

FINANCIAL REPORT



JUNE 30, 2010



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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying statements of financial position of the San Diego Museum of Man, Inc. (SDMoM) as of June 30, 2010, 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 audits.

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 San Diego Museum of Man as of June 30, 2010, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cheryl Rhode, CPA
for WEST RHODE & ROBERTS

San Diego, California
October 13, 2010

James H. West, C.P.A.

Cheryl M. Rhode, C.P.A.

Christopher M. Roberts, C.P.A.

SAN DIEGO MUSEUM OF MAN, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2010

(With Summarized Financial Information for June 30, 2010)

| | <u>2010</u> | <u>2009</u> (Note 15) |
|-------------------------------------|---------------------|--------------------------|
| ASSETS | | |
| Cash | \$ 480,531 | \$ 556,436 |
| Receivables | 63,552 | 178,705 |
| Inventory | 73,838 | 72,244 |
| Prepaid expenses and other assets | 28,170 | 1,403 |
| Investments | 4,202,916 | 4,346,337 |
| Property and equipment, net | 1,392,380 | 1,567,370 |
| Permanent collection | <u>1</u> | <u>1</u> |
| Total assets | <u>\$ 6,241,388</u> | <u>\$ 6,722,496</u> |
| LIABILITIES & NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 92,120 | \$ 75,068 |
| Accrued expenses | <u>167,942</u> | <u>252,103</u> |
| Total liabilities | <u>260,062</u> | <u>327,171</u> |
| Commitments (Note 13) | | |
| Net Assets | | |
| Unrestricted | 5,885,176 | 6,024,345 |
| Temporarily restricted | 46,150 | 320,980 |
| Permanently restricted | <u>50,000</u> | <u>50,000</u> |
| Total net assets | <u>5,981,326</u> | <u>6,395,325</u> |
| Total liabilities and net assets | <u>\$ 6,241,388</u> | <u>\$ 6,722,496</u> |

SAN DIEGO MUSEUM OF MAN, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

(With Summarized Financial Information for June 30, 2009)

| | June 30, 2010 | | | Total | June 30, 2009 |
|---|---------------------|------------------------|------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | Total (Note 15) |
| SUPPORT AND REVENUE | | | | | |
| City and county appropriations | \$ 128,363 | \$ 30,000 | \$ - | \$ 158,363 | \$ 262,144 |
| Contributions and grants | 91,801 | 236,000 | - | 327,801 | 1,136,564 |
| Membership dues | 45,305 | - | - | 45,305 | 63,961 |
| Admissions | 567,009 | - | - | 567,009 | 613,938 |
| Museum store sales | 215,580 | - | - | 215,580 | 243,613 |
| Programs, tours, and classes, etc. | 65,923 | - | - | 65,923 | 59,674 |
| Museum events | 25,467 | - | - | 25,467 | 31,765 |
| Special events | 51,115 | - | - | 51,115 | 52,174 |
| Other income | 18,064 | - | - | 18,064 | 30,333 |
| Satisfaction of program restrictions | 540,830 | (540,830) | - | - | - |
| Total support and revenues | <u>1,749,457</u> | <u>(274,830)</u> | <u>-</u> | <u>1,474,627</u> | <u>2,494,166</u> |
| EXPENSES | | | | | |
| Program expenses | | | | | |
| Exhibits | 586,827 | - | - | 586,827 | 598,325 |
| Curatorial | 636,305 | - | - | 636,305 | 588,259 |
| Education | 177,910 | - | - | 177,910 | 308,963 |
| Museum store | 252,288 | - | - | 252,288 | 293,948 |
| Special events | 68,474 | - | - | 68,474 | 94,274 |
| Total program expense | <u>1,721,804</u> | <u>-</u> | <u>-</u> | <u>1,721,804</u> | <u>1,883,769</u> |
| Supporting services | | | | | |
| General and administrative | 533,392 | - | - | 533,392 | 576,108 |
| Fundraising | 204,117 | - | - | 204,117 | 216,798 |
| Total expenses | <u>2,459,313</u> | <u>-</u> | <u>-</u> | <u>2,459,313</u> | <u>2,676,675</u> |
| Revenue and other support in excess of expenses | (709,856) | (274,830) | - | (984,686) | (182,509) |
| INVESTMENT REVENUE AND LOSSES | | | | | |
| Net realized and unrealized | | | | | |
| loss on investments | 428,374 | - | - | 428,374 | (787,325) |
| Investment income | 142,313 | - | - | 142,313 | 178,036 |
| Change in net assets from investing | 570,687 | - | - | 570,687 | (609,289) |
| TOTAL CHANGE IN NET ASSETS | <u>(139,169)</u> | <u>(274,830)</u> | <u>-</u> | <u>(413,999)</u> | <u>(791,798)</u> |
| NET ASSETS AT BEGINNING OF YEAR | <u>6,024,345</u> | <u>320,980</u> | <u>50,000</u> | <u>6,395,325</u> | <u>7,187,123</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 5,885,176</u> | <u>\$ 46,150</u> | <u>\$ 50,000</u> | <u>\$ 5,981,326</u> | <u>\$ 6,395,325</u> |

SAN DIEGO MUSEUM OF MAN, INC.

STATEMENT OF CASH FLOWS

June 30, 2010

(With Summarized Financial Information for June 30, 2009)

| | <u>2010</u> | <u>2009</u> (Note 15) |
|--|-------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (413,999) | \$ (791,798) |
| Adjustments to reconcile change in net assets to net cash provided by operations: | | |
| Depreciation | 188,316 | 180,979 |
| Net (gain) loss from investments | (428,374) | 787,324 |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 115,153 | 31,941 |
| Inventory | (1,594) | 3,960 |
| Prepaid expenses | (26,767) | 11,482 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 17,052 | 31,957 |
| Accrued expenses | (84,161) | 97,788 |
| Net cash provided by (used in) operating activities | <u>(634,374)</u> | <u>353,633</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net proceeds from sale of investments | 571,795 | 210,898 |
| Net purchases of investment | - | (201,893) |
| Purchase of fixed assets | <u>(13,326)</u> | <u>(232,368)</u> |
| Net cash provided by (used in) investing activities | <u>558,469</u> | <u>(223,363)</u> |
| NET INCREASE (DECREASE) IN CASH | <u>(75,905)</u> | <u>130,270</u> |
| CASH BALANCES AT BEGINNING OF YEAR | <u>556,436</u> | <u>426,166</u> |
| CASH BALANCES AT END OF YEAR | <u>\$ 480,531</u> | <u>\$ 556,436</u> |

SAN DIEGO MUSEUM OF MAN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization – 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, "teach people about people". SDMoM is a California not-for-profit corporation, which operates and maintains the San Diego Museum of Man in Balboa Park, San Diego, California.

Method of Accounting – The financial statements of SDMoM have been prepared using the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation – Net assets and revenues and other support are classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor restrictions on when and how SDMoM is to use the net assets.

Revenue Recognition – Contributions are recognized as revenue when they are unconditionally pledged.

The Museum reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, 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 earned from such assets is generally restricted to the purpose designated by the donor.

Contributions of service are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Museum reports such contributions at their estimated fair value when received. During the year ended June 30, 2010, no material contributions of services were recorded.

Physical Facilities – The City of San Diego (the City) owns the building in Balboa Park occupied by the Museum under an agreement that permits SDMoM's use of the structure free of charge. The agreement terminates on June 30, 2012 with an option to renew for an additional 25 years. The agreement is cancelable by either party with advance notice. In the opinion of management, the likelihood of cancellation is remote. Repairs and improvements made directly by the City are not reflected in the financial statements.

In accordance with generally accepted accounting principles, the value of the building is to be reflected on the Museum's financial statements. However, if the building had been reported at fair market value at the date the agreement with the City originally commenced, the building would have been fully depreciated in prior years. Therefore, the accompanying statement of financial position does not reflect the building.

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

SAN DIEGO MUSEUM OF MAN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents – SDMoM considers all cash accounts (that are not subject to restrictions or penalties) and money market funds to be cash equivalents. Money market funds held in investment companies are presented as Cash and Cash Equivalents for financial statement purposes.

Inventories – Museum store inventories which consist principally of books, periodicals, and gift items are stated at lower of cost (FIFO) or market.

Investments – SDMoM carries investments in marketable securities, with readily determinable fair values, and all investments in debt securities, at fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Collections – 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.

During the year ended June 30, 2008, SDMoM changed its method of accounting for additions to its permanent collections to align its accounting practices more closely with recommended museum practices. This change in accounting policy expenses purchases of collections when acquired and does not capitalize donated additions to its collections.

Statement of Cash Flows – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and short-term investments, generally with a maturity of three months or less.

Property and Equipment – SDMoM capitalizes all property and equipment over \$5,000. Purchased property is recorded at cost; donated property is recorded at the estimated fair value on the date received. Improvements are depreciated on a straight-line basis over useful lives of 40 years. Furniture, vehicles, and equipment are depreciated on a straight-line basis over three to ten years.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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.

Income Taxes – SDMoM is exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. SDMoM 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.

SAN DIEGO MUSEUM OF MAN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 13, 2010, which is the date the financial statements are available for issuance, and concluded that there were no events or transaction that needed to be disclosed.

NOTE 2. FAIR VALUE

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.

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:

| | Prices in Active markets for Identical Assets Total | Significant Other Observable Inputs (Level 2) | Significant Unobservabl e Inputs (Level 3) |
|-------------|--|---|---|
| Assets | | | |
| Investments | <u>\$ 4,202,916</u> | <u>\$4,202,916</u> | <u>\$ -</u> |

SAN DIEGO MUSEUM OF MAN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2. FAIR VALUE (continued)

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 SDMoM's investments are based upon the quoted market prices at June 30, 2010.

SDMoM's management is responsible for making the fair value measurements and disclosures in the financial statements. As part of fulfilling this responsibility, SDMoM's management 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 3. RECEIVABLES

Receivables at June 30, 2010 consist of:

| | <u>June 30, 2010</u> |
|--------------------------------|--------------------------|
| City of San Diego | \$ 32,090 |
| San Diego Community Foundation | 5,750 |
| Other receivables | <u>25,712</u> |
| | <u>\$ 63,552</u> |

NOTE 4. INVESTMENTS

Investments at June 30, 2010 consist of:

| | <u>June 30, 2010</u> |
|--------------|--------------------------|
| Equity funds | \$ 2,069,892 |
| Bond funds | <u>2,133,024</u> |
| | <u>\$ 4,202,916</u> |

Investment income is made up of the following:

| | |
|----------------------|-------------------|
| Unrealized gain/loss | \$ 428,374 |
| Investment income | <u>142,313</u> |
| | <u>\$ 570,687</u> |

SAN DIEGO MUSEUM OF MAN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

| | |
|-------------------------------|---------------------|
| Human Evolution exhibit | \$ 1,994,455 |
| Leasehold improvements | 1,040,570 |
| Furniture and fixtures | 486,825 |
| Vehicles | <u>6,895</u> |
| | 3,528,745 |
| Less accumulated depreciation | <u>(2,136,365)</u> |
| | <u>\$ 1,392,380</u> |

NOTE 6. ACCRUED EXPENSES

Accrued expenses consist of:

| | |
|-----------------------------|-------------------|
| Deposits for special events | \$ 9,300 |
| Accrued vacation | 26,743 |
| Accrued payroll | 118,131 |
| Accrued retirement | 7,084 |
| Other accrued expenses | <u>6,684</u> |
| | <u>\$ 167,942</u> |

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent contributions and other funds received by SDMoM, which are limited in their use by donor-imposed stipulations. Temporarily restricted net assets are available for the following purposes at June 30, 2010:

| | |
|--------------------|------------------|
| Exhibits | \$ 5,000 |
| Education programs | 23,511 |
| Collections | 12,129 |
| Museum events | 5,000 |
| Strategic planning | <u>510</u> |
| | <u>\$ 46,150</u> |

SAN DIEGO MUSEUM OF MAN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors at June 30, 2010 are:

| | |
|--------------------------------|-------------------|
| Community enhancement projects | \$ 30,000 |
| Building improvements | 22,000 |
| Education programs | 46,910 |
| Exhibits | 39,674 |
| Collections | 373,971 |
| Museum events | 28,275 |
| | <u>\$ 540,830</u> |

NOTE 9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are comprised of investments in perpetuity, the income from which is expendable to support general purposes of SDMoM.

NOTE 10. ENDOWMENT FUNDS

SDMoM's endowment consists of an endowment investment account established for general 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 are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Interpretation of Relevant Law – SDMoM's Board of Trustees 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, 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. In accordance with UPMIFA, SDMoM 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 SDMoM 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 SDMoM
- SDMoM's investment policies

SAN DIEGO MUSEUM OF MAN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. ENDOWMENT FUNDS (continued)

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 SPMIFA requires SDMoM to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$4,516 as of June 30, 2010 and were the result of unfavorable market conditions.

Spending Policy, Return Objectives and Risk Parameters:

Investment Objectives – The purpose of the Endowment Fund is to help support SDMoM and its mission over the long-term. Accordingly, the primary investment objectives of the Fund are to:

- (1) Preserve the principal, and
- (2) Provide a stable source of perpetual financial support to help fund museum operations and programs in accordance with SDMoM's spending policy.

In order to preserve the purchasing power of principal and provide support for annual operating needs, the long-term annualized total rate of return objective for the Fund is to meet or exceed SDMoM's annual spending rate target plus the rate of inflation (as measured by the U.S. Government Consumer Price Index). To satisfy SDMoM's long-term rate of return objective, the Fund will rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends).

Spending Policy – SDMoM's spending policy has been designed with three objectives in mind:

- (1) Provide a predictable, stable stream of revenues;
- (2) Maintain the purchasing power or real value of this revenue stream over time; and
- (3) Maintain the purchasing power or real value of the Fund assets over time.

Annual operating costs will likely increase over time at a rate that meets or exceeds the general rate of inflation. Therefore, in order to sustain the ability of the Fund to help support the museum's operating needs indefinitely, the corpus of the Fund must increase at the rate of inflation after the annual withdrawals. Hence, SDMoM strives to adopt an annual spending rate designed to preserve both the purchasing power of its endowments and of their endowment expenditure requirements.

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.

SAN DIEGO MUSEUM OF MAN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10. ENDOWMENT FUNDS (continued)

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.

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

| | Unrestricted | Permanently Restricted | Total |
|---|--------------|---------------------------|-----------|
| Endowment net assets, beginning of year | \$ - | \$ 50,000 | \$ 50,000 |
| Investment return: | | | |
| Investment income | 252 | - | 252 |
| Net depreciation (realized and unrealized) | (4,768) | - | (4,768) |
| Total investment return | (4,516) | - | (4,516) |
| Contributions | - | - | - |
| Endowment net assets, end of year | \$ (4,516) | \$ 50,000 | \$ 45,484 |

In addition, total assets with a fair market value of \$304,654 for June 30, 2010 are held and invested by the San Diego Community Foundation. SDMoM has no ownership rights over the principal, but receives investment income semi-annually from these assets. Total investment income earned was \$11,683 for the year ended June 30, 2010.

NOTE 11. 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 \$55,375 for the year ended June 30, 2010.

NOTE 12. 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, including depreciation of \$188,316 for June 30, 2010, have been allocated among the programs and supporting services benefited.

SAN DIEGO MUSEUM OF MAN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS

SDMoM has entered into leases for office equipment. The minimum future lease payments at June 30, 2010 are:

| <u>Year ending June 30,</u> | |
|-----------------------------|-------------------|
| 2011 | \$ 42,271 |
| 2012 | 53,516 |
| 2013 | 53,516 |
| 2014 | 11,772 |
| 2015 | 5,512 |
| Thereafter | <u>733</u> |
| | <u>\$ 167,320</u> |

Total lease expense for the year ended June 30, 2010 was \$10,747.

NOTE 14. CONCENTRATION OF CASH

The Museum maintains its cash in bank deposit accounts. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on 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 15. JUNE 30, 2009 FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. This summarized information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with SDMoM's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Certain reclassifications have been made to the summarized 2009 financial information to conform to the classifications adopted for the 2010 financial statements. These reclassifications had no effect on the change in net assets.

NOTE 16. FINANCIAL STRATEGY

For the year ended June 30, 2010, SDMoM's expenses exceeded its revenue and support by \$413,999. The downturn in the economy contributed to lower revenue results in a number of areas, including significantly fewer philanthropic investments, decreased museum attendance, poor retail sales, and less-than-anticipated special events revenue. In addition, SDMoM also lost personnel in three key management positions, including its Executive Director, which significantly detracted from programmatic accomplishments, new exhibitions, and donor cultivation. In short, fiscal year 2010 was a year of transition in which SDMoM's Board of Trustees and management focused on redefining and rebuilding its organization, its programs, and community relations. In an attempt to ensure that SDMoM does not sustain this level of excess expenses in the future, the institution has taken – and continues to take – a number of proactive steps, including:

SAN DIEGO MUSEUM OF MAN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 16. FINANCIAL STRATEGY (continued)

Organization – In fiscal year 2010, SDMoM underwent an independent organizational study of its board structure and governance, organizational functional design, financial performance and challenges, and community relations. This study led to a restructuring of SDMoM's Board of Trustees, improved financial reporting and institutional management, and positive reengagement with SDMoM's community stakeholders.

In August 2010, SDMoM's Board of Trustees hired a new Executive Director to lead SDMoM. Micah D. Parzen, Ph.D., J.D. is an academically trained anthropologist with significant experience in applied settings, a nonprofit leader, an experienced employment attorney, and a business counselor. Dr. Parzen is implementing a new vision for the Museum that will recast it as a relevant, innovative, and essential cultural institution for the San Diego community while building upon its rich history, existing stakeholder base, and extraordinary collections.

Operating Expenses – SDMoM's Board of Trustees approved an operating expense budget for fiscal year 2011 that is 6% lower than 2010. This was carefully designed to preserve the core SDMoM functions of exhibits, education, and collections stewardship.

Exhibits – SDMoM has new exhibits planned that will not only highlight its own physical anthropology and ethnographic collections, but will also bring more relevancy to SDMoM's offerings. Included among these exhibits is an award-winning and cutting-edge exhibit called *Race: Are We So Different?* This innovative and highly interactive exhibit, developed by the American Anthropological Association in collaboration with the Science Museum of Minnesota, offers a fascinating multi-faceted exploration of the concept of race and its status as a cultural construct from the diverse vantage points of biology, socioeconomics, and history. In addition, SDMoM has recently been awarded affiliation status by the Smithsonian Institution, which will significantly enhance its exhibition and public programming capabilities and opportunities

Fund Raising – With new leadership in place, SDMoM is taking a number of steps to strengthen its fund raising efforts, including revitalizing its Board of Trustee involvement in the development process, expanding outreach into the community, adopting new approaches to fund raising, instituting best practices controls and procedures, and establishing new relationships with community leaders.



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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary statement that follows on page 16 is presented for the purpose 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.

Cheryl Rhode, CPA
for WEST RHODE & ROBERTS

San Diego, California
October 13, 2010

SAN DIEGO MUSEUM OF MAN, INC.
SUPPLEMENTARY INFORMATION
INCOME/EXPENSE STATEMENT
CITY OF SAN DIEGO ORGANIZATIONAL SUPPORT PROGRAM (OSP) FUNDS
Year Ended June 30, 2010

| | <u>Budgeted</u> | <u>Actual</u> | <u>OSP Funds</u> |
|--|---------------------|---------------------|-------------------|
| Twelve months (July - June) of the corresponding July 1, 2009 through June 30, 2010 allocation period | | | |
| Personnel | | | |
| All Salaried Personnel | \$ 1,015,292 | \$ 1,060,653 | \$ 128,363 |
| Total personnel expenses | <u>1,015,292</u> | <u>1,060,653</u> | <u>128,363</u> |
| Operating: | | | |
| Advertising & Marketing | 76,000 | 24,281 | - |
| Production & Exhibition costs | 236,882 | 51,415 | - |
| Other* | <u>541,277</u> | <u>1,323,252</u> | - |
| Total operating expenses | <u>854,159</u> | <u>1,398,948</u> | - |
| Total OSP expenses | <u>\$ 1,869,451</u> | <u>\$ 2,459,601</u> | <u>\$ 128,363</u> |

*Budgeted "other" operating expenses do not include \$485,294 special project costs for Federally-funded Collections Renovation project. Actual "other" operating expenses include \$367,159 relating to this special project.



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**REPORT ON COMPLIANCE WITH THE REQUIREMENTS OF THE CITY OF SAN DIEGO
COMMISSION FOR ARTS AND CULTURE ALLOCATIONS PROGRAM**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position of San Diego Museum of Man, Inc. as of June 30, 2010, the related statements of activities, and cash flows for the year then ended, and have issued our report thereon dated October 13, 2010.

In connection with our audit, nothing came to our attention that caused us to believe that the Museum 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 Directors, management of San Diego Museum of Man, Inc., and the City of San Diego Commission for Arts and Culture Allocations Program and should not be used for any other purpose.

Cheryl Rhode, CPA
for WEST RHODE & ROBERTS

San Diego, California
October 13, 2010