

Financial Report



June 30, 2022



Contents

	<u>Page</u>
Independent Auditor's Report on the Financial Statements	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses	5
Statement of Cash Flows.....	6
Notes to Financial Statements	7



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The San Diego Society of Natural History (the Museum), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.

Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited The San Diego Society of Natural History's 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 28, 2021. In our opinion, the summarized information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California
December 1, 2022

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Summarized Financial Information for June 30, 2021)

	2022	2021 (Note 14)
ASSETS		
Cash and cash equivalents	\$ 6,676,360	\$ 5,494,086
Receivables, net (Note 4)	4,403,863	3,279,555
Prepaid expenses and other assets	206,599	120,842
Investments (Notes 3, 5)	19,489,661	19,998,575
Funds held at San Diego Foundation	2,077,022	2,246,783
Beneficial interest in charitable remainder trusts	7,665,802	8,840,215
Beneficial interest in perpetual trust	2,412,489	2,890,264
Property, equipment, and leasehold improvements, net	16,450,494	17,499,879
Collections and exhibits	1	1
Total assets	<u>\$ 59,382,291</u>	<u>\$ 60,370,200</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,491,786	\$ 1,385,860
Deferred revenue	241,472	211,801
Refundable advance	-	1,184,700
Total liabilities	<u>1,733,258</u>	<u>2,782,361</u>
Commitments & contingencies (Note 8)		
Net assets:		
Without donor restrictions	22,832,509	21,810,146
With donor restrictions	34,816,524	35,777,693
Total net assets	<u>57,649,033</u>	<u>57,587,839</u>
Total liabilities and net assets	<u>\$ 59,382,291</u>	<u>\$ 60,370,200</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021 (Note 14)
<u>Operating Activities</u>				
REVENUE AND SUPPORT				
Contributions	\$ 3,043,794	\$ 4,242,772	\$ 7,286,566	\$ 5,123,595
Contracts and grants	4,925,180	-	4,925,180	2,948,645
Auxiliary activities	922,404	-	922,404	1,658,128
Admissions and membership	2,273,326	-	2,273,326	732,428
Net assets released from restrictions for operations	1,970,458	(1,970,458)	-	-
Total revenue and support	13,135,162	2,272,314	15,407,476	10,462,796
EXPENSES				
Program services				
Science and research	4,289,154	-	4,289,154	3,850,876
Visitor experience	5,416,471	-	5,416,471	4,152,241
Total program services	9,705,625	-	9,705,625	8,003,117
Supporting services				
Management and general	1,358,970	-	1,358,970	1,311,385
Fundraising	971,189	-	971,189	749,619
Total supporting services	2,330,159	-	2,330,159	2,061,004
Total expenses	12,035,784	-	12,035,784	10,064,121
Change in net assets from operating activities	1,099,378	2,272,314	3,371,692	398,675
<u>Non-operating activities</u>				
Investment income	-	494,839	494,839	866,890
Net realized and unrealized gain (loss)	(77,015)	(3,728,322)	(3,805,337)	6,689,119
Total non-operating activities	(77,015)	(3,233,483)	(3,310,498)	7,556,009
Change in net assets	1,022,363	(961,169)	61,194	7,954,684
NET ASSETS AT BEGINNING OF YEAR				
AS PREVIOUSLY REPORTED	\$ 21,810,146	\$ 35,777,693	\$ 57,587,839	48,476,156
Prior period adjustment	-	-	-	1,156,999
NET ASSETS AND BEGINNING OF YEAR				
AS RESTATED	21,810,146	35,777,693	57,587,839	49,633,155
NET ASSETS AT END OF YEAR	<u>\$ 22,832,509</u>	<u>\$ 34,816,524</u>	<u>\$ 57,649,033</u>	<u>\$ 57,587,839</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022
(With Summarized Financial Information for the Year Ended June 30, 2021)

	Program Services			Supporting Services		2022 Total	2021 (Note 14)
	Science and Research	Visitor Experience	Total Program Services	Management and General	Fundraising		
EXPENSES							
Salaries	\$ 2,085,272	\$ 2,326,480	\$ 4,411,752	\$ 599,286	\$ 589,890	\$ 5,600,928	\$ 4,943,687
Payroll taxes and employee benefits	377,018	444,427	821,445	178,207	139,927	1,139,579	1,008,204
	<u>2,462,290</u>	<u>2,770,907</u>	<u>5,233,197</u>	<u>777,493</u>	<u>729,817</u>	<u>6,740,507</u>	<u>5,951,891</u>
Depreciation	401,087	1,094,396	1,495,483	148,975	34,379	1,678,837	1,640,025
Contracted services	475,123	374,654	849,777	113,616	87,178	1,050,571	843,746
Occupancy	212,784	504,303	717,087	73,142	16,314	806,543	550,568
Information technology	136,506	185,508	322,014	32,201	25,901	380,116	313,987
Equipment, materials and supplies	142,706	69,263	211,969	11,912	33,544	257,425	157,378
Travel and conferences	188,488	23,584	212,072	36,840	4,416	253,328	137,392
Other expenses	168,269	70,650	238,919	4,264	-	243,183	30,479
Insurance	43,366	117,644	161,010	16,014	3,696	180,720	150,654
Office expenses	11,481	52,435	63,916	45,544	21,948	131,408	128,265
Marketing	47,050	63,940	110,990	11,099	8,927	131,016	37,712
Fees for service	4	3,302	3,306	87,870	5,069	96,245	113,108
Café, bar and kitchen expenses	-	85,885	85,885	-	-	85,885	8,916
Total expenses	<u>\$ 4,289,154</u>	<u>\$ 5,416,471</u>	<u>\$ 9,705,625</u>	<u>\$ 1,358,970</u>	<u>\$ 971,189</u>	<u>\$ 12,035,784</u>	<u>\$ 10,064,121</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021 (Note 14)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 61,194	\$ 7,954,684
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,678,837	1,640,025
Allowance for uncollectability and discounts	218,253	40,000
Contributions restricted for endowments	(3,005,000)	(5,000)
Realized and unrealized (gain) loss on investments	3,805,337	(3,381,320)
Funds held at San Diego Foundation	169,761	(433,746)
Beneficial interest in charitable remainder trusts	1,652,188	(1,501,013)
Change in operating assets and liabilities:		
Receivables	(1,342,561)	(1,502,248)
Prepaid expenses and other assets	(85,757)	(55,758)
Accounts payable and accrued expenses	105,926	(404,046)
Refundable advance	(1,184,700)	(37,100)
Deferred revenue	29,671	(13,363)
Net cash provided by operating activities	<u>2,103,149</u>	<u>2,301,115</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments	(3,297,164)	(1,255,217)
Purchase of property and equipment	(629,452)	(538,327)
Net cash used in investing activities	<u>(3,926,616)</u>	<u>(1,793,544)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	3,005,000	5,000
(Payments) proceeds from Economic Injury Disaster Loan	-	(150,000)
Net cash provided by (used in) financing activities	<u>3,005,000</u>	<u>(145,000)</u>
Change in cash and cash equivalents	1,181,533	362,571
Cash and cash equivalents at beginning of year	5,554,330	5,191,759
Cash and cash equivalents at end of year	<u>\$ 6,735,863</u>	<u>\$ 5,554,330</u>
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash and cash equivalents	6,676,360	5,494,086
Cash and cash equivalents included in investments	59,503	60,244
	<u>\$ 6,735,863</u>	<u>\$ 5,554,330</u>

Note 1. Organization and Nature of Operations

The San Diego Natural History Museum (the Museum) was founded in 1874 and operates with a mission 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. Major Museum program areas include:

Public Programs

The Museum occupies a 150,000-square-foot facility that offers public access to exhibitions on five floors, a giant-screen theater, and education classrooms. Visitors are able to enjoy a variety of mission-focused core exhibitions that explore this region's prehistoric past and modern biodiversity, including: Fossil Mysteries; Coast to Cactus in Southern California; Extraordinary Ideas from Ordinary People: A History of Citizen Science; Unshelved: Cool Stuff from Storage; Hidden Gems; Living Lab; and California Blooming. In 2021-2022 the Museum opened a photographic exhibition, California Blooming, which highlights the connection between climate change and wildflowers throughout the state to help visitors understand how human impacts on the environment threaten nature. In 2022 the Museum opened an interactive exhibition, Expedition Baja. This new permanent exhibition takes visitors off the beaten path on a journey with researchers through sky and sea islands, palm oases, and fog deserts as they discover new species, work to conserve native plants and animals, and explore the most remote parts of the peninsula.

Education Programs

Through the Environmental Science Education Center, the Museum offers programs for lifelong learning, from pre-School through senior adults. Education programs are offered to over 70,000 participants annually in the Museum, online, San Diego County schools, and other indoor and outdoor community locations throughout the region. The range of K-8 programs includes Next Generation Science Standard and Common Core Standards based hands-on science workshops, which are enlivened by encased and touchable specimens.

The Biodiversity Research Center of the Californias (BRCC)

For over 145 years, the Museum has served as a leader for the preservation and interpretation of scientific specimens that document the biodiversity of our area. As the steward of research and collections of the Museum, BRCC continues this legacy by publishing high-quality scientific research on southern California and Baja California. BRCC focuses on the biology, ecology, paleontology, and geology of this region and houses nearly eight million research specimens. BRCC promotes the understanding of the evolution and diversity of southern California and the peninsula of Baja California. Research and publications are fundamentally region-oriented, collection-based, and driven by evolutionary hypotheses.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

Method of Accounting

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

Basis of Presentation – The financial statements of the Museum have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Museum to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Museum's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Museum's ongoing programs. Nonoperating activities are limited to resources that generate return from long-term investments and other activities considered to be of a more unusual or nonrecurring nature.

Revenue Recognition

Contributions – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

The Museum reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with restriction revenues are reclassified to without restriction revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as donor restricted endowments. The income and net gains earned from such assets is generally restricted to the purpose designated by the donor.

Contributions of service are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Museum reports such contributions at their estimated fair value when received. During the year ended June 30, 2022, no contributions of services were recorded.

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.

Contracts – The Museum recognizes revenue as services are provided.

Admissions and Education – The Museum records revenue when goods or services are provided.

Memberships – Membership fees are recognized as revenue ratably over the membership period. Amounts received for subsequent year's fees are recorded as deferred membership revenue in the statement of financial position.

Auxiliary Activities – The Museum's auxiliary activities include food and beverage services, education activities, retail merchandise, facility rentals, and other similar support activities.

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.

Grants and Contracts Receivable – All receivables are reviewed for collectability and reserves for uncollectible amounts are recorded based on the estimated collectability. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that an allowance of approximately \$250,000 is needed for the year ended June 30, 2022.

Pledges Receivable – Pledges receivable are unconditional promises received and are recorded when the promise to contribute is made. The Museum provides an allowance for estimated uncollectible amounts at the time the pledges are recorded. The provision for uncollectible pledges is based, among other things, on the Museum's past collection experience and the changes in the current economic conditions. Pledges receivable with payment terms in excess of one year have been discounted using an interest rate of 5%. Amortization of the discounts related to pledges receivable are recognized over the period of the promise as contribution revenue. Management has determined that an allowance of \$25,000 is needed for the year ended June 30, 2022.

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 Interest in 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 with donor restriction contributions at their present value, calculated by the trustee using risk-free interest rates over the estimated period until the Museum is to receive an irrevocable right to the assets.

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 with donor restrictions.

Physical Facilities – The Museum constructed the original building and the expansion it occupies. After completion, the Museum transferred the title to the City of San Diego (the City). The Museum occupies the building under a 35-year lease agreement with the City expiring in 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 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, as no objective basis is available to measure its value.

Property, Equipment and Leasehold Improvements – 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 as follows:

Leasehold improvements	30 years
Furniture and equipment	5 to 20 years

Depreciation expense totaled \$1,678,837 for the year ended June 30, 2022.

Collections – The Museum houses over eight 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, as there is no objective basis for establishing value. Contributed collections are not reflected in the financial statements. There were no proceeds from deaccessions during the year ended June 30, 2022.

Refundable Advances – The Museum received \$1,822,409 under the Shuttered Venue Operators Grant (SVOG). SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act. It provided relief for performing arts, museums and other live venues that were shut down due to COVID-19 restrictions. The Museum has elected to account for the SVOG amount under FASB ASC 958-605. Under this model, the Museum has recorded the amount of \$1,882,409 used for eligible expenses as contributions on the statement of activities as of June 30, 2022.

The Museum received a loan in the amount of \$1,184,700 in February 2022 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan is forgivable if it is used for qualifying expenses as described in the CARES Act. The Museum has elected to account for the PPP loan under FASB ASC 958-605. The loan was forgiven and under this model, the Museum recorded a contribution in the amount of \$1,184,700 on the statement of activities as of June 30, 2022.

Functional Allocation of Expenses – The statement of functional expenses presents expense by function and natural classification. Expenses directly attributable to a specific functional area of the Museum are reported as expenses of those functional areas. A portion of costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the full-time employee equivalents of a programs or supporting service. Depreciation, contracted services, occupancy, insurance, and miscellaneous other expenses are allocated based on a square footage basis.

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 is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income tax. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Taxes*, 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.

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 December 1, 2022, which is the date the financial statements are available for issuance, and concluded that there are no events that required disclosure.

Note 2. Liquidity and Availability of Resources

The Museum's financial assets available for general expenditure, that is without donor restrictions limiting their use within one year of the statement of position date, are as follows:

Financial Assets	
Cash and cash equivalents	\$ 6,676,360
Accounts receivable due within one year	3,803,686
Investments	<u>19,489,661</u>
Total financial assets available within one year	<u>29,969,707</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(2,641,557)
Restricted by donors in perpetuity	<u>(19,781,496)</u>
Total amounts unavailable for general expenditures within one year	<u>(22,423,053)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 7,546,654</u>

The Museum maintains policies of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 3. Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Museum uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

The hierarchy for fair value measurement is described as follows:

Level 1 - quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - observable market-based inputs or unobservable inputs that are corroborated by market data. May include quoted prices in a market that is not active.

Level 3 - unobservable inputs that cannot be corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

NAV – privately held investments and securities held in partnerships are valued at Net Asset Value (NAV) as a practical expedient. These investments have not been classified in the three-level fair value hierarchy and NAV investments are presented in the accompanying financial statements at fair value, as determined by the Museum. The Museum believed that the carrying amount of its NAV investments is a reasonable estimate of fair value.

The following are descriptions of the valuation inputs and techniques that the Museum utilizes to determine fair value for each major category of assets and liabilities.

Due to the short-term nature of cash equivalents, other current assets, accounts payable and accrued expenses, carrying value approximates fair value.

Corporate securities and fixed income funds are classified within Level 1 when they are traded on an active exchange and valued using quoted market prices.

Private equity funds are valued at NAV. The Museum uses NAV to determine the fair value of all of the investments, which do not have readily determinable fair value. Such value generally represents the proportionate share of the investment as reported by the general partners.

The following table summarizes the Museum's investments by type, including placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis:

	(Level 1)	(Level 2)	(Level 3)	NAV	Total
Assets					
Investments					
Equity funds	\$ 13,288,497	\$ -	\$ -	\$ -	\$ 13,288,497
Bond funds	4,210,021	-	-	-	4,210,021
Securities	638,052	-	-	-	638,052
Private equity funds (a)	-	-	-	1,285,588	1,285,588
Money market funds	59,503	-	-	-	59,503
Other investments	-	8,000	-	-	8,000
Total investments	18,196,073	8,000	-	1,285,588	19,489,661
Funds held at San Diego Foundation	-	2,077,022	-	-	2,077,022
Beneficial interest in charitable remainder trusts	-	7,665,802	-	-	7,665,802
Beneficial interest in perpetual trust	-	2,412,489	-	-	2,412,489
	<u>\$ 18,196,073</u>	<u>\$ 12,163,313</u>	<u>\$ -</u>	<u>\$ 1,285,588</u>	<u>\$ 31,644,974</u>

The following summarizes the nature and risk of those investments in private equity funds:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity (a)	\$ 1,285,588	\$ 491,909	Not redeemable	N/A

(a) The private equity funds are invested in mutual funds of funds, venture capital, growth equity and buyout sector funds. The funds in this category do not permit redemptions.

Management of the Museum is responsible for making the fair value measurements and disclosures in the consolidated financial statements. As part of fulfilling this responsibility, management of the Museum utilizes and relies on the values, valuations, and assumptions and has established an accounting and financial reporting process for determining the fair value measurements and disclosures. This process identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurements is in accordance with U.S. GAAP.

The Museum's investment activities for the year ended June 30, 2022 resulted in interest and dividend income of \$494,839 net of \$89,859 in management fees and net realized and unrealized losses of \$3,805,337.

Note 4. Receivables

Receivables consist of the following at June 30, 2022:

Due in less than one year	
Employee Retention Credit	\$ 985,671
Contracts	2,248,661
Pledges	257,363
General	336,550
Grants	250,442
Less allowance for doubtful accounts	<u>(275,000)</u>
	<u>3,803,687</u>
Due in one to five years	
Charitable remainder trusts	1,307,205
Less discounts to net present value at 4%	<u>(707,029)</u>
Total receivables, net	<u>600,176</u>
	<u>\$ 4,403,863</u>

Note 5. Investments

Investments, at fair value, consist of the following as of June 30, 2022:

Equity funds	\$ 13,288,497
Bond funds	4,210,021
Securities	638,052
Private equity funds	1,285,588
Money market funds	59,503
Other	8,000
	<u>\$ 19,489,661</u>

Note 6. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2022:

Leasehold improvements	\$ 40,927,520
Furniture, fixtures, and equipment	8,642,763
Construction in process	<u>222,475</u>
	49,792,758
Less accumulated depreciation	<u>(33,342,264)</u>
Total property, equipment, and leasehold improvements, net	<u>\$ 16,450,494</u>

Note 7. Line of Credit

The Museum has a line of credit for \$500,000 maturing in May 2023 that allows the Museum to borrow at a variable rate based on the prime rate. As of June 30, 2022, there was no amount outstanding.

Note 8. Commitments

Operating Leases – The Museum entered into an agreement to lease copier and printer equipment under a lease agreement expiring April 2025. The Museum's two prior lease agreements for copier and printer equipment expired on or before June 2022.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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

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

<u>Years Ending June 30,</u>	<u>Operating Leases</u>
2022	\$ 108,981
2023	112,629
2024	17,805
2025	14,838
	<u>\$ 254,253</u>

For the year ended June 30, 2022, lease expense for these leases totaled approximately \$107,937.

Employment Contracts – The Museum has an employment contract with the CEO for an annual salary through June 30, 2022.

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions represent contributions and other inflows received by the Museum, which are limited in their use by the donor-imposed stipulations. Net assets with donor restrictions at June 30, 2022 are available for the following purposes:

Beneficial interest in charitable remainder trusts	\$ 7,665,802
Charitable remainder trusts	600,176
150th Anniversary campaign	1,485,988
Science, research and education	1,155,569
	<u>\$ 10,907,535</u>

Endowments, subject to the Museum's spending policy and appropriations, the income from which is expendable for:

Endowments held at the Museum	
Science, research and education	\$ 12,120,688
General operations	5,240,183
CEO endowment	2,420,625
	<u>19,781,496</u>
Beneficial interest in perpetual trust	<u>2,412,489</u>
Endowments held at San Diego Foundation	1,715,004
	<u>\$ 23,908,989</u>

Total net assets with donor restrictions at June 30, 2022 is \$34,816,524.

Note 10. Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

Net assets released from restriction consist of the following at June 30, 2022:

Science, research and education	\$ 665,000
Museum programs and supporting services	660,398
Special projects campaign	597,982
Distribution from perpetual trust	47,078
	<u>\$ 1,970,458</u>

Note 11. Endowment

Endowment Funds

The net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Museum's endowment funds consist of only donor-restricted endowment funds.

Interpretation of Relevant Law

The State of California enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") in 2008. The Board of Directors of the Museum has interpreted the UPMIFA as requiring the long-term preservation of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies with donor restricted net assets as (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. Unless otherwise stipulated by the donor, the Museum classifies its donor-restricted fund net assets with donor restrictions held in perpetuity, using the original value of the gift when it was donated to the permanent endowment. Accumulated earnings to the permanent endowment are classified as net assets with donor restricted that are program or time restricted in accordance with UPMIFA.

From time to time, the fair value of the assets associated with donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as funds of perpetual duration. These deficiencies generally result from unfavorable market fluctuations that may occur. At June 30, 2022, the Museum had no endowment funds with fair values below the original gift amount.

Endowment Investment and Spending Policies

In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the endowment fund.
- The purposes of the Museum and the endowment fund.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Museum.
- The investment policy of the Museum.

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.

The investment objectives for the Endowment's assets are to earn long-term returns that match or exceed annual income requirements of the San Diego Natural History Museum, to provide for asset growth at a rate in excess of the rate of inflation, to diversify the Endowment's assets in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses, and to achieve investment results over the long-term that compare favorably with those of other endowments and of appropriate market indexes. The committee uses a return objective which is measured over a full market cycle (5 years), and is expected to outperform a custom index which reflects the target asset allocation of the portfolio. The 5-year custom index was 6.8% as of June 30, 2022.

In fiscal year 2022, the Museum appropriated for distribution 4.25% of its endowment fund's average value over the previous three calendar years. In establishing this policy, the Museum considered the long-term expected return on its endowment. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Donor-restricted endowment net asset composition as of June 30, 2022, is as follows:

Endowment net assets, beginning of year	\$ 24,849,550
Investment return:	
Investment income	494,839
Net appreciation	(3,728,322)
Total investment return	(3,233,483)
Appropriation of assets for expenditure	(712,078)
Contributions	3,005,000
Endowment net assets, end of year	<u>\$ 23,908,989</u>

Note 12. Retirement Plan

Defined Contribution Plan – The Museum maintains a 403(b) defined contribution plan (the Plan) covering employees who meet certain age and service requirements. The Plan provides for voluntary employee contributions and employer matching contributions. Employees regularly scheduled to work at least 20 hours per week are eligible to participate in the Plan. Eligible employees may elect to contribute a portion of their earnings to the Plan at any time after employment commences subject to certain IRS limitations. For the year ended June 30, 2022, the Museum made matching contributions of \$43,856.

Note 13. Risks and Uncertainties

Concentration of Credit Risk - The Museum maintains its cash in bank deposit accounts, which at times, exceed federally insured deposit limits. The Museum adheres to a policy by which cash balances in excess of short-term needs are diversified amongst short-term, low risk investment vehicles. The Museum has not experienced any losses in such accounts.

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.

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.

COVID-19 Risks - In 2021, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries could be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The ultimate disruption which may be caused by the pandemic is uncertain; however, it has not resulted in a material adverse impact on the Museum's financial position, operations, and cash flows, such disruptions or restrictions may occur in the future. Possible effects may include but are not limited to disruptions or restrictions on our employee's ability to work, decline in value of assets held, including property and equipment and marketable securities and changes to the current regulatory environment. Management is actively working to mitigate the impact of these and other unforeseen potential disruptions to operations.

Note 14. June 30, 2021 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, 2021, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2021 financial information to conform to the classifications adopted for the 2022 financial statements. These reclassifications had no effect on the change in net assets.