

Financial Report

SAN DIEGO SOCIETY OF NATURAL HISTORY



June 30, 2015



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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, 2015, 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, 2015, 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, 2014, financial statements, and our report dated September 25, 2014, 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 16 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.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
September 17, 2015

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF FINANCIAL POSITION

June 30, 2015

(With Summarized Financial Information for June 30, 2014)

	<u>2015</u>	<u>2014</u> (Note 15)
ASSETS		
Cash and cash equivalents	\$ 2,885,568	\$ 7,696,681
Receivables	3,806,454	7,823,081
Prepaid expenses and other assets	713,135	737,924
Investments	13,417,034	13,236,458
Beneficial interest in charitable remainder trust	5,211,973	-
Beneficial interest in perpetual trust	2,457,979	2,630,785
Property, equipment, and leasehold improvements, less accumulated depreciation	20,658,580	21,710,871
Collections and exhibits	<u>1</u>	<u>1</u>
Total assets	<u>\$ 49,150,724</u>	<u>\$ 53,835,801</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,766,377	\$ 1,981,774
Line of credit	215,128	215,128
Deferred revenue	137,770	116,429
Capital lease liability	-	8,426
Notes payable	<u>-</u>	<u>8,407,568</u>
Total liabilities	<u>2,119,275</u>	<u>10,729,325</u>
Commitments		
Net assets:		
Unrestricted	20,629,508	12,754,515
Temporarily restricted	<u>11,776,759</u>	<u>15,858,972</u>
	<u>32,406,267</u>	<u>28,613,487</u>
Permanently restricted:		
Museum endowments	10,329,468	10,147,200
Beneficial interest in perpetual trust	2,457,979	2,630,785
Endowments held by others	<u>1,837,735</u>	<u>1,715,004</u>
	<u>14,625,182</u>	<u>14,492,989</u>
Total net assets	<u>47,031,449</u>	<u>43,106,476</u>
Total liabilities and net assets	<u>\$ 49,150,724</u>	<u>\$ 53,835,801</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

(With Summarized Financial Information for the Year Ended June 30, 2014)

	Unrestricted			Restricted		Total	2014 (Note 15)
	Operations	Depreciation	Total Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING SUPPORT AND REVENUE							
Admissions and exhibit ticket sales	\$ 5,090,394	\$ -	\$ 5,090,394	\$ -	\$ -	\$ 5,090,394	\$ 2,856,153
Contributions	1,608,515	-	1,608,515	7,909,452	305,000	9,822,967	22,217,203
Government grants	2,380,674	-	2,380,674	117,991	-	2,498,665	5,098,888
Contracts	2,105,259	-	2,105,259	-	-	2,105,259	2,442,691
Education	236,179	-	236,179	-	-	236,179	177,742
Memberships	416,920	-	416,920	-	-	416,920	432,262
Other	382,744	-	382,744	-	-	382,744	364,297
Net assets released from restrictions:							
Satisfaction of restrictions (Note 11)	12,601,886	-	12,601,886	(12,452,076)	(149,810)	-	-
Total operating support and revenue	<u>24,822,571</u>	<u>-</u>	<u>24,822,571</u>	<u>(4,424,633)</u>	<u>155,190</u>	<u>20,553,128</u>	<u>33,589,236</u>
OPERATING EXPENSES							
Exhibitions	7,382,279	620,691	8,002,970	-	-	8,002,970	8,889,202
Science and research	3,356,566	344,590	3,701,156	-	-	3,701,156	3,912,621
Education/public programs	995,400	272,719	1,268,119	-	-	1,268,119	1,209,659
Membership	219,009	9,845	228,854	-	-	228,854	234,447
Management and general	1,058,575	127,991	1,186,566	-	-	1,186,566	1,160,929
Institutional advancement	1,047,834	19,691	1,067,525	-	-	1,067,525	938,077
Communications and public relations	1,438,238	54,150	1,492,388	-	-	1,492,388	971,130
Total operating expenses	<u>15,497,901</u>	<u>1,449,677</u>	<u>16,947,578</u>	<u>-</u>	<u>-</u>	<u>16,947,578</u>	<u>17,316,065</u>
Operating revenue and support in excess of expenses	<u>9,324,670</u>	<u>(1,449,677)</u>	<u>7,874,993</u>	<u>(4,424,633)</u>	<u>155,190</u>	<u>3,605,550</u>	<u>16,273,171</u>
INVESTMENT GAINS (LOSSES)							
Investment income	-	-	-	167,444	73,525	240,969	601,042
Net realized and unrealized gain (loss)	-	-	-	174,976	(96,522)	78,454	1,356,538
Total investment gains (losses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>342,420</u>	<u>(22,997)</u>	<u>319,423</u>	<u>1,957,580</u>
Change in net assets	9,324,670	(1,449,677)	7,874,993	(4,082,213)	132,193	3,924,973	18,230,751
NET ASSETS AT BEGINNING OF YEAR	<u>33,890,180</u>	<u>(21,135,665)</u>	<u>12,754,515</u>	<u>15,858,972</u>	<u>14,492,989</u>	<u>43,106,476</u>	<u>24,875,725</u>
NET ASSETS AT END OF YEAR	<u>\$ 43,214,850</u>	<u>\$ (22,585,342)</u>	<u>\$ 20,629,508</u>	<u>\$ 11,776,759</u>	<u>\$ 14,625,182</u>	<u>\$ 47,031,449</u>	<u>\$ 43,106,476</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

(With Summarized Financial Information for the Year Ended June 30, 2014)

	<u>2015</u>	<u>2014</u> (Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,924,973	\$ 18,230,751
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,449,677	1,441,132
Amortization	275,092	11,964
Allowance for uncollectability and discounts	131,007	180,000
Contributions restricted for endowments	(132,193)	(2,901,457)
Contributed stock	(574,407)	(604,175)
Realized and unrealized gain on investments	(78,454)	(1,356,538)
Beneficial interest in charitable remainder trust	(5,211,973)	-
Change in operating assets and liabilities:		
Receivables	3,885,620	(6,388,287)
Prepaid expenses and other assets	(250,303)	396,627
Accounts payable and accrued expenses	(215,397)	76,778
Deferred revenue	21,341	60,753
Net cash provided by operating activities	<u>3,224,983</u>	<u>9,147,548</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds (purchase) of investments	645,091	(2,103,196)
Purchase of property and equipment	<u>(397,386)</u>	<u>(572,415)</u>
Net cash used in investing activities	<u>247,705</u>	<u>(2,675,611)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	-	(300,000)
Contributions restricted for endowments	132,193	2,901,457
Principal payments under capital lease obligations	(8,426)	(48,826)
Payments of notes payable	<u>(8,407,568)</u>	<u>(4,171,617)</u>
Net cash used in financing activities	<u>(8,283,801)</u>	<u>(1,618,986)</u>
Change in cash and cash equivalents	(4,811,113)	4,852,951
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>7,696,681</u>	<u>2,843,730</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,885,568</u>	<u>\$ 7,696,681</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 127,793</u>	<u>\$ 558,821</u>

Note 1. Organization and Significant Accounting Policies

Organization and Activities

The San Diego Natural History 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 has public access to exhibitions on five floors, a 3-D giant-screen theater, and education classrooms. In January 2015, the Museum dedicated a new permanent exhibition, *Coast to Cactus in Southern California*, which is designed to take visitors through Southern California's patchwork of diverse habitats, home to the most bio-diverse flora and fauna found anywhere in the contiguous United States, and the greatest number of endangered species. *Coast to Cactus* teaches students and all visitors about the importance of biodiversity and at the same time encourage environmental awareness. This exhibition complements their first permanent exhibition, *Fossil Mysteries*, which takes visitors through a 75-million-year timeline, from the age of dinosaurs to the Ice Ages, to experience the prehistory of southern California and Baja California. Combined, these two exhibitions will give visitors a true sense of place: from the geologic and paleontological past to the biological present and how they both inform the future.

Education Programs

Through the Environmental Science Education Center, the Museum offers programs for lifelong learning, from pre-school through senior adults in the United States and Mexico. Education programs are offered in the Museum, in schools and other community locations, as well as outdoors locations throughout the region, to a total of 30,000 participants annually. The range of K-12 programs includes Common Core Standards based hands-on science workshops which are enlivened by encased and touchable natural specimens.

The Biodiversity Research Center of the Californias (BRCC)

For 140 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 research and collections arm the Museum, BRCC continues this legacy by publishing high-quality scientific research on southern California and Baja California. The BRCC focuses on the biology, ecology, paleontology, and geology of this region and houses nearly 7.4 million research specimens. Through collections-based research, BRCC promotes the understanding of the evolution and diversity of southern California and the peninsula of Baja California. Our research and publications are fundamentally region-oriented, collection-based, and driven by evolutionary hypotheses.

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 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.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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 temporarily 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, temporarily restricted revenues are reclassified to unrestricted 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 permanently restricted. The income and net gains earned from such assets is generally restricted to the purpose designated by the donor. This recognition is in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 958-605.

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, 2015, no contributions of services were recorded.

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, 2015, the Museum hosted the traveling exhibitions, *Real Pirates*, *The Discovery of King Tut* and *Maya: Hidden Worlds Revealed*, to which it charged an additional fee in excess of the normal general admission price.

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 \$55,000 is needed for the year ended June 30, 2015.

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.

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 temporarily restricted 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 permanently restricted net 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 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 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. 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, 2015.

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 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 September 17, 2015, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Note 2. Concentration of Credit Risk

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

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

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

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

Note 3. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expense, accounts payable and deferred income, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), 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 principal or most advantageous market of the asset.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

FASB 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 and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices of identical assets or liabilities in active markets.

Level 2: Significant other observable inputs other than level 1 prices (such as quoted prices for similar assets or liabilities, interest rates, prepayment speeds and credit risk).

Level 3: Significant unobservable inputs that reflect the Museum's own assumptions in determining the fair value of assets.

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

	Fair Value Measurements at June 30, 2015, Using:			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Assets</u>				
Investments	\$ 11,579,299	\$ -	\$ -	\$ 11,579,299
Funds held at San Diego Foundation	-	1,837,735	-	1,837,735
Beneficial interest in charitable remainder trust	-	5,211,973	-	5,211,973
Beneficial interest in perpetual trust	-	2,457,979	-	2,457,979
	<u>\$ 11,579,299</u>	<u>\$ 9,507,687</u>	<u>\$ -</u>	<u>\$ 21,086,986</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, 2015. The Museum also has a beneficial interest in a perpetual trust and charitable remainder trust which is based upon significant inputs as performed by their respective trustee.

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.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Note 4. Investments

Investments, at fair value, consist of:

	<u>Total</u>
Equity Mutual funds	\$ 8,688,575
Bond Mutual funds	2,762,014
Funds held at San Diego Foundation	1,837,735
Pooled income fund	117,200
Money market funds	4,810
Other	<u>8,000</u>
	13,418,334
Less discount to present value on pooled income fund	<u>(1,300)</u>
Total	<u>\$ 13,417,034</u>

Note 5. Receivables

Receivables consist of:

Due in less than one year	
Grants	\$ 1,420,679
Contracts	575,723
Pledges	871,633
Other	212,800
Less allowance for doubtful accounts	<u>(255,000)</u>
	<u>2,825,835</u>
Due in one to five years	
Charitable remainder trusts	537,998
Pledges	682,789
Less discounts to net present value at 4%	<u>(240,168)</u>
	<u>980,619</u>
Total receivables	<u>\$ 3,806,454</u>

Note 6. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of:

Leasehold improvements	\$ 35,498,004
Furniture, fixtures, and equipment	7,034,191
Capital lease equipment	219,547
Construction in progress	<u>492,180</u>
	43,243,922
Less accumulated depreciation	<u>(22,585,342)</u>
	<u>\$ 20,658,580</u>

Depreciation expense was \$1,449,677 for the year ended June 30, 2015.

Note 7. 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, 2015, the Museum had \$215,128 outstanding on the line of credit. The line of credit maturity date is December 31, 2015.

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, 2015, the Museum had no amounts outstanding on the line of credit. The line of credit expires on August 1, 2022.

Note 8. Notes Payable

The Museum received a restricted gift for the repayment of its debt. All long term debt was retired in the year ending June 30, 2015.

Note 9. Commitments

Exhibition Contracts – The Museum has commitments with various companies that produce exhibitions. At June 30, 2015, approximately \$435,000 is remaining to be paid on the contracts in the upcoming years. For the year ended June 30, 2015, exhibition rental expense totaled approximately \$1,039,901.

Operating Leases – The Museum leased a vehicle under a lease agreement expiring and copier equipment under two lease agreements expiring on or before June 2020.

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.

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

<u>Years Ending June 30,</u>	<u>Operating Leases</u>
2015	\$ 117,831
2016	118,428
2017	117,519
2018	117,204
2019	120,456
Thereafter	<u>275,419</u>
	<u>\$ 866,857</u>

For the year ended June 30, 2015, lease expense for these leases totaled approximately \$123,910.

Employment Contracts – The Museum has an employment contract with the CEO for an annual salary through June 30, 2016.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Note 10. Restricted Net Assets

Temporarily restricted net assets consist of:

Special projects campaign	\$ 3,765,092
Endowment over corpus	1,527,159
Science, research and education	813,804
Charitable remainder trusts	5,554,803
Pooled income funds*	<u>115,901</u>
	<u>\$ 11,776,759</u>

*The Museum maintains a pooled income fund at Union Bank of California. The fund is reported at its June 30, 2015, net present value.

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

Endowments held at the Museum	
General operations	\$ 4,299,611
Science, research and education	<u>6,153,230</u>
	<u>10,452,841</u>
Beneficial interest in perpetual trust	<u>2,457,979</u>
Endowments held at San Diego Foundation	<u>1,715,004</u>
	<u>\$ 14,625,824</u>

Note 11. Net Assets Released from Restriction

Temporarily restricted net assets were released for the following purposes:

Debt payments	\$ 8,538,014
Special projects campaign	2,377,103
Science, research and education	692,637
Endowment funds released	430,033
Time restricted	<u>414,289</u>
	<u>\$ 12,452,076</u>

Note 12. Endowment

The Museum follows the standards codified in FASB ASC 958-205-65, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the 2006 UPMIFA. The endowment includes only donor-restricted endowment funds.

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 SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS*

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. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 8.5 to 9.0 percent 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 has a policy of appropriating for distribution each year 5.0 percent 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. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow at an average of 3.0 percent annually. 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, 2015, is as follows:

***Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2015***

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,614,772	\$ 14,492,989	\$ 16,107,761
Investment return:				
Investment income	-	167,444	73,525	240,969
Net appreciation (depreciation) (1)	-	174,976	(96,522)	78,454
Total investment return	-	342,420	(22,997)	319,423
Appropriation of assets for expenditure	-	(430,033)	(149,810)	(579,843)
Contributions	-	-	305,000	305,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,527,159</u>	<u>\$ 14,625,182</u>	<u>\$ 16,152,341</u>

(1) Includes realized and unrealized gains and losses, and other fees or expenses

Note 13. Retirement Plan

Defined Contribution Plan – The Museum has a defined contribution plan. The plan provides for voluntary employee contributions and employer contributions. Generally, all employees regularly scheduled to work at least 20 hours per week are eligible to participate in the Plan. An eligible employee may elect to make voluntary employee contributions to the Plan at any time after employment commences. For the year ended June 30, 2015 the Museum made matching contributions of \$41,535.

Note 14. 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 15. June 30, 2014 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, 2014, from which the summarized information was derived.

Certain June 30, 2014, balance sheet and expense groupings have been changed to match the June 30, 2015, presentation. These grouping changes have no effect on the net assets of the Museum.

Note 16. Estate Gift

In April 2014, the Museum received a \$15 million estate gift that was recognized as a contribution in fiscal year 2014. The gift had two donor restrictions: the first one was to retire the Museum's long-term debt and the second was to apply the remaining funds to a permanently restricted endowment.

The endowment portion was funded in fiscal year 2014. However, the Museum's debt was retired in three debt principal payments to reduce loan pre-payment penalties. The first debt principal payment of approximately \$4 million was made in fiscal year 2014. In fiscal year 2015 the remaining balance of approximately \$8 million was paid in two payments.

Additionally, as a part of this estate, the Museum was named as a beneficiary in a non-revocable Charitable Remainder Trust (CRT). The Museum did not recognize this gift in fiscal year 2014 as the estate had not completed the distribution of funds. The CRT has now been valued and is recorded as contribution income in this year's financial statements for the discounted value of \$5.2 million.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
SUPPLEMENTARY INFORMATION
INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS
Year Ended June 30, 2015

EXPENSE CLASSIFICATION	<u>Budget</u>	<u>Actual</u>	<u>TOT Funds</u>
Operating income	\$ 16,518,019	\$ 20,553,128	\$ 366,761
Operating expense	<u>(16,518,019)</u>	<u>(16,947,578)</u>	<u>(366,761)</u>
Net income	<u>\$ -</u>	<u>\$ 3,605,550</u>	<u>\$ -</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, 2015, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated September 17, 2015.

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.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
September 17, 2015