

SAN DIEGO MUSEUM OF MAN
FINANCIAL STATEMENTS
JUNE 30, 2012



Leaf & Cole, LLP
Certified Public Accountants

**SAN DIEGO MUSEUM OF MAN
FINANCIAL STATEMENTS
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Independent Auditor's Report

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

We have audited the accompanying statement of financial position of San Diego Museum of Man ("SDMoM") as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of SDMoM'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 SDMoM's 2011 financial statements, which were audited by other auditors whose report dated February 8, 2012 expressed an unqualified opinion on those financial statements.

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 of material misstatements. 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 presentation. We believe that our audit provides 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 SDMoM as of June 30, 2012, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of functional expenses for the year ended June 30, 2012, 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.

Leaf & Cole LLP

San Diego, California
January 19, 2013

**SAN DIEGO MUSEUM OF MAN
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

ASSETS

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|----------------------------|
| <u>Assets:</u> (Notes 1, 2, 3, 4, 5 and 6) | | |
| Cash and cash equivalents | \$ 512,614 | \$ 396,686 |
| Grants and contracts receivable | 46,392 | 82,894 |
| Inventories | 21,236 | 51,959 |
| Prepaid expenses and other assets | 15,899 | 3,605 |
| Investments | 4,140,907 | 4,703,486 |
| Property and equipment, net | <u>1,182,098</u> | <u>1,337,830</u> |
| TOTAL ASSETS | <u>\$ 5,919,146</u> | <u>\$ 6,576,460</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------------------|----------------------------|
| <u>Liabilities:</u> (Notes 1 and 6) | | |
| Accounts payable | \$ 35,772 | \$ 57,343 |
| Accrued expenses | 102,194 | 161,921 |
| Deferred revenue | 15,340 | 19,765 |
| Capital lease obligation | 44,419 | 81,666 |
| Total Liabilities | <u>197,725</u> | <u>320,695</u> |
| <u>Commitments</u> (Note 9) | | |
| <u>Net Assets:</u> (Notes 1, 7 and 8) | | |
| Unrestricted | 5,476,231 | 6,106,930 |
| Temporarily restricted | 195,190 | 98,835 |
| Permanently restricted | 50,000 | 50,000 |
| Total Net Assets | <u>5,721,421</u> | <u>6,255,765</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 5,919,146</u> | <u>\$ 6,576,460</u> |

The accompanying notes are integral part of the financial statements.

**SAN DIEGO MUSEUM OF MAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

| | <u>Unrestricted Operations</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2012 Total</u> | <u>2011 Total</u> |
|--|------------------------------------|-----------------------------------|-----------------------------------|-----------------------|-----------------------|
| <u>Support and Revenue:</u> | | | | | |
| Governmental grants | \$ 120,589 | \$ 45,000 | \$ - | \$ 165,589 | \$ 184,571 |
| Contributions and grants | 388,148 | 302,378 | - | 690,526 | 551,598 |
| Membership dues | 77,508 | - | - | 77,508 | 59,566 |
| Admissions | 628,575 | - | - | 628,575 | 697,901 |
| Museum store sales | 129,630 | - | - | 129,630 | 188,549 |
| Education, classes and lectures | 74,668 | - | - | 74,668 | 51,696 |
| Museum events | 53,760 | - | - | 53,760 | 59,021 |
| Facility rental income | 71,815 | - | - | 71,815 | 34,605 |
| Other income | 18,168 | - | - | 18,168 | 9,569 |
| Net assets released from restrictions | 249,886 | (249,886) | - | - | - |
| Total Support and Revenue | <u>1,812,747</u> | <u>97,492</u> | <u>-</u> | <u>1,910,239</u> | <u>1,837,076</u> |
| <u>Program and Supporting Services:</u> | | | | | |
| Program Services: | | | | | |
| Exhibits | 796,371 | - | - | 796,371 | 778,582 |
| Curatorial | 440,664 | - | - | 440,664 | 425,516 |
| Education | 223,389 | - | - | 223,389 | 205,689 |
| Museum events expense | 100,882 | - | - | 100,882 | 67,115 |
| Total Program Expenses | <u>1,561,306</u> | <u>-</u> | <u>-</u> | <u>1,561,306</u> | <u>1,476,902</u> |
| Supporting Services: | | | | | |
| General and administrative | 510,838 | - | - | 510,838 | 539,841 |
| Fundraising | 238,355 | - | - | 238,355 | 179,981 |
| Total Supporting Services | <u>749,193</u> | <u>-</u> | <u>-</u> | <u>749,193</u> | <u>719,822</u> |
| Total Program and Supporting Services | <u>2,310,499</u> | <u>-</u> | <u>-</u> | <u>2,310,499</u> | <u>2,196,724</u> |
| <u>Cost of Museum Store Sales</u> | <u>183,604</u> | <u>-</u> | <u>-</u> | <u>183,604</u> | <u>220,623</u> |
| Total Expenses | <u>2,494,103</u> | <u>-</u> | <u>-</u> | <u>2,494,103</u> | <u>2,417,347</u> |
| Change in Net Assets Before Investment Income (Loss) | <u>(681,356)</u> | <u>97,492</u> | <u>-</u> | <u>(583,864)</u> | <u>(580,271)</u> |
| <u>Investment Income (Loss)</u> | | | | | |
| Net realized and unrealized gains and (losses) on investments | (50,208) | (2,163) | - | (52,371) | 704,998 |
| Interest and dividend income | 110,422 | 1,184 | - | 111,606 | 163,712 |
| Investment fees | (9,557) | (158) | - | (9,715) | (14,000) |
| Total Investment Income (Loss) | <u>50,657</u> | <u>(1,137)</u> | <u>-</u> | <u>49,520</u> | <u>854,710</u> |
| Change in Net Assets | (630,699) | 96,355 | - | (534,344) | 274,439 |
| Net Assets at Beginning of Year | <u>6,106,930</u> | <u>98,835</u> | <u>50,000</u> | <u>6,255,765</u> | <u>5,981,326</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 5,476,231</u> | <u>\$ 195,190</u> | <u>\$ 50,000</u> | <u>5,721,421</u> | <u>\$ 6,255,765</u> |

The accompanying notes are integral part of the financial statements.

**SAN DIEGO MUSEUM OF MAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

| | <u>2012</u> | <u>2011</u> |
|--|--------------------------|--------------------------|
| <u>Cash Flows From Operating Activities:</u> | | |
| Change in net assets | \$ (534,344) | \$ 274,439 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 181,686 | 192,408 |
| Net realized and unrealized loss (gain) from investments | 52,371 | (704,998) |
| (Increase) Decrease in: | | |
| Grants and contracts receivable | 36,502 | (19,342) |
| Inventories | 30,723 | 21,879 |
| Prepaid expenses and other assets | (12,294) | 24,566 |
| Increase (Decrease) in: | | |
| Accounts payable | (21,571) | (34,777) |
| Accrued expenses | (59,727) | 4,444 |
| Deferred revenue | (4,425) | 9,300 |
| Net Cash Used in Operating Activities | <u>(331,079)</u> | <u>(232,081)</u> |
| <u>Cash Flows From Investing Activities:</u> | | |
| Proceeds from sale of investments, net | 510,208 | 204,428 |
| Purchase of property and equipment | <u>(25,954)</u> | <u>(21,400)</u> |
| Net Cash Provided by Investing Activities | <u>484,254</u> | <u>183,028</u> |
| <u>Cash Flows From Financing Activities:</u> | | |
| Payments on capital lease obligations | <u>(37,247)</u> | <u>(34,792)</u> |
| Net Cash Used in Investing Activities | <u>(37,247)</u> | <u>(34,792)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 115,928 | (83,845) |
| Cash and Cash Equivalents at Beginning of Year | <u>396,686</u> | <u>480,531</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 512,614</u></u> | <u><u>\$ 396,686</u></u> |
| <u>Supplemental Disclosures of Cash Flow Information:</u> | | |
| Purchase of equipment through capital lease | \$ - | \$ 116,458 |
| Interest paid on capital lease included in equipment costs | <u><u>\$ 6,001</u></u> | <u><u>\$ 8,456</u></u> |

The accompanying notes are an integral part of the financial statements.

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 1 - Organization and Significant Accounting Policies:

Organization

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 five permanent exhibitions, including Ancient Egypt; Kumeyaay: Native Californians; Footsteps Through Time: Four Million Years of Human Evolution; Maya: Heart of Sky, Heart of Earth; and Discover Egypt. SDMoM also offers changing special exhibits featuring artifacts from their collections and around the world.

Mission, Vision, and Goals

SDMoM’s mission is to inspire human connections by exploring the human experience.

Its vision is to be the place to go to learn about each other, reflect on our place in the world, and build a better community.

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 stewards over 400,000 ethnographic, biological, and archaeological objects, 50,000 photographic images, and 33,000 scientific publications. In addition, SDMoM serves approximately 150,000 visitors annually, including 40,000 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.

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Collections, Direction and Exhibitions (Continued)

In 2011, SDMoM was reaccredited by the American Association of Museums for another 15-year period and became an affiliate of the Smithsonian Institution, an honor shared by fewer than 200 museums worldwide and only one other museum in San Diego. In January 2012, following a 10-month comprehensive planning process, SDMoM's Board of Trustees approved a newly minted "2012-2015 Strategic Plan: A Blueprint for Success." This new plan will guide the institution over the next three years and completely reinvent SDMoM's vision and mission, effectively reimagining the museum and its role in the community.

SDMoM's new direction is embodied by the vibrant series of extraordinary exhibits that began in 2011 with *RACE - Are We So Different?*, a science and culture exhibit that examined the meaning and impact of the construct of race. In April 2012, SDMoM became the first museum outside the Smithsonian to host *Ramp It Up: Skateboard Culture in Native America*, which explores the deep cultural history and contemporary significance of skateboarding, particularly with respect to Native American communities. Two other temporary exhibits will also open in 2012: (1) *Instruments of Torture*, which examines contemporary issues surrounding torture and human rights; and (2) *access/ABILITY*, a hands-on children's exhibit, which delivers the message that people living with disabilities are active and valued participants in the world. Dynamic and highly participatory, these compelling exhibits will attract a broader audience, increase admissions revenues and deeply impact the community as a whole.

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 15,000 students in class tours, summer camps and outreach. An additional 25,000 children come to SDMoM through general admissions. Our calling is to educate not just children, but also adults in their quest for lifelong learning. In 2011, SDMoM began offering interdisciplinary panels that meaningfully engage adult community members in timely discourse about contemporary issues such as: "Perspectives on Egypt: Understanding the Popular Revolt," "Perspectives on Japan: Dealing with the Devastation" and "Et Tu, [Florida] Governor Scott - Is Anthropology Really a Worthless Degree?" *Tower After Hours* is an evening series that celebrates San Diego's vibrant cultural communities with ethnic food, music, dancing and artifacts. Responsive to current events and highly participatory, 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 on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The FASB has issued reporting standards for endowments of not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Fair Value Measurements

SDMoM has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). These standards do not change existing guidance as to whether or not an instrument is carried at fair value.

**SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

SDMoM's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in mutual funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

Allowance for Doubtful Accounts

Management believes that all grants and other receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded at June 30, 2012 and 2011.

Contributions

Contributions are recognized when the donor makes a promise to give to SDMoM that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Inventories

Inventories of retail store merchandise consist primarily of books, periodicals and gift items. Inventory is valued at the lower of cost (first-in, first-out) or market.

Capitalization and Depreciation

SDMoM capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at their 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 | 20-40 years |
| Furniture and fixtures | 5 - 40 years |
| Vehicles | 7 years |

**SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation (Continued)

Depreciation aggregated \$181,686 and \$192,408 for the years ended June 30, 2012 and 2011, respectively.

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 credited or charged to earnings.

Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts totaling \$37,671 and \$49,022 at June 30, 2012 and 2011, respectively, are accrued when incurred and included in accounts payable and 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 \$15,340 and \$19,765 at June 30, 2012 and 2011, respectively.

Donated Services

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 years ended June 30, 2012 and 2011 did not meet the requirements above; therefore, no amounts were recognized in the financial statements for volunteer time.

SDMoM donated about 1,000 guest passes and memberships with a value of approximately \$44,000 to the community for the year ended June 30, 2012.

Agreement With the City of San Diego

The building and land where SDMoM is located are owned by the City of San Diego (the "City") and leased to SDMoM, and therefore are not assets of SDMoM and are not reflected in the accompanying financial statements. Additions and renovations to the original building are assets of SDMoM and are reflected as leasehold improvements in the accompanying financial statements. SDMoM operates the museum under a 25-year lease with the City ending on June 30, 2037, with an option to renew for an additional 25 years. As part of this agreement, SDMoM is to make the premises available to the public, without charge, one day per month. Under the agreement, in place of cash rent for the use of the premises, the consideration to the City from SDMoM will be the continuous operation, development and maintenance of the premises.

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Collections

In conformity with the practice followed by many museums, collection objects purchased by or donated to SDMoM are not capitalized in the statement of financial position. SDMoM's collections total over 100,000 cataloged objects, artifacts from thousands of documented archaeological sites, 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 cataloged, 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 net 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.

Allocation of Expenses

SDMoM allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by SDMoM's management.

Income Taxes

SDMoM is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code except on net income derived from unrelated business activities. SDMoM's unrelated business activity did not generate taxable income and no tax liability has been recorded at June 30, 2012 and 2011. SDMoM believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. SDMoM is not a private foundation.

SDMoM's Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns for Tax for the years ended June 30, 2012, 2011, 2010 and 2009 are subject to examination by Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

Concentration of Credit Risk

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

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, SDMoM considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Comparative Totals for June 30, 2011

The financial statements included certain prior year summarized comparative information in total but not by net asset class. This summarized information is for comparative purposes only, and accordingly, such information should be read in conjunction with SDMoM's financial statements for the year ended June 30, 2011, from which the summarized comparative information was derived.

Subsequent Events

In preparing these financial statements, SDMoM has evaluated events and transactions for potential recognition or disclosure through January 19, 2013, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements:

The following table summarizes assets measured at fair value by classification within the fair value hierarchy as of June 30:

| | 2012 | | | Balance as of June 30, 2012 |
|--------------------|--|---|--|--------------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Mutual funds: | | | | |
| Growth funds | \$ 1,196,251 | \$ - | \$ - | \$ 1,196,251 |
| Fixed income funds | 1,926,380 | - | - | 1,926,380 |
| Value funds | 802,131 | - | - | 802,131 |
| Real estate | 216,145 | - | - | 216,145 |
| | <u>\$ 4,140,907</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,140,907</u> |
| | | | | |
| | 2011 | | | Balance as of June 30, 2011 |
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Mutual funds: | | | | |
| Growth funds | \$ 1,740,239 | \$ - | \$ - | \$ 1,740,239 |
| Fixed income funds | 2,130,134 | - | - | 2,130,134 |
| Value funds | 833,113 | - | - | 833,113 |
| | <u>\$ 4,703,486</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,703,486</u> |

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 3 - Grants and Contracts Receivable:

Grants and contracts receivable consist of the following at June 30:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|------------------|------------------|
| City of San Diego | 26,487 | 50,000 |
| Other | 11,749 | 26,301 |
| The San Diego Foundation | 8,156 | 6,593 |
| Total Grants and Contracts Receivable | <u>\$ 46,392</u> | <u>\$ 82,894</u> |

Note 4 - Investments:

Investments are recorded at fair value and consist of the following at June 30:

| | <u>2012</u> | <u>2011</u> |
|--------------|---------------------|---------------------|
| Mutual funds | <u>\$ 4,140,907</u> | <u>\$ 4,703,486</u> |

The following schedule summarizes the investment return for the years ended June 30:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total 2012</u> | <u>Total 2011</u> |
|--|---------------------|-----------------------------------|-----------------------|-----------------------|
| Realized and unrealized gains and (losses) on investments | \$ (50,208) | \$ (2,163) | \$ (52,371) | \$ 704,998 |
| Interest and dividend income | 110,422 | 1,184 | 111,606 | 163,712 |
| Investment fees | (9,557) | (158) | (9,715) | (14,000) |
| Net Investment Income (Loss) | <u>\$ 50,657</u> | <u>\$ (1,137)</u> | <u>\$ 49,520</u> | <u>\$ 854,710</u> |

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|---------------------|---------------------|
| Human evolution exhibit | \$ 1,994,455 | \$ 1,994,455 |
| Leasehold improvements | 1,157,028 | 1,157,028 |
| Furniture and fixtures | 534,179 | 508,225 |
| Vehicles | 6,895 | 6,895 |
| Subtotal | <u>3,692,557</u> | <u>3,666,603</u> |
| Less: Accumulated depreciation | <u>(2,510,459)</u> | <u>(2,328,773)</u> |
| Property and Equipment, Net | <u>\$ 1,182,098</u> | <u>\$ 1,337,830</u> |

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 6 - Capital Lease Obligation:

SDMoM leases fire panels under a capital lease expiring June 2013. The economic substance of the leases is that SDMoM is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the SDMoM's assets and liabilities. The leased property under the capital leases consists of the following at June 30:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|-------------------|-------------------|
| Cost | \$ 116,458 | \$ 116,458 |
| Less: Accumulated depreciation | (7,279) | (4,368) |
| Net Book Value | <u>\$ 109,179</u> | <u>\$ 112,090</u> |

Future minimum capital lease payments are as follows:

| <u>Year Ending</u> <u>June 30</u> | |
|--------------------------------------|------------------|
| 2013 | \$ 46,852 |
| Less: Amount representing interest | (2,433) |
| Capital Lease Obligation | <u>\$ 44,419</u> |

Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets represent contributions and other inflows received by SDMoM, which are limited in their use by the donor-imposed stipulations. Temporarily restricted net assets are available for the following purposes at June 30:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|------------------|
| Curatorial | \$ 102,317 | \$ 21,303 |
| Exhibits | 39,000 | 5,000 |
| Education programs | 26,413 | 22,138 |
| Collections | 12,146 | 12,140 |
| Other | 11,414 | 23,217 |
| Unappropriated endowment earnings | 3,900 | 5,037 |
| Museum events | - | 10,000 |
| Total Temporarily Restricted Net Assets | <u>\$ 195,190</u> | <u>\$ 98,835</u> |

Net assets in the amount of \$249,886 were released from donor restrictions for the year ended June 30, 2012, by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

| | |
|---|-------------------|
| Curatorial | \$ 79,186 |
| Exhibits | 69,000 |
| Education programs | 57,748 |
| Museum events | 17,150 |
| Other | 16,811 |
| Building improvements | 9,991 |
| Total Temporarily Restricted Net Assets Released from Restriction | <u>\$ 249,886</u> |

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 8 - Endowment Net Assets:

SDMoM's endowment consists of a fund established for a general purpose. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Directors of SDMoM has interpreted the enacted version of 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 (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) 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. In accordance with UPMIFA, SDMoM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of SDMoM and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of SDMoM
7. The investment policies of SDMoM.

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires SDMoM to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2012 and 2011.

SDMoM has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a moderate level
4. Comply with applicable laws

SDMoM's endowment funds are invested in a diversified portfolio of mutual funds that are structured to satisfy its long-term rate-of-return objectives. SDMoM 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).

SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)

Note 8 - Endowment Net Assets: (Continued)

SDMoM's long-term goal is to target for distribution each year 5% 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. In making its annual determination, the Board will take into consideration the following factors:

1. Specific donor intent
2. The preservation of the fund
3. The purpose of the fund
4. General economic conditions
5. Possible effect of inflation or deflation
6. Expected total return from income and appreciation of investments
7. SDMoM's other resources
8. SDMoM's investment policy

No withdrawals can be made:

1. In excess of 7% of the fair market value of the fund
2. If the fair value of the investments falls below the value of the original principal value at the time of receipt of the donation

Endowment composition by type of fund and changes in endowment net assets as of and for the years ended June 30:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| Endowment Net Assets at June 30, 2010 | \$ (4,516) | \$ - | \$ 50,000 | \$ 45,484 |
| Investment Return: | | | | |
| Investment income | - | 1,005 | - | 1,005 |
| Net realized and unrealized appreciation | 4,516 | 4,032 | - | 8,548 |
| Total Investment Return | <u>4,516</u> | <u>5,037</u> | <u>-</u> | <u>9,553</u> |
| Endowment Net Assets at June 30, 2011 | - | 5,037 | 50,000 | 55,037 |
| Investment Return: | | | | |
| Investment income | - | 1,026 | - | 1,026 |
| Net realized and unrealized depreciation | - | (2,163) | - | (2,163) |
| Total Investment Return | <u>-</u> | <u>(1,137)</u> | <u>-</u> | <u>(1,137)</u> |
| Endowment Net Assets at June 30, 2012 | <u>\$ -</u> | <u>\$ 3,900</u> | <u>\$ 50,000</u> | <u>\$ 53,900</u> |

In addition, total assets with a fair value of \$233,996 and \$245,166 at June 30, 2012 and 2011, respectively, are held and invested by the San Diego Community Foundation. SDMoM has no ownership rights over the principal, but receives distributions semi-annually from the earnings on these assets. SDMoM received distributions totaling \$9,162 and \$10,077 for the years ended June 30, 2012 and 2011, respectively, which are included in contributions in the statement of activities.

**SAN DIEGO MUSEUM OF MAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2011)**

Note 9 - Commitments:

Leases

SDMoM leases office equipment under noncancelable operating leases with terms from one to five years. Lease expense related to these leases totaled \$9,426 and \$10,628 for the years ended June 30, 2012 and 2011, respectively. The following is a schedule of future minimum lease payments under the leases:

| <u>Years Ended June 30</u> | |
|--------------------------------|------------------|
| 2013 | \$ 10,272 |
| 2014 | 7,199 |
| 2015 | 4,404 |
| 2016 | 1,101 |
| Total | <u>\$ 22,976</u> |

Retirement Plan

Effective January 1, 1996, 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 who have completed two years of service. Under terms of the Plan, SDMoM will contribute an amount equal to 5% of eligible employees' gross pay. Contributions to the Plan totaled \$22,016 and \$28,176 for the years ended June 30, 2012 and 2011, respectively.

Litigation

SDMoM has a pending claim which has arisen in the normal course of business. Management cannot predict the outcome of the claim or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements.

**SAN DIEGO MUSEUM OF MAN
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012**

| | Program Expenses | | | | | Supporting Services | | | | Total |
|--|-------------------|-------------------|-------------------|-----------------------|------------------------|----------------------------|-------------------|---------------------------|----------------------------|---------------------|
| | Exhibits | Curatorial | Education | Museum Events Expense | Total Program Expenses | General and administrative | Fundraising | Total Supporting Services | Cost of Museum Store Sales | |
| <u>Salaries and Related Expenses:</u> | | | | | | | | | | |
| Salaries and wages | \$ 319,625 | \$ 291,858 | \$ 147,371 | \$ 50,113 | \$ 808,967 | \$ 255,679 | \$ 146,250 | \$ 401,929 | \$ 68,385 | \$ 1,279,281 |
| Payroll taxes and related costs | 41,925 | 41,128 | 20,817 | 6,576 | 110,446 | 32,634 | 19,416 | 52,050 | 10,257 | 172,753 |
| Employee benefits | 42,111 | 34,759 | 17,888 | 7,941 | 102,699 | 14,208 | 11,377 | 25,585 | 9,602 | 137,886 |
| Total Salaries and Related Expenses | <u>403,661</u> | <u>367,745</u> | <u>186,076</u> | <u>64,630</u> | <u>1,022,112</u> | <u>302,521</u> | <u>177,043</u> | <u>479,564</u> | <u>88,244</u> | <u>1,589,920</u> |
| <u>Nonsalary Related Expenses:</u> | | | | | | | | | | |
| Advertising and marketing | 15,055 | - | - | - | 15,055 | - | - | - | - | 15,055 |
| Conference and meetings | 513 | - | 80 | 359 | 952 | 2,777 | 2,107 | 4,884 | - | 5,836 |
| Dues and subscriptions | - | 176 | - | - | 176 | 24,619 | - | 24,619 | - | 24,795 |
| Equipment costs | 7,978 | 4,738 | 167 | 502 | 13,385 | 10,326 | 5,052 | 15,378 | 4,381 | 33,144 |
| Equipment rental and repair | 19,021 | 7,411 | 485 | 1,454 | 28,371 | 18,687 | 242 | 18,929 | 770 | 48,070 |
| Fees and other charges | 9,953 | - | - | - | 9,953 | 11,786 | - | 11,786 | 3,297 | 25,036 |
| Insurance | - | 6,500 | - | - | 6,500 | 23,891 | - | 23,891 | - | 30,391 |
| Janitorial | 15,150 | - | - | - | 15,150 | - | - | - | - | 15,150 |
| Mileage | - | - | - | - | - | 1,706 | - | 1,706 | - | 1,706 |
| Miscellaneous | 1,509 | 3,747 | 524 | 218 | 5,998 | 818 | 1,987 | 2,805 | 355 | 9,158 |
| Exhibit and event costs | 31,437 | - | 15,095 | 16,746 | 63,278 | - | 26,592 | 26,592 | - | 89,870 |
| Museum store merchandise | - | - | 499 | - | 499 | - | - | - | 75,511 | 76,010 |
| Outside services | 24,621 | 1,769 | 3,335 | 2,613 | 32,338 | 4,719 | 534 | 5,253 | 121 | 37,712 |
| Printing and postage | 36,763 | - | 878 | 753 | 38,394 | 12,231 | 2,809 | 15,040 | 166 | 53,600 |
| Professional development and training | - | - | - | - | - | 9,337 | - | 9,337 | - | 9,337 |
| Professional fees | 5,086 | 4,359 | 2,179 | 1,090 | 12,714 | 62,335 | 14,816 | 77,151 | 2,179 | 92,044 |
| Supplies | 12,771 | 8,147 | 5,234 | 976 | 27,128 | 10,006 | 1,492 | 11,498 | 2,158 | 40,784 |
| Telephone | 2,981 | 2,554 | 1,277 | 638 | 7,450 | 1,916 | 1,064 | 2,980 | 1,277 | 11,707 |
| Travel | 2,114 | 552 | 599 | 920 | 4,185 | 6,507 | 227 | 6,734 | - | 10,919 |
| Utilities | 60,592 | 20,248 | 1,511 | 4,533 | 86,884 | 3,022 | 756 | 3,778 | 1,511 | 92,173 |
| Total Nonsalary Related Expenses | <u>245,544</u> | <u>60,201</u> | <u>31,863</u> | <u>30,802</u> | <u>368,410</u> | <u>204,683</u> | <u>57,678</u> | <u>262,361</u> | <u>91,726</u> | <u>722,497</u> |
| Depreciation | 147,166 | 12,718 | 5,450 | 5,450 | 170,784 | 3,634 | 3,634 | 7,268 | 3,634 | 181,686 |
| TOTAL EXPENSES | <u>\$ 796,371</u> | <u>\$ 440,664</u> | <u>\$ 223,389</u> | <u>\$ 100,882</u> | <u>\$ 1,561,306</u> | <u>\$ 510,838</u> | <u>\$ 238,355</u> | <u>\$ 749,193</u> | <u>\$ 183,604</u> | <u>\$ 2,494,103</u> |