS

San Diego, California  
September 9, 2009