

SANTA BARBARA MUSEUM
OF NATURAL HISTORY
FINANCIAL STATEMENTS
DECEMBER 31, 2011

(With Independent Auditors' Report Thereon)

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Santa Barbara Museum of Natural History (a California nonprofit organization) (the Museum) as of December 31, 2011 and 2010, and the related statement of activities for the year ended December 31, 2011, and the statements of changes in net assets and cash flows for the years ended December 31, 2011 and 2010. 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. The prior year summarized comparative information has been derived from the Museum's 2010 financial statements and, in our report dated February 28, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 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 Santa Barbara Museum of Natural History as of December 31, 2011 and 2010, and the statement of activities for the year then ended, and the statements of changes in net assets and cash flows for the years ended December 31, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

MacFarlane, Faletti & Co. LLP

Santa Barbara, California
February 29, 2012

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
<u>Assets</u>		
Cash and cash equivalents	\$ 3,020,987	\$ 3,095,479
Grants and pledges receivable	317,959	203,562
Other receivables	-	64,780
Investments	35,120,761	37,257,965
Inventory	84,638	74,227
Prepaid expense and other assets	133,725	110,256
Investment in Charitable Remainder Trusts	6,053,328	6,388,095
Property held for investment	630,000	630,000
Property and equipment, net	13,831,012	12,849,022
Total Assets	\$ 59,192,410	\$ 60,673,386
<u>Liabilities and Net Assets</u>		
<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 783,015	\$ 643,297
Deferred revenue	292,130	230,008
Agency funds	126,500	-
Total Liabilities	1,201,645	873,305
<u>Net Assets</u>		
Unrestricted	16,741,358	15,827,462
Unrestricted - Board Designated	20,888,242	23,661,790
Temporarily Restricted	9,578,023	9,225,784
Permanently Restricted	10,783,142	11,085,045
Total Net Assets	57,990,765	59,800,081
Total Liabilities and Net Assets	\$ 59,192,410	\$ 60,673,386

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010

	Unrestricted			Temporarily Restricted	Permanently Restricted	All Funds	
	Operating	Other Unrestricted	Board Designated			2011 Total	2010 Total
Income							
Support and Revenue							
Admissions	\$ 713,553	\$ -	\$ -	\$ -	\$ -	\$ 713,553	\$ 484,965
Membership	447,313	(29,942)	-	1,865	-	419,236	394,275
Contributions, bequests, and grants	241,693	12,500	650,545	2,989,564	-	3,894,302	2,837,383
Investment income (loss)	1,624	-	(1,079,714)	(214,627)	-	(1,292,717)	3,311,973
Investment draw	1,702,002	-	(1,658,209)	(43,793)	-	-	-
Education fees	198,916	-	-	-	-	198,916	156,364
Contracts	-	-	-	88,024	-	88,024	42,347
Other income (loss)	50,847	(7,172)	(127,804)	141,143	-	57,014	54,643
Change in value of charitable trusts	-	-	-	(32,864)	(301,903)	(334,767)	464,819
Use of strategic reserve	100,000	-	(100,000)	-	-	-	-
Income from perpetual trusts	-	-	-	133,005	-	133,005	127,702
Total Support and Revenue	3,455,948	(24,614)	(2,315,182)	3,062,317	(301,903)	3,876,566	7,874,471
Revenue Centers							
Store sales	365,821	-	19,598	-	-	385,419	451,465
Less store expenses	(251,934)	(17,129)	-	-	-	(269,063)	(247,138)
Special events	286,015	(224,074)	57,713	317,472	-	437,126	422,392
Less special events expense	(121,467)	-	(37,727)	(98,009)	-	(257,203)	(270,255)
Rental income	291,440	-	-	-	-	291,440	284,939
Less rental expenses	(38,414)	-	-	-	-	(38,414)	(42,202)
Total Revenue Centers	531,461	(241,203)	39,584	219,463	-	549,305	599,201
Total Income (Loss)	3,987,409	(265,817)	(2,275,598)	3,281,780	(301,903)	4,425,871	8,473,672
Net Assets Released from Restriction	452,410	1,289,399	1,187,732	(2,929,541)	-	-	-
Expenses							
Program Expenses							
Exhibit and visitor services	762,721	994,368	131,716	-	-	1,888,805	1,729,610
Education	786,947	271,989	-	-	-	1,058,936	988,359
Collections and research	659,076	1,321,868	13,868	-	-	1,994,812	2,255,846
Total Program Expenses	2,208,744	2,588,225	145,584	-	-	4,942,553	4,973,815
Supporting Services							
Management and general	1,514,638	(2,346,028)	1,487,581	-	-	656,191	960,229
Membership	93,651	49,106	-	-	-	142,757	122,775
Development	622,594	(181,425)	52,517	-	-	493,686	399,974
Total Supporting Services	2,230,883	(2,478,347)	1,540,098	-	-	1,292,634	1,482,978
Total Expenses	4,439,627	109,878	1,685,682	-	-	6,235,187	6,456,793
Net Excess (Deficit)	\$ 192	\$ 913,704	\$ (2,773,548)	\$ 352,239	\$ (301,903)	\$ (1,809,316)	\$ 2,016,879

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at December 31, 2010	\$ 39,489,252	\$ 9,225,784	\$ 11,085,045	\$ 59,800,081
Change in Net Assets	<u>(1,859,652)</u>	<u>352,239</u>	<u>(301,903)</u>	<u>(1,809,316)</u>
Net Assets at December 31, 2011	<u>\$ 37,629,600</u>	<u>\$ 9,578,023</u>	<u>\$ 10,783,142</u>	<u>\$ 57,990,765</u>

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (1,809,316)	\$ 2,016,879
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	782,601	744,009
Realized and unrealized loss/(gain) on investments	1,983,083	(2,820,525)
Loss on retirement of asset	7,172	-
Change in value of charitable trusts	334,767	(464,819)
Charitable trust distribution received	-	70,405
Contributions restricted for long-term investment	-	(25,000)
Contribution of interest in perpetual trust	-	(800,000)
Changes in		
Grants and pledges receivable	(114,397)	117,743
Other receivables	64,780	167,593
Inventory	(10,411)	(15,109)
Prepaid expense and other assets	(23,469)	24,055
Accounts payable	139,718	351,769
Deferred revenue	62,122	(23,892)
Agency funds	126,500	-
Net Cash Provided (Used) by Operating Activities	<u>1,543,150</u>	<u>(656,892)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,771,764)	(1,221,595)
Purchase of investments	(44,320,947)	(12,452,726)
Proceeds from sale of investments	44,475,069	14,962,949
Net Cash (Used) Provided by Investing Activities	<u>(1,617,642)</u>	<u>1,288,628</u>
Cash Flows from Financing Activities		
Contributions restricted for long-term investment	-	25,000
Net Cash Provided by Financing Activities	<u>-</u>	<u>25,000</u>
Net (Decrease) Increase in Cash	<u>(74,492)</u>	<u>656,736</u>
Cash and Cash Equivalents, Beginning of Year	<u>3,095,479</u>	<u>2,438,743</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,020,987</u>	<u>\$ 3,095,479</u>

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATIONAL DATA

The Santa Barbara Museum of Natural History was founded in 1916. The Museum's mission is to inspire a thirst for discovery and a passion for the natural world. It does this through the three following guiding principles:

Inspiring an Awe for Nature and a Thirst for Discovery

The Santa Barbara Museum of Natural History aims to spark curiosity and ignite a passion for nature. We strive to expand our understanding of the natural world, share the process of discovery, and communicate the interconnectedness of all species.

The spirit of discovery drives our research, exhibits, and educational programs. We encourage involvement by making science fun and accessible, inspiring our audiences to explore the vast mysteries of nature.

Promoting Sustainability

The Museum promotes the preservation of the Earth's natural systems as an urgent priority and fosters a sense of collective responsibility, necessary for maintaining biodiversity and for the well-being of our own species.

We embrace sustainability as a critical element in all we do. We recognize that society's long term success requires an understanding and respect for nature's limits, and we strive to lead by example, illuminating the connections between research, policy and personal responsibility.

Connecting Our Communities

The Museum is a community resource and a welcoming, accessible center for community engagement. We use the full range of the human experience to reach and connect people of all ages and backgrounds, transcending geographic, economic, and cultural boundaries.

We pursue a broad web of relationships and partnerships to facilitate communication and mutual understanding, leveraging our resources and technology to bring the Museum into the lives of the widest possible range of professional and community groups.

This mission is accomplished through collections, research, exhibits and educational programs.

The Museum operates in two locations; at its Mission Canyon Campus at 2559 Puesta del Sol in Santa Barbara, California and at its Ty Warner Sea Center located at 211 Stearns Wharf in Santa Barbara, California.

Gate attendance at Mission Canyon in 2011 was 75,601. In addition, 27,341 children and adults attended educational programs, 27,384 attended community related events, and 3,970 persons came to participate in museum programs as volunteers, for a total attendance at the Mission Canyon campus of 134,299.

Gate attendance at the Sea Center in 2011 was 66,482. In addition, 5,143 children and adults attended educational programs, 1,290 attended community related events, and 3,951 persons came to participate in museum programs/operations as volunteers, for a total attendance at the Sea Center campus of 76,866.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 sub-classified 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 (the 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 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.

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.

Investments – The Museum carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Interest, dividends, realized and changes in unrealized gains and losses are included in Investment Income in the accompanying Statement of Activities.

Investment Draw – The Draw consists of amounts designated by the Trustees based upon the spending policy to be drawn from quasi endowment and other funds to be used and expended for operations. (See Note 16 under the ‘Spending Policy and How the Investment Objectives Relate to Spending Policy’.)

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Grants and Pledges Receivable – Unconditional pledges to give are reported as assets and as revenues or gains in the period in which the pledge is received. An allowance for uncollectible promises to give is recorded based on an analysis of collection histories and on reviews of the credit worthiness of major donors.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give at December 31, 2011 and 2010.

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.

Property and Equipment – Property, 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.

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

The Museum is continually developing its 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.

Fair Value of Financial Instruments – The fair value of the grants and pledges receivable, other receivables, prepaid expenses and other assets, accounts payables and accrued liabilities, agency funds, and deferred revenues approximate carrying value because of the short-term nature of these items.

Agency Funds – The Museum serves as an agent for the Condor Survival Funds. A payment was made into this fund by a renewable energy company as required by its Incidental Take Permit. The funds are to be used as an endowment and for telemetry units for condor conservation measures. The funds are for use by the California Department of Fish and Game for expenses related to the Condor Survival program. The Department submits approved invoices relating to the program for payment by the Museum. The balance of \$126,500 at December 31, 2011 is the unexpended portion of these funds.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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.

Contributions – Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as Net Assets Released from Restrictions.

Contributed Services – Over 930 volunteers donated approximately 28,500 hours of their time in 2011 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 under accounting principles generally accepted in the United States of America (GAAP) no amount has been recorded in these financial statements for these services.

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.

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 expenditure not directly chargeable is allocated to each department based on the estimated benefit to that department.

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 amounts reported as revenue and expenses.

Significant estimates used are:

- Net present value of interests in trusts
- Allocation of certain expenses by function
- The fair value measurements of assets and fair value hierarchy levels presented in Note 17

Other estimates used in preparing these financial statements include:

- Reserve for uncollectible pledges and grants receivable
- Original cost of assets acquired before 1979
- Depreciable lives and estimated residual value of buildings, equipment and improvements

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

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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. The Museum is unaware of any uncertain tax positions at December 31, 2011, or for any period for which the statute of limitations remains open.

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 GAAP.

Reclassification – The balances reported in the 2010 total column have been reclassified to make them comparable to the balances reported for the year ended December 31, 2011.

NOTE 3: INVESTMENTS

Investments consist of the following at December 31:

2011	Cost	Market	Unrealized Gain (Loss)
<u>Marketable Investments:</u>			
Money Market Funds	\$ 2,222,795	\$ 2,222,795	\$ -
Equity Funds	16,246,198	17,585,002	1,338,804
Fixed Funds	7,975,872	7,891,509	(84,363)
Commodities	75,942	76,694	752
Nonmarketable Investments	<u>9,220,911</u>	<u>7,344,761</u>	<u>(1,876,150)</u>
Total	<u>\$ 35,741,718</u>	<u>\$ 35,120,761</u>	<u>\$ (620,957)</u>

2010	Cost	Market	Unrealized Gain (Loss)
<u>Marketable Investments:</u>			
Money Market Funds	\$ 422,799	\$ 422,799	\$ -
Equity Funds	28,598,340	27,462,376	(1,135,964)
Fixed Funds	7,894,554	8,297,400	402,846
Nonmarketable Investments	<u>2,931,850</u>	<u>1,075,390</u>	<u>(1,856,460)</u>
Total	<u>\$ 39,847,543</u>	<u>\$ 37,257,965</u>	<u>\$ (2,589,578)</u>

The market values of marketable securities are from quoted prices as of December 31, 2011, and the market values of nonmarketable investments are provided by the general partners, or fund managers. These amounts are not necessarily indicative of the amounts the Museum could realize in a current market exchange.

None of the investments are held for trading purposes.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Investment income at December 31, 2011 is comprised of the following:

Interest and Dividends	\$ 770,999	
Change in Unrealized Loss	1,968,621	
Realized Loss	<u>(3,951,704)</u>	
	(1,212,084)	
Less Investment Fees	<u>(80,633)</u>	
 Total Investment Loss	 <u>\$ (1,292,717)</u>	

Investment loss at December 31, 2011 is allocated as follows:

Operating		
Interest earned on cash	\$ 1,624	
Total Operating Investment Income		\$ 1,624
Board Designated		
Investment loss on quasi-endowment funds	(1,036,938)	
Investment loss on facilities funds	<u>(42,786)</u>	
Total Board Designated Investment Loss		(1,079,724)
Temporarily Restricted		
Investment loss on funds restricted for specific purposes	<u>(214,617)</u>	
Total Temporarily Restricted Investment Income		<u>(214,617)</u>
Total Investment Loss		<u>\$ (1,292,717)</u>

The investment draw for the year ending December 31, 2011 is allocated as follows:

Operating		
Investment draws on quasi-endowment funds	\$1,602,890	
Investment draws on funds for specific operating purposes	<u>99,112</u>	
Total Operating Draw		\$ 1,702,002
Board Designated		
Investment draws on quasi-endowment funds for operations	(1,602,890)	
Investment draws on funds designated for facilities	<u>(55,319)</u>	
Total Draws on Board Designated Funds		(1,658,209)
Temporarily Restricted		
Investment draws on funds restricted for education	<u>(43,793)</u>	
Total Temporarily Restricted Investment Income and Draw		<u>(43,793)</u>
		<u>\$ -</u>

Investment Draws consist of amounts designated by the Trustees based upon the spending policy to be drawn from quasi endowment and other funds to be used and expended for operations. (See Note 16 under the 'Spending Policy and How the Investment Objectives Relate to Spending Policy'.)

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

NOTE 4: GRANTS AND PLEDGES RECEIVABLE

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

2012 - Current portion due	\$ 265,959
2013 - Long-term portion due	51,000
2014 - Long-term portion due	<u>1,000</u>
	<u>\$ 317,959</u>

An allowance for uncollectible promises to give is recorded based on an analysis of collection histories and on reviews of the credit worthiness of major donors. Management believes these amounts will be fully collected and therefore no provision for uncollectible grants or pledges receivable has been made.

NOTE 5: INTEREST IN TRUSTS

The Museum has been named as an irrevocable beneficiary of a number of perpetual and charitable remainder trusts.

Perpetual Income Interest in Trusts – The Museum is the permanent income beneficiary of two perpetual trusts, one of which was created in 2010. The Museum does not have possession or control of the trusts or their assets. Distribution of income is nondiscretionary and totaled \$133,005 and \$127,702 for the years ended December 31, 2011 and 2010, respectively. The Museum’s initial interest in the perpetual trusts is recorded as a contribution and as an asset at the fair value of the trust interest. As the Museum is the beneficiary of a stream of income into perpetuity, the fair value of its interest in the trust is recorded as a permanently restricted asset. Any increase or decrease in the value of the asset is recorded as a change in value of trust interests. The Museum believes that the market value as reported by the trustee is a good approximation of the fair value of the Museum’s interest in the trusts.

The Museum’s interest in these perpetual trusts, classified as permanently restricted net assets, totaled \$3,158,197 and \$3,460,100 for the years ended December 31, 2011 and 2010, respectively.

Charitable Remainder Trusts – Charitable remainder trust agreements in which the Museum has been named irrevocably as a remainder beneficiary are recorded on the books of the Museum. Since the Museum is not the trustee for any of the trusts, all trusts are 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 trust interests.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Charitable remainder 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 trustee 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 4%, based on the Museum's historic risk free rate of return.

The Museum's interest in these charitable remainder trusts, classified as temporarily restricted net assets, totaled \$2,895,131 and \$2,927,995 for the years ended December 31, 2011 and 2010, respectively.

NOTE 6 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 \$5,644. Monthly rent amounts are adjusted by cost of living increases every five years. The rent received in both 2011 and 2010 was \$67,728.

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

NOTE 7: PROPERTY AND EQUIPMENT

The cost of land, buildings, improvements and equipment, net of accumulated depreciation, are as follows at December 31:

	<u>2011</u>	<u>2010</u>
Land and Improvements	\$ 309,388	\$ 309,388
Buildings and Improvements	16,273,072	16,056,125
Furniture and Equipment	1,769,766	1,764,203
Construction in Progress	<u>1,930,973</u>	<u>419,026</u>
Total Cost	20,283,199	18,548,742
Total Accumulated Depreciation	<u>(6,452,187)</u>	<u>(5,699,720)</u>
Property and Equipment, net	<u>\$ 13,831,012</u>	<u>\$ 12,849,022</u>
Depreciation Expense	<u>\$ 782,602</u>	<u>\$ 744,009</u>

The Museum's Ty Warner Sea Center is located on Stearns Wharf in Santa Barbara, California. While the Museum constructed the building and related improvements, it leases the wharf space from the City of Santa Barbara.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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NOTE 8: 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 9: LINE OF CREDIT

The Museum has a line of credit for \$150,000 for business needs. The line of credit agreement expires on May 21, 2012. The line of credit was not drawn on in 2011 and has no balance outstanding as of December 31, 2011.

NOTE 10: NET ASSETS

The Museum's net assets consist of the following:

Unrestricted

Unrestricted – Operating	\$	-	
Unrestricted – Other		16,741,358	
Unrestricted – Board Designated:			
Strategic Reserve	\$	934,996	
Specific Projects		155,666	
Quasi-Endowment		<u>19,797,580</u>	
Total Unrestricted-Board Designated		<u>20,888,242</u>	
Total Unrestricted			\$ 37,629,600

Temporarily Restricted

For Programs		6,682,892	
For Interests in Trusts		<u>2,895,131</u>	
Total Temporarily Restricted			9,578,023

Permanently Restricted - net assets restricted for investment in perpetuity, the income from which is expendable to support:

Invertebrate Zoology – Malacology		1,000,000	
Museums Studies Internships		100,000	
Maximus Gallery Collection of Antique Natural History Art		2,488,516	
Operations		<u>7,194,626</u>	
Total Permanently Restricted			<u>10,783,142</u>
Total Net Assets			<u>\$ 57,990,765</u>

Quasi-endowment – Quasi-endowment funds are those funds the Trustees have designated 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 through Trustee resolution.

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NOTE 11: PENSION PLAN

The Museum maintains a tax deferred annuity plan (the 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 three percent. The Museum's contributions to the Plan were \$61,057 and \$56,535 in 2011 and 2010, respectively. The pension is managed by an organization which manages pension funds of private colleges, universities, museums and other such institutions nationally.

NOTE 12: MASTER PLANNING

In 2007, the Trustees and staff of the Museum gathered together to discuss plans for guiding the Museum into its second century. A set of foundational values expressed in three Guiding Principles provided the basis for a long term Strategic Plan that was completed in 2008. One of the goals of the Strategic Plan was to create a Master Plan for the physical renewal of the Museum's aging Mission Canyon campus, buildings, and infrastructure that would effectively support the institution's programs and services in its second century.

The master planning effort also responded to a mandate by the City of Santa Barbara (the City) which required the Museum to submit a master plan for review and approval as part of the City's efforts of urban planning. This Master Plan would be the foundation for entitlement for any future capital projects granted by the City and provide the framework for an updated Conditional Use Permit (CUP) that would replace outdated earlier CUP documents and establish operational conditions and restrictions for the Museum henceforth.

Work on the Master Plan began in early 2009 under the leadership of the Board of Trustees' Master Planning Committee and with the participation of the full staff as well as involvement of community members. The first phase of the effort involved initial evaluation of the existing physical site and facilities, an assessment of programmatic space needs, and an evaluation of constraints for future development of the site. These efforts resulted at the end of 2009 in the issuance of a Long Range Development Plan (LRDP) that outlined not only needs, goals, constraints, and opportunities for future development but also established a vision for transformational changes in the nature and quality of the campus.

Working with a team of nearly 30 consultants including architects, engineers, historians, biologists, geologists, landscape architects, sustainability experts, etc. the Museum developed and refined in 2010 and 2011 conceptual and schematic site plans and building plans. These planning efforts were linked with an extensive series of community outreach efforts that included house-to-house visits in the immediate neighborhood, neighborhood and community meetings, surveys, and one-on-one consultations. The outreach efforts served effectively both to inform the community about the Museum's needs, aspirations, and emerging plans and to collect feedback and input from the community.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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In 2011, the Museum submitted to the City a first, required “pre-application” filing, designed to provide preliminary information to the City’s planning staff as a basis for feedback and guidance for the preparation of the final application for entitlement and approval of a CUP. Located within a historic district, the Museum is required to conform to extensive and detailed design guidelines under the jurisdiction of the City’s Historic Landmarks Commission (HLC). As part of the review process, the Museum’s planning team entered in a series of hearings before the HLC in order to gain preliminary approval from that body before proceeding to final application. The Museum expects to submit the final application in late summer of 2012, which will be followed by an extensive environmental impact assessment of the proposed project.

The costs of the entitlement process which would ultimately lead to land use permits are being capitalized. Resources to support the project are being generated by a dedicated fundraising effort. The current effort is by far the most comprehensive and demanding planning process the Museum has undertaken in its nearly 100-year history, intended to lead to a centennial and generational transformation of the institution that will ensure its vigor and effectiveness as a vital community resource for decades to come.

The entitlement process requires extensive and coordinated efforts by Museum Trustees and staff, community members, and a broad array of professional consultants. The Museum has contracted with an architectural firm that has in turn subcontracted with a large team of consultants to assist in the planning process. (See Note 13)

Master Planning Budget – The following table presents actual funds raised and expenditures incurred for the Museum’s Master Planning project through the years ended December 31, 2011 and 2010, and the projected totals for the period starting January 1, 2012 and ending June 30, 2014:

Expenses	Actual		Budget Projection		Total
	2010	2011	2012	2013 to June 2014	
Entitlement expenses	\$ 441,000	\$1,492,000	\$1,499,000	\$1,047,000	\$ 4,479,000
Other project expenses	39,000	46,000	564,000	526,000	1,175,000
Contingency	<u> -</u>	<u> -</u>	<u> -</u>	<u> 472,000</u>	<u> 472,000</u>
Master Planning Actual and Budget Expenses	<u>\$480,000</u>	<u>\$1,538,000</u>	<u>\$2,063,000</u>	<u>\$2,045,000</u>	<u>\$ 6,126,000</u>
Amounts Raised to Date	<u>\$ 291,000</u>	<u>\$2,686,000</u>			

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

NOTE 13: COMMITMENTS AND CONTINGENT LIABILITIES

Grants Received - The Museum receives 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.

Wharf Lease - The Museum's Ty Warner Sea Center is located on Stearns Wharf in Santa Barbara, California. While the Museum constructed the building and related improvements, it leases the wharf space from the City. That lease agreement terminates on June 30, 2016, with a six year option to extend commencing July 1, 2016, and one five year option commencing on July 1, 2022.

Per the terms of this lease, the Museum pays the City 10% of the gross receipts of the Ty Warner Sea Center store. Payments to the City in 2011 and 2010 totaled \$12,438 and \$11,051, respectively.

Master Planning Consultants - The Museum has entered into an agreement with an architectural firm for services to be rendered by the firm and its sub consultants in association with the Master Planning project (see Note 12). The contract for the architects and consultants totals \$3.5 million, of which approximately \$1.7 million has been paid through December 31, 2011.

Exhibition Concept Study - The Museum has entered into a contract for a visualized exhibition concept study with an exhibit planning firm at a maximum fee of \$92,500, of which approximately \$70,000 has been paid.

Capital Commitments for Future Investments - The Museum has entered into certain agreements for capital commitments in two private equity investment funds to make future investments in those funds. The outstanding commitments totaled \$699,100 as of December 31, 2011.

NOTE 14: CONCENTRATION OF RISKS

The Museum maintains cash balances at two banks. The standard Federal Deposit Insurance Corporation (FDIC) insurance coverage, beginning December 31, 2010 and running through December 31, 2012 is unlimited for all noninterest bearing transaction accounts and is limited to \$250,000 per depositor and per bank institution for interest-bearing accounts. At December 31, 2011, the Museum had \$1,976,267 in interest bearing accounts, of which \$1,450,120 was not covered by FDIC insurance.

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Certain of the Museum's investments and cash and cash equivalents held at a broker-dealer are subject to Securities Investor Protection Corporation (SIPC) broker-dealer regulations. Under SIPC, cash and cash equivalents are insured up to \$100,000 per broker-dealer. Uninsured cash and cash equivalents at December 31, 2011, were approximately \$638,000. In addition, investments are insured against being lost, missing, or stolen up to \$500,000 per broker-dealer. Exposure for uninsured losses varies per broker-dealer depending upon the percentage of securities the broker-dealer has loaned as a percentage of total investments as losses are spread among all investors. Investments not held at a broker-dealer are not insured by SIPC.

Certain other Museum investments and cash and cash equivalents are held at another investment management firm. Most of these investments are not insured by FDIC or SIPC.

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.

NOTE 15: STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

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

As described in Note 5, the Museum records changes in the value of its interest in perpetual and charitable remainder trusts in its Statement of Activities. This change in the value of trust interests is not a source or use of cash.

The Museum became a beneficiary of a perpetual trust created in 2010. The Museum is not the trustee and does not hold the assets for this trust. That initial contribution of the interest in the perpetual trust recorded in the 2010 Statement of Activities had no effect on the amount of cash received or used for the year ended December 31, 2010.

NOTE 16: ENDOWMENT

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

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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Interpretation of Relevant Law - The Trustees of the Museum have 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 long-term expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum.

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, 2011.

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.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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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. To that end, the Museum has adopted its “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. The Museum’s formula takes 4.5% of a trailing 12-quarter average of the market value of the endowment corpus as of June 30 to base its designated expenditures for the following calendar year. The payout target is budgeted to increase by 4.5% a year, however the policy requires the actual withdrawal to fall 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. For the years ended December 31, 2011 and 2010, the draw was 5% of the twelve quarter average market values as of June 30, 2011 and June 30, 2010, respectively.

Endowment Net Asset Composition - Endowment net assets by type of fund consist of the following as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment	\$19,794,778	\$ -	\$ -	\$19,794,778
Donor restricted endowment funds	<u>-</u>	<u>5,880,799</u>	<u>7,624,945</u>	<u>13,505,744</u>
Total	<u>\$19,794,778</u>	<u>\$ 5,880,799</u>	<u>\$ 7,624,945</u>	<u>\$33,300,522</u>

Changes in endowment net assets for the year ending December 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$22,579,716	\$6,151,440	\$ 7,624,945	\$36,356,101
Investment loss	(1,077,224)	(162,629)	-	(1,239,853)
Contributions	85,545	68,805	-	154,350
Investment draws based on spending policy	(1,658,209)	(43,793)	-	(1,702,002)
Board approved expenditures for American’s with Disabilities Act improvements and painting of the Sea Center	(135,050)	-	-	(135,050)
Donor-restricted expenditures	<u>-</u>	<u>(133,024)</u>	<u>-</u>	<u>(133,024)</u>
Total	<u>\$19,794,778</u>	<u>\$5,880,799</u>	<u>\$7,624,945</u>	<u>\$33,300,522</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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NOTE 17: FAIR VALUE

The Museum has adopted a framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Museum to sell an asset or be paid by the Museum to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3) described as follows:

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; including general partner estimates and recent third-party appraisals.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statements of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Fair market valuation of Level 3 assets is based on information provided by fund managers, external investment advisors, and other market factors to determine if the carrying value of these investments should be adjusted. Other factors may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Because of the inherent uncertainty of valuations, however, those estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material. Independent appraisals of significant real estate held for investment are conducted at frequencies as determined by the fund manager for valuation purposes. Level 3 securities include hedge funds, private equity, real estate based assets, and partnerships.

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The following table presents the fair value measurements of assets recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at:

December 31, 2011

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money Market	\$ 2,222,795	\$ -	\$ -	\$ 2,222,795
Equity Funds	17,585,002	-	-	17,585,002
Fixed Income Funds	7,891,509	-	-	7,891,509
Commodities	76,694	-	-	76,694
Nonmarketable	<u>21,454</u>	<u>1,046,687</u>	<u>6,276,620</u>	<u>7,344,761</u>
Total Investments	27,797,454	1,046,687	6,276,620	35,120,761
Interest in Trusts	<u>-</u>	<u>4,368,253</u>	<u>1,685,075</u>	<u>6,053,328</u>
Total Assets Measured at Fair Value	<u>\$27,797,454</u>	<u>\$ 5,414,940</u>	<u>\$ 7,961,695</u>	<u>\$41,174,089</u>

The following is a description of the general classification of such instruments pursuant to the valuation hierarchy:

Money Market – Funds held in highly liquid money market accounts with daily pricing where net asset value equals \$1.

Equity funds – Investment in domestic and international equities of varying market capitalizations. Equities are held as separate ownership shares of a specific company or in the form of mutual funds. All assets have daily pricing.

Fixed Income – Investment in domestic and international fixed income positions held in the investment portfolio through either individual bond holdings (treasuries, corporate, government, mortgage, etc.) or through fixed income mutual funds. All assets have daily pricing.

Commodities – Investment in international commodities through a mutual fund with daily pricing.

Nonmarketable – Includes investments in four hedge funds, a private equity limited partnership, a global distressed investment fund and a real estate fund. The funds do not have daily pricing.

Interests in Trusts – See Note 5.

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December 31, 2010

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money Market	\$ 422,799	\$ -	\$ -	\$ 422,799
Equity Funds	6,053,476	\$20,031,686	\$1,377,215	27,462,377
Fixed Income Funds	97,398	6,801,799	1,398,203	8,297,400
Nonmarketable	<u>4,224</u>	<u>174,329</u>	<u>896,836</u>	<u>1,075,389</u>
Total Investments	6,577,897	27,007,814	3,672,254	37,257,965
Interest in Trusts	<u>-</u>	<u>-</u>	<u>6,388,095</u>	<u>6,388,095</u>
Total Assets Measured at Fair Value	<u>\$ 6,577,897</u>	<u>\$27,007,814</u>	<u>\$10,060,349</u>	<u>\$43,646,060</u>

The following is a description of the general classification of such instruments pursuant to the valuation hierarchy:

Money Market – Funds held in highly liquid money market accounts with daily pricing where net asset value equals \$1.

Equity funds – Investment in domestic and international equities of varying market capitalizations, as well as in swaps, futures and options. Assets have daily or monthly pricing.

Fixed Income – Investment in single manager and multi-manager funds with exposure to domestic and international markets. Some of these funds use long/short, event driven and credit/distressed strategies.

Nonmarketable – Includes investments in a private equity limited partnership, a global distressed investment fund and a real estate fund. The funds do not have daily pricing.

Interests in Trusts – See Note 5.

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Level 3 Balance at Beginning of Year	\$ 10,060,349	\$ 9,932,271
Interests in Trusts		
Receipt of interest in trust	-	800,000
Transfers out of Level 3	(4,634,633)	-
Change in value of Level 3 trust interests	(68,387)	464,819
Transfers out of Level 3 for Mutual Funds	(103,365)	(1,794,734)
Purchases	6,037,601	1,734,088
Sales	(3,293,011)	(457,040)
Losses included in investment income, net	<u>(36,859)</u>	<u>(619,055)</u>
Level 3 Balance at End of Year	<u>\$ 7,961,695</u>	<u>\$ 10,060,349</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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Transfers out of Level 3 for Interests in Trusts – A transfer was made from Level 3 to Level 2 for those Interests in Trusts that the Museum is able to apply present value calculations to the marketable investments underlying the trusts. This transfer was calculated as January 1, 2011.

Transfers out of Level 3 for Mutual Funds – Transfers made from Level 3 to Level 2 for Mutual Funds due to changes in the observability of significant inputs.

NOTE 18: SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through February 29, 2012, the date which the financial statements were available to be issued pending approval by the Trustees. Management has determined no subsequent events requiring disclosure or significantly impacting disclosure have occurred.