



Financial Report

June 30, 2023



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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of The San Diego Society of Natural History:

### **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, 2023, 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, 2023, 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 San Diego Society of Natural History 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 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 San Diego Society of Natural History 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 San Diego Society of Natural History 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 2022 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 1, 2022. In our opinion, the summarized information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



WEST RHODE & ROBERTS

San Diego, California  
November 15, 2023

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

## STATEMENT OF FINANCIAL POSITION

June 30, 2023

*(With Summarized Financial Information for June 30, 2022)*

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	2023	2022 (Note 16)
<b>Assets</b>		
Cash and cash equivalents	\$ 11,136,821	\$ 6,676,360
Receivables, net	2,547,051	4,172,236
Pledges receivable, net	11,196,534	231,627
Prepaid expenses and other assets	158,221	206,599
Investments	21,172,973	19,489,661
Funds held at San Diego Foundation	2,124,139	2,077,022
Beneficial interest in charitable remainder trusts	8,160,325	7,665,802
Beneficial interest in perpetual trust	2,550,775	2,412,489
Property, equipment, and leasehold improvements, net	15,999,501	16,450,494
Collections and exhibits	1	1
Total assets	<u>\$ 75,046,341</u>	<u>\$ 59,382,291</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,099,088	\$ 1,491,786
Deferred revenue	242,670	241,472
Total liabilities	<u>2,341,758</u>	<u>1,733,258</u>
Commitments & contingencies		
Net assets:		
Without donor restrictions	22,348,858	22,832,509
With donor restrictions	50,355,725	34,816,524
Total net assets	<u>72,704,583</u>	<u>57,649,033</u>
Total liabilities and net assets	<u>\$ 75,046,341</u>	<u>\$ 59,382,291</u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY**

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022 (Note 16)
<u>Operating Activities</u>				
<b>Support and revenues</b>				
Contributions	\$ 1,937,177	\$ 15,904,937	\$ 17,842,114	\$ 7,423,201
Contracts and grants	3,885,946	-	3,885,946	4,925,180
Auxiliary activities	1,777,846	-	1,777,846	785,769
Admissions and membership	3,022,595	-	3,022,595	2,273,326
Net assets released from restrictions for operations	3,175,959	(3,175,959)	-	-
Total support and revenue	13,799,523	12,728,978	26,528,501	15,407,476
<b>Expenses</b>				
Program services				
Science and research	4,778,816	-	4,778,816	4,289,154
Visitor experience	6,847,274	-	6,847,274	5,416,471
Total program services	11,626,090	-	11,626,090	9,705,625
Supporting services				
Management and general	1,688,412	-	1,688,412	1,358,970
Fundraising	1,137,019	-	1,137,019	971,189
Total supporting services	2,825,431	-	2,825,431	2,330,159
Total expenses	14,451,521	-	14,451,521	12,035,784
Change in net assets from operating activities	(651,998)	12,728,978	12,076,980	3,371,692
<u>Non-operating activities</u>				
Investment income	104,759	839,475	944,234	494,839
Net realized and unrealized gain (loss)	63,588	1,970,748	2,034,336	(3,805,337)
Total non-operating activities	168,347	2,810,223	2,978,570	(3,310,498)
Change in net assets	(483,651)	15,539,201	15,055,550	61,194
Net assets at beginning of year	22,832,509	34,816,524	57,649,033	57,587,839
Net assets at end of year	\$ 22,348,858	\$ 50,355,725	\$ 72,704,583	\$ 57,649,033

# THE SAN DIEGO SOCIETY OF NATURAL HISTORY

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	Program Services			Supporting Services		2023 Total	2022 (Note 16)
	Science and Research	Visitor Experience	Total Program Services	Management and General	Fundraising		
<b>Expenses</b>							
Salaries	\$ 2,429,356	\$ 3,020,111	\$ 5,449,467	\$ 766,489	\$ 701,473	\$ 6,917,429	\$ 5,600,928
Payroll taxes and employee benefits	446,152	550,972	997,124	202,255	135,424	1,334,803	1,139,579
	<u>2,875,508</u>	<u>3,571,083</u>	<u>6,446,591</u>	<u>968,744</u>	<u>836,897</u>	<u>8,252,232</u>	<u>6,740,507</u>
Depreciation	404,283	1,103,114	1,507,397	150,162	34,653	1,692,212	1,678,837
Contracted services	604,510	476,971	1,081,481	299,634	88,387	1,469,502	1,146,816
Occupancy	266,698	610,543	877,241	84,910	19,569	981,720	806,543
Equipment, materials and supplies	161,579	168,641	330,220	17,376	51,615	399,211	257,425
Information technology	138,133	195,756	333,889	35,146	19,616	388,651	380,116
Travel and conferences	194,600	59,615	254,215	47,490	25,724	327,429	253,328
Café, bar and kitchen expenses	-	248,341	248,341	-	-	248,341	85,885
Insurance	48,911	133,457	182,368	18,167	4,192	204,727	180,720
Office expenses	14,541	74,663	89,204	49,087	47,632	185,923	131,408
Marketing	61,504	87,160	148,664	15,649	8,734	173,047	131,016
Other expenses	8,549	117,930	126,479	2,047	-	128,526	243,183
Total expenses	<u>\$ 4,778,816</u>	<u>\$ 6,847,274</u>	<u>\$ 11,626,090</u>	<u>\$ 1,688,412</u>	<u>\$ 1,137,019</u>	<u>\$ 14,451,521</u>	<u>\$ 12,035,784</u>

**THE SAN DIEGO SOCIETY OF NATURAL HISTORY****STATEMENT OF CASH FLOWS**

Year Ended June 30, 2023

(With Summarized Financial Information for the Year Ended June 30, 2022)

	2023	2022 (Note 16)
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 15,055,550	\$ 61,194
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,692,212	1,678,837
Change in allowance for collectability of accounts receivable	(175,000)	218,253
Change in allowance for collectability of pledges receivable	74,264	-
Change in discount on pledges receivable	396,238	-
Contributions restricted for endowments	(175,000)	(3,005,000)
Realized and unrealized (gain) loss on investments	(2,034,336)	3,805,337
Funds held at San Diego Foundation	(47,117)	169,761
Beneficial interest in charitable remainder trusts	(632,809)	1,652,188
Change in operating assets and liabilities:		
Receivables	1,800,185	(1,342,561)
Pledges receivable	(11,435,409)	-
Prepaid expenses and other assets	48,378	(85,757)
Accounts payable and accrued expenses	607,302	105,926
Refundable advance	-	(1,184,700)
Deferred revenue	1,198	29,671
Net cash provided by operating activities	<u>5,175,656</u>	<u>2,103,149</u>
<b>Cash flows from investing activities</b>		
Net purchases of investments	405,804	(3,297,164)
Purchase of property and equipment	(1,241,219)	(629,452)
Net cash used in investing activities	<u>(835,415)</u>	<u>(3,926,616)</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for endowments	175,000	3,005,000
Net cash provided by financing activities	<u>175,000</u>	<u>3,005,000</u>
Change in cash and cash equivalents	4,515,241	1,181,533
Cash and cash equivalents at beginning of year	6,735,863	5,554,330
Cash and cash equivalents at end of year	<u>\$ 11,251,104</u>	<u>\$ 6,735,863</u>
<b>Cash and cash equivalents consist of</b>		
Cash and cash equivalents	11,136,821	6,676,360
Cash and cash equivalents included in investments	114,283	59,503
	<u>\$ 11,251,104</u>	<u>\$ 6,735,863</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; The Living Lab; and Expedition Baja. In 2022-2023 the Museum opened a photographic exhibition, Caught on Camera, featuring remarkable images of southern California wildlife "caught" on film with the help of camera traps, and plans are underway to debut a new native plant garden around the exterior of the building in 2024.

#### Education Programs

Through the Education department, 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, at 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. As of 2023 the Museum began design on a fifth-grade outdoor education field trip that utilizes Balboa Park as an outdoor classroom. Adult programs include public lectures (Nat Talks), workshops and evening events such as "Nat at Night" and trivia during the summer season.

#### The Biodiversity Research Center of the Californias (BRCC)

For nearly 150 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, 2023, 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 \$75,000 is needed for the year ended June 30, 2023.

**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 \$100,000 is needed for the year ended June 30, 2023.

# THE SAN DIEGO SOCIETY OF NATURAL HISTORY

## Notes to Financial Statements

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**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.

**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 \$1,692,212 for the year ended June 30, 2023.

**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 45,000 titles in 65,000 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, 2023.

**Leases** – The Museum determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the balance sheet. ROU assets represent the right to control the use of an identified asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. the Museum does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

**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.

**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.

**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.

**Recently Adopted Accounting Standards** – In February 2016, the FASB issued ASU No. 2016-02, Leases (ASC 842) that requires a lessee to recognize on the statement of financial position, a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, regardless of classification of a lease as an operating or finance lease. The Museum adopted ASU 2016-02 on July 1, 2022, using the modified retrospective approach for operating leases with a term greater than 12 months. The Museum also elected the package of practical expedients permitted under the new standard that allowed the Museum to carry forward historical lease classification for existing leases on the adoption date, and allowed the Museum not to assess whether an existing contract contains a lease or initial direct costs. As permitted by the guidance, prior comparative periods will not be adjusted under this method. The adoption of this standard had no material impact on the financial statements. Consistent with the Museum's lease capitalization policy, the new lease standard was not adopted for existing leases with terms beyond 12 months and monthly payments under \$1,000 as they do not have a material impact on the financial statements.

**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 November 15, 2023, which is the date the financial statements are available for issuance, and concluded that that there are no events that required disclosure.

**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	\$ 11,136,821
Receivables	2,547,051
Pledges receivable due within one year	3,804,280
Investments	<u>21,172,973</u>
Total financial assets available within one year	<u>38,661,125</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	9,272,912
Restricted by donors in perpetuity	<u>21,464,808</u>
Total amounts unavailable for general expenditures within one year	<u>30,737,720</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 7,923,405</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. Investments and 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.

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.

# THE SAN DIEGO SOCIETY OF NATURAL HISTORY

## Notes to Financial Statements

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:

	Fair Value Measurements at June 30, 2023, Using:				
	Level 1	Level 2	Level 3	NAV	Total
<u>Assets</u>					
Investments					
Equity funds	\$ 14,059,764	\$ -	\$ -	\$ -	\$ 14,059,764
Bond funds	1,636,388	-	-	-	1,636,388
Securities	656,847	-	-	-	656,847
Exchange traded funds	446,286	-	-	-	446,286
Private equity funds (a)	-	-	-	4,251,405	4,251,405
Money market funds	114,283	-	-	-	114,283
Other investments	-	8,000	-	-	8,000
Total investments	16,913,568	8,000	-	4,251,405	21,172,973
Funds held at San Diego Foundation	-	2,124,139	-	-	2,124,139
Beneficial interest in charitable remainder trusts	-	8,160,325	-	-	8,160,325
Beneficial interest in perpetual trust	-	2,550,775	-	-	2,550,775
	<u>\$ 16,913,568</u>	<u>\$ 12,843,239</u>	<u>\$ -</u>	<u>\$ 4,251,405</u>	<u>\$ 34,008,212</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)	\$ 4,251,405	\$ 346,576	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, 2023, resulted in interest and dividend income of \$1,036,280 net of \$92,046 in management fees and net realized and unrealized gains of \$2,034,336.

# THE SAN DIEGO SOCIETY OF NATURAL HISTORY

## Notes to Financial Statements

### Note 5. Receivables

Receivables consist of the following at June 30, 2023:

Due in less than one year	
Employee Retention Credit	\$ 618,083
Contracts	1,133,021
General	181,438
Grants	72,608
Total due in less than one year	2,005,150
Less allowance for doubtful accounts	(75,000)
	<u>1,930,150</u>
Due in one to five years	
Charitable remainder trusts	1,329,019
Less discounts to net present value at 4%	(712,118)
Total receivables, net	<u>616,901</u>
	<u>\$ 2,547,051</u>

### Note 6. Pledges Receivable

The Museum in the midst of fundraising campaign with the main purpose of raising funds for its 150<sup>th</sup> year anniversary. The campaign also accepts gifts towards endowment. Some of the gifts are in the form of pledges of future payments. The range of the term of pledges runs from one to three years. The pledged amounts are first adjusted for collectability and then discounted as the payments are in the future. The pledges outstanding at June 30, 2023, are summarized below:

Pledges receivable due within one year	\$ 5,129,280
Pledges receivable due between one and five years	6,563,493
	<u>11,692,773</u>
Less discount to present value and allowance for doubtful pledges	(496,239)
	<u>\$ 11,196,534</u>

The discount rate used on pledges received in the fiscal year ending June 30, 2023, was 5% for a total discount of \$396,239.

Management has determined that an allowance of \$100,000 is needed for the year ended June 30, 2023.

### Note 7. Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at June 30, 2023:

Leasehold improvements	\$ 41,040,341
Furniture, fixtures, and equipment	8,938,508
Construction in process	1,055,128
	<u>51,033,977</u>
Less accumulated depreciation	(35,034,476)
Total property, equipment, and leasehold improvements, net	<u>\$ 15,999,501</u>

### Note 8. Line of Credit

The Museum has a line of credit for \$500,000 maturing in May 2024 that allows the Museum to borrow at a variable rate based on the prime rate. As of June 30, 2023, there was no amount outstanding.

**Note 9. Leases**

The Museum evaluated current contracts to determine which met the criteria of a lease as defined by ASC 842. The right-of-use (ROU) assets represent the Museum's right to use underlying assets for the lease term, and the lease liabilities represent the Museum's obligation to make lease payments arising from these leases. The Museum did not have capitalized right-of use assets and lease liabilities at Juen 30, 2023.

Low-Value Asset Leases - the Museum has elected the practical expedient to not recognize right-of-use assets and lease liabilities for leases of low-value assets. Leases that qualify for this treatment are recognized on a straight-line basis over the lease term as part of occupancy costs in the statement of functional expenses. For the year ended June 30, 2023, the total lease cost associated with low-value asset leases was \$30,462. the Museum's commitment to these leases is typically short-term in nature, and the expenses are reflective of the period in which they are incurred.

Lease Agreement with the City of San Diego: the Museum constructed and expanded the building it occupies, later transferring the title to the City of San Diego. Under a 35-year lease expiring in 2033, the Museum uses the building at no charge, while the City maintains the building's exterior. US GAAP requires the original building value to be reflected in the Museum's financial statements. However, had the building been reported at its fair market value when the lease commenced, it would be fully depreciated by now. Therefore, it does not appear in the current statement of financial position. The cost of expansion and renovation, amounting to \$41,040,341, has been capitalized and is amortized over the lease term.

Land Use and Maintenance: The lease also grants the Museum free use of land in Balboa Park and maintenance of the building's exterior by the City. No value for the land use is recorded in the financial statements, as there is no objective measure of its worth.

Operating Lease Cost: The total operating lease cost for the year ended June 30, 2023, was \$94,824, included under Occupancy costs in the statement of functional expenses. As the lease with the City is classified as an operating lease under ASC 842 and involves no fixed payments, no lease liability or ROU asset is recognized. Maintenance and depreciation of leasehold improvements are expensed as incurred.

**Note 10. Commitments**

Employment Contracts – The Museum has an employment contract with the CEO for an annual salary through June 30, 2024.

**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, 2023 are available for the following purposes:

Beneficial interest in charitable remainder trusts	\$ 8,160,325
150th Anniversary campaign	8,452,162
Pledges receivable for the endowment	6,575,000
Science, research and education	820,750
Charitable remainder trusts	616,901
	<u>\$ 24,625,138</u>



# THE SAN DIEGO SOCIETY OF NATURAL HISTORY

## Notes to Financial Statements

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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	\$ 13,016,058
General operations	5,879,267
CEO endowment	<u>2,569,483</u>
	21,464,808
Beneficial interest in perpetual trust	2,550,775
Endowments held at San Diego Foundation	<u>1,715,004</u>
	<u>\$ 25,730,587</u>

Total net assets with donor restrictions at June 30, 2023 is \$50,355,725.

### 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.

Net assets released from restriction consist of the following at June 30, 2023:

Special projects campaign	\$ 1,380,720
Museum programs and supporting services	844,961
Science, research and education	799,828
Distribution from perpetual trust	<u>150,450</u>
	<u>\$ 3,175,959</u>

### Note 13. 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, 2023, 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, 2023.

In fiscal year 2023, 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, 2023, is as follows:

Endowment net assets, beginning of year	\$ 23,908,989
Investment return:	
Investment income	524,650
Net appreciation	<u>2,072,226</u>
Total investment return	2,596,876
Appropriation of assets for expenditure	(950,278)
Contributions	<u>175,000</u>
Endowment net assets, end of year	<u>\$ 25,730,587</u>

**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, 2023, the Museum made matching contributions of \$43,696.

**Note 15. 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.

**Note 16. June 30, 2022, 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, 2022, from which the summarized information was derived. Certain reclassifications have been made to the summarized 2022 financial information to conform to the classifications adopted for the 2023 financial statements. These reclassifications had no effect on the change in net assets.