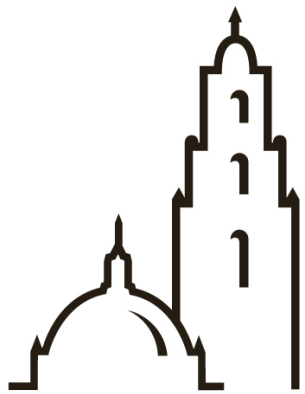


Financial Report



SAN DIEGO
MUSEUM *of* MAN
It's about people

June 30, 2017



Contents

	<u>Page</u>
Independent Auditor’s Report on the Financial Statements	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Supplemental Information	
Supplemental Schedule of Functional Expenses	14



INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Trustees
San Diego Museum of Man
San Diego, California

We have audited the accompanying financial statements of the San Diego Museum of Man (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego Museum of Man as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited San Diego Museum of Man's 2016 financial statements, and our report dated November 8, 2016, expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



WEST RHODE & ROBERTS

San Diego, California
October 17, 2017

SAN DIEGO MUSEUM OF MAN

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With Summarized Financial Information for June 30, 2016)

	<u>2017</u>	<u>2016</u> <u>(Note 12)</u>
ASSETS		
Cash and cash equivalents	\$ 252,731	\$ 684,436
Grants and other receivables	178,353	108,336
Prepaid expenses and other assets	10,998	49,753
Investments	6,744,827	6,086,918
Property and equipment, net	<u>1,723,217</u>	<u>1,675,817</u>
Total assets	<u>\$ 8,910,126</u>	<u>\$ 8,605,260</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 165,052	\$ 175,861
Accrued expenses	203,931	203,177
Deferred revenue	<u>21,648</u>	<u>30,425</u>
Total liabilities	<u>390,631</u>	<u>409,463</u>
Commitments (Note 11)		
Net assets:		
Unrestricted	7,907,079	7,495,146
Temporarily restricted	212,416	300,651
Permanently restricted	<u>400,000</u>	<u>400,000</u>
Total net assets	<u>8,519,495</u>	<u>8,195,797</u>
Total liabilities and net assets	<u>\$ 8,910,126</u>	<u>\$ 8,605,260</u>

SAN DIEGO MUSEUM OF MAN

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

(With Summarized Financial Information for Year Ended June 30, 2016)

	2017			2016 (Note 12)
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND OTHER SUPPORT				
Admissions	\$ 2,352,209	\$ -	\$ -	\$ 2,352,209
Contributions and grants	440,728	388,029	-	828,757
Governmental grants	487,199	19,500	-	506,699
In-kind contributions	120,687	-	-	120,687
Other income	111,445	-	-	111,445
Facility rental income	96,230	-	-	96,230
Membership dues	65,718	-	-	65,718
Museum events and education	61,980	-	-	61,980
Museum store sales	60,066	-	-	60,066
Satisfaction of program restrictions	503,695	(503,695)	-	-
Total revenues and other support	<u>4,299,957</u>	<u>(96,166)</u>	<u>-</u>	<u>4,203,791</u>
OPERATING EXPENSES				
Program expenses:				
Exhibits	2,193,448	-	-	2,193,448
Education	639,573	-	-	639,573
Curatorial	530,800	-	-	530,800
Museum events expense	243,938	-	-	243,938
Museum store expense	55,652	-	-	55,652
Total program expense	<u>3,663,411</u>	<u>-</u>	<u>-</u>	<u>3,593,579</u>
Supporting services:				
General and administrative	644,742	-	-	644,742
Fundraising	251,969	-	-	251,969
Total expenses	<u>4,560,122</u>	<u>-</u>	<u>-</u>	<u>4,579,266</u>
Revenue and other support in excess of expenses	<u>(260,165)</u>	<u>(96,166)</u>	<u>-</u>	<u>(356,331)</u>
OTHER INCOME AND LOSSES				
Net realized and unrealized loss on investments	510,540	6,734	-	517,274
Investment income	180,867	1,197	-	182,064
Investment fees	(19,309)	-	-	(19,309)
Change in net assets from investing	<u>672,098</u>	<u>7,931</u>	<u>-</u>	<u>680,029</u>
Change in net assets	411,933	(88,235)	-	323,698
NET ASSETS AT BEGINNING OF YEAR	<u>7,495,146</u>	<u>300,651</u>	<u>400,000</u>	<u>8,195,797</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,907,079</u>	<u>\$ 212,416</u>	<u>\$ 400,000</u>	<u>\$ 8,195,797</u>

SAN DIEGO MUSEUM OF MAN

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

(With Summarized Financial Information for Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u> (Note 12)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 323,698	\$ (272,965)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	369,431	294,895
Net realized and unrealized (gain) loss from investments	(517,274)	64,990
Change in allowance for doubtful accounts	3,820	(3,820)
Change in operating assets and liabilities:		
Grants and contracts receivable	(73,837)	143,651
Prepaid expenses and other assets	38,755	23,775
Accounts payable	(10,809)	(14,514)
Accrued expenses	754	55,743
Deferred revenue	(8,777)	2,987
Net cash provided by operating activities	<u>125,761</u>	<u>294,742</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	(140,635)	(980,230)
Purchase of property and equipment	(416,831)	(387,760)
Net cash used in investing activities	<u>(557,466)</u>	<u>(1,367,990)</u>
Change in cash and cash equivalents	(431,705)	(1,073,248)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>684,436</u>	<u>1,757,684</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 252,731</u>	<u>\$ 684,436</u>

Note 1. Organization and Significant Accounting Policies

Organization and Activities

The San Diego Museum of Man (SDMoM) is San Diego's only institution dedicated to anthropology and archeology and has distinguished itself nationally with its extensive physical and ethnographic collections, publications and research, educational programs, and exhibits that in accordance with its mission, "inspire human connections by exploring the human experience." SDMoM is located in Balboa Park in the historic 1915 California Building with its iconic California Tower. SDMoM features six permanent exhibitions, including Ancient Egypt; Kumeyaay: Native Californians; Footsteps Through Time: Four Million Years of Human Evolution; Maya: Heart of Sky, Heart of Earth; Discover Egypt; and the historic California Tower. Other exhibits include BEERology; Race: Are We So Different?; Monsters!; and Cannibals: Myth or Reality.

SDMoM strives to carry out its core values:

- **Adventurous:** We try new things, push boundaries, and are fearless.
- **Passionate:** We love what we do and share our enthusiasm with others.
- **Engaging:** We inspire our visitors to actively participate in the museum and we have fun doing it.
- **Disciplined:** We strategically evaluate everything we do for alignment with our mission, vision, and values.
- **Open:** We create an inclusive environment and welcome respectful discourse.
- **Accountable:** We all share equal responsibility for SDMoM's success.

Collections, Direction and Exhibitions – SDMoM's collections total over 400,000 ethnographic, biological, and archaeological objects, nearly 50,000 photographic images, and 33,000 scientific publications. In addition, SDMoM serves approximately 200,000 visitors annually, including 55,000 children and adolescents. SDMoM's goal is to play a unique role in the community by serving as part town hall, part center for cross-cultural exchange, and part participatory museum.

Education – Our extensive standards-based education programs connect students to the history of humanity and the beauty of diversity through anthropology. Each year, SDMoM serves over 18,000 students in class tours, summer camps and outreach. An additional 20,000 children come to SDMoM through general admissions. Our calling is to educate not just children, but also adults in their quest for lifelong learning. SDMoM signature education efforts include student tours and adult workshops exploring the content of our "Race: Are We So Different?" exhibit. These compelling public programs attract a wide range of audiences, increase admissions revenues and deeply impact the community as a whole.

Significant Accounting Policies

Method of Accounting – The financial statements of SDMoM have been prepared utilizing the accrual basis of accounting.

Basis of Presentation – SDMoM reports information regarding its financial position and activities in three classes of net assets – unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of SDMoM and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions on their use that may be met either by actions of SDMoM or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions requiring that the principal be maintained permanently by SDMoM. Generally, the donors permit SDMoM to use all or part of the income earned for either general or donor-specified purposes.

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS

Risks and Uncertainties – SDMoM invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

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

SDMoM reports contributions as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted revenues are reclassified to unrestricted revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as permanently restricted. The income and net gains earned from such assets is generally restricted to the purpose designated by the donor. This recognition is in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 958-605.

Contributions of service are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. SDMoM reports such contributions at their estimated fair value when received.

Government Grants – The policy of SDMoM is to recognize the revenue to the extent of eligible costs incurred, up to the maximum subcontract or grant amount.

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

Memberships – SDMoM recognizes revenue at the time of renewal.

Exhibition Costs – Exhibition costs related to rotating exhibits are included in prepaid expense and are expensed over the term of the exhibition, while exhibition costs related to permanent exhibitions are included in fixed assets and depreciated over the useful life of the exhibition. Other general exhibition costs that do not fall into these categories are expensed when incurred.

Cash and Cash Equivalents – SDMoM considers all cash accounts that are not subject to withdrawal restrictions or penalties and money market funds with an original maturity date of less than 90 days to be cash equivalents.

Grants and Other Receivables – 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 \$10,000 is needed for the year ended June 30, 2016.

Investments – Investments in marketable 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.

Physical Facilities – The City of San Diego (the City) owns the building in Balboa Park occupied by SDMoM under an agreement that permits SDMoM's use of the structure free of charge. SDMoM occupies the building under a 25-year lease agreement with the City expiring in 2037, which permits the Museum use of the structure at no charge. Under the terms of the lease, the City is responsible for the maintenance of the exterior of the building.

In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), the original value of the building is to be reflected in SDMoM'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.

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS

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

Inventory – SDMoM's museum store inventory which consists principally of books, periodicals, and gift items is stated at lower of cost (FIFO) or market.

Property and Equipment – SDMoM capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at the estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, SDMoM reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. SDMoM reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Human evolution exhibit	15 years
Leasehold improvements	20 to 40 years
Furniture, fixtures, and equipment	3 to 40 years
Vehicles	7 years

Depreciation expense totaled \$369,431 for the year ended June 30, 2017.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credit or charged to earnings.

Compensated Absences – Accumulated unpaid vacation and other employee benefit amounts totaling \$116,662 at June 30, 2017, are accrued when incurred and included in accrued expenses.

Deferred Revenue – Income received in advance for facility rentals and special events are deferred and recognized in the period in which the facility rental or event occurs. Deferred facility rental income and museum event income totaled \$21,648 at June 30, 2017.

Donated Services and Materials – SDMoM utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the year ended June 30, 2017, did not meet the requirements above, therefore, no amounts were recognized in the financial statements for volunteer time.

SDMoM received donated materials, catering and advertising services which have been recorded at fair value and totaled \$120,687 for the year ended June 30, 2017.

SDMoM donated approximately 723 guest passes and memberships with a value of approximately \$11,230 to the community for the year ended June 30, 2017.

Collections – SDMoM's collections total over 400,000 ethnographic, biological and archeological objects, nearly 50,000 photographic images, and 33,000 scientific publications. The primary ethnographic collections include textiles, pottery, bead work, jewelry, ceramics, carvings, weapons and costumes primarily from the Western Hemisphere with strengths in California, the Southwest, Mexico and western South America. Physical anthropology is represented with skeletal collections of ancient and modern bone diseases and casts documenting human evolution. Each of the items is catalogued, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. Purchased collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or in temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by the donor. Contributed collection items are excluded from the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

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.

Income Taxes – SDMoM 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. SDMoM 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 U.S. 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.

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. SDMoM 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. SDMoM'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.

SDMoM has evaluated subsequent events through October 17, 2017, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Note 2. Concentration of Credit Risk

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

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

Investments – SDMoM invests in various investments including mutual funds and money market accounts. Investment securities are exposed 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 changes could materially affect amounts reported on the financial statements.

Note 3. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expense, accounts payable and deferred revenue, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that SDMoM would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own

**SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS**

assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices (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.

Level 3: Significant unobservable inputs that reflect SDMoM'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:

Fair Value Measurements at June 30, 2017, Using:				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments	<u>\$6,744,827</u>	<u>\$ 6,744,827</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. SDMoM has investments which are based upon quoted market prices at June 30, 2017.

The management of SDMoM is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, the management of SDMoM 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 U.S. GAAP.

Note 4. Investments

Investments at fair value as of June 30, 2017, consists of fixed income funds totaling \$6,744,827.

Note 5. Grants and Other Receivables

Receivables at June 30, 2017, consist of the following:

Grants receivable	\$ 80,029
City of San Diego	46,984
Other	34,733
Pledge receivables	<u>26,607</u>
	188,353
Less allowance for doubtful accounts	<u>10,000</u>
	<u>\$ 178,353</u>

Note 6. Property and Equipment

Property and equipment at June 30, 2017, consist of the following:

Human evolution and race exhibits	\$ 2,126,895
Leasehold improvements	1,181,143
California Tower	762,402
Furniture, fixtures, and equipment	752,915
Cannibals exhibit	245,214
Living with Animals exhibit	206,679
Vehicles	<u>15,506</u>
	5,290,754
Less accumulated depreciation	<u>3,567,537</u>
	<u>\$ 1,723,217</u>

Note 7. Restricted Net Assets

Temporarily restricted net assets at June 30, 2017, consist of the following:

Collections	\$ 73,084
California Tower	34,277
Exhibits	37,150
Unappropriated endowment earnings	27,401
Education programs	38,458
Other	<u>2,046</u>
	<u>\$ 212,416</u>

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

California Tower	\$ 350,000
General operations	<u>50,000</u>
	<u>\$ 400,000</u>

Note 8. Net Assets Released from Restriction

Temporarily restricted net assets released from restriction at June 30, 2017, consist of the following:

Education programs	\$ 197,272
Collections	128,909
Exhibits	118,847
California Tower	35,605
Other	<u>23,062</u>
	<u>\$ 503,695</u>

Note 9. Endowment

SDMoM follows the standards codified in FASB ASC 958-205-65, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit

**SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS**

organization that is subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Interpretation of Relevant Law – SDMoM has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, SDMoM 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 SDMoM in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Investment and Spending Policies – SDMoM 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 SDMoM must hold in perpetuity.

To satisfy its long-term rate-of-return objectives, SDMoM invests its endowment funds in a diversified portfolio of mutual funds and 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).

SDMoM’s long-term goal is to target for distribution each year 5 percent of the fair market value of the fund as of June 30 of the preceding year. The actual distribution rate will be determined at the annual Board meeting in July of each year.

The Board will take into consideration the following factors when making its annual determination: specific donor intent, the preservation of the fund, the purpose of the fund, general economic conditions, possible effect of inflation or deflation, expected total return from income and appreciation of investments, SDMoM’s other resources, and SDMoM’s investment policy.

No withdrawals can be made in excess of 7 percent of the fair market value of the fund or if the fair value of the investments falls below the value of the original principal value at the time of receipt of the donation.

Donor-restricted endowment net asset composition as of June 30, 2017, is as follows:

***Changes in Endowment Net Assets
for the Fiscal Year Ended June 30, 2017***

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 19,470	\$ 400,000	\$ 419,470
Investment return:			
Investment income	1,197	-	1,197
Net appreciation (depreciation) (1)	<u>6,734</u>	<u>-</u>	<u>6,734</u>
Total investment return	7,931	-	7,931
Appropriation of assets:			
California Tower	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 27,401</u>	<u>\$ 400,000</u>	<u>\$ 427,401</u>

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

In addition, total assets with a fair value of \$270,243 at June 30, 2017, are held and invested by the San Diego Foundation. SDMoM has no ownership rights over the principal, but receives distributions semi-annually from the earnings on these assets. SDMoM received distributions totaling \$11,398 for the year ended June 30, 2017, which are included in contributions and grants in the statement of activities.

Note 10. Retirement Plan

SDMoM adopted a Money Purchase Pension Plan (the Plan) under Section 403(b) of the Internal Revenue Code for all employees 21 years of age and older. Under terms of the Plan, SDMoM contributed an amount equal to 5 percent of eligible employees' gross pay. During the year ended June 30, 2014, SDMoM eliminated the employer match portion of the Plan. In lieu of the employer match, eligible employees now receive a 5 percent raise after two years of service.

During the year ended June 30, 2014, SDMoM established a Deferred Compensation Plan under Section 457(b) of the Internal Revenue Code for the CEO. Contributions committed to the Deferred Compensation Plan totaled \$18,000 for the year ended June 30, 2017.

Note 11. Commitments

In October 2016, SDMoM entered into a collections loan agreement for \$94,573 plus conservation costs, transportation costs, and any other costs related to the collection as deemed necessary. Installments on the loan are to be received by SDMoM in four equal payments. Payments totaling \$23,625 have been received.

Note 12. June 30, 2016 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 SDMoM's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. Accordingly, such information should be read in conjunction with SDMoM financial statements for the year ended June 30, 2016, from which the summarized information was derived.

SAN DIEGO MUSEUM OF MAN
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	Program Expenses					Supporting Services				Total	2016 (Note 12)
	Exhibits	Curatorial	Education	Museum Events Expense	Cost of Museum Store Sales	Total Program Expenses	General and Administrative	Fund- raising	Total Supporting Services		
Salaries and wages	\$ 1,000,567	\$ 329,106	\$ 479,273	\$ 140,387	\$ 6,201	\$ 1,955,534	\$ 358,963	\$ 158,452	\$ 517,415	\$ 2,472,949	\$ 2,183,761
Payroll taxes and related costs	84,161	27,657	27,159	14,767	1,460	155,204	36,372	16,819	53,191	208,395	221,637
Employee benefits	112,357	37,890	53,234	15,940	2,127	221,548	37,181	17,709	54,890	276,438	193,488
Total salaries and related expenses	1,197,085	394,653	559,666	171,094	9,788	2,332,286	432,516	192,980	625,496	2,957,782	2,598,886
Advertising and marketing	79,923	-	-	1,290	-	81,213	-	-	-	81,213	43,544
Conference and meetings	705	899	1,552	-	-	3,156	5,913	5,691	11,604	14,760	13,349
Dues and subscriptions	1,135	-	60	95	-	1,290	30,369	2,626	32,995	34,285	36,881
Depreciation	299,238	25,860	11,083	11,083	7,389	354,653	7,389	7,389	14,778	369,431	294,895
Equipment costs	24,976	3,881	2,335	-	-	31,192	4,990	3,188	8,178	39,370	28,535
Equipment rental and repair	40,688	13,563	1,233	3,082	308	58,874	1,849	925	2,774	61,648	71,984
Fees and other charges	58,856	-	1,962	1,308	1,308	63,434	-	1,962	1,962	65,396	62,749
Insurance	-	7,622	-	-	-	7,622	26,743	-	26,743	34,365	35,632
Janitorial	96,199	5,457	351	877	88	102,972	2,125	263	2,388	105,360	83,455
In-kind	119,507	-	-	-	-	119,507	1,180	-	1,180	120,687	287,603
Miscellaneous	6,288	864	2,840	200	-	10,192	8,323	8,520	16,843	27,035	22,805
Exhibit and event costs	62,296	-	20,894	34,750	-	117,940	-	-	-	117,940	396,654
Museum store merchandise	-	-	-	-	34,041	34,041	-	-	-	34,041	27,919
Outside services	1,908	195	400	6,560	-	9,063	8,643	-	8,643	17,706	16,046
Printing and postage	42,885	1,486	379	4,917	-	49,667	3,612	9,909	13,521	63,188	72,950
Professional development and training	6,245	3,241	3,623	296	11	13,416	21,107	2,402	23,509	36,925	41,379
Professional fees	42,294	19,944	17,193	1,227	614	81,272	59,508	8,388	67,896	149,168	229,156
Supplies	20,265	19,059	3,166	796	1,351	44,637	15,232	4,223	19,455	64,092	54,167
Telephone	6,341	1,359	2,869	302	151	11,022	2,567	1,208	3,775	14,797	22,454
Travel	6,987	6,175	7,554	29	-	20,745	9,057	485	9,542	30,287	39,012
Utilities	79,627	26,542	2,413	6,032	603	115,217	3,619	1,810	5,429	120,646	99,211
Total	\$2,193,448	\$ 530,800	\$ 639,573	\$ 243,938	\$ 55,652	\$3,663,411	\$ 644,742	\$ 251,969	\$ 896,711	\$4,560,122	\$ 4,579,266