

Financial Report



June 30, 2019



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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, 2019, and the related statements of activities, functional expenses 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, 2019, 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, 2018, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

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

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
November 12, 2019

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF FINANCIAL POSITION

June 30, 2019

(With Summarized Financial Information for June 30, 2018)

	2019	2018 (Note 16)
ASSETS		
Cash and cash equivalents	\$ 2,678,171	\$ 2,421,960
Receivables, net (Note 7)	1,638,420	1,802,043
Prepaid expenses and other assets	159,670	114,305
Investments (Note 6)	16,358,874	16,099,862
Funds held at San Diego Foundation	1,878,369	1,895,590
Beneficial interest in charitable remainder trust	6,176,664	5,910,172
Beneficial interest in perpetual trust	2,435,170	2,460,878
Property, equipment, and leasehold improvements, net	19,261,121	20,520,704
Collections and exhibits	1	1
Total assets	<u>\$ 50,586,460</u>	<u>\$ 51,225,515</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,207,123	\$ 1,352,572
Deferred revenue	160,748	128,007
Total liabilities	<u>1,367,871</u>	<u>1,480,579</u>
Commitments & contingencies		
Net assets:		
Without donor restrictions	20,036,548	21,324,683
With donor restrictions	<u>29,182,041</u>	<u>28,420,253</u>
Total net assets	<u>49,218,589</u>	<u>49,744,936</u>
Total liabilities and net assets	<u>\$ 50,586,460</u>	<u>\$ 51,225,515</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2018 (Note 16)</u>
<u>Operating Activities</u>				
REVENUE AND SUPPORT				
Contributions	\$ 1,372,142	\$ 1,700,801	\$ 3,072,943	\$ 4,094,098
Admissions and membership	3,029,677	-	3,029,677	2,875,113
Contracts and grants	2,746,667	-	2,746,667	2,978,919
Auxiliary activities	1,522,235	-	1,522,235	1,316,019
Net assets released from restrictions for operations	<u>1,969,238</u>	<u>(1,969,238)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>10,639,959</u>	<u>(268,437)</u>	<u>10,371,522</u>	<u>11,264,149</u>
 EXPENSES				
Program services				
Science and research	3,470,590	-	3,470,590	3,530,043
Visitor experience	<u>6,369,851</u>	<u>-</u>	<u>6,369,851</u>	<u>6,326,803</u>
Total program services	<u>9,840,441</u>	<u>-</u>	<u>9,840,441</u>	<u>9,856,846</u>
Supporting services				
Management and general	1,134,889	-	1,134,889	1,046,970
Fundraising	<u>889,385</u>	<u>-</u>	<u>889,385</u>	<u>952,381</u>
Total supporting services	<u>2,024,274</u>	<u>-</u>	<u>2,024,274</u>	<u>1,999,351</u>
Cost of direct benefits to donors (Note 2)	<u>66,040</u>	<u>-</u>	<u>66,040</u>	<u>72,418</u>
Total expenses	<u>11,930,755</u>	<u>-</u>	<u>11,930,755</u>	<u>11,928,615</u>
Operating revenue and support in excess of expenses	<u>(1,290,796)</u>	<u>(268,437)</u>	<u>(1,559,233)</u>	<u>(664,466)</u>
 <u>Non-operating Activities</u>				
Investment income	-	1,445,909	1,445,909	848,691
Net realized and unrealized gain (loss)	<u>2,661</u>	<u>(415,684)</u>	<u>(413,023)</u>	<u>783,099</u>
Total non-operating activities	<u>2,661</u>	<u>1,030,225</u>	<u>1,032,886</u>	<u>1,631,790</u>
Change in net assets	(1,288,135)	761,788	(526,347)	967,324
NET ASSETS AT BEGINNING OF YEAR	<u>21,324,683</u>	<u>28,420,253</u>	<u>49,744,936</u>	<u>48,777,612</u>
NET ASSETS AT END OF YEAR	<u>\$ 20,036,548</u>	<u>\$ 29,182,041</u>	<u>\$ 49,218,589</u>	<u>\$ 49,744,936</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	Program Services			Supporting Services		Total	2018 (Note 16)
	Science and Research	Visitor Experience	Total Program Services	Management and General	Fundraising		
EXPENSES							
Salaries	\$ 1,719,942	\$ 2,712,623	\$ 4,432,565	\$ 619,800	\$ 553,951	\$ 5,606,316	\$ 5,369,613
Payroll taxes and employee benefits	298,400	443,304	741,704	127,805	80,763	950,272	1,036,058
	<u>2,018,342</u>	<u>3,155,927</u>	<u>5,174,269</u>	<u>747,605</u>	<u>634,714</u>	<u>6,556,588</u>	<u>6,405,671</u>
Depreciation	367,010	1,001,413	1,368,423	136,318	31,458	1,536,199	1,449,565
Occupancy	250,086	597,710	847,796	81,506	18,902	948,204	937,818
Contracted services	244,869	254,850	499,719	12,796	2,692	515,207	804,731
Marketing	130,907	262,687	393,594	26,505	23,192	443,291	359,254
Equipment, materials and supplies	118,424	225,047	343,471	15,988	25,869	385,328	599,207
Café, bar and kitchen expenses	5,378	271,356	276,734	-	14,515	291,249	213,520
Information technology	69,675	164,686	234,361	16,891	14,779	266,031	307,779
Travel and conferences	168,622	50,610	219,232	6,192	16,394	241,818	242,780
Insurance	45,754	124,850	170,604	16,994	3,922	191,520	121,358
Office expenses	23,596	103,793	127,389	9,080	49,533	186,002	189,493
Fees for service	123	80,670	80,793	64,864	16,816	162,473	153,652
Other expenses	27,804	76,252	104,056	150	2,397	106,603	27,480
In-kind expenses	-	-	-	-	34,202	34,202	43,889
Total expenses	<u>\$ 3,470,590</u>	<u>\$ 6,369,851</u>	<u>\$ 9,840,441</u>	<u>\$ 1,134,889</u>	<u>\$ 889,385</u>	<u>\$ 11,864,715</u>	<u>\$ 11,856,197</u>

THE SAN DIEGO SOCIETY OF NATURAL HISTORY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	2019	2018 (Note 16)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (526,347)	\$ 967,324
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,536,199	1,449,565
Allowance for uncollectability and discounts	(13,154)	(75,000)
Contributions restricted for endowments	(5,000)	(142,337)
Realized and unrealized loss (gain) on investments	413,023	(783,099)
Funds held at San Diego Foundation	17,221	(63,437)
Beneficial interest in charitable remainder trust	(266,492)	(731,131)
Change in operating assets and liabilities:		
Receivables	176,777	25,125
Prepaid expenses and other assets	(45,364)	203,793
Accounts payable and accrued expenses	(145,446)	107,477
Deferred revenue	32,741	4,267
Net cash provided by operating activities	1,174,158	962,547
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (purchase) proceeds of investments	(646,331)	179,964
Purchase of property and equipment	(276,616)	(818,956)
Net cash used in investing activities	(922,947)	(638,992)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for endowments	5,000	142,337
Payments on line of credit	-	(99,386)
Net cash provided by financing activities	5,000	42,951
Change in cash and cash equivalents	256,211	366,506
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,421,960	2,055,454
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,678,171	\$ 2,421,960

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 3-D giant-screen theater, and education classrooms. In November 2018, the Museum debuted a new core exhibition, *Hidden Gems*. This exhibition shares with visitors amazing gem and mineral specimens in their natural and cut forms to demonstrate in part how the region's geologic history resulted in a diverse and mineral-rich terrain. This exhibition compliments the Museum's mission-focused core exhibitions, joining *Fossil Mysteries*, *Coast to Cactus in Southern California*, and *Extraordinary Ideas from Ordinary People: A History of Citizen Science*.

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 in the Museum, in schools and other community locations, as well as outdoors locations throughout the region, to the total of 72,366 participants annually. 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 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. Our 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. 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, 2019, 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 – The Museum recognizes revenue at the time of renewal.

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

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 \$41,846 is needed for the year ended June 30, 2019.

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

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

as contribution revenue. Management has determined that an allowance of \$25,000 is needed for the year ended June 30, 2019.

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 \$1,536,199 for the year ended June 30, 2019.

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NOTES TO FINANCIAL STATEMENTS

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, 2019.

Advertising Costs – Advertising costs are expensed as incurred and totaled \$428,017 and \$333,640 for the years ended June 30, 2019 and June 30, 2018, respectively.

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.

Cost of Direct Benefits to Donors – The costs of special events that represent a direct benefit to donors are separately reported. For the years ended June 30, 2019 and 2018, the amounts totaled \$66,040 and \$72,418 respectively.

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.

New Accounting Pronouncement – In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. This ASU amends the current nonprofit reporting model and enhances nonprofit organizations required disclosures. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Museum has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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.

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NOTES TO FINANCIAL STATEMENTS

The Museum has evaluated subsequent events through November 12, 2019, 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 3. 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	\$ 2,678,171
Accounts receivable	1,291,765
Investments	<u>16,240,103</u>
Total financial assets available within one year	<u>20,210,039</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(1,653,707)
Restricted by donors in perpetuity	<u>(16,736,069)</u>
Total amounts unavailable for general expenditures within one year	<u>(18,389,776)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 1,820,263</u>

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

Note 4. 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.

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.

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.

Note 5. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expenses, accounts payable and deferred revenue, 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

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS**

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.

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, 2019, 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>				
Equity mutual funds	\$ 12,091,648	\$ -	\$ -	\$ 12,091,648
Bond mutual funds	4,117,952	-	-	4,117,952
Money market funds	22,857	-	-	22,857
Other investments	-	7,645	-	7,645
Private equity funds	-	-	118,772	118,772
Funds held at San Diego Foundation	-	1,878,369	-	1,878,369
Beneficial interest in charitable remainder trust	-	6,176,664	-	6,176,664
Beneficial interest in perpetual trust	-	2,435,170	-	2,435,170
	<u>\$ 16,232,457</u>	<u>\$ 10,497,848</u>	<u>\$ 118,772</u>	<u>\$ 26,849,077</u>

For the valuation of money market funds and mutual funds as of June 30, 2019, the Museum used quoted prices in principal active markets for identical assets as of the valuation date (Level 1).

For the valuation of other assets as of June 30, 2019, the Museum used quoted prices in principal active markets for certain underlying fund positions and significant other observable inputs (Level 2). 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. (Level 2).

For the valuation of private equity funds at June 30, 2019, the Museum used significant unobservable inputs, including information from fund managers or general partners based on quoted market prices, if available, or other valuation methods. The Museum reviews and evaluates the values provided by the fund

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of these investments (Level 3).

The changes in assets by asset class measured at fair value for which the Museum used Level 3 inputs to determine fair value for the year ended June 30, 2019, are as follows:

	<u>Private Equity</u>
Balance, July 1, 2018	\$ -
Purchases	113,568
Distributions	(6,208)
Investment income	12,426
Fees	<u>(1,014)</u>
Balance, June 30, 2019	<u>\$ 118,772</u>

The Museum uses the net asset values (NAV) as a practical expedient to determine the fair value of all the underlying investments which do not have a readily determinable fair value.

The following summarizes the nature and risk of those investments that are reported at estimated fair value utilizing net asset value as of June 30, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity (a)	\$ 118,772	\$ 366,250	Not redeemable	N/A

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

The management of the Museum is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of the Museum has established an accounting and financial reporting process for determining the fair value measurements and disclosures, which identifies and adequately supports the valuation methods and assumptions used and ensures that the presentation of the fair value measurement is in accordance with US GAAP.

Note 6. Investments

Investments, at fair value, consist of the following as of June 30, 2019:

Equity mutual funds	\$ 12,091,648
Bond mutual funds	4,117,952
Private equity funds	118,772
Money market funds	22,857
Other	<u>7,645</u>
	<u>\$ 16,358,874</u>

The Museum's investment activities for the year ended June 30, 2019 resulted in interest and dividend income of \$1,483,684, net realized and unrealized losses of \$(413,023) and management fees of \$37,775.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Note 7. Receivables

Receivables consist of the following at June 30, 2019:

Due in less than one year	
Contracts	\$ 365,678
Pledges	199,876
General	299,193
Grants	493,864
Less allowance for doubtful accounts	<u>(66,846)</u>
	<u>1,291,765</u>
Due in one to five years	
Charitable remainder trusts	490,463
Less discounts to net present value at 4%	<u>(143,808)</u>
	<u>346,655</u>
Total receivables, net	<u>\$ 1,638,420</u>

Note 8. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2019:

Leasehold improvements	\$ 40,101,528
Furniture, fixtures, and equipment	7,587,794
Construction in progress	<u>8,956</u>
	<u>47,698,278</u>
Less accumulated depreciation	<u>(28,437,157)</u>
Total property, equipment, and leasehold improvements, net	<u>\$ 19,261,121</u>

Note 9. Line of Credit

The Museum has a line of credit for \$500,000 maturing in March 2020 that allows the Museum to borrow at the rate of 5.5% per annum. As of June 30, 2019, there was no amount outstanding.

Note 10. Commitments

Operating Leases – The Museum leases 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.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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

<u>Years Ending June 30,</u>	<u>Leases</u>
2020	\$ 129,537
2021	90,132
2022	91,176
2023	94,824
	<u>\$ 405,669</u>

For the year ended June 30, 2019, lease expense for these leases totaled approximately \$126,285.

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

Note 11. 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, 2019 are available for the following purposes:

Charitable remainder trusts	\$ 6,523,319
Legacy campaign	636,891
Science, research and education	<u>1,016,816</u>
	<u>\$ 8,177,026</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	\$ 8,883,483
General operations	5,442,404
CEO endowment	<u>2,528,954</u>
	<u>16,854,841</u>
Beneficial interest in perpetual trust	<u>2,435,170</u>
Endowments held at San Diego Foundation	<u>1,715,004</u>
	<u>\$ 21,005,015</u>

Total net assets with donor restrictions at June 30, 2019 is \$29,182,041.

Note 12. 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.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Net assets released from restriction consist of the following at June 30, 2019:

Science, research and education	\$ 945,343
Museum programs and supporting services	704,298
Special projects campaign	200,309
Distribution from perpetual trust	119,288
	<u>\$ 1,969,238</u>

Note 13. 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 Uniform Prudent Management of Institutional Funds Act (UPMIFA). The endowment includes only donor-restricted endowment funds.

Interpretation of Relevant Law – The Board of Directors of the Museum has interpreted the 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 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.

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.

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 7.5% as of June 30, 2019.

The Museum has a policy of appropriating for distribution each year 4.5% 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, 2019, is as follows:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019			
	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ -	\$ 20,793,376	\$ 20,793,376
Investment return:			
Investment income	-	1,445,909	1,445,909
Net depreciation (1)	-	(415,684)	(415,684)
Total investment return	-	1,030,225	1,030,225
Appropriation of assets for expenditure	-	(823,586)	(823,586)
Contributions	-	5,000	5,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 21,005,015</u>	<u>\$ 21,005,015</u>

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

Note 14. 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, 2019, the Museum made matching contributions of \$47,687.

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.

Note 16. June 30, 2018 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, 2018, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2018 financial information to conform to the classifications adopted for the 2019 financial statements. These reclassifications had no effect on the change in net assets.

THE SAN DIEGO SOCIETY OF NATURAL HISTORY
SUPPLEMENTARY INFORMATION
INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS
Year Ended June 30, 2019

EXPENSE CLASSIFICATION	<u>Budget</u>	<u>Actual</u>	<u>TOT Funds</u>
Operating income	\$ 12,648,056	\$ 10,639,959	\$ 426,696
Operating expense	<u>(12,648,056)</u>	<u>(11,930,755)</u>	<u>(426,696)</u>
Net loss	<u>\$ -</u>	<u>\$ (1,290,796)</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, 2019, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated November 12, 2019.

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

San Diego, California
November 12, 2019