

ARIZONA-SONORA DESERT MUSEUM, INC.

YEAR ENDED SEPTEMBER 30, 2011

ARIZONA-SONORA DESERT MUSEUM, INC.

YEAR ENDED SEPTEMBER 30, 2011

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BEACHFLEISCHMAN

Independent Auditors' Report

Board of Trustees
Arizona-Sonora Desert Museum, Inc.
Tucson, Arizona

We have audited the accompanying statement of financial position of Arizona-Sonora Desert Museum, Inc. as of September 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Arizona-Sonora Desert Museum, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement 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 Arizona-Sonora Desert Museum, Inc. as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying information on page 22 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.

A handwritten signature in black ink that reads "BeachFleischman PC".

January 4, 2012

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ARIZONA-SONORA DESERT MUSEUM, INC.

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2011

	Unrestricted							Total
	Operating	Property and Equipment	Board Designated Reserve	Board Designated Endowment	Total Unrestricted	Temporarily Restricted	Permanently Restricted	
ASSETS								
Cash and cash equivalents	\$ 315,572				\$ 315,572			\$ 315,572
Estates and pledges receivable, net	567,083				567,083	\$ 251,822		818,905
Other receivables	187,548				187,548			187,548
Inventory	218,919		\$ 2,779		221,698			221,698
Due from (to) other net asset groups	44,623		138,676	\$ (246,767)	(63,468)	(140,554)	\$ 204,022	
Investments	137,573		144,236	1,722,494	2,004,303	1,031,836	3,795,879	6,832,018
Beneficial interest in perpetual trust							122,938	122,938
Assets held in charitable trusts						577,702		577,702
Other assets	96,278				96,278			96,278
Property and equipment, net		\$15,985,772	107,175		16,092,947	113,829		16,206,776
Total assets	\$ 1,567,596	\$15,985,772	\$ 392,866	\$ 1,475,727	\$19,421,961	\$ 1,834,635	\$ 4,122,839	\$ 25,379,435
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts payable	\$ 184,528				\$ 184,528			\$ 184,528
Accrued liabilities	517,196				517,196	\$ 5,045		522,241
Unearned revenue	59,527				59,527			59,527
Deferred revenue, membership dues	218,117				218,117			218,117
Capital leases payable	32,375		\$ 4,050		36,425			36,425
Liability under trust agreement						75,527		75,527
Total liabilities	1,011,743		4,050		1,015,793	80,572		1,096,365
Net assets:								
Unrestricted:								
Undesignated	555,853				555,853			555,853
Invested in property and equipment		\$15,985,772			15,985,772			15,985,772
Designated for future capital			388,816		388,816			388,816
Designated for long-term reserves				\$ 1,475,727	1,475,727			1,475,727
Temporarily restricted						1,754,063		1,754,063
Permanently restricted							\$ 4,122,839	4,122,839
Total net assets	555,853	15,985,772	388,816	1,475,727	18,406,168	1,754,063	4,122,839	24,283,070
Total liabilities and net assets	\$ 1,567,596	\$15,985,772	\$ 392,866	\$ 1,475,727	\$19,421,961	\$ 1,834,635	\$ 4,122,839	\$25,379,435

See notes to financial statements.

ARIZONA-SONORA DESERT MUSEUM, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2011

	Unrestricted				Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Operating	Property and Equipment	Board Designated Reserve	Board Designated Endowment				
Revenues and other support:								
Admissions	\$ 2,275,431				\$ 2,275,431			\$ 2,275,431
Concessions rental	363,487				363,487			363,487
Museum food services rental	206,378				206,378			206,378
Facilities rental	52,502				52,502			52,502
Membership	1,131,391				1,131,391			1,131,391
Contributions	1,278,612		\$ 30,775		1,309,387	\$ 1,112,568	\$ 32,790	2,454,745
Grant revenue	346,663				346,663			346,663
Special events, net	153,434				153,434	10,700		164,134
Education	180,839				180,839	75,279		256,118
Publications	25,842				25,842			25,842
Investment income:								
Interest and dividends	2,685		6,453	\$ 49,585	58,723	21,872	99,634	180,229
Net investment loss	(25,753)		(39,030)	(30,832)	(95,615)	(23,116)	(135,011)	(253,742)
Investment fees	(4,144)		(840)	(7,385)	(12,369)	(3,158)	(14,866)	(30,393)
Loss on disposal of assets			(4,794)		(4,794)			(4,794)
Other	83,033				83,033	6,104		89,137
Operating support provided from designated funds	329,004		295,836	(624,840)				
Net assets released from restrictions/reserves	689,425	\$ 174,081	(124,026)		739,480	(739,480)		
Total revenues and other support	7,088,829	174,081	164,374	(613,472)	6,813,812	460,769	(17,453)	7,257,128
Expenses:								
Program services:								
Facilities	2,083,355	1,196,965			3,280,320			3,280,320
Visitor services	279,034				279,034			279,034
Summer Saturday evenings	19,775				19,775			19,775
Animal interpretive collections	161,967				161,967			161,967
Raptor Free Flight	146,510				146,510			146,510
Botany	486,403				486,403			486,403
Herpetology and invertebrate zoology	334,815				334,815			334,815
Mammalogy and ornithology	682,435				682,435			682,435
Publications	30,436				30,436			30,436
Center for Sonoran Desert Studies	1,113,663				1,113,663			1,113,663
Exhibits								
Design and planning	203,226				203,226			203,226
Art Institute	325,971				325,971			325,971
General collections	63,368				63,368			63,368
Supporting services:								
Administration	335,853		15,322		351,175			351,175
Finance	455,155				455,155			455,155
Marketing	286,795				286,795			286,795
Fundraising:								
Development and membership	419,764				419,764			419,764
Total expenses	7,428,525	1,196,965	15,322		8,640,812			8,640,812
Change in net assets before transfers	(339,696)	(1,022,884)	149,052	(613,472)	(1,827,000)	460,769	(17,453)	(1,383,684)
Transfers	345,000		(345,000)	(203,767)	(203,767)		203,767	
Change in net assets	5,304	(1,022,884)	(195,948)	(817,239)	(2,030,767)	460,769	186,314	(1,383,684)
Net assets, beginning of year	550,549	17,008,656	584,764	2,292,966	20,436,935	1,293,294	3,936,525	25,666,754
Net assets, end of year	\$ 555,853	\$15,985,772	\$ 388,816	\$ 1,475,727	\$18,406,168	\$ 1,754,063	\$ 4,122,839	\$24,283,070

See notes to financial statements.

ARIZONA-SONORA DESERT MUSEUM, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2011

Cash flows from operating activities:	
Change in net assets	\$ (1,383,684)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,196,965
Amortization of discount on long-term pledges receivable	(5,105)
Net unrealized losses on investments	547,233
Net realized gains on investments	(293,491)
Donations of stock	(13,999)
Loss on disposal of assets	4,794
Changes in operating assets and liabilities:	
Estates and pledges receivable	388,921
Other receivables	(100,782)
Inventory	6,532
Assets held in charitable trusts	27,529
Other assets	(15,296)
Accounts payable	16,504
Accrued liabilities	(217)
Unearned revenue	(1,095)
Deferred revenue, membership dues	24,717
Liability under trust agreement	(5,396)
Total adjustments	<u>1,777,814</u>
Net cash provided by operating activities	<u>394,130</u>
Cash flows from investing activities:	
Proceeds from sales and redemptions of investments	1,804,325
Purchases of investments	(2,313,934)
Purchases of property and equipment	<u>(299,740)</u>
Net cash used in investing activities	<u>(809,349)</u>
Cash flows from financing activities:	
Repayment of capital lease obligation	<u>(18,711)</u>
Net cash used in financing activities	<u>(18,711)</u>
Net decrease in cash and cash equivalents	(433,930)
Cash and cash equivalents, beginning	<u>749,502</u>
Cash and cash equivalents, ending	<u>\$ 315,572</u>

See notes to financial statements.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2011

1. Organization and summary of significant accounting policies:

Organization:

The Arizona-Sonora Desert Museum, Inc. (the "Museum") is an independent natural history institution in Tucson, Arizona. The Museum operates as a nonprofit, educational corporation supported by admission, membership dues and contributions, which come primarily from the private sector.

Financial statement presentation:

The Museum reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- Permanently restricted - Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Museum. The donors of these assets permit the Museum to use all or part of the investment return of these assets on continuing operations, which may be subject to certain restrictions.
- Temporarily restricted - Net assets whose use by the Museum is subject to donor-imposed stipulations that can be fulfilled by actions of the Museum pursuant to those stipulations or that expire through the passage of time.
- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Accounting estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recognition of donor-restricted contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

1. Organization and summary of significant accounting policies (continued):

Recognition of donor-restricted contributions (continued):

Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue recognition:

The Museum recognizes revenue earned on government grant and cooperative contracts as exchange transactions utilizing the percentage-of-completion method measured by the cost-to-cost method or level-of-effort method, as applicable. The percentage complete is estimated based upon the percentage that the incurred costs on each grant bears to the estimated total costs of the grant.

Revenue and costs on grants are subject to revision throughout the terms of the grants and required adjustments, if any, are made in the period in which the revisions become known.

Unearned revenue represents advance payments received for educational classes and other activities offered by the Museum.

The Museum sells annual memberships entitling the purchaser to unlimited admission during the year. Fees for membership dues are recognized ratably and in the fiscal year to which the membership applies.

Cash and cash equivalents:

Cash and cash equivalents include securities with an original purchased maturity of three months or less. Cash and cash equivalents received with donor-imposed stipulations restricting the use of the cash to long-term purposes and cash designated for long-term purposes are classified as investments.

The Museum maintains deposit accounts, certificates of deposit and money market funds with various institutions. At times, such investments may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

1. Organization and summary of significant accounting policies (continued):

Estates and pledges receivable:

Unconditional promises to give are recognized as revenues when notice of the promise is received. Conditional promises to give are recognized only upon the Museum's substantial satisfaction of the donor imposed condition or if in management's judgment, the possibility the condition will not be met is remote. Promises to give, which are collectible over future periods, are discounted to their net present value using a rate of interest equal to government securities issued near the date of the promise and having a maturity date equal to the life of the promise. The Museum records bad debt losses and an allowance when promises to give are considered uncollectible.

Investments:

Investments in equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Donated investments are recorded at their fair value at the date of gift. Investment gains and losses are included in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulation or by law.

Realized gains or losses on disposition of investments are recorded on a trade date basis using the specific identification method. The fair value of investment securities is estimated based upon the last trade price on a national securities exchange or in the over-the-counter market. If no trade price is reported for the measurement date, the fair value is estimated based upon the current bid price at the close of business on the measurement date.

The Museum has a total return policy on permanently restricted investments. The investment balance in the permanently restricted net asset group is maintained on an inflation-adjusted basis to include the investment corpus as well as an annual inflation adjustment amount. The inflation adjustment amount is based on annual changes to the Consumer Price Index. When necessary, unrestricted dollars are transferred to the permanently restricted net asset group to maintain the inflation adjusted balance.

Inventory:

Inventory consists primarily of supplies and publications and is stated at cost on a first-in, first-out basis. Minerals included in inventory are held for sale and are stated at the lower of average cost or net realizable value.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

1. Organization and summary of significant accounting policies (continued):

Property and equipment:

Property and equipment are stated at cost or, if acquired by gift, at estimated fair market value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets which range from 3 to 30 years. Maintenance, repairs and minor renewals are expensed as incurred while expenditures for additions and improvements with a useful life greater than 3 years are capitalized. Contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. The Museum reports expirations of donor restrictions when the acquired assets are placed in service as instructed by the donor. The Museum reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment under capital lease is stated at cost or the assets' net present value of future lease payments at the date of the lease. Amortization is provided using the straight-line method over the estimated useful lives of the assets, or lease term, and is included with depreciation expense.

Pima County owns the land and some permanent structures on which the Museum is located. The Museum has a lease with Pima County, which entitles the Museum to exclusive right and use of the land and to operate the properties as a museum of natural history. The lease expires on September 30, 2028, with an option to renew for an additional 25 years under the same terms. Although the lease provides that the title to the Museum's property and exhibits is vested with the County, such assets are recorded on the books of the Museum to reflect the Museum's responsibility for management of these assets. The fair value of the leased premises has not been reported in the financial statements of the Museum.

Collections:

The collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as decreases in temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from de-accessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Contributed services:

Contributed services are reported as contribution revenue and as assets or expenses only if the services create or enhance a non financial asset or:

- Would typically need to be purchased by the Museum if such services had not been contributed,
- Require specialized skills, and
- Are provided by individuals possessing those skills.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

1. Organization and summary of significant accounting policies (continued):

Contributed services (continued):

Many individuals volunteer their time and perform a variety of tasks that assist the Museum. During 2011, approximately 251 docents contributed over 93,000 hours in interpretive and educational programs on Museum grounds and in southern Arizona communities. In addition, 240 other volunteers contributed over 53,000 hours in serving as clerical and library aides, greeters, botany and geology assistants, and in various other capacities. No amounts have been recorded in the financial statements for contributed services from docents and other volunteers as the criteria specified above were not met.

Fair value of financial instruments:

The Museum's financial instruments include cash and cash equivalents, receivables, accounts payable, accrued expenses, and capital leases payable. For all of the Museum's financial instruments that are carried at cost, that cost approximates fair value.

Fair value measurements:

Fair value is defined as the price to sell an asset or transfer a liability between market participants as of the measurement date. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and that the market participants are independent, knowledgeable, able and willing to transact an exchange. The new provisions also clarify that the reporting entity's nonperformance risk (credit risk) should be considered in valuing liabilities.

Accounting standards establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

The Museum applies provisions for fair value measurements and disclosures related to certain alternative investments that permit the use of a qualifying investment's net asset value per share to estimate fair value.

Program expense allocations:

Expenses that can be identified with a specific program are charged directly to the program according to their natural expense classification. Costs incurred that share a common purpose are allocated to programs based upon their percentage of employees or square foot usage depending upon the nature of the expense.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

1. Organization and summary of significant accounting policies (continued):

Advertising:

Advertising costs are expensed as incurred. Total advertising expense was \$121,927 for 2011.

Tax exempt status:

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Museum is also exempt from state income taxes. Accordingly, no provision is made for income taxes in the financial statements. Income from certain activities not directly related to the Museum's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI). Management is not aware of any matters which would cause the Museum to jeopardize its tax-exempt status.

GAAP requires management to perform an evaluation of all tax positions taken or expected to be taken in the course of preparing the Museum's tax returns to determine whether the tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

The Museum is only subject to income taxes on UBTI as applicable. As a result, the Museum is required to file informational returns for federal and state purposes and, if it has UBTI, federal and state income tax returns. With limited exceptions, the Museum is no longer subject to tax examination for any years earlier than 2008 for federal and 2007 for state. Management has performed its evaluation of tax positions taken on all open tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard.

From time to time, the Museum may be subject to penalties and interest assessed by various taxing authorities, which are classified as administration expenses when they occur.

Subsequent events:

The Museum's management has evaluated the events that have occurred subsequent to September 30, 2011 through January 4, 2012, the date that the financial statements were available to be issued. Management has determined that no events have occurred during this period that require adjustment to or disclosure in the financial statements. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Estates and pledges receivable:

The Museum accounts for contributions to be made in future years as unconditional promises in the year the promise is made. Long-term pledges receivable are discounted to their present value with rates ranging from .13% to 4.14 %.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

2. Estates and pledges receivable (continued):

At September 30, 2011, the amounts receivable as a result of these promises are as follows:

Year ending <u>September 30,</u>	
2012	\$ <u>827,029</u>
Less allowance for uncollectible pledges	100
Less unamortized discount to present value	<u>8,024</u>
	<u>\$ 818,905</u>

Estates and pledges receivable are due from various private estates, foundations, businesses and individuals. The Museum recorded an allowance for doubtful pledges receivable totaling \$100 as of September 30, 2011. Estates and pledges receivable from the Board of Trustees totaled \$40,888 as of September 30, 2011. Three donors comprised 85% of estates and pledges receivable at September 30, 2011.

3. Investments:

Investments carried at fair value are comprised of the following amounts at September 30, 2011:

Fixed income securities	\$ 1,445,127
Equity funds	3,520,762
Strategy and private equity funds	1,638,051
Money market funds and cash equivalents	<u>228,078</u>
	<u>\$ 6,832,018</u>

Net investment loss for the year ended September 30, 2011 is as follows:

Net realized gains on investments	\$ 293,491
Net unrealized loss on investments	<u>(547,233)</u>
	<u>\$ (253,742)</u>

In addition to the resources set aside to fund capital and special projects, the Board of Trustees designated a portion of unrestricted net assets as a long-term reserve to serve a function similar to an endowment. The amount in the long-term reserve has been established at a minimum of one-half of the annual operating budget and was \$1,722,494 at September 30, 2011.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

4. Beneficial interest in perpetual trust:

The Museum is the beneficiary of the J. Benton Trust (the Trust). The Trust is a perpetual trust administered by a financial institution for the sole benefit of the Museum. Distributions from the Trust are restricted for the care of the Museum's animal collections. The unrealized loss on Trust assets for the year ended September 30, 2011 was \$11,096 and is included in net investment loss in the statement of activities.

5. Assets held in charitable trusts:

The Museum is the remainder beneficiary of an irrevocable trust agreement with a market value of \$817,432 as of September 30, 2011. The trust assets are held in money market accounts and U.S. treasury notes monitored by the trustee. Income earned on trust assets is paid to designated income beneficiaries in an amount not less than \$35,000 per year. Upon the death of the income beneficiaries, the Museum will receive the remaining value of the trust's assets. The value of the trust agreement is recorded in the accompanying financial statements based upon the estimated present value of the trust assets to be received by the Museum. The assets are discounted at 2.66% over a 16-year period, which represents the remaining life expectancy of the income beneficiaries. These assets had a value of \$544,595 as of September 30, 2011.

The Museum was also the remainder beneficiary of an irrevocable trust agreement with a market value of \$21,907,705 as of September 30, 2009. The trust assets were held in money market accounts, fixed income securities, equities, alternative investments, real estate and specialty assets monitored by the trustee. Income earned on trust assets was paid to the designated income beneficiary. Upon the death of the income beneficiary, the Museum was to receive 0.2% of the remaining value of the trust's assets. During the year ended September 30, 2010, the income beneficiary passed away and the Museum received a distribution from trust assets of approximately \$17,000. The Museum received a final distribution of approximately \$22,000 from the trust during the year ended September 30, 2011.

The discount rates on the Museum's interest in the above irrevocable trust agreements are based on the September 30, 2011 U.S. Treasury Bill rate corresponding to the estimated life expectancy of the trust beneficiaries.

The Museum is the trustee of the Helene Brown Charitable Remainder Annuity Trust dated January 25, 2001, (the Annuity Trust). The Annuity Trust requires annual payments of 8% of the net fair market value of the assets of the Annuity Trust, as valued on the date of contribution, over a twenty-year term to the Grantor. The remainder of the assets of the Annuity Trust are to be distributed to the Museum upon expiration of the annuity payments. The assets of the Annuity Trust were valued at \$148,378 on the date of contribution and the annuity payments are \$11,870 per year. The liability under the Annuity Trust was determined to be \$116,544 based on an annuity payment over twenty years at the Museum's discount rate of 8% per annum. The assets of the Annuity Trust and liability under the trust agreement are adjusted for changes in the market value of the assets, annuity payments and amortization of the discount.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

5. Assets held in charitable trusts (continued):

The market value of the assets of the Annuity Trust was \$33,107 as of September 30, 2011. The remaining liability under the trust agreement was \$75,527 as of September 30, 2011.

6. Fair value measurements:

At September 30, 2011, the fair value of assets measured on a recurring basis is as follows:

	<u>Fair value</u>	<u>Quoted prices (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
Fixed income securities:				
Corporate bonds	\$ 1,445,127	\$ 1,445,127		
Equity funds:				
US securities	2,485,940	777,202	\$ 1,708,738	
International securities	1,034,822	14,088	1,020,734	
Strategy and private equity funds:				
Commodities	241,035	241,035		
Real estate	350,326	350,326		
Hedge fund	1,046,690			\$ 1,046,690
Money market funds and cash equivalents	<u>228,078</u>	<u>228,078</u>		
Total investments	<u>6,832,018</u>	<u>3,055,856</u>	<u>2,729,472</u>	<u>1,046,690</u>
Beneficial interest in perpetual trust	122,938		122,938	
Assets held in charitable trusts	<u>577,702</u>		<u>577,702</u>	
	<u>\$ 7,532,658</u>	<u>\$ 3,055,856</u>	<u>\$ 3,430,112</u>	<u>\$ 1,046,690</u>

The preceding table is based on the following hierarchy of observable independent market inputs and unobservable market assumptions:

Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

6. Fair value measurements (continued):

Level 2 – Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that are considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves that are observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates; and inputs that are derived principally from or corroborated by observable market data.

Level 3 – Inputs include unobservable inputs used in the measurement of assets and liabilities. The Museum is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date. Measurements of nonexchange traded derivative contract assets and liabilities are primarily based on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants. Unobservable inputs require the Museum to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from October 1, 2010 to September 30, 2011 is as follows:

	<u>Hedge funds</u>
Balance October 1, 2010	\$ 1,243,253
Gains included in change in net assets	5,764
Sales	(202,327)
Balance at September 30, 2011	\$ 1,046,690

The realized and unrealized gains included in change in net assets for the year ended September 30, 2011 are reported in the statement of activities as follows:

	<u>Hedge funds</u>
Unrealized gains relating to assets still held at September 30, 2011 that are included in change in net assets	\$ 5,764

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

6. Fair value measurements (continued):

The following is a description of the valuation methodologies used for assets measured at fair value:

The fair value of the Museum's equity securities, corporate bond fixed income securities, real estate funds and commodity linked funds are valued at the closing price reported in the active market on which the individual securities are traded (Level 1), which represents the net asset value of shares held by the Organization at year end.

The Museum's investments in certain equity securities are valued at net asset value as determined by Northern Trust Company of Connecticut (NTCC) and calculated monthly (Level 2). Redemptions occur at net asset value by contract.

The Museum invests in a hedge fund. The Fund operates as a "Fund-of-Funds," investing, either directly or indirectly, in a group of funds or other pooled investment vehicles ("Sub-Funds") managed by investment advisers selected by the Fund's investment manager. The Fund seeks to provide investors with exposure to alternative investment strategies by investing in diversified markets and instruments. Investments in Sub-Funds are valued at fair value, as determined by NTCC. In determining the fair value of each Sub-Fund, NTCC will take into account the estimated net asset value of such Sub-Fund provided to the Fund by the Sub-Fund itself, as well as any other considerations that may, in NTCC's judgment, increase or decrease such estimated value. Accordingly, because of the inherent uncertainty of these valuations, these estimated values may differ significantly from the values that could have been used had a readily available market for the investments existed, and the differences could be material. Cash equivalents are valued at cost, which approximates fair value. The Fund charges various administrative and management fees as defined in the Fund administration agreement. The Sub-Fund investments are subject to various redemption restrictions with typical redemption notice periods ranging from five to 90 days.

The Museum's investments in trusts are valued at the net asset value of the trusts' underlying investments which is calculated monthly. The trusts' assets are primarily invested in treasury notes, cash and cash equivalents. The Museum is subject to restrictions as discussed in Note 5.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

7. Property and equipment:

A summary of property and equipment at September 30, 2011 is as follows:

	<u>Pima County</u>	<u>Museum</u>	<u>Total</u>
Idle land and building		\$ 490,000	\$ 490,000
Land held for investment		226,500	226,500
Buildings and improvements	\$ 31,460,024	220,669	31,680,693
Furniture and equipment		2,337,762	2,337,762
Construction in progress		221,003	221,003
Total property and equipment	31,460,024	3,495,934	34,955,958
Less accumulated depreciation	16,804,494	1,944,688	18,749,182
Property and equipment, net	<u>\$ 14,655,530</u>	<u>\$ 1,551,246</u>	<u>\$16,206,776</u>

During 2002, \$490,000 in real property was donated to the Museum. There was no time or purpose restrictions imposed on the property; however, the property may not be sold by the Museum. In the event the Museum is unable to use the property, the Museum is required to donate the property to a nature conservation organization.

8. Collections:

The Museum's collections consist substantially of living and nonliving natural history objects related to the Museum's interpretive region (the Sonoran Desert and adjacent habitats). Collections are held for educational, research, scientific, and curatorial purposes. With the exception of certain free-living organisms, collections are catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

Objects are de-accessioned according to their value and replaceability. Living plants and animals for which there is no foreseeable future need are donated to other accredited institutions. No significant collection items were de-accessioned during the year ended September 30, 2011.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

9. Line of credit:

The Museum has entered into a one-year agreement with Northern Trust for a \$500,000 revolving line of credit (the "Agreement") through October 2011. The Agreement requires monthly interest only payments with any remaining principal balance due upon termination of the Agreement. Interest is calculated at the financial institution's prime rate less 1% with a minimum rate of 3%. The prime rate at September 30, 2011 was 3.25%. As of September 30, 2011, there was no outstanding balance on the line. No interest was incurred during 2011 on the line of credit. The line of credit is collateralized by a security interest in the Museum's general intangibles and accounts receivable. The line was renewed in October 2011 and extended through February 2013.

10. Capital leases payable:

The Museum leases equipment under capital leases having a cost of \$83,505 and accumulated amortization of \$45,214. The following is a schedule of future minimum lease payments under the capitalized equipment leases as of September 30, 2011:

<u>Year ending September 30,</u>	<u>Total</u>	<u>Interest</u>	<u>Net minimum lease payments</u>
2012	\$ 21,409	\$ 2,476	\$ 18,933
2013	16,654	1,099	15,555
2014	<u>2,062</u>	<u>125</u>	<u>1,937</u>
	<u>\$ 40,125</u>	<u>\$ 3,700</u>	<u>\$ 36,425</u>

11. Temporarily restricted net assets:

Temporarily restricted net assets were restricted for the following as of September 30, 2011:

Aquarium	\$ 405,875
Education	239,532
Science	56,199
Time restricted funds	679,595
Collections	139,191
Art Institute	120,976
Facilities and exhibits	21,640
Henderson house	25,895
Other miscellaneous programs	<u>65,160</u>
	<u>\$ 1,754,063</u>

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

12. Permanently restricted net assets:

At September 30, 2011, permanently restricted net assets are restricted for investment in perpetuity, the income from which is expendable to support the following:

Animal care (perpetual trust)	\$ 122,938
Research	57,017
Education	57,462
Earth science	60,918
Art Institute	1,293,816
Any museum activities	<u>2,530,688</u>
	<u>\$ 4,122,839</u>

13. Endowment:

The Museum's endowment consists of an individual fund established for a variety of purposes. The endowment includes both donor-restricted funds and as required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

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

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

13. Endowment (continued):

Changes in endowment net assets for the year ended September 30, 2011 are as follows:

	Board designated endowment	Donor temporarily restricted	Donor permanently restricted	Total
Endowment net assets, beginning	\$ 2,292,966	\$ 346,884	\$ 3,936,525	\$ 6,576,375
Investment return:				
Investment income	49,585	21,872	99,634	171,091
Net realized gains	83,653	32,753	164,558	280,964
Net unrealized losses	<u>(114,485)</u>	<u>(55,869)</u>	<u>(299,569)</u>	<u>(469,923)</u>
Total investment return	18,753	(1,244)	(35,377)	(17,868)
Contributions			32,790	32,790
Transfer of funds to permanently restricted in accordance with total return policy	(203,767)		203,767	
Operating support provided from designated funds	(624,840)			(624,840)
Administrative fees and expenses	<u>(7,385)</u>	<u>(3,158)</u>	<u>(14,866)</u>	<u>(25,409)</u>
	<u>\$ 1,475,727</u>	<u>\$ 342,482</u>	<u>\$ 4,122,839</u>	<u>\$ 5,941,048</u>

Permanently restricted net assets:

 The portion of perpetual endowment funds that is required to be retained permanently \$ 4,122,839

Temporarily restricted net assets:

 Portion of perpetual endowment funds subject to purpose restrictions under the Act \$ 342,482

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 the Act requires to retain as a fund of perpetual duration. In accordance with GAAP, such deficiencies are to be reported in unrestricted net assets. As of September 30, 2011, there were no deficiencies of this nature.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

13. Endowment (continued):

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 or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Museum expects its endowment funds over time to provide an average rate of return of approximately 5.5% annually, adjusted for inflation. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives:

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

Spending policy and how the investment objectives relate to spending policy:

The Museum has a policy of appropriating for distribution each year up to 5.5% of its endowment fund's average fair value over the three fiscal year-ends preceding the fiscal year in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowment. Historically, the Museum has spent less than the 5.5% which has allowed its endowment to grow. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. Management of the Museum reports this as a transfer out.

14. Contingent rentals:

The Museum receives rent based upon a percentage of the gross sales from a gift shop and restaurant located on the Museum premises. Contingent rentals earned for the year ended September 30, 2011 totaled \$569,865 and is reported as concessions and museum food services.

ARIZONA-SONORA DESERT MUSEUM, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED SEPTEMBER 30, 2011

15. Retirement plan:

The Museum has established a voluntary retirement plan (the "Plan") under Section 403(b) of the Internal Revenue Code. Full-time employees with over 1,000 hours of annual service are eligible to participate in the Plan. Subject to statutory limits, employees may contribute up to \$15,000 of annual compensation. The Museum contributes three percent of compensation to the Plan for all employees who contribute a minimum of three percent of their annual compensation and who have completed two years of service. Participants may invest all contributions in any of several options offered by Charles Schwab and TIAA Cref. The Museum's contribution to the Plan for the year ended September 30, 2011 was \$94,075.

16. Functional expenses:

Program services	\$ 7,127,923
Supporting services	1,093,125
Fundraising	<u>419,764</u>
	<u>\$ 8,640,812</u>

17. Concentrations:

Substantially all nonmanagement employees of the Museum are subject to a three year collective bargaining agreement with United Food and Commercial Workers Union Local 99 that expires on September 30, 2011.

18. Related party transactions:

During 2011, the Museum received approximately \$480,000 in cash contributions and \$4,000 in in-kind contributions from certain board members.

During 2011, the Museum paid approximately \$26,600 in investment fees to Northern Trust, of which a board member is an employee. The Museum also paid approximately \$7,300 in legal fees to a firm of which a board member is an employee.

ARIZONA-SONORA DESERT MUSEUM, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2011

	<u>Program services</u>	<u>Supporting services</u>	<u>Fundraising</u>	<u>Total expenses</u>
Accounting fees	\$ 32,903	\$ 4,464	\$ 1,323	\$ 38,690
Advertising	3,618	118,309		121,927
Conferences, conventions, and meetings	2,558	22,323		24,881
Depreciation and amortization	1,196,965			1,196,965
General insurance	83,295	6,917	185	90,397
Information technology	27,549	3,592	1,064	32,205
Legal fees	6,347	861	255	7,463
Occupancy	413,436			413,436
Office expenses	187,040	33,664	123,031	343,735
Other employee benefits	417,199	62,424	21,002	500,625
Other expenses	1,192,080	37,530	6,884	1,236,494
Other fees for services	171,211	74,225	33,142	278,578
Payroll taxes	274,697	51,384	16,283	342,364
Pension plan contributions	67,608	16,511	4,814	88,933
Royalties	4,203			4,203
Salaries and wages	3,028,376	658,852	211,781	3,899,009
Travel	18,838	2,069		20,907
	<u>\$ 7,127,923</u>	<u>\$ 1,093,125</u>	<u>\$ 419,764</u>	<u>\$ 8,640,812</u>