

INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS,
AND SUPPLEMENTAL SCHEDULE



DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

REED S. SPANGLER
JANE E. RUSSELL
WILLIAM L. JACKSON

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

TRAVIS J. WILSON
VANESSA M. GARCIA
HOWARD B. ATKINSON
DIANE M. RAVENSCROFT
DAVID E. LEHMAN
ANDREW J. TRICERRI

We have audited the accompanying financial statements of the Santa Barbara Museum of Natural History (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

RICHARD L. HUNT
Consultant
SCOTT N. WILSON
Consultant

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara Museum of Natural History as of December 31, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of unrestricted activities presented on page 29 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit to the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Santa Barbara Museum of Natural History's December 31, 2016, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

MacFarlane, Faletti, & Co., LLP

**Santa Barbara, California
July 24, 2018**

SANTA BARBARA MUSEUM OF NATURAL HISTORY
 STATEMENT OF FINANCIAL POSITION
 DECEMBER 31, 2017
 (With Comparative Totals as of December 31, 2016)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 950,541	\$ 1,525,394
Grants and pledges receivable (Note 3)	382,497	554,167
Bequests receivable (Note 3)	1,809,772	533,500
Other receivables	72,533	37,680
Inventory	87,064	100,776
Prepaid expense and other assets	184,199	130,522
Total Current Assets	3,486,606	2,882,039
OTHER ASSETS		
Cash and cash equivalents restricted to master planning	-	5,055,723
Grants and pledges receivable - long-term (Note 3)	426,940	663,227
Investments restricted to master planning (Note 4)	4,154,205	-
Investments (Note 4)	43,403,953	38,058,602
Interests in charitable remainder trusts (Note 6)	2,795,077	2,420,210
Interests in perpetual trusts (Note 6)	7,482,732	6,992,362
Rental property (Note 7)	630,000	630,000
Property and equipment, net (Note 8)	16,532,696	13,748,987
Collections (Note 2)	-	-
Total Other Assets	75,425,603	67,569,111
TOTAL ASSETS	\$ 78,912,209	\$ 70,451,150
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,135,255	\$ 346,383
Accrued payroll and related expenses	306,084	301,892
Grant payable	-	36,254
Deferred revenue (Note 9)	269,146	267,896
Agency funds (Note 10)	751	75,000
Total Current Liabilities	1,711,236	1,027,425
NET ASSETS (Note 12)		
Unrestricted	19,333,355	16,555,948
Unrestricted - Board Designated	25,344,255	22,113,160
Temporarily Restricted	15,915,686	16,137,310
Permanently Restricted	16,607,677	14,617,307
Total Net Assets	77,200,973	69,423,725
TOTAL LIABILITIES AND NET ASSETS	\$ 78,912,209	\$ 70,451,150

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	All Funds	
				2017 Total	2016 Total
INCOME					
Support and Revenue					
Admissions	\$ 796,545	\$ 206	\$ -	\$ 796,751	\$ 1,055,485
Membership	406,193	-	-	406,193	457,201
Contributions, bequests, and grants	879,392	3,164,648	1,500,000	5,544,040	7,130,704
Interest and dividends, net (Note 5)	973,801	235,279	-	1,209,080	674,018
Realized and unrealized gain on investments, net (Note 5)	3,997,040	999,260	-	4,996,300	945,522
Investment draw (Note 5)	46,966	(46,966)	-	-	-
Education fees	204,392	-	-	204,392	239,365
Contracts	72,664	-	-	72,664	67,575
Change in value of charitable trusts (Note 6)	-	374,867	490,370	865,237	1,092,623
Income from perpetual trusts (Note 6)	176,645	125,317	-	301,962	164,265
Transfers	562	(562)	-	-	-
Other income	117,435	4,857	-	122,292	63,183
Loss on retirement of assets, net	(43,392)	-	-	(43,392)	(2,536)
Total Support and Revenue	7,628,243	4,856,906	1,990,370	14,475,519	11,887,405
Revenue Centers					
Retail sales	441,541	-	-	441,541	609,266
Less retail expenses	(367,802)	-	-	(367,802)	(436,934)
Special events	488,040	-	-	488,040	609,019
Less special events expense	(275,455)	-	-	(275,455)	(374,644)
Rental income	262,083	-	-	262,083	255,009
Less rental expenses	(34,156)	-	-	(34,156)	(40,296)
Total Revenue Centers	514,251	-	-	514,251	621,420
Total Income	8,142,494	4,856,906	1,990,370	14,989,770	12,508,825
Net Assets Released from Restrictions	5,078,530	(5,078,530)	-	-	-
EXPENSES					
Program Expenses					
Exhibit and visitor services	2,194,591	-	-	2,194,591	2,468,082
Education	1,264,353	-	-	1,264,353	1,274,546
Collections and research	1,857,073	-	-	1,857,073	1,714,546
Total Program Expenses	5,316,017	-	-	5,316,017	5,457,174
Supporting Services					
Management and general	1,108,655	-	-	1,108,655	1,033,519
Development	787,850	-	-	787,850	829,431
Total Supporting Services	1,896,505	-	-	1,896,505	1,862,950
Total Expenses	7,212,522	-	-	7,212,522	7,320,124
CHANGE IN NET ASSETS	\$ 6,008,502	\$ (221,624)	\$ 1,990,370	\$ 7,777,248	\$ 5,188,701

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
 (With Comparative Totals for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, December 31, 2015	\$ 37,248,490	\$ 16,097,761	\$ 10,888,773	\$ 64,235,024
Change in Net Assets	1,420,618	39,549	3,728,534	5,188,701
NET ASSETS, DECEMBER 31, 2016	\$ 38,669,108	\$ 16,137,310	\$ 14,617,307	\$ 69,423,725
Change in Net Assets	6,008,502	(221,624)	1,990,370	7,777,248
NET ASSETS, DECEMBER 31, 2017	<u>\$ 44,677,610</u>	<u>\$ 15,915,686</u>	<u>\$ 16,607,677</u>	<u>\$ 77,200,973</u>

SANTA BABRARA MUSEUM OF NATURAL HISTORY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
 (With Comparative Totals for the Year Ended December 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,777,248	\$ 5,188,701
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	808,093	810,273
Realized and unrealized gain on investments	(4,996,300)	(945,522)
Loss on retirement of assets, net	43,392	2,537
Donated stock	(245,013)	(793,211)
Change in value of trusts (Note 19)	(865,237)	(1,092,623)
Charitable trust distribution received	-	473,943
Contributions restricted for long-term investment	(2,256,380)	(1,875,355)
Contribution of interest in perpetual trust	-	(3,363,050)
Changes in		
Cash and cash equivalents restricted to master planning	5,055,723	64
Grants and pledges receivable	407,957	50,159
Bequests receivable	(1,276,272)	(413,500)
Other receivables	(34,853)	(9,551)
Inventory	13,712	(8,449)
Prepaid expense and other assets	(53,677)	65,963
Accounts payable	788,872	72,411
Accrued payroll and related expenses	4,192	32,080
Grant payable	(36,254)	8,373
Deferred revenue	1,250	(56,405)
Agency funds	(74,249)	72,510
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	5,062,204	(1,780,652)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(3,635,192)	(1,498,715)
Purchase of investments	(17,247,241)	(22,821,150)
Proceeds from sale of investments	12,988,996	24,893,191
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES	(7,893,437)	573,326
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	2,256,380	1,875,355
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,256,380	1,875,355
NET (DECREASE)/INCREASE IN CASH	(574,853)	668,029
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,525,394	857,365
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 950,541	\$ 1,525,394

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2017
(With Comparative Totals as of December 31, 2016)

	Program Services			Supporting Services		Total 2017	Total 2016
	Exhibit & Visitor Services	Education	Collections & Research	Management & General	Development		
Salaries, benefits, & pensions	\$ 962,647	\$ 832,548	\$ 1,084,282	\$ 644,657	\$ 578,972	\$ 4,103,106	\$ 4,028,639
Payroll taxes	57,356	53,622	67,932	35,267	37,140	251,317	253,622
Acquisitions	-	-	294,360	-	-	294,360	90,532
Advertising	69,891	19,968	6,025	6,733	27,458	130,075	183,078
Depreciation	493,426	87,748	47,840	179,079	-	808,093	810,273
Equipment	-	10,355	14,116	42,829	5,612	72,912	123,108
Insurance	44,302	8,102	32,302	25,053	3,984	113,743	113,065
Miscellaneous	1,480	2,212	-	-	276	3,968	70,561
Printing	38,272	15,224	2,981	3,343	17,833	77,653	162,555
Postage & shipping	38,464	1,465	842	515	11,092	52,378	60,711
Rentals	83,533	2,976	15,523	6,533	1,548	110,113	157,927
Repairs and maintenance	72,631	20,071	46,365	15,942	6,135	161,144	155,557
Services	87,983	74,487	64,496	135,572	52,223	414,761	409,836
Supplies	100,714	89,070	71,831	8,953	24,882	295,450	391,227
Transportation & travel	7,209	19,112	30,632	4,179	5,720	66,852	73,135
Utilities	136,683	27,393	77,546	-	14,975	256,597	236,298
Total Year Ended December 31, 2017	\$ 2,194,591	\$ 1,264,353	\$ 1,857,073	\$ 1,108,655	\$ 787,850	\$ 7,212,522	
Total Year Ended December 31, 2016	\$ 2,468,082	\$ 1,274,546	\$ 1,714,546	\$ 1,033,519	\$ 829,431		\$ 7,320,124

NOTE 1 ORGANIZATIONAL DATA

Founded in 1916, the Santa Barbara Museum of Natural History opened its doors in 1923 at its beautiful Mission Canyon property. From its inception, the Museum has served as a trusted repository of the natural and cultural heritage of the California Coastal region. Now over one hundred years old, the institution continues to provide compelling science and nature education to generations of Santa Barbara residents and visitors through its exhibits, programs, youth camps, collecting, and research projects. In 1987 the Museum opened a second campus – its Sea Center - focused on marine science and education on Stearns Wharf, thereby bookending the story of the Mission Creek watershed.

There are many things that make the Museum special - even among other natural history museums - the unique setting in 17 acres of woodland along Mission Creek where school groups and families can explore nature first hand; eleven galleries dedicated to the various natural sciences housed in historic Spanish Revival architecture that creates an intimate, welcoming visitor experience; and the access visitors have to our world-renowned curators and their collections of over 3.5 million natural and cultural artifacts.

The Museum is a place where the community gathers to explore and to celebrate the wonders of nature. As an institution, it is a community leader in the effort to reconnect the populace – especially children – with the natural world, thereby helping to combat “nature deficit disorder.” This term, coined by Richard Louv, describes the alarming and growing phenomenon in which children spend less time outdoors than previous generations did, losing the benefits that exposure to nature provides. This disconnection can result in increased health/behavioral issues, mental health problems, decreased understanding of biodiversity and natural systems, and a diminished capacity for environmental stewardship. Through the Museum’s leadership on this issue and its deliberate efforts to provide high-quality programs aligned with educational standards, the Santa Barbara Museum of Natural History stands as a model for educational institutions and a catalyst for change in our community.

The Museum’s educational programs promote scientific literacy and instill a passion for nature and a commitment to learning. These rich educational experiences are provided to over 20,000 school children as well as to 200,000 visitors - mostly families with children - who visit each year. The Museum does this at its two locations: Mission Canyon Campus at 2559 Puesta del Sol in Santa Barbara, California and Sea Center located at 211 Stearns Wharf in Santa Barbara, California.

Gate attendance at the Mission Canyon Campus in 2017 was 72,663. In addition, 28,419 children and adults attended educational programs, 15,303 attended community related events, 7,513 persons came to participate in museum programs as volunteers and 1,081 came specifically for research or professional symposia, for a total attendance at the Mission Canyon campus of 124,979.

Gate attendance at the Sea Center in 2017 was 101,751. In addition, 6,460 children and adults attended educational programs, 240 attended community related events, and 575 persons came to participate in museum programs/operations as volunteers, for a total attendance at the Sea Center campus of 109,026.

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 include annual year-end accruals and allocations to adjust the operating funds to full accrual funds consistent with generally accepted accounting principles.
- Board Designated funds that are resources designated for specific purposes by the Trustees, and include 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.

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 maintains the following categories of investments:

- Short-term, fixed-income investments include commercial paper, demand notes, foreign currency, and corporate and government bonds. These securities are considered to be cash equivalents; as such securities have original maturities of three months or less.
- Equity securities primarily consist of investments in both domestic and foreign corporate common stock securities.
- Alternative investments represent investments in limited partnerships, limited liability companies, onshore and offshore hedge funds, private real estate investment trusts, and other nonpublic investments.
- Fixed-income securities include holdings in corporate and municipal bonds, as well as U.S. government securities, various mortgage and asset-backed bonds, and convertible corporate debentures with original maturities of more than three months.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short Sales

Shorting securities refers to selling investments that the manager may or may not own in anticipation of a decline in the price of such securities or in order to hedge portfolio positions, with the obligation to purchase such investments at a future date. The Museum invests in partnerships and other private investment vehicles that engage in short selling. These securities have market risk to the extent that the Museum managers, in satisfying their obligations, may have to repurchase securities at a higher amount than that for which they were sold.

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 13, 'Endowment,' under the section 'Spending Policy and How the Investment Objectives Relate to Spending Policy.')

Grants, Pledges and Bequests Receivable

Unconditional pledges to give are reported as assets and as revenues or gains in the period in which the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for uncollectible pledges to give is recorded based on an analysis of collection histories and on reviews of the credit worthiness of major donors. Bequests receivable are recorded at the time an unassignable right to the gift has been established and the proceeds are measurable in amount. (See Note 3, Grants, Pledges, and Bequests Receivable.)

Inventory

Inventory consists of goods held for sale in the Museum stores and is carried at the lower of cost (first-in, first-out method) or net realizable 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The fair value of current assets and liabilities approximates carrying value because of the short-term nature of these items.

Investments are held at estimated fair value. In general, where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund-provided net asset values per share or ownership interest (NAVs) as allowed under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Fair value is discussed further in Note 4.

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

Almost 800 volunteers donated over 38,000 hours of their time in 2017 to the Museum as docents, interpreters, 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, (U.S. GAAP), no amount has been recorded in these financial statements for these services.

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.

Advertising

The Museum expenses advertising costs as incurred. Advertising expense totaled \$130,075 and \$184,537 for the years ending December 31, 2017 and 2016, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant estimates reflected in the Museum’s financial statements include:

- The determination of the fair value of investments (including alternative investments)
- The net present value of interests in trust
- Allocation of certain expenses by function

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.

Income Taxes

The Museum 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, 2017, 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 U.S. GAAP.

Change in Presentation

Changes were made to the presentation of the 2016 comparative totals to conform to the 2017 presentation.

NOTE 3 GRANTS, PLEDGES, AND BEQUESTS RECEIVABLE

Grants and pledges receivable represent unconditional promises to give by individuals, foundations and government agencies. Bequests receivable represent unconditional promises from estates. Grants, pledges, and bequests receivable come due as follows:

2018 – Current portion due	\$ 2,192,269
2019 – Long-term portion due	206,500
2020 – Long-term portion due	137,500
2021 – Long-term portion due	62,940
2022 – Long-term portion due	<u>20,000</u>
	<u>\$ 2,619,209</u>

NOTE 3 GRANTS, PLEDGES, AND BEQUESTS RECEIVABLE (Continued)

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, pledges, and bequests receivable has been made.

NOTE 4 FAIR VALUE

The Museum applies the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires the Museum to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Museum's market assumptions. The three levels of the fair value hierarchy are as follows:

Level I – Quoted prices for identical assets or liabilities in active markets.

Level II – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or market – corroborated inputs.

Level III – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Reported valuations of Level III securities may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may result in an asset or liability falling into more than one level of the fair value hierarchy. In such cases, the determination of the classification of an asset or liability within the fair value hierarchy is based on the least determinable input that is significant to the fair value measurement. Investments measured using net asset value are classified as Level II if they are redeemable at or near year end otherwise they are considered Level III.

Transfers between levels may occur when there is a change in the observability of significant inputs. A transfer between Level I and Level II generally occurs when the availability of quoted prices changes or when market activity of an investment significantly changes to active or inactive. A transfer between Level II or Level III generally occurs when the underlying inputs become, or can no longer be, corroborated with observable market data. Transfers between levels are recognized the date they occur.

The Museum's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement and considers factors specific to the asset or liability.

NOTE 4 FAIR VALUE (Continued)

The investments and interests in trusts carried on the statement of financial position by level within the valuation hierarchy as of December 31, 2017, are as follows:

<u>Description</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments				
Money Market	\$ 2,786,139	\$ -	\$ -	\$ 2,786,139
Domestic Equity Securities	12,306,923	-	-	12,306,923
International Equity Securities	10,581,785	-	-	10,581,785
Domestic Fixed Income Securities*	7,221,759	-	1,791,792	9,013,551
International Fixed Income Securities*	3,226,780	-	-	3,226,780
Alternative Investments:				
Private Equity	-	-	2,456,123	2,456,123
Hedge Funds	-	-	5,228,927	5,228,927
Real Assets	<u>1,261,360</u>	<u>696,570</u>	<u>-</u>	<u>1,957,930</u>
Total Investments	37,384,746	696,570	9,476,842	47,558,158
Interest in Trusts	<u>-</u>	<u>532,664</u>	<u>9,745,145</u>	<u>10,277,809</u>
Total Assets Measured at Fair Value	<u>\$ 37,384,746</u>	<u>\$ 1,229,234</u>	<u>\$ 19,221,987</u>	<u>\$ 57,835,967</u>

* \$3,850,000 of total fixed income securities is securitized for a line of credit (see Note 11).

The changes in investments classified as Level III for the year ended December 31, 2017, are as follows:

	<u>Fixed Income</u>	<u>Private Equity</u>	<u>Hedge Funds</u>	<u>Interest in Trusts</u>	<u>Total</u>
Balance –					
January 1, 2017	\$ 1,703,345	\$ 2,143,293	\$ 6,660,610	\$ 8,906,018	\$ 19,413,266
Total realized and unrealized gains	13,444	148,033	904,611	-	1,066,088
Partnership income	4,322	406,534	-	-	410,856
Change in value of Level III trust interests					
	-	-	-	839,127	839,127
Purchases	70,681	312,897	-	-	383,578
Sales	<u>-</u>	<u>(554,634)</u>	<u>(2,336,294)</u>	<u>-</u>	<u>(2,890,928)</u>
Balance –					
December 31, 2017	<u>\$ 1,791,792</u>	<u>\$ 2,456,123</u>	<u>\$ 5,228,927</u>	<u>\$ 9,745,145</u>	<u>\$ 19,221,987</u>

Change in unrealized gain included in the changes in net assets relating to Level III investments still held at December 31, 2017:

\$ 13,444 \$ 31,800 \$ 283,722 \$ 839,127 \$ 1,168,093

Total realized and unrealized gains and losses recorded for Level III investments, if any, are reported in "Net realized and unrealized gains (losses) on investments" in both the statements of activities and changes in net assets and the statements of cash flows.

NOTE 4 FAIR VALUE (Continued)

The investments and interests in trusts carried on the statement of financial position by level within the valuation hierarchy as of December 31, 2016, are as follows:

<u>Description</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments				
Money Market	\$ 460,478	\$ -	\$ -	\$ 460,478
Domestic Equity Securities	10,043,842	-	-	10,043,842
International Equity Securities	7,848,419	-	-	7,848,419
Domestic Fixed Income Securities*	4,562,323	-	1,703,345	6,265,668
International Fixed Income Securities*	2,714,399	-	-	2,714,399
Alternative Investments:				
Private Equity	-	-	2,143,293	2,143,293
Hedge Funds	-	-	6,660,610	6,660,610
Real Assets	<u>1,188,609</u>	<u>733,284</u>	<u>-</u>	<u>1,921,893</u>
Total Investments	26,818,070	733,284	10,507,248	38,058,602
Interest in Trusts	<u>-</u>	<u>506,554</u>	<u>8,906,018</u>	<u>9,412,572</u>
Total Assets Measured at Fair Value	<u>\$ 26,818,070</u>	<u>\$ 1,239,838</u>	<u>\$ 19,413,266</u>	<u>\$ 47,471,174</u>

* \$3,850,000 of total fixed income securities is securitized for a line of credit (see Note 11).

The changes in investments classified as Level III for the year ended December 31, 2016, are as follows:

	<u>Fixed Income</u>	<u>Private Equity</u>	<u>Hedge Funds</u>	<u>Interest in Trusts</u>	<u>Total</u>
Balance –					
January 1, 2016	\$ 1,557,936	\$ 2,428,448	\$ 6,634,581	\$ 4,839,815	\$ 15,460,780
Total realized and unrealized gains/(loss)	-	(11,631)	26,029	-	14,398
Partnership income	150,949	125,585	-	-	276,534
Change in value of Level III trust interests					
Trust transfer to Level III	-	-	-	(1,025,961)	(1,025,961)
Contribution of perpetual Trust interest	-	-	-	3,363,050	3,363,050
Purchases	58,150	83,387	-	-	141,537
Sales	<u>(63,690)</u>	<u>(482,496)</u>	<u>-</u>	<u>-</u>	<u>(546,186)</u>
Balance – December 31, 2016	<u>\$ 1,703,345</u>	<u>\$ 2,143,293</u>	<u>\$ 6,660,610</u>	<u>\$ 8,906,018</u>	<u>\$ 19,413,266</u>

Change in unrealized gain included in the changes in net assets relating to Level III investments still held at December 31, 2016:

<u>\$ -</u>	<u>\$ (51,531)</u>	<u>\$ 26,029</u>	<u>\$ 1,025,961</u>	<u>\$ 1,000,459</u>
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Money market funds are valued at the closing price from an actively traded exchange.

Equity securities and fixed income securities are valued utilizing quoted prices available in active markets for identical investments as of the reporting date.

Alternative investment values are provided by the manager of the holdings at either September 30th or December 31st based on known information at the time.

NOTE 5 INVESTMENT ACTIVITY

Investment income for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Interest and Dividends	\$ 1,359,680	\$ 839,239
Change in Unrealized Gain	3,785,821	(86,845)
Realized Gain	1,210,479	1,032,367
	6,355,980	1,784,761
Less Investment Fees	(150,600)	(165,221)
Total Investment Income	\$ 6,205,380	\$ 1,619,540

Investment income/(loss) at December 31, 2017, is allocated as follows:

Operating		
Interest earned on cash	\$ 91	
Total Operating Investment Income		\$ 91
Board Designated		
Investment income/(loss) on:		
Quasi-endowment funds	4,968,798	
Strategic reserve	24,680	
Master Plan	(28,094)	
Facilities fund	5,366	
Total Board Designated Investment Income		4,970,750
Temporarily Restricted		
Investment Income on funds restricted for specific purposes	1,234,539	
Total Temporarily Restricted Investment Income		1,234,539
Total Investment Income		\$ 6,205,380

The investment draw for the year ending December 31, 2017, is allocated as follows:

Operating		
Investment draws on quasi-endowment funds	\$ 1,572,495	
Investment draws on funds for specific operating purposes	66,014	
Total Operating Draw		\$ 1,638,509
Board Designated		
Investment draws on quasi-endowment funds for operations	(1,572,495)	
Investment draws on funds designated for facilities	(19,048)	
Total Draws on Board Designated Funds		(1,591,543)
Temporarily Restricted		
Investment draws on funds restricted for education	(46,966)	
Total Draws Temporarily Restricted Funds		(46,966)
Net Investment Draw		\$ -

Investment income at December 31, 2016, is allocated as follows:

Operating		
Interest earned on cash	\$ 12,321	
Total Operating Investment Income		\$ 12,321
Board Designated		
Investment income on quasi-endowment funds	1,281,998	
Investment loss on strategic reserve	(3,553)	
Investment income on facilities funds	7,460	
Total Board Designated Investment Income		1,285,905
Temporarily Restricted		
Investment income on funds restricted for specific purposes	321,314	
Total Temporarily Restricted Investment Income		321,314
Total Investment Income		\$ 1,619,540

NOTE 5 INVESTMENT ACTIVITY (Continued)

The investment draw for the year ending December 31, 2016, is allocated as follows:

Operating			
Investment draws on quasi-endowment funds	\$	1,542,894	
Investment draws on funds for specific operating purposes		<u>72,830</u>	
Total Operating Draw			\$ 1,615,724
Board Designated			
Investment draws on quasi-endowment funds for operations		(1,542,894)	
Investment draws on funds designated for facilities		<u>(25,036)</u>	
Total Draws on Board Designated Funds			(1,567,930)
Temporarily Restricted			
Investment draws on funds restricted for education		<u>(47,794)</u>	
Total Draws Temporarily Restricted Funds			<u>(47,794)</u>
Net Investment Draw			<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 13, 'Endowment,' under 'Spending Policy and How the Investment Objectives Relate to Spending Policy.')

NOTE 6 INTERESTS IN TRUSTS

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

Perpetual Income Interest in Trusts

The Museum is the permanent income beneficiary of several perpetual trusts. The Museum does not have possession or control of the trusts or their assets. Distribution of income is nondiscretionary and totaled \$301,962 and \$164,265 for the years ended December 31, 2017 and 2016, respectively. The Museum's initial interest in a perpetual trust 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 charitable trusts. 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 \$7,482,732 and \$6,992,362 for the years ended December 31, 2017 and 2016, 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 charitable trusts.

NOTE 6 INTERESTS IN TRUSTS (Continued)

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 based on the Museum's historic risk free rate of return. The discount rate used in 2017 and 2016 was 3%.

The Museum's interest in these charitable remainder trusts, classified as temporarily restricted net assets, totaled \$2,795,077 and \$2,420,210 for the years ended December 31, 2017 and 2016, respectively.

NOTE 7 RENTAL PROPERTY

The Museum owns donated land, 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 \$6,170. Monthly rent amounts are adjusted by cost of living increases every five years. The rent received in 2017 and in 2016 was \$74,037.

The Museum also owns several residential units and one small office building, which are leased on a month-to-month basis, whose values are included in Property and Equipment.

NOTE 8 PROPERTY AND EQUIPMENT

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

	2017	2016
Land and Improvements	\$ 314,388	\$ 314,388
Buildings and Improvements	17,836,546	17,629,356
Furniture and Equipment	2,355,368	2,247,939
Construction in Progress - Master Plan	6,782,989	3,665,714
Construction in Progress - Other	55,477	-
Total Cost	27,344,768	23,857,397
Total Accumulated Depreciation	(10,812,072)	(10,108,410)
Property and Equipment, net	\$ 16,532,696	\$ 13,748,987
Depreciation Expense	\$ 808,093	\$ 810,273

The 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.

In 2017, the Museum started construction on Phase 1 of its master plan for its Mission Creek Campus (see Note 15).

Master Plan – Creation and Implementation – In Progress

	2017	2016
Balance – beginning of year	\$ 3,665,714	\$ 2,457,041
Costs incurred in current year	3,117,275	1,208,673
Total Cost	\$ 6,782,989	\$ 3,665,714

NOTE 9: DEFERRED REVENUE

Deferred revenue is a result of membership income. 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 10 AGENCY FUNDS

In 2016, the Museum began serving as fiscal agent for the Channel Islands Regional Science Initiative, a group focused on improving science teaching and learning in the schools and with the cooperation and assistance of science-rich educational institutions. Funds totaling \$75,000 for this initiative were donated by local foundations in 2016 and were fully expended except for \$751 in 2017.

From 2013 through early 2016, the Museum served as a fiscal agent for the Ray Strong Project, a cooperative project publishing a book on Ray Strong and his art. Funds for the publication were donated by community members. The project was completed in 2016 and all funds expended.

NOTE 11 LINE OF CREDIT

The Museum had two lines of credit, one for the Master Plan and one for general business needs.

Line of Credit for Master Plan

The Museum has a line of credit to provide liquidity in case of unpredictable Master Plan cash flows. The total line available is \$2,500,000 and is secured by investments of at least \$3,850,000 in a segregated account. The line of credit agreement expires on June 30, 2019. The loan rate is an adjustable interest rate of LIBOR plus 1.5%. The line of credit was not drawn on in 2017 or 2016 and had no balance outstanding at year end.

Letter of Credit for Improvements

The Museum was required by the City of Santa Barbara to obtain a letter of credit in the amount of \$178,000, in order to guarantee that the Museum would make improvements in the form of a new walkway along Puesta del Sol.

NOTE 12 NET ASSETS

The Museum's net assets as of December 31, 2017, consist of the following:

Unrestricted

Unrestricted – Operating	\$		-	
Unrestricted – Other			19,333,355	
Strategic Reserve	\$	603,808		
Specific Projects		897,017		
Quasi-Endowment		<u>23,843,430</u>		
Total Unrestricted – Board Designated			<u>25,344,255</u>	
Total Unrestricted				\$ 44,677,610

NOTE 12 NET ASSETS (Continued)

Temporarily Restricted

For Programs	8,544,028	
For Master Planning and Implementation	4,154,205	
Accumulated earnings on donor-endowed funds	422,376	
For interests in Trusts	<u>2,795,077</u>	
Total Temporarily Restricted		15,915,686

Permanently Restricted – net assets restricted

for investment in perpetuity, the income from which is expendable to support:		
Invertebrate Zoology – Malacology	1,000,000	
Museum Studies Internships	100,000	
Library & Archives	1,500,000	
Maximus Gallery Collection of Antique Natural History Art	2,626,809	
Operations	<u>11,380,868</u>	
Total Permanently Restricted		<u>16,607,677</u>
Total Net Assets		<u>\$ 77,200,973</u>

The Museum's net assets as of December 31, 2016, consist of the following:

Unrestricted

Unrestricted – Operating	\$ -	
Unrestricted – Other	16,555,948	
Strategic Reserve	\$ 926,045	
Specific Projects	909,795	
Quasi-Endowment	<u>20,277,320</u>	
Total Unrestricted – Board Designated	<u>22,113,160</u>	
Total Unrestricted		\$ 38,669,108

Temporarily Restricted

For Programs	7,095,749	
For Master Planning and Implementation	6,345,707	
Accumulated earnings on donor-endowed funds	275,644	
Interests in Trusts	<u>2,420,210</u>	
Total Temporarily Restricted		16,137,310

Permanently Restricted – net assets restricted

for investment in perpetuity, the income from which is expendable to support:		
Invertebrate Zoology – Malacology	1,000,000	
Museum Studies Internships	100,000	
Perpetual Trust - Maximus Gallery Collection of Antique Natural History Art	2,506,332	
Perpetual Trusts – Operations	4,486,030	
Donor-Endowed Funds - Operations	<u>6,524,945</u>	
Total Permanently Restricted		<u>14,617,307</u>
Total Net Assets		<u>\$ 69,423,725</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.

NOTE 13 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 including beneficial interests in perpetual trusts and a permanently restricted bequests receivable. 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.

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. However, the beneficial interests in perpetual trusts is not legally subject to the SPMIFA, because the Board does not have the ability to control the investments and spending policy of this trust. In addition, the permanently restricted bequest receivable is not legally subject to SPMIFA as the Museum has not yet collected these amounts.

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 years ended December 31, 2017 and 2016.

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.

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 investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 13 ENDOWMENT (Continued)

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 for endowments over which the Trustees have control. Each year, the Museum may draw funds from the endowment and quasi-endowment to support the operations of the Museum. The draw is calculated in a two-step process using the values of the past 12 quarters through June. First, the prior year draw is increased by 4.5% to come up with a preliminary payout. Second, that preliminary payout is then compared to minimum and maximum parameters, which it cannot exceed. The payout cannot exceed 5% of a trailing 12-quarter rolling average of the endowment corpus nor can it fall below 4% of that rolling average. For endowments over which the Trustees do not control, such as its interests in perpetual trusts, the Museum expends annual distributions received from third parties on operations.

Endowment Net Asset Composition

Endowment net assets by type of fund consist of the following as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment	\$ 23,843,430	\$ -	\$ -	\$ 23,843,430
Donor restricted endowment funds	<u>-</u>	<u>7,222,157</u>	<u>16,607,677</u>	<u>23,829,834</u>
Total	<u>\$ 23,843,430</u>	<u>\$ 7,222,157</u>	<u>\$ 16,607,677</u>	<u>\$ 47,673,264</u>

Changes in endowment net assets for the year ended December 31, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 20,277,320	\$ 6,077,094	\$ 14,617,307	\$ 40,971,721
Investment income	1,917,607	481,363	-	2,398,970
Net appreciation of Investments	3,000,429	753,176	-	3,753,605
Net appreciation of trust assets	-	-	490,370	490,370
Bequests	315,060	238	1,500,000	1,815,298
Contributions	-	5,500	-	5,500
Transfers in	112,330	227,004	-	339,334
Investment draws based on spending policy	(1,591,542)	(46,966)	-	(1,638,508)
Board approved expenditures for facility maintenance	(81,809)	-	-	(81,809)
Board approved expenditures for planned giving program	(105,965)	-	-	(105,965)
Donor-restricted expenditures	<u>-</u>	<u>(275,252)</u>	<u>-</u>	<u>(275,252)</u>
Endowment net assets, end of year	<u>\$ 23,843,430</u>	<u>\$ 7,222,157</u>	<u>\$ 16,607,677</u>	<u>\$ 47,673,264</u>

NOTE 13 ENDOWMENT (Continued)

Endowment net assets by type of fund consist of the following as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment	\$ 20,277,320	\$ -	\$ -	\$ 20,227,320
Donor restricted endowment funds	-	6,077,094	14,617,307	20,694,401
Total	<u>\$ 20,277,320</u>	<u>\$ 6,077,094</u>	<u>\$ 14,617,307</u>	<u>\$ 40,971,721</u>

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 20,226,245	\$ 6,102,144	\$ 10,888,773	\$ 37,217,162
Investment income	1,358,602	259,742	-	1,618,344
Net depreciation of investments	(69,145)	(13,219)	-	(82,364)
Net appreciation of trust assets	-	-	365,484	365,484
Bequests	501,653	-	-	501,653
Contributions	2,957	17	3,363,050	3,366,024
Investment draws based on spending policy	(1,567,930)	(47,794)	-	(1,615,724)
Board approved expenditures for facility maintenance	(90,294)	-	-	(90,294)
Board approved expenditures for planned giving program	(84,768)	-	-	(84,768)
Donor-restricted expenditures	-	(223,796)	-	(223,796)
Endowment net assets, end of year	<u>\$ 20,227,320</u>	<u>\$ 6,077,094</u>	<u>\$ 14,617,307</u>	<u>\$ 40,971,721</u>

NOTE 14 PENSION PLAN

The Museum maintains a tax deferred annuity plan (the Plan) for all employees except part-time employees. Employees are eligible to participate 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 \$84,068 and \$93,700 in 2017 and 2016, respectively.

NOTE 15 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 articulated in the Strategic Plan was in response to a request from the City of Santa Barbara that the Museum consolidate and update its historic Conditional Use Permits into one, and that the Museum submit a Master Plan for review and approval by the City that would outline proposed future changes and enhancements to the Museum's facilities and site in Mission Canyon.

NOTE 15 MASTER PLANNING (Continued)

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.

Working with a team of consultants including architects, engineers, historians, biologists, geologists, landscape architects, sustainability experts, etc. the Museum developed and refined 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.

In 2013, supported with this information and technical studies including timelines and fundraising feasibility, the project was refocused to take place within the existing facilities and outside in spaces where outdoor activities already occur. The vision that guides this capital investment flows directly from the Museum's mission statement and institutional strategic plan – to take full advantage of its unique setting 'in nature' in ways that give visitors opportunities for direct and meaningful understanding and engagement in our natural world. The Museum is implementing two strategies to ensure it will realize that vision:

- Enhance the visitor experience through a comprehensive revitalization of the Museum's campus based on new exhibitions and refurbished permanent galleries, improved universal access, landscape beautification, and more effective signage and site interpretation that unlock the historical and natural richness of the site, and
- Bridge the indoor and outdoor experience for visitors through retooled educational programming that connects the world-class scientific research that is undertaken on-site, with its exhibitions and our beautiful natural setting.

Necessary renovation of specific buildings and site improvements will be made to address aging infrastructure and accessibility issues. With the exception of the need to replace the temporary Butterfly Pavilion with a new Pavilion at the same location, the construction of new buildings is not anticipated.

In 2015, the Museum's Master Plan and updated Conditional Use Permit application were approved by the City of Santa Barbara's Planning Commission and City Council. By summer 2015, a Master Plan Implementation Program was developed that evaluated phasing, cost, timing, economies of scale, and construction/program logistics. The menu of improvements envisioned by the new master plan was organized into phases to align scope and budget with anticipated capital campaign resources. The resulting phases also met the criteria to allow the Museum to remain open throughout construction and to provide noticeable improvement to the visitor experience upon completion.

The Museum received approval from the Santa Barbara Historic Landmark Commission of its plan in 2016 and has submitted Phase 1 construction document to Santa Barbara City for its permit review process. Phase 1 construction documents and permitting were completed in spring 2017 and construction began in September 2017.

NOTE 15 MASTER PLANNING (Continued)

The site and building improvements included in this phase include: new permanent Butterfly Pavilion, new entry plaza, improved wheelchair access to the Nature Clubhouse, three exhibit hall gallery refreshments, and significant landscape and way finding signage enhancements across the site. The galleries, the Butterfly Pavilion, and the Backyard are scheduled to reopen in the Summer of 2018.

The costs of the studies, consultants, design documents, and plans pertinent to the new project and the related permits are being capitalized.

NOTE 16 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 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, 2022, with 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 Sea Center store. Payments to the City in 2017 and 2016 totaled \$17,005 and \$17,299, respectively.

Master Planning Consultants

The Museum has entered into agreements with an architectural firm for services to be rendered by the firm and its sub consultants as well as with other technical consultants. The scope of services includes creating the design documents for the Phase 1 site and building improvements and the related permitting process. Current commitments as of December 31, 2017, for the architects and consultants total \$1,552,374, of which approximately \$1,333,500 has been paid through December 31, 2017.

In 2017, the Museum engaged an exhibit design and fabrication firm to update the exhibits as part of the Master Plan. The contract with this firm and its subcontractors totals \$1,778,659 of which \$990,071 had been paid through December 31, 2017. A contract for taxidermy related to this exhibit update was signed in 2017 totaling \$46,850 of which \$18,740 had been paid through December 31, 2017.

In 2017 the Museum commenced construction of Phase 1 and entered into a guaranteed maximum price construction contract with a general contractor. At December 31, 2017 the original contract plus approved changed orders totaled \$5,380,256 of which \$1,225,705 had been paid or accrued.

NOTE 16 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

During the Master Plan process, the Museum entered into a number of agreements with the City of Santa Barbara including an agreement to perform walkway improvements within 24 months. These improvements were included in the general contractor's Phase 1 scope of work and guaranteed maximum price. The Museum also entered into an agreement with the City to replace a residential structure which was demolished in 2017 within eight years by obtaining either a building permit for a new residence, approval of another appropriate primary use for the accessory structure which remained, or an amendment to the Museum's Conditional Use Permit.

Capital Commitments for Future Investments

The Museum has entered into certain agreements for capital commitments in seven private capital investment funds to make future investments in those funds. The outstanding commitments totaled \$3,016,700 as of December 31, 2017.

Website Improvements

The Museum entered into an agreement with a web design firm to redesign of its website and in 2017 at a cost of \$75,000. In 2017, the Museum paid the firm \$50,000 towards completion of the project.

NOTE 17 CONCENTRATION OF RISKS

The Museum maintains cash balances at three banks and one broker-dealer. The standard Federal Deposit Insurance Corporation (FDIC) insurance coverage is limited to \$250,000 per depositor and per bank institution. At December 31, 2017, the Museum had approximately \$1,114,000 of uninsured cash on deposit.

NOTE 18 RELATED PARTY TRANSACTIONS

The Museum's Board consisted of 21 Trustees as of December 31, 2017. One of the trustees is the Regional Vice President at the same corporation that is the custodian of the Museum's investments. The Museum paid fees totaling \$32,216 to this bank.

Another trustee is the Executive Vice President of the Museum's insurance broker. Total premiums written through this insurance broker for property and casualty, worker's compensation, health and other insurance in 2017 totaled \$561,186.

NOTE 19 STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

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

As described in Note 6, 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.

NOTE 20 SUBSEQUENT EVENTS

The Museum's management has evaluated subsequent events through July 24, 2018, which is the date the financial statements were available to be issued. Management has determined no subsequent events that require recognition or disclosure in the financial statements as of and for the year ended December 31, 2017, except for the following:

- Additional change orders for construction have been signed with the general contractor totaling \$265,270.
- Additional amendments for construction administration services have been signed with the architects and subcontractors totaling \$99,000.
- Additional change orders for exhibit design and fabrication have been signed totaling \$43,000.
- The Museum entered into additional contracts in 2018 for construction related projects totaling \$64,000.
- The Museum signed a proposal for \$217,000 for the purchase and installation of archival quality steel cabinets to rehouse Vertebrate Zoology specimens.
- As part of its endowment investment management, the Museum made a capital commitment to a venture capital investment fund of \$750,000.
- The California Condor Survival Fund approved a multi-agency grant request of \$97,740 in 2018 to be paid out in 2018. The Condor Survival Fund is a fund of the Museum restricted to grant making in support of efforts to enhance the survival rate of the California condor.
- The Museum signed a proposal to rent an exhibit for summer 2019 at a cost of \$65,000.
- A natural disaster in January 2018 closed the main vehicular artery between the City of Santa Barbara and the areas south of the City. This had a significant impact on the Museum's income for January and February 2018 resulting in lost revenue of about \$50,000, all of which was covered by insurance. At the same time the Museum filed the claim for lost revenue, it also filed a \$21,000 insurance claim for additional clean-up expenses relating to the 2017 Thomas Fire. The insurance company approved that claim too. These were in addition to previous claims that were made and paid for December losses and clean-up expense resulting from the 2017 Thomas Fire.

SUPPLEMENTAL SCHEDULE

SANTA BARBARA MUSEUM OF NATURAL HISTORY
SUPPLEMENTAL SCHEDULE OF UNRESTRICTED ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Operating	Other Unrestricted	Board Designated	2017 Total	2016 Total
Income					
Support and Revenue					
Admissions	\$ 793,475	\$ -	\$ 3,070	\$ 796,545	\$ 1,053,095
Membership	403,614	909	1,670	406,193	457,201
Contributions, bequests, and grants	666,699	(98,345)	311,038	879,392	1,239,712
Interest and dividends, net	91	-	973,710	973,801	541,732
Realized and unrealized gain on investments, net	-	-	3,997,040	3,997,040	756,494
Investment draw	1,638,509	-	(1,591,543)	46,966	47,794
Education fees	204,392	-	-	204,392	239,365
Contracts	50,160	-	22,504	72,664	62,775
Change in value of charitable trusts	-	-	-	-	-
Income from perpetual trusts	37,033	114,612	25,000	176,645	37,231
Transfers	419,287	-	(418,725)	562	(993)
Other income	82,469	-	34,966	117,435	63,182
Loss on abandonment	-	(43,392)	-	(43,392)	(2,536)
Use of strategic reserve	346,917	-	(346,917)	-	-
Total Support and Revenue	<u>4,642,646</u>	<u>(26,216)</u>	<u>3,011,813</u>	<u>7,628,243</u>	<u>4,495,052</u>
Revenue Centers					
Retail sales	369,529	-	72,012	441,541	609,266
Less retail expenses	(332,195)	593	(36,200)	(367,802)	(436,934)
Special events	368,293	-	119,747	488,040	609,019
Less special events expense	(146,689)	(196)	(128,570)	(275,455)	(374,644)
Rental income	262,083	-	-	262,083	255,009
Less rental expenses	(33,211)	(60)	(885)	(34,156)	(40,296)
Total Revenue Centers	<u>487,810</u>	<u>337</u>	<u>26,104</u>	<u>514,251</u>	<u>621,420</u>
Total Income (Loss)	<u>5,130,456</u>	<u>(25,879)</u>	<u>3,037,917</u>	<u>8,142,494</u>	<u>5,116,472</u>
Net Assets Released from Restriction	<u>402,564</u>	<u>-</u>	<u>4,675,966</u>	<u>5,078,530</u>	<u>3,624,270</u>
Expenses					
Program Expenses					
Exhibit and visitor services	1,033,030	11,938	1,149,623	2,194,591	2,468,082
Education	895,716	316,794	51,843	1,264,353	1,274,546
Collections and research	678,078	386,013	792,982	1,857,073	1,714,546
Total Program Expenses	<u>2,606,824</u>	<u>714,745</u>	<u>1,994,448</u>	<u>5,316,017</u>	<u>5,457,174</u>
Supporting Services					
Management and general	1,932,968	(3,247,246)	2,422,933	1,108,655	1,033,519
Development	993,228	(270,785)	65,407	787,850	829,431
Total Supporting Services	<u>2,926,196</u>	<u>(3,518,031)</u>	<u>2,488,340</u>	<u>1,896,505</u>	<u>1,862,950</u>
Total Expenses	<u>5,533,020</u>	<u>(2,803,286)</u>	<u>4,482,788</u>	<u>7,212,522</u>	<u>7,320,124</u>
CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ 2,777,407</u>	<u>\$ 3,231,095</u>	<u>\$ 6,008,502</u>	<u>\$ 1,420,618</u>