



SANTA BARBARA MUSEUM OF NATURAL HISTORY

FINANCIAL STATEMENTS

December 31, 2008

(with Independent Auditors' Report Thereon)



Independent Auditors' Report

To the Board of Trustees
Santa Barbara Museum of Natural History
Santa Barbara, California

We have audited the accompanying statement of financial position of the Santa Barbara Museum of Natural History (the Museum), a non-profit organization, as of December 31, 2008 and the related statements of activities, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended December 31, 2007 is presented for comparative purposes only and was extracted from financial statements for that year, on which an unqualified opinion was expressed.

We conducted our audit in accordance with generally accepted auditing standards of 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 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 the Santa Barbara Museum of Natural History as of December 31, 2008 and the changes in net assets and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Stoltey & Associates

March 4, 2009
Los Olivos, California

Santa Barbara Museum of Natural History
Statement of Financial Position as of December 31, 2008
with Comparative 2007 Totals

| | As of December 31, | |
|----------------------------------------------------|--------------------|--------------|
| | 2008 | 2007 |
| ASSETS | | |
| Current Assets | | |
| Cash & Cash Equivalents | \$439,043 | \$354,815 |
| Investments (NOTE 2) | \$32,581,820 | \$51,078,772 |
| Grants & Pledges Receivable (NOTE 3) | \$196,857 | \$326,876 |
| Other Receivables | \$207,355 | \$21,069 |
| Inventory | \$67,079 | \$74,195 |
| Prepaid Expenses & Other Assets | \$104,152 | \$150,062 |
| Total Current Assets | \$33,596,306 | \$52,005,789 |
| Non-Current Assets | | |
| Grants & Pledges Receivable - Long-term (NOTE 3) | \$73,000 | \$35,500 |
| Investment in Charitable Remainder Trusts (NOTE 6) | \$5,197,666 | \$6,535,649 |
| Property Held for Investment (NOTE 4) | \$630,000 | \$630,000 |
| Property & Equipment, net (NOTE 5) | \$12,741,976 | \$11,994,199 |
| Total Non-Current Assets | \$18,642,642 | \$19,195,348 |
| Total Assets | \$52,238,948 | \$71,201,137 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts Payable & Accrued Liabilities | \$298,660 | \$352,069 |
| Deferred Revenue (NOTE 14) | \$232,700 | \$246,095 |
| Total Current Liabilities | \$531,360 | \$598,164 |
| Net Assets (NOTES 7, 8 & 9) | | |
| Unrestricted-Undesignated | \$15,631,716 | \$14,970,363 |
| Unrestricted-Board Designated | \$18,141,756 | \$32,731,271 |
| Temporarily Restricted | \$10,334,170 | \$15,334,393 |
| Permanently Restricted | \$7,599,945 | \$7,566,945 |
| Total Net Assets | \$51,707,588 | \$70,602,973 |
| Total Liabilities and Net Assets | \$52,238,948 | \$71,201,137 |

The accompanying notes are an integral part of this financial statement

Santa Barbara Museum of Natural History
Statement of Activities for the Year Ended December 31, 2008
with Comparative 2007 Totals

| | Unrestricted | | | Temporarily Restricted | Permanently Restricted | All Funds | |
|--------------------------------------|--------------------|----------------------|-----------------------|------------------------|------------------------|-----------------------|---------------------|
| | Operating | Other Unrestricted | Board Designated | | | 2008 Total | 2007 Total |
| Income | | | | | | | |
| Support & Revenue | | | | | | | |
| Admissions | \$556,214 | \$0 | \$0 | \$0 | \$0 | \$556,214 | \$578,615 |
| Membership | \$424,551 | (\$9,000) | \$0 | \$0 | \$0 | \$415,551 | \$442,718 |
| Contributions and Grants | \$408,455 | \$0 | \$132,462 | \$1,840,660 | \$33,000 | \$2,414,577 | \$3,849,156 |
| Investment Income / Draw | \$1,763,935 | \$0 | (\$14,538,892) | (\$2,407,850) | \$0 | (\$15,182,807) | \$5,100,224 |
| Education Fees | \$102,108 | \$0 | \$0 | \$0 | \$0 | \$102,108 | \$114,223 |
| Contracts | \$0 | \$19,500 | \$0 | \$0 | \$0 | \$19,500 | \$38,711 |
| Other Income | \$55,201 | (\$4,680) | \$761 | \$43,796 | \$0 | \$95,078 | \$124,577 |
| Change in Value of Charitable Trusts | \$0 | \$0 | \$0 | (\$1,337,983) | \$0 | (\$1,337,983) | \$251,400 |
| Total Income | \$3,310,464 | \$5,820 | (\$14,405,669) | (\$1,861,377) | \$33,000 | (\$12,917,762) | \$10,499,624 |
| | | | | | | | |
| Revenue Centers | | | | | | | |
| Store Sales | \$414,343 | \$0 | \$91,031 | \$0 | \$0 | \$505,374 | \$602,416 |
| Less Store Expenses | (\$290,066) | (\$50,857) | \$0 | \$0 | \$0 | (\$340,923) | (\$364,928) |
| Special Events | \$371,298 | \$0 | \$102,881 | \$0 | \$0 | \$474,179 | \$439,287 |
| Less Special Event Expenses | (\$240,272) | \$0 | (\$84,224) | \$0 | \$0 | (\$324,496) | (\$370,456) |
| Rental Income | \$259,573 | \$0 | \$0 | \$0 | \$0 | \$259,573 | \$270,990 |
| Less Rental Expenses | (\$28,679) | \$0 | \$0 | \$0 | \$0 | (\$28,679) | (\$25,869) |
| Total Revenues Centers | \$486,197 | (\$50,857) | \$109,688 | \$0 | \$0 | \$545,028 | \$551,442 |
| Total Income | \$3,796,661 | (\$45,037) | (\$14,295,981) | (\$1,861,377) | \$33,000 | (\$12,372,734) | \$11,051,066 |
| | | | | | | | |
| Net Assets | | | | | | | |
| Released from Restriction | \$496,037 | \$2,538,519 | \$104,290 | (\$3,138,846) | \$0 | \$0 | \$0 |
| | \$496,037 | \$2,538,519 | \$104,290 | (\$3,138,846) | \$0 | \$0 | \$0 |
| | | | | | | | |
| Expenses | | | | | | | |
| Program Expenses | | | | | | | |
| Exhibits & Visitor Services | \$712,324 | \$1,062,648 | \$8,106 | \$0 | \$0 | \$1,783,078 | \$1,874,280 |
| Education | \$694,213 | \$335,155 | \$0 | \$0 | \$0 | \$1,029,368 | \$938,862 |
| Collections & Research | \$641,397 | \$1,683,100 | \$9,513 | \$0 | \$0 | \$2,334,010 | \$2,403,048 |
| Total Program Expenses | \$2,047,934 | \$3,080,903 | \$17,619 | \$0 | \$0 | \$5,146,456 | \$5,216,189 |
| | | | | | | | |
| Supporting Services | | | | | | | |
| Management & General | \$1,490,471 | (\$1,045,979) | \$380,205 | \$0 | \$0 | \$824,697 | \$583,743 |
| Membership | \$108,989 | \$63,450 | \$0 | \$0 | \$0 | \$172,439 | \$143,741 |
| Development | \$726,026 | (\$346,966) | \$0 | \$0 | \$0 | \$379,060 | \$478,739 |
| Total Supporting Services | \$2,325,486 | (\$1,329,495) | \$380,205 | \$0 | \$0 | \$1,376,196 | \$1,206,223 |
| Total Expenses | \$4,373,420 | \$1,751,408 | \$397,824 | \$0 | \$0 | \$6,522,652 | \$6,422,413 |
| Net Excess (Deficit) | (\$80,722) | \$742,074 | (\$14,589,515) | (\$5,000,223) | \$33,000 | (\$18,895,386) | \$4,628,653 |

The accompanying notes are an integral part of this financial statement

Santa Barbara Museum of Natural History
Statement of Net Assets
For the Year Ended December 31, 2008

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Net Assets at December 31, 2007 | \$ 47,701,636 | \$ 15,334,393 | \$ 7,566,945 | \$ 70,602,974 |
| Change in net assets for year ended December 31, 2008 | (13,928,163) | (5,000,223) | 33,000 | (18,895,386) |
| Net assets at December 31, 2008 | <u>\$ 33,773,473</u> | <u>\$ 10,334,170</u> | <u>\$ 7,599,945</u> | <u>\$ 51,707,588</u> |

The accompanying notes are an integral part of this financial statement

Santa Barbara Museum of Natural History
Statement of Cash Flows
For the Year Ended December 31, 2008
(with comparative totals for 2007)

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------------------------------------------------------------------------------|-------------------|--------------------|
| | <u>Total</u> | <u>Total</u> |
| Cash Flows Provided By Operating Activities: | | |
| Change in net assets | \$ (18,895,385) | \$ 4,628,653 |
| Adjustments to reconcile increase in net assets - unrestricted to cash provided by operating activities: | | |
| Depreciation | 600,275 | 536,528 |
| Realized and unrealized loss (gain) on investments | 16,551,828 | (3,863,600) |
| Non-cash loss on abandonment | - | 33,355 |
| Non-cash change in future gift annuities | 1,337,983 | (251,400) |
| Decrease/(Increase) in accounts receivable | 130,019 | 150,160 |
| Decrease/(Increase) in prepaid expenses and other assets | 45,910 | (10,062) |
| Decrease/(Increase) in inventory | 7,116 | (16,128) |
| Decrease/(Increase) in pledges receivable | (223,786) | 187,379 |
| (Decrease)/Increase in accounts payable and accrued expenses | (53,409) | 11,296 |
| (Decrease)/Increase in deferred revenue | (13,395) | 39,220 |
| Net cash provided by operating activities | <u>(512,844)</u> | <u>1,445,401</u> |
| Cash Flows Used For Investing Activities: | | |
| Purchase of fixed assets | (1,348,052) | (708,056) |
| Purchase of investments | (19,384,295) | (46,853,614) |
| Proceeds from sale of investments | <u>21,329,419</u> | <u>46,060,044</u> |
| Net cash used for investing activities | <u>597,072</u> | <u>(1,501,626)</u> |
| Net increase (decrease) in cash and cash equivalents | 84,228 | (56,225) |
| Cash and cash equivalents at Beginning of Year | <u>354,815</u> | <u>411,040</u> |
| Cash and cash equivalents at Ending of Year | <u>\$ 439,043</u> | <u>\$ 354,815</u> |
| Supplemental Cash Flow Information: | | |
| Interest paid during the year ended December 31, 2008 and 2007, respectively | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of this financial statement

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Data – The Santa Barbara Museum of Natural History was founded in 1916. The Museum’s primary purpose is to enlighten the public, by developing and presenting fundamental knowledge from natural history research so as to teach and inspire a lifelong passion and abiding respect for the natural world. This mission is accomplished through collections, research, exhibits and educational programs. Aggregate attendance at the Museum and the Ty Warner Sea Center was approximately 136,000 in 2008.

Fund Accounting – The accounts of the Museum are maintained in accordance with the principles of fund accounting. This accounting and reporting method classifies resources by their nature and purpose, based on the presence or absence of donor-imposed restrictions, into three classes of net assets, unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets consist of funds free of any donor-imposed restrictions and are subclassified into undesignated funds and Board designated funds.

Unrestricted net assets consist of the following:

- Operating Funds that are unrestricted resources used to support the Museum’s operations
- Other Unrestricted Funds that are primarily quasi-endowment funds consisting of realized and unrealized capital gains from the permanently restricted endowment funds as well as funds that the Board of Trustees has decided to maintain intact and to invest to generate operating income.
- Board Designated Funds that are resources designated for specific purposes by the Board of Trustees.

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Museum that fulfill donor stipulations.

Permanently restricted net assets consist of contributions and other inflows of funds subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Museum. These funds are invested to provide income to support either specific activities or general operations, in accordance with donor stipulations.

Inventory – Inventory consists of goods held for sale in the Museum store and is carried at the lower of cost (first-in, first-out method) or market value. At December 31, 2008 management has established a reserve against inventory valuation of \$9,000.

Investments – Investments are carried at their fair market value. (See Note 2)

Building, Equipment and Improvements – Building, equipment and improvements are recorded at cost, or if donated, at estimated fair value at date of donation. Assets having an estimated useful life in excess of one year and original cost or donated value of \$5,000 or more are capitalized in the year of acquisition. Depreciation expense is computed using the straight-line method over the useful lives of the assets. Depreciable lives of the assets range from 3 to 40 years. Donor restrictions on contributions for the purchase of buildings, equipment or improvements are considered satisfied when the expenditure is incurred and a transfer from temporarily restricted to unrestricted net assets is made at that time.

Museum League – The Museum conducts a number of fund raising activities through an auxiliary unit, the Museum League, which supports essential Museum projects. The income from these activities is included in special events on the Statement of Activities in the board designated column.

Collections – In conformity with the practice followed by museums, collection objects purchased and donated are not included in the accompanying statement of financial position.

The Museum is continually developing the collections, which currently include more than three million specimens, artifacts, other cultural objects, books and manuscripts. These holdings are used by Museum scientists and a worldwide network of researchers from a variety of disciplines. Their usage forms the basis of published findings, as well as programs in education and Museum exhibitions. The collection is kept under curatorial care including conservation practices, and is subject to the Museum's policy that requires proceeds from the sale of collection items to be used only for acquisition of additional collections. The Museum does not recognize as a contribution any income from donated collection items, as its collections are not capitalized.

Contributed Services – A significant number of volunteers donated many hours of their time in 2008 to the Museum as docents, research associates, interns, board members and in auxiliary organizations. This volunteer time is critical to the success of the Museum. However, as this volunteer service does not meet the recognition requirements of Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made," no amount has been recorded in these financial statements for these services.

Membership Revenue – Membership revenue is comprised of both a contribution component and an earned income component. The portion of membership dues that represents an economic benefit received by the member is recognized as income as it is

earned. The portion of membership dues that represents a contribution is recognized as income when received.

Functional Allocation of Expenses – The costs of providing the various programs and other activities are charged to each department based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to each department based on the estimated benefit to that department.

Income Taxes – The Santa Barbara Museum of Natural History is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The Museum is not considered a private foundation.

Cash and Cash Equivalents - The Museum classifies its unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents, except for cash held for investment by portfolio managers.

Comparative 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 generally accepted accounting principles.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses.

Significant estimates used in preparing these financial statements include:

- Depreciable lives and estimated residual value of buildings, equipment and improvements
- Original cost of assets acquired before 1979
- Allocation of certain expenses by function
- Net present value of future income receivable and future annuities payable and assets held by charitable trusts
- Reserve for uncollectible pledges and grants receivable

It is at least reasonably possible that the significant estimates used will change within the next year.

NOTE 2: INVESTMENTS

Investments in marketable securities consist of the following:

| | Cost | Market | Unrealized Gain(loss) |
|-------------------|----------------------|----------------------|--------------------------|
| Mutual Funds | \$ 50,527,877 | \$ 28,219,156 | \$ (22,308,721) |
| Other Investments | <u>5,217,770</u> | <u>4,362,664</u> | <u>(855,106)</u> |
| Totals | <u>\$ 55,745,647</u> | <u>\$ 32,581,820</u> | <u>\$ (23,163,827)</u> |

The Museum recognized an unrealized loss of \$15,923,134 during the year ended December 31, 2008. In addition, the Museum realized a loss of \$628,694 on the sale of marketable securities. All investments in marketable securities are stated at their market value and are managed and held by Common Fund, a nonprofit investment manager. Market values for the marketable securities were derived from the investment custodian. Mutual funds held include investments in equity funds and bond funds. Other investments include a hedge fund and a real estate fund.

All investments are not held for trading purposes.

The Board of Trustees has adopted a "total return" methodology for providing operating support to the Museum's Operating Fund.

NOTE 3: GRANTS AND PLEDGES RECEIVABLE

Pledges and grants receivable represent unconditional promises to give by individuals, foundations and government agencies. Pledges and grants receivable come due as follows:

| | |
|------|-------------------|
| 2009 | \$ 196,857 |
| 2010 | 60,000 |
| 2011 | 6,000 |
| 2012 | 6,000 |
| 2013 | <u>1,000</u> |
| | <u>\$ 269,857</u> |

Management believes these amounts will be fully collected and therefore no provision for uncollectible grants or pledges receivable has been made.

NOTE 4: PROPERTY HELD FOR INVESTMENT

The Museum owns donated real property in Goleta, California, which it leases to a convalescent hospital. The lease term is seventy-five years and expires in the year 2042. The current monthly rent is \$5,500 and is adjusted by the cost of living every five years. The rent received in 2008 was approximately \$66,945.

The Museum also owns several residential units and one small office building, which are leased on a month-to-month basis.

NOTE 5: BUILDING, EQUIPMENT AND IMPROVEMENTS

The cost of building, equipment and improvements, net of accumulated depreciation and amortization at December 31, 2008 are as follows:

| | |
|--------------------------------------------|----------------------|
| Buildings & Improvements | \$ 15,442,777 |
| Furniture & Equipment | <u>1,575,294</u> |
| Total Cost | 17,018,071 |
| Less Accumulated Depreciation | <u>(4,276,095)</u> |
| Buildings, Equipment and Improvements, Net | <u>\$ 12,741,976</u> |

Depreciation expense for the year ending December 31, 2008 was \$600,275.

NOTE 6: CHARITABLE TRUST AGREEMENTS:

Charitable trust agreements in which the Museum has been named as a remainder beneficiary are recorded on the books of the Museum. If the Museum is the trustee, the fair market value of the trust is recorded in the Museum's statement of financial position and corresponding liability is recorded for the net present value of the required payments as specified in the agreement. A contribution is recorded for the difference between the two.

If the Museum is not the trustee, the trust is recorded as a contribution and an asset equivalent to the present value of the trust assets and estimated future income net of the present value of estimated future payouts to the income beneficiaries.

Any change in subsequent years in the present value of the estimated future benefits to be received when the trust assets will be distributed is recorded in the Statement of Activities as a change in the value of charitable remainder trusts.

Charitable trust agreements are classified as temporarily restricted net assets unless the donor has permanently restricted the Museum's use of its interest in the asset.

The assets are recorded at approximate fair market value based upon the most recent tax return filed by the trust that is available to the Museum or current values provided by the settlor to the Museum. The present value of the estimated future value to be received by the Museum is calculated using the IRS annuity tables and a discount rate of 5%, based on the Museum's historic risk free rate of return.

NOTE 7: QUASI-ENDOWMENT FUNDS

Unrestricted – Board designated, quasi-endowment funds are designated by the Board of Trustees primarily for investment and include unrealized and realized gains on the permanently restricted endowment fund. The Museum plans to leave the gains reinvested in perpetuity unless allocated for other purposes by resolution of the Board.

NOTE 8: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets available at December 31, 2008 are restricted to the following:

| | |
|--------------------|----------------------|
| For programs | \$ 4,948,747 |
| For future periods | <u>5,385,423</u> |
| | <u>\$ 10,334,170</u> |

NOTE 9: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at December 31, 2008 are restricted to the following:

Investment in perpetuity, the income from which is expendable to support:

| | |
|-----------------------------------|---------------------|
| Invertebrate Zoology – Malacology | \$ 1,000,000 |
| Museums studies internships | 100,000 |
| Operations | <u>6,499,945</u> |
| | <u>\$ 7,599,945</u> |

NOTE 10: PENSION PLAN

The Museum maintains a tax deferred annuity plan for all employees except adjunct and part-time employees. Employees are eligible for participation in the plan after one year of employment and are fully vested after participation begins. Participants are required to contribute three percent of their salaries to the plan, and the Museum contributes seven percent. The Museum's contributions to the plan were \$137,041 in 2008. The pension is provided through the organization T.I.A.A.-C.R.E.F. which manages pension funds of private colleges, universities, museums and other such institutions nationally.

NOTE 11: CONTINGENT LIABILITIES

The Santa Barbara Museum of Natural History received grants from various governmental agencies. These grants are subject to audit by the corresponding cognizant oversight agency as to allowable costs paid with federal funds and as to the share of costs contributed by the Museum. The Museum would be liable up to the full amount of federal funds expended should costs charged to the project be disallowed.

NOTE 12: CONCENTRATION OF RISKS

In 2008, The Museum's investments were held by CommonFund. The Museum derives a significant portion of its earnings from its investments. These investments are subject to the inherent risks of inflation, default, market fluctuation, and liquidity.

The Museum obtains support primarily from the Santa Barbara region.

NOTE 13: STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

The following transactions did not affect the Museum's cash balances:

The Museum is the remainderman of several charitable remainder trusts. The estimated future benefits to be received by the Museum when the trust assets are distributed are recorded as an asset in the financial statements and are adjusted annually to reflect changes in the fair value of the assets and the life expectancies of the recipients. A liability is recorded for the expected net present value of all future payments to the trust's current income beneficiaries if the Museum is also trustee of the trust.

Changes in the values of the remaining trusts' assets and liabilities consisting of a net decrease in value of \$1,337,983 in 2008 are recorded in the financial statements, but have no effect on the amount of cash received or used during the year.

NOTE 14: DEFERRED MEMBERSHIP REVENUE

The Museum offers one year and two year memberships for sale. The portion of membership dues that represents an economic benefit received by the member is recognized as income as it is earned. The portion of membership dues that represents a contribution is recognized as income when received.

NOTE 15: LINES OF CREDIT

The Museum has a line of credit for \$150,000 for business needs. The line of credit was not drawn on in 2008 and has no balance outstanding as of December 31, 2008.

NOTE 16: ENDOWMENT

The Museum's endowment has been established for a variety of program purposes. Its endowment consists of donor-restricted and board designated endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

Endowment net asset composition by type of fund as of December 31, 2008

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Board designated endowment funds | \$ 17,998,597 | \$ - | \$ - | \$17,998,597 |
| Donor restricted Endowment funds | <u>2,871,966</u> | <u>4,254,214</u> | <u>7,599,945</u> | <u>14,726,125</u> |
| Total | <u>\$ 20,870,563</u> | <u>\$ 4,254,214</u> | <u>\$ 7,599,945</u> | <u>\$ 32,724,722</u> |

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2008 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------------------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 31,720,222 | \$ 11,026,633 | \$ 7,566,945 | \$ 50,313,800 |
| Investment earnings or losses | (8,277,402) | (6,772,419) | - | (15,049,821) |
| Contributions | 127,723 | - | 33,000 | 160,723 |
| Appropriation of endowment assets for expenditure | <u>(2,699,980)</u> | <u>-</u> | <u>-</u> | <u>(2,699,980)</u> |
| Endowment net assets, ending of year | <u>\$ 20,870,563</u> | <u>\$ 4,254,214</u> | <u>\$ 7,599,945</u> | <u>\$ 32,724,722</u> |

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 the Museum to retain as a fund of perpetual duration. No such deficiencies existed during the year ended December 31, 2008.

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

In recognition of the foundational role the endowment and quasi-endowment play in the support of the core operations of the Museum, the purpose of the spending policy is to adopt a process that will virtually assure the continued growth of support for the operations of the Museum.

“Snake in the Tunnel” withdrawal formula

Each year, the Museum may draw funds from the endowment and quasi-endowment to support the operations of the Museum. In 1998, 4.5% of a trailing 12-quarter average of the market value of the endowment corpus as of June 30 was designated for expenditure the following year. In subsequent years, the payout will increase by 4.5% a year within the limits that the payout will neither exceed 5% nor fall below 4% of a trailing 12 quarter rolling average of the endowment corpus.

NOTE 17: ASSETS VALUED AT FAIR VALUE

Fair Value Measurements at December 31, 2008 are summarized as follows:

| | Quoted Prices In Active Markets For Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
|-------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------|---------------------------------------|
| Marketable securities Held For trading Purposes | \$ 28,219,156 | \$ - | \$ - |
| Alternative Investments | - | 4,362,664 | - |
| Charitable Remainder Trusts | <u>-</u> | <u>-</u> | <u>5,197,666</u> |
| Total | <u>\$ 28,219,156</u> | <u>\$ 4,362,664</u> | <u>\$ 5,197,666</u> |

Changes in Fair Value Measurement Using Significant Observable Inputs are summarized as follows:

| | |
|----------------------------------------------------------------------------------------------------------------------|----------------------------|
| | Alternative Investments |
| Beginning Balance | \$ 4,933,122 |
| Total Gains(Losses) Included In Changes in Net Assets | <u>(570,458)</u> |
| Ending Balance | <u>\$ 4,362,664</u> |
| The Amount of Total Losses For The Period Included In Changes In Net Assets Still Held At December 31, 2008 | <u>\$ (570,458)</u> |

Changes in Fair Value Measurement Using Significant Unobservable Inputs are summarized as follows:

| | Charitable Remainder Trusts |
|----------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Beginning Balance | \$ 6,535,649 |
| Total Gains(Losses) Included | |
| In Changes in Net Assets | <u>(1,337,983)</u> |
| Ending Balance | <u>\$ 5,197,666</u> |
| The Amount of Total Losses For The Period Included In Changes In Net Assets Still Held At December 31, 2008 | <u>\$ (1,337,983)</u> |