FINANCIAL REPORT

SAN DIEGO
NATURAL HISTORY MUSEUM

June 30, 2010
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INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying statement of financial position of The San Diego Society of Natural History (the Museum) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Museum’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Museum’s 2009 financial statements, and in our report dated September 9, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Christopher M. Roberts, CPA
for WEST RHODE & ROBERTS

San Diego, California
September 23, 2010
## Statement of Financial Position

**June 30, 2010**

*(With Summarized Financial Information for June 30, 2009)*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009 (Note 18)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 793,902</td>
<td>$ 1,904,591</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,272,651</td>
<td>1,468,502</td>
</tr>
<tr>
<td>Inventories</td>
<td>165,017</td>
<td>143,165</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>1,018,329</td>
<td>1,204,716</td>
</tr>
<tr>
<td>Investments</td>
<td>8,727,851</td>
<td>7,492,974</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trust</td>
<td>2,065,800</td>
<td>1,850,844</td>
</tr>
<tr>
<td>Property, equipment, and leasehold improvements, less accumulated depreciation</td>
<td>27,080,084</td>
<td>28,236,364</td>
</tr>
<tr>
<td>Collections and exhibits</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 41,123,635</td>
<td>$ 42,301,157</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND NET ASSETS** |              |                |
| **Liabilities:**              |              |                |
| Accounts payable              | $ 903,080    | $ 1,111,071    |
| Accrued expenses              | 1,243,839    | 878,094        |
| Deferred revenue              | 28,783       | 37,510         |
| Line of credit                | 1,250,000    | 2,570,000      |
| Capital lease liability       | 187,362      | -              |
| Notes payable                 | 13,675,404   | 13,992,106     |
| **Total liabilities**         | 17,288,468   | 18,588,781     |

Commitments (Note 9)

**Net assets:**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>10,727,625</td>
<td>11,925,920</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>2,004,941</td>
<td>1,818,145</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>12,732,566</td>
<td>13,744,065</td>
</tr>
</tbody>
</table>

| Permanently restricted:    |              |                      |
| Museum endowments         | 7,104,163    | 6,402,463            |
| Beneficial interest in perpetual trust | 2,283,434    | 1,850,844            |
| Endowments held by others | 1,715,004    | 1,715,004            |
| **Total net assets**      | 11,102,601   | 9,968,311            |

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$41,123,635</td>
<td>$42,301,157</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements.
# THE SAN DIEGO SOCIETY OF NATURAL HISTORY

## STATEMENT OF ACTIVITIES

**Year Ended June 30, 2010**

*(With Summarized Financial Information for the Year Ended June 30, 2009)*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily</td>
</tr>
<tr>
<td></td>
<td>Operations</td>
<td>Depreciation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUPPORT AND REVENUE</td>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Admissions and exhibit ticket sales</td>
<td>$4,328,213</td>
<td>$</td>
</tr>
<tr>
<td>Contributions</td>
<td>2,328,353</td>
<td>-</td>
</tr>
<tr>
<td>Government appropriations</td>
<td>433,000</td>
<td>-</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>1,636,025</td>
<td>-</td>
</tr>
<tr>
<td>Store</td>
<td>588,750</td>
<td>-</td>
</tr>
<tr>
<td>Education</td>
<td>262,268</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>550,104</td>
<td>-</td>
</tr>
<tr>
<td>Net assets released from restrictions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction of program restrictions</td>
<td>2,443,800</td>
<td>-</td>
</tr>
<tr>
<td>Total support and revenue</td>
<td>12,981,146</td>
<td>-</td>
</tr>
<tr>
<td>EXPENSES</td>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Program expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exhibits</td>
<td>5,063,480</td>
<td>628,091</td>
</tr>
<tr>
<td>Science and research</td>
<td>2,919,771</td>
<td>393,650</td>
</tr>
<tr>
<td>Education/public programs</td>
<td>1,523,480</td>
<td>303,632</td>
</tr>
<tr>
<td>Store cost of goods sold and operating expenses</td>
<td>611,295</td>
<td>54,807</td>
</tr>
<tr>
<td>Membership</td>
<td>164,168</td>
<td>10,981</td>
</tr>
<tr>
<td>Total program expenses</td>
<td>10,282,194</td>
<td>1,381,141</td>
</tr>
<tr>
<td>Supporting services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management and general</td>
<td>1,037,690</td>
<td>142,499</td>
</tr>
<tr>
<td>Fundraising</td>
<td>1,169,529</td>
<td>21,923</td>
</tr>
<tr>
<td>Marketing</td>
<td>871,192</td>
<td>60,288</td>
</tr>
<tr>
<td>Total supporting services</td>
<td>3,078,411</td>
<td>224,710</td>
</tr>
<tr>
<td>Total expenses</td>
<td>13,360,605</td>
<td>1,605,851</td>
</tr>
<tr>
<td>Revenue and other support in excess of expenses</td>
<td>(379,459)</td>
<td>(1,650,851)</td>
</tr>
<tr>
<td>INVESTMENT GAINS (LOSSES)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gain (loss)</td>
<td>719,153</td>
<td>-</td>
</tr>
<tr>
<td>Total Investment gains (losses)</td>
<td>787,015</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL CHANGE IN NET ASSETS</td>
<td>407,556</td>
<td>(1,605,851)</td>
</tr>
<tr>
<td>NET ASSETS AT BEGINNING OF YEAR</td>
<td>25,579,020</td>
<td>(13,892,100)</td>
</tr>
</tbody>
</table>
# THE SAN DIEGO SOCIETY OF NATURAL HISTORY

## STATEMENT OF CASH FLOWS

**Year Ended June 30, 2010**

*(With Summarized Financial Information for the Year Ended June 30, 2009)*

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2010</th>
<th>2009 (Note 18)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$122,791</td>
<td>$(5,167,206)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,605,851</td>
<td>1,566,886</td>
</tr>
<tr>
<td>Gain on sale of property and equipment</td>
<td>(6,740)</td>
<td>-</td>
</tr>
<tr>
<td>Allowance for uncollectability and discounts</td>
<td>105,713</td>
<td>(36,854)</td>
</tr>
<tr>
<td>Allowance for obsolete inventory</td>
<td>-</td>
<td>28,412</td>
</tr>
<tr>
<td>Change in temporarily restricted net assets</td>
<td>(186,796)</td>
<td>(159,944)</td>
</tr>
<tr>
<td>Change in permanently restricted net assets</td>
<td>(1,134,290)</td>
<td>490,812</td>
</tr>
<tr>
<td>Net unrestricted unrealized (gain) loss</td>
<td>(719,163)</td>
<td>1,554,472</td>
</tr>
<tr>
<td>(Increase) decrease in operating assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>90,138</td>
<td>1,036,413</td>
</tr>
<tr>
<td>Inventories</td>
<td>(21,852)</td>
<td>(34,254)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>186,387</td>
<td>54,196</td>
</tr>
<tr>
<td>Increase (decrease) in operating liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(8,727)</td>
<td>(91,420)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>157,751</td>
<td>(364,591)</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>191,063</td>
<td>(1,123,078)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (purchases) of investments - unrestricted</td>
<td>(730,670)</td>
<td>796,292</td>
</tr>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td>7,500</td>
<td>-</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(230,781)</td>
<td>(36,602)</td>
</tr>
<tr>
<td>Net cash (used in) provided by investing activities</td>
<td>(953,951)</td>
<td>759,690</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM FINANCING ACTIVITIES</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net proceeds (payments) on line of credit</td>
<td>(1,320,000)</td>
<td>2,370,000</td>
</tr>
<tr>
<td>Change in temporarily restricted net assets</td>
<td>186,796</td>
<td>159,944</td>
</tr>
<tr>
<td>Change in permanently restricted net assets</td>
<td>1,134,290</td>
<td>(490,812)</td>
</tr>
<tr>
<td>Principal payments under capital lease obligations</td>
<td>(32,185)</td>
<td>-</td>
</tr>
<tr>
<td>Payment of notes payable</td>
<td>(316,702)</td>
<td>(461,360)</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(347,801)</td>
<td>1,577,772</td>
</tr>
</tbody>
</table>

**(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS**

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1,110,689)</td>
<td>1,214,384</td>
</tr>
</tbody>
</table>

**CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR**

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$793,902</td>
<td>$1,904,591</td>
</tr>
</tbody>
</table>

**CASH AND CASH EQUIVALENTS AT END OF YEAR**

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$770,016</td>
<td>$743,204</td>
</tr>
</tbody>
</table>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$219,547</td>
<td>$ -</td>
</tr>
</tbody>
</table>

See Notes to Financial Statements.
NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - The San Diego Society of Natural History (the Museum) operates The Natural History Museum of San Diego and its related activities, which includes a gift shop.

Income Tax Status - The Museum, a California not-for-profit corporation, is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Museum reviewed its positions for all open tax years and has determined that no provision for uncertain tax positions under FASB Accounting Standards Codification No. 740-10 (formerly FIN 48) is required.

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

Support and Revenue Recognition –

Contributions - The Museum records contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

The Museum reports gifts of cash and other assets as temporarily restricted support if they are received with stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts received during the year with donor restrictions that are satisfied before the year-end are reported as unrestricted contributions.

Government Appropriations - The policy of the Museum is to recognize the revenue to the extent of eligible costs incurred, up to the maximum subcontract or grant amount.

Scientific Grants and Contracts - The Museum recognizes revenue as services are provided.

Admissions, Store, and Education - The Museum records revenue when goods or services are provided.

Memberships - The Museum recognizes revenue at the time of renewal.

Traveling Exhibits – Traveling exhibits are exhibits in which the Museum may charge an additional fee in excess of the normal admission price. The Museum recognizes revenue when earned and expenses are recognized over the life of the exhibit.

Receivables - Receivables include unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free rates applicable in the years in which those promises are received. Amortization of the discounts is included in contribution income.

Receivables also include amounts billed on grants and contracts for services provided through June 30, 2010. Management has determined that an allowance for all receivables at June 30, 2010 should be $200,000, to take into account any amounts that may become uncollectible.

The Museum does not obtain collateral for these receivables.

An allowance for doubtful accounts is based on past experience and an analysis of current balances. Receivables are written off in the year deemed uncollectible.
NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

**Physical Facilities** - The Museum renovated the original building and constructed the expansion building it occupies. After completion, the Museum transferred title to the City of San Diego (the City). The Museum occupies the building under a 35-year lease agreement with the City expiring 2033, which permits the Museum use of the structure at no charge.

In accordance with accounting principles generally accepted in the United States of America, the original value of the building is to be reflected in the Museum's financial statements. However, if the building had been reported at its fair market value at the date the agreement with the City originally commenced, it would have been fully depreciated in prior years. Therefore, it is not reflected in the accompanying statement of financial position. The cost of construction to expand and renovate the original building has been capitalized in the statement of financial position as leasehold improvements and is being amortized over the life of the lease.

The agreement with the City also provides for the Museum's free use of the land in Balboa Park on which the structure is situated. No amounts have been reflected in the financial statements for use of the land, inasmuch as no objective basis is available to measure its value.

Property, equipment, and leasehold improvements are carried at cost for items purchased or improvements made, or fair value at the date of the gift for donated items. Items which cost or have a fair value at the date of the gift of $2,000 or more are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

**Investments** - Investments in debt and equity securities with readily determinable fair values are reported at fair values. Net realized and unrealized gains or losses are reflected as increases or decreases in unrestricted net assets, unless the use is restricted by the donor.

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

**Prepaid Expenses and Other Assets** – Prepaid expenses include bond premium and issuance costs which are amortized on the straight-line method over the 30-year term of the bond and traveling exhibit costs.

**Collections** - The Museum houses over nine million natural history specimens in collections dating back as far as the 1870s. The specimens include plants, birds, mammals, insects, reptiles, amphibians, marine invertebrates, fossils, and minerals mainly from Western United States, Baja California, and Northern Mexico. In addition, the Museum's library includes some 25,000 titles in 90,000 volumes with several significant and rare volumes on natural history. The Museum's collections are expensed when acquired.

**Exhibit Costs** – Exhibit costs are usually expensed when incurred; however, traveling exhibit costs included in prepaid expense are expensed over the life of the exhibit.

**Charitable Remainder Trusts** - The Museum is the beneficiary of charitable remainder trusts, which provide for payments of distributions to designated beneficiaries over the trusts' terms (usually the designated beneficiary's lifetime). At the end of a trust's term, the remaining assets are available to the Museum for the purpose specified by the donor.
NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets held in the charitable remainder trusts are managed by donor designated trustees, and are not accessible by the Museum until the end of the trusts’ terms. The assets are recorded as temporarily restricted contributions at their present value, calculated using risk-free interest rates over the estimated period until the Museum is to receive an irrevocable right to the assets.

**Pooled Income Funds** - Included in investments are pooled income funds, which are held and managed by the Museum. During the life of the donors, income from the pooled funds is distributed to the donors. Upon donor's death, the principal is to be distributed to the Museum. A discount to present value is recorded and the net amount is included in temporarily restricted net assets.

**Beneficial Interests in Perpetual Trusts Held by Others** – A perpetual trust held by a third party is an arrangement in which the donor establishes and funds a trust that is administered by an outside third party. Under the terms of the trust, the Museum has the right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The trust is recorded as permanently restricted net assets.

**Donated Materials, Services, and Other Assets** - The Museum receives donated materials and professional services, which are recorded as a contribution and an expense in the statement of activities, at fair value. Donated services related to the construction to expand and renovate the Museum were capitalized at its value. Donated property is recorded at its appraised value.

**Advertising Costs** - Advertising costs are expensed as incurred.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates** - The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CONCENTRATION OF CREDIT RISK

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

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

In addition, the Museum invests in various investments, including, mutual funds, and money market accounts. Investment securities, in general, are subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments could occur in the near term and that such change could materially affect amounts reported on the financial statements.
NOTE 2. CONCENTRATION OF CREDIT RISK (continued)

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

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

NOTE 3. INVESTMENTS

Investments, at fair value, consist of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds held at San Diego Foundation</td>
<td>$1,519,564</td>
</tr>
<tr>
<td>Funds held in trust</td>
<td>1,168,535</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>5,809,789</td>
</tr>
<tr>
<td>Money market funds</td>
<td>1,298</td>
</tr>
<tr>
<td>Other</td>
<td>13,000</td>
</tr>
<tr>
<td>Pooled income fund</td>
<td>239,965</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,727,851</strong></td>
</tr>
<tr>
<td><strong>Less discount to present value on pooled income fund</strong></td>
<td>(24,300)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,727,851</strong></td>
</tr>
</tbody>
</table>

NOTE 4. FAIR VALUE OF INVESTMENTS

The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification No. 820 (ASC 820) (formerly SFAS 157), Fair Value Measurements, that establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1**: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2**: Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
NOTE 4. FAIR VALUE OF INVESTMENTS (continued)

Level 3: Significant unobservable inputs that reflect the Museum’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

<table>
<thead>
<tr>
<th>Quoted Prices</th>
<th>Significant in Active Markets for Identical Assets</th>
<th>Significant Observables Inputs</th>
<th>Unobservable Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>(Level 1)</td>
<td>(Level 2)</td>
<td>(Level 3)</td>
</tr>
<tr>
<td>Investments</td>
<td>8,727,851$</td>
<td>8,727,851$</td>
<td>$ - $</td>
</tr>
<tr>
<td>$ - $</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. All of the Museum’s investments are based upon the quoted market prices at June 30, 2010.

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 GAAP.

NOTE 5. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of:

- Bond issuance costs, net of accumulated amortization of $144,893 $ 178,165
- Bond issuance costs, net of accumulated amortization of $9,574 41,871
- Non-qualified retirement plan funds held in trust 154,926
- Prepaid expenses and deposits 643,367

$ 1,018,329

NOTE 6. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Property, equipment, and leasehold improvements consist of:

- Leasehold improvements $ 35,141,545
- Furniture, fixtures, and equipment 6,579,738
- Warehouse 397,205
- Capital lease equipment 219,547

42,338,035

Less accumulated depreciation (15,257,951)

$ 27,080,084

Depreciation expense was $1,605,851 for the year ended June 30, 2010.
NOTE 7. LINE OF CREDIT

The Museum has an unsecured bank line of credit for $1,250,000 which expires on November 1, 2010. The line of credit is fully drawn and no additional borrowings are available on the line of credit. The Museum expects to refinance the line upon its expiration on November 1, 2010.

NOTE 8. NOTES PAYABLE

Notes payable consists of:

Bonds issued through the County of San Diego, secured by buildings and leasehold improvements, principal due on various dates through 2028, plus interest at 5.5 to 5.7 percent, payable in January and July  

$ 12,000,000

Bonds payable, bank, secured by equipment, principal due on various dates through 2026, plus interest at 5.5 percent, payable in July  

1,181,886

Note payable, Bank of America, secured by real property, monthly payment of $2,656, including interest at 7.4 percent, due December 2016  

164,231

Note payable, City National Bank, secured by real property, monthly payment of $1,637, including interest at 8.0 percent, due September 2012  

180,984

Loan payable, SDG&E, for energy efficient improvement for the museum, monthly payments of $3,155, non-interest bearing, due June 2014  

148,303

$ 13,675,404

Maturities of notes payable debt are as follows:

<table>
<thead>
<tr>
<th>Years Ending June 30.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 507,552</td>
</tr>
<tr>
<td>2012</td>
<td>511,974</td>
</tr>
<tr>
<td>2013</td>
<td>679,888</td>
</tr>
<tr>
<td>2014</td>
<td>511,610</td>
</tr>
<tr>
<td>2015</td>
<td>481,673</td>
</tr>
<tr>
<td>Thereafter</td>
<td>10,982,707</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 13,675,404</strong></td>
</tr>
</tbody>
</table>

At June 30, 2010, funds held in trust totaling $1,168,260 are invested in treasury obligations and an annuity contract with Transamerica Occidental Life Insurance Company. These funds included in investments are held in reserve for payment of principal and interest on the County of San Diego bond indebtedness.
NOTE 9. COMMITMENTS

**Contracts** - The Museum has commitments with various companies that produce exhibits. At June 30, 2010, approximately $1,119,276 is remaining to be paid on the contracts in the upcoming years. For the year ended June 30, 2010, exhibit rental expense totaled approximately $691,588.

**Operating Leases** - The Museum leases a vehicle under a lease agreement expiring on May 20, 2011 and copier equipment under three lease agreements expiring on or before April, 2015. For the year ended June 30, 2010, lease expense totaled approximately $29,172.

**Capital Lease** – The Museum leases equipment under a lease agreement expiring in August, 2014, at a discount rate of 6%. For the year ended June 30, 2010, the Museum made lease payments of $42,445, of which $32,185 were amortized and $10,260 were recorded as interest. Depreciation expense on the capital lease for the year ended June 30, 2010 was $36,591.

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

<table>
<thead>
<tr>
<th>Years Ending June 30</th>
<th>Operating Leases</th>
<th>Capital Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$38,212</td>
<td>$50,933</td>
</tr>
<tr>
<td>2012</td>
<td>33,156</td>
<td>50,933</td>
</tr>
<tr>
<td>2013</td>
<td>30,300</td>
<td>50,933</td>
</tr>
<tr>
<td>2014</td>
<td>11,400</td>
<td>50,933</td>
</tr>
<tr>
<td>2015</td>
<td>9,500</td>
<td>8,489</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$122,568</td>
<td>$212,221</td>
</tr>
</tbody>
</table>

**Employment Contracts** – The Museum has a contract with the CEO for an annual salary and annual deposit to a Retirement Plan through July 31, 2013. In addition, the Museum has agreements with the Vice President of Institutional Advancement and the VP CFO/COO on an at-will basis. The agreements provide a twelve month salary severance if the employees are terminated without cause. All three individuals have voluntarily reduced their annual salary.

NOTE 10. UNRESTRICTED NET ASSETS

Unrestricted net assets consist of:

Designated for property, equipment, and leasehold improvements $13,217,318
Undesignated (2,489,693)

$10,727,625
NOTE 11.  RESTRICTED NET ASSETS

Temporarily restricted net assets consist of:

| Description                                      | Amount  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable remainder trusts</td>
<td>$ 426,696</td>
</tr>
<tr>
<td>Science and research</td>
<td>$ 648,657</td>
</tr>
<tr>
<td>Pooled income funds*</td>
<td>$ 217,572</td>
</tr>
<tr>
<td>Education</td>
<td>$ 585,356</td>
</tr>
<tr>
<td>Other exhibits</td>
<td>$ 126,660</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,004,941</strong></td>
</tr>
</tbody>
</table>

*The Museum maintains a pooled income fund at Union Bank of California. Donors to the pooled income fund retain the right to the income earned on the principal for their lifetime or other stipulated periods, at which time, the principal becomes unrestricted. The fund is reported at its June 30, 2010 net present value.

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

Endowments held at the Museum

| Endowment                                      | Amount  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Botany</td>
<td>$ 1,677,826</td>
</tr>
<tr>
<td>General operations</td>
<td>$ 1,538,602</td>
</tr>
<tr>
<td>Ornithology</td>
<td>$ 1,286,049</td>
</tr>
<tr>
<td>Marine invertebrates/paleontology</td>
<td>$ 1,167,672</td>
</tr>
<tr>
<td>Biodiversity Research Center of the California's</td>
<td>$ 872,925</td>
</tr>
<tr>
<td>Education</td>
<td>$ 202,000</td>
</tr>
<tr>
<td>Maintenance and library research</td>
<td>$ 145,849</td>
</tr>
<tr>
<td>Entomology</td>
<td>$ 100,097</td>
</tr>
<tr>
<td>Library</td>
<td>$ 67,200</td>
</tr>
<tr>
<td>Paleontology Fund</td>
<td>$ 26,840</td>
</tr>
<tr>
<td>Herpetology</td>
<td>$ 12,615</td>
</tr>
<tr>
<td>Member science endowment</td>
<td>$ 6,488</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 7,104,163</strong></td>
</tr>
</tbody>
</table>

Beneficial interest in perpetual trust

| Description                                  | Amount  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficial interest in perpetual trust</td>
<td>$ 2,283,434</td>
</tr>
</tbody>
</table>

Endowments held at San Diego Foundation

| Endowment                                      | Amount  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific</td>
<td>$ 1,492,053</td>
</tr>
<tr>
<td>General operations</td>
<td>$ 222,951</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,715,004</strong></td>
</tr>
</tbody>
</table>

**Total**                                      | **$ 11,102,601**

NOTE 12.  NET ASSETS RELEASED FROM RESTRICTION

Temporarily restricted net assets were released for the following purposes:

| Description                                      | Amount  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibits</td>
<td>$ 653,125</td>
</tr>
<tr>
<td>Science and research</td>
<td>$ 1,581,829</td>
</tr>
<tr>
<td>Education</td>
<td>$ 208,846</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,443,800</strong></td>
</tr>
</tbody>
</table>
NOTE 13. ENDOWMENT

The Museum’s endowment consists of 23 individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified based on the existence or absence of donor-imposed restrictions. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Interpretation of Relevant Law – The Board of Directors of the Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Museum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Expected tax consequences of investment decisions
- Other resources of the Museum
- The investment policies of the Museum

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets was approximately $(856,000) as of June 30, 2010 and were the result of unfavorable market conditions.

Spending Policy, Return Objectives and Risk Parameters – The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity. The Museum expects its endowment funds, over time, to provide an average rate of return of approximately 8.5 to 9 percent annually. Actual returns in any given year may vary from this amount.

The Museum has a policy of appropriating for distribution each year 6% of its endowment fund, based on the average value as calculated using a rolling three year average. It is also the Museum’s policy not to take distributions from an endowment’s principal value.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, The Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.
NOTE 13. ENDOWMENT (continued)

Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2010

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Unrestricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$(1,357,000)</td>
<td>$ -</td>
<td>$ 9,968,311</td>
<td>$ -</td>
<td>$ 8,611,311</td>
</tr>
<tr>
<td>Investment return:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>-</td>
<td>150,868</td>
<td>-</td>
<td>150,868</td>
<td></td>
</tr>
<tr>
<td>Net appreciation (realized and unrealized)</td>
<td>-</td>
<td>833,642</td>
<td>432,590</td>
<td>1,266,232</td>
<td></td>
</tr>
<tr>
<td>Total investment return</td>
<td>-</td>
<td>984,510</td>
<td>432,590</td>
<td>1,417,100</td>
<td></td>
</tr>
<tr>
<td>Transfer to cover prior year corpus deficiency</td>
<td>501,327</td>
<td>(501,327)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Appropriation of assets for expenditure</td>
<td>-</td>
<td>(483,183)</td>
<td>-</td>
<td>(483,183)</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>-</td>
<td>701,700</td>
<td>701,700</td>
<td></td>
</tr>
<tr>
<td>Endowment net assets, end of year</td>
<td>$(855,673)</td>
<td>$ -</td>
<td>$11,102,601</td>
<td>$ -</td>
<td>$10,246,928</td>
</tr>
</tbody>
</table>

NOTE 14. RECEIVABLES

Receivables consist of:

Due in less than one year
- Contracts $ 357,372
- Pledges 302,072
- City of San Diego 108,313
- Grants 25,476
- Other 8,155
- Less allowance for doubtful accounts (200,000)
  Total 601,388

Due in one to five years
- Charitable remainder trusts 467,136
- Pledges 403,260
- Less discount to net present value at 4% (199,133)
  Total 671,263

Total receivables $ 1,272,651

NOTE 15. BENEFIT PLANS

Non-qualified Plan - The Museum has a non-qualified plan for the benefit of the CEO. During the year ended June 30, 2010, the Museum did not make any contributions to the plan. As of June 30, 2010, $148,000 plus approximately $11,000 of accrued interest on unfunded contributions is owed by the Museum to the CEO’s plan.
NOTE 16. 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 17. BENEFICIAL INTEREST IN PERPETUAL TRUST

The Museum has exclusive rights to the income from a trust held in perpetuity by Wachovia Bank in the name of Hallam J. Koons. The Museum's beneficial interest in the trust is reported in the accompanying statements of financial position at the fair value of the assets of the trust, which consists of $24,179 in short term reserves and cash, $2,041,621 of fixed income and equity securities at June 30, 2010. The distributions from the trust are restricted for publications of its scientific and educational materials.

NOTE 18. JUNE 30, 2009 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, 2009 from which the summarized information was derived.

NOTE 19. FINANCIAL STRATEGY

During the year ended June 30, 2010, the Museum incurred a positive change in net assets of $122,791, of which $1,134,290 represented an increase in the permanently restricted fund.

The Museum has taken a number of steps over the last two years to restructure its operations to a sustainable level. The steps management has taken are as follows:

1. The Museum reduced its workforce and implemented salary and benefit reductions for all staff. The full impact of these cost reductions will be experienced during the 2010 and 2011 fiscal years.
2. The fundraising staff has been restructured in order to increase the capacity to raise contributory revenue and fundraising support from the Museum's Board of Trustees has increased.
3. In October, 2009 a new 3-D Theater was opened which is expected to yield additional revenue in the 2010 fiscal year and beyond.
4. The Museum’s Science and Research division actively seeks contract work to supplement other sources of revenue.
5. The Museum expects to restructure or replace its line of credit note with Bank of America with a note that has more favorable repayment terms.

The Board of Trustees has approved a budget for the fiscal year 2011. The Museum's results will be monitored closely to help ensure that expenses do not exceed revenue and that operations are at a level that can be sustained given the Museum's sources of revenue.
NOTE 20. RELATED PARTY TRANSACTIONS

**Carpi and Clay** – Ben Clay served on the Board of Directors for the Museum and his term ended in 2010. The Museum engaged the firm Carpi and Clay (now owned by his son) for various government relations services. Total paid for the year ended June 30, 2010 was $13,000.

**Tatum LLC** – The Museum’s CFO is associated with Tatum LLC as a “senior partner”. In January, 2010, Tatum LLC was acquired by SFN Group and all partnership interests ended. Most partners became employees of the new company. The Museum’s CFO’s status converted to “Senior Partner” which has no employee relationship with the firm and amounts paid by the Museum to Tatum LLC for the CFO’s services ceased as of June 30, 2010. Total paid for the year ended June 30, 2010 to Tatum LLC for professional accounting and finance services was $38,909.

NOTE 21. SUBSEQUENT EVENTS

**Subsequent Events** – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Museum recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Museum’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Museum has evaluated subsequent events through September 23, 2010, which is the date the financial statements are available for issuance, and concluded that there were the following events or transactions that needed to be disclosed:

Subsequent to year end, the Museum’s line of credit was extended to November 1, 2010. The extension contained a monthly $50,000 principal payment and a provision that 50% of any unrestricted contribution over $750,000 must be paid toward principal.

Subsequent to year end, the Museum restructured its operations, including staffing reductions. Management believes the restructuring will save up to $800,000 in expenses in fiscal year 2011.

The Museum received three unrestricted gifts totaling $1,000,000 subsequent to year-end.
INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION

Board of Trustees
The San Diego Society of Natural History

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christopher M. Roberts, CPA
for WEST RHODE & ROBERTS

San Diego, California
September 23, 2010
THE SAN DIEGO SOCIETY OF NATURAL HISTORY
SUPPLEMENTARY INFORMATION
INCOME/EXPENSE STATEMENT, CITY OF SAN DIEGO TOT FUNDS
Year Ended June 30, 2010

<table>
<thead>
<tr>
<th>EXPENSE CLASSIFICATION</th>
<th>Budget</th>
<th>Actual</th>
<th>TOT Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>$ 12,874,153</td>
<td>$ 13,869,642</td>
<td>$ (432,916)</td>
</tr>
<tr>
<td>Operating expense</td>
<td>(11,569,431)</td>
<td>(14,960,400)</td>
<td>(432,916)</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 1,304,722</td>
<td>$ (1,090,758)</td>
<td>(432,916)</td>
</tr>
</tbody>
</table>
REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF THE CITY OF SAN DIEGO COMMISSION FOR ARTS AND CULTURE ALLOCATIONS PROGRAM

Board of Trustees
The San Diego Society of Natural History

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position of The San Diego Society of Natural History as of June 30, 2010, and the related statements of activities and cash flows for the year then ended, and have issued our report thereon dated September 23, 2010.

In connection with our audit, nothing came to our attention that caused us to believe that The San Diego Society of Natural History failed to comply with the requirements of the City of San Diego Commission for Arts and Culture Allocations Program. However, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

This report is intended solely for the information and use of the Board of Trustees and management of The San Diego Society of Natural History, and the City of San Diego Commission for Arts and Culture Allocations Program, and should not be used for any other purpose.

Christopher M. Roberts, CPA
for WEST RHODE & ROBERTS

San Diego, California
September 23, 2010