

SANTA BARBARA MUSEUM
OF NATURAL HISTORY
FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULE
FOR THE YEAR ENDED
DECEMBER 31, 2016

(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 financial statements of the Santa Barbara Museum of Natural History (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of changes in net assets and cash flows for the years then ended, the statement of activities for the year ended December 31, 2016, and the related notes to the financial statements.

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.

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.

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.

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, 2016 and 2015, 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 27 is presented for purpose 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, 2015, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

MacFarlane, Falitti + Co. LLP

Santa Barbara, California
March 17, 2017

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,525,394	\$ 857,365
Grants and pledges receivable (Note 3)	554,167	516,326
Bequests receivable (Note 3)	533,500	120,000
Other receivables	37,680	28,129
Inventory	100,776	92,327
Prepaid expense and other assets	130,522	196,485
Total Current Assets	2,882,039	1,810,632
Other Assets		
Cash and cash equivalents restricted to master planning	5,055,723	5,055,787
Grants and pledges receivable - long-term (Note 3)	663,227	751,227
Investments (Note 4)	38,058,602	38,391,910
Interests in charitable remainder trusts (Note 6)	2,420,210	2,167,014
Interests in perpetual trusts (Note 6)	6,992,362	3,263,828
Rental property (Note 7)	630,000	630,000
Property and equipment, net (Note 8)	13,748,987	13,063,082
Collections (Note 2)	-	-
Total Other Assets	67,569,111	63,322,848
Total Assets	\$ 70,451,150	\$ 65,133,480
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 356,406	\$ 283,995
Accrued payroll and related expenses	291,869	259,789
Grant payable	36,254	27,881
Deferred revenue (Note 9)	267,896	324,301
Agency funds (Note 10)	75,000	2,490
Total Current Liabilities	1,027,425	898,456
Net Assets (Note 12)		
Unrestricted	16,555,948	15,909,306
Unrestricted - Board Designated	22,113,160	21,339,184
Temporarily Restricted	16,137,310	16,097,761
Permanently Restricted	14,617,307	10,888,773
Total Net Assets	69,423,725	64,235,024
Total Liabilities and Net Assets	\$ 70,451,150	\$ 65,133,480

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	All Funds	
				2016 Total	2015 Total
Income					
Support and Revenue					
Admissions	\$ 1,053,095	\$ 2,390	\$ -	\$ 1,055,485	\$ 773,890
Membership	457,201	-	-	457,201	385,899
Contributions, bequests, and grants	1,239,712	2,527,942	3,363,050	7,130,704	3,231,957
Interest and dividends, net (Note 5)	541,732	132,286	-	674,018	360,281
Realized and unrealized gain/(loss) on investments, net (Note 5)	756,494	189,028	-	945,522	(1,844,799)
Investment draw (Note 5)	47,794	(47,794)	-	-	-
Education fees	239,365	-	-	239,365	234,899
Contracts	62,775	4,800	-	67,575	73,824
Change in value of charitable trusts (Note 6)	-	727,139	365,484	1,092,623	(373,001)
Income from perpetual trusts (Note 6)	37,231	127,034	-	164,265	172,588
Transfers	(993)	993	-	-	-
Other income	63,213	-	-	63,213	51,218
Loss on retirement of assets, net	(2,536)	-	-	(2,536)	-
Total Support and Revenue	4,495,083	3,663,818	3,728,534	11,887,435	3,066,756
Revenue Centers					
Retail sales	609,266	-	-	609,266	536,230
Less retail expenses	(436,934)	-	-	(436,934)	(354,388)
Special events	609,019	-	-	609,019	436,626
Less special events expense	(374,644)	-	-	(374,644)	(290,155)
Rental income	255,009	-	-	255,009	259,391
Less rental expenses	(40,296)	-	-	(40,296)	(28,116)
Total Revenue Centers	621,420	-	-	621,420	559,588
Total Income	5,116,503	3,663,818	3,728,534	12,508,855	3,626,344
Net Assets Released from Restrictions	3,624,269	(3,624,269)	-	-	-
Expenses					
Program Expenses					
Exhibit and visitor services	2,217,358	-	-	2,217,358	1,947,653
Education	1,223,022	-	-	1,223,022	1,150,159
Collections and research	1,714,546	-	-	1,714,546	1,567,922
Total Program Expenses	5,154,926	-	-	5,154,926	4,665,734
Supporting Services					
Management and general	1,085,073	-	-	1,085,073	1,074,844
Membership	250,724	-	-	250,724	231,547
Development	829,431	-	-	829,431	906,799
Total Supporting Services	2,165,228	-	-	2,165,228	2,213,190
Total Expenses	7,320,154	-	-	7,320,154	6,878,924
Net Excess	\$ 1,420,618	\$ 39,549	\$ 3,728,534	\$ 5,188,701	\$ (3,252,580)

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at December 31, 2014	\$ 40,086,358	\$ 16,268,753	\$ 11,132,493	\$ 67,487,604
Change in Net Assets	<u>(2,837,868)</u>	<u>(170,992)</u>	<u>(243,720)</u>	<u>(3,252,580)</u>
Net Assets at December 31, 2015	\$ 37,248,490	\$ 16,097,761	\$ 10,888,773	\$ 64,235,024
Change in Net Assets	<u>1,420,618</u>	<u>39,549</u>	<u>3,728,534</u>	<u>5,188,701</u>
Net Assets at December 31, 2016	<u>\$ 38,669,108</u>	<u>\$ 16,137,310</u>	<u>\$ 14,617,307</u>	<u>\$ 69,423,725</u>

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 5,188,701	\$ (3,252,580)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	810,273	785,769
Realized and unrealized (gain)/loss on investments	(945,522)	1,844,799
Loss on retirement of assets, net	2,537	-
Donated stock	(793,211)	(62,182)
Change in value of trusts (Note 19)	(1,092,623)	373,001
Charitable trust distribution received	473,943	-
Contributions restricted for long-term investment	(1,875,355)	(2,221,565)
Contribution of interest in perpetual trust	(3,363,050)	-
Changes in		
Cash and cash equivalents restricted to master planning	64	7
Grants and pledges receivable	50,159	(371,092)
Bequests receivable	(413,500)	(120,000)
Other receivables	(9,551)	(28,129)
Inventory	(8,449)	(4,407)
Prepaid expense and other assets	65,963	26,930
Accounts payable	72,411	(49,256)
Accrued payroll and related expenses	32,080	25,041
Grant payable	8,373	(26,485)
Deferred revenue	(56,405)	51,072
Agency funds	72,510	(7,800)
Net Cash Used by Operating Activities	<u>(1,780,652)</u>	<u>(3,036,877)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,498,715)	(1,227,771)
Purchase of investments	(22,821,150)	(21,084,281)
Proceeds from sale of investments	24,893,191	21,630,940
Net Cash Provided/(Used) by Investing Activities	<u>573,326</u>	<u>(681,112)</u>
Cash Flows from Financing Activities		
Contributions restricted for long-term investment	1,875,355	2,221,565
Net Cash Provided by Financing Activities	<u>1,875,355</u>	<u>2,221,565</u>
Net Increase/(Decrease) in Cash	<u>668,029</u>	<u>(1,496,424)</u>
Cash and Cash Equivalents, Beginning of Year	<u>857,365</u>	<u>2,353,789</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,525,394</u>	<u>\$ 857,365</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 purpose is to further the cause of knowledge of the natural world, stewardship of natural and cultural heritage, and appreciation and understanding of the natural sciences and humanities by the preservation of land and natural environments, by the development and maintenance of museums, and by the collection of such objects, whether natural or artificial, as will pertain thereof and by the dissemination of knowledge thereof. In short, the Museum inspires a thirst for discovery and a passion for the natural world through the three following guiding principles:

Inspiring an Awe for Nature and a Thirst for Discovery

The Museum 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 Sea Center located at 211 Stearns Wharf in Santa Barbara, California.

Gate attendance at the Mission Canyon Campus in 2016 was 97,536. In addition, 30,272 children and adults attended educational programs, 22,633 attended community related events, and 8,722 persons came to participate in museum programs as volunteers, for a total attendance at the Mission Canyon campus of 159,163.

Gate attendance at the Sea Center in 2016 was 104,660. In addition, 7,781 children and adults attended educational programs, 277 attended community related events, and 545 persons came to participate in museum programs/operations as volunteers, for a total attendance at the Sea Center campus of 113,263.

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 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.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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 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, pledges and bequests receivable, other receivables, prepaid expense and other assets, accounts payables and accrued liabilities, grants payable, agency funds, and deferred revenues approximate carrying value because of the short-term nature of these items.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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 46,000 hours of their time in 2016 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 \$184,537 and \$185,604 for the years ending December 31, 2016 and 2015, respectively.

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.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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, 2016, 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 2015 comparative totals to conform to the 2016 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:

2017 – Current portion due	\$ 1,087,667
2018 – Long-term portion due	249,727
2019 – Long-term portion due	195,500
2020 – Long-term portion due	118,000
2021 – Long-term portion due	<u>100,000</u>
	<u>\$ 1,750,894</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, 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.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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.

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:

December 31, 2016

<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).

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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	-	(11,631)	26,029	-	14,398
Partnership income/(loss)	150,949	125,585	-	-	276,534
Change in value of Level III trust interests	-	-	-	1,025,961	1,025,961
Trust transfer to Level II	-	-	-	(322,808)	(322,808)
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:

\$ - \$ (51,531) \$ 26,029 \$ 1,025,961 \$ 1,000,459

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.

The investments and interests in trusts carried on the statement of financial position by level within the valuation hierarchy as of December 31, 2015, are as follows:

December 31, 2015

<u>Description</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Investments				
Money Market	\$ 891,773	\$ -	\$ -	\$ 891,773
Domestic Equity Securities	10,001,060	-	-	10,001,060
International Equity Securities	7,723,379	-	-	7,723,379
Domestic Fixed Income Securities*	4,470,514	-	1,557,936	6,028,450
International Fixed Income Securities*	2,975,225	-	-	2,975,225
Alternative Investments:				
Private Equity	-	-	2,428,448	2,428,448
Hedge Funds	-	-	6,634,581	6,634,581
Real Assets	<u>1,227,078</u>	<u>481,916</u>	<u>-</u>	<u>1,708,994</u>
Total Investments	27,289,029	481,916	10,620,965	38,391,910
Interest in Trusts	<u>-</u>	<u>591,025</u>	<u>4,839,815</u>	<u>5,430,840</u>
Total Assets Measured at Fair Value	<u>\$ 27,289,029</u>	<u>\$ 1,072,941</u>	<u>\$ 15,460,780</u>	<u>\$ 43,822,750</u>

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

One Interest in Trust was transferred from Level II to Level III as of January 1, 2015, as the Museum does not have detail information regarding the underlying assets.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

The changes in investments classified as Level III for the year ended December 31, 2015, 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, 2015	\$ 1,571,508	\$ 2,373,480	\$ 7,417,912	\$ 4,780,538	\$ 16,143,438
Total realized and unrealized gains	-	127,787	25,062	-	152,849
Partnership income/(loss)	(13,572)	67,970	(54,953)	-	(555)
Change in value of Level III trust interests	-	-	-	(51,738)	(51,738)
Trust transfer to Level III	-	-	-	111,015	111,015
Purchases	-	273,056	-	-	273,056
Sales	-	(413,845)	(753,440)	-	(1,167,285)
Balance –					
December 31, 2015	<u>\$ 1,557,936</u>	<u>\$ 2,428,448</u>	<u>\$ 6,634,581</u>	<u>\$ 4,839,815</u>	<u>\$ 15,460,780</u>

Change in unrealized gain included in the changes in net assets relating to Level III investments still held at December 31, 2015:

\$	-	\$ 54,838	\$ 20,305	\$ (51,738)	\$ 23,405
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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/(loss) for the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 839,239	\$ 523,315
Change in Unrealized Gain	(86,845)	(820,101)
Realized Gain/(Loss)	<u>1,032,367</u>	<u>(1,024,698)</u>
	1,784,761	(1,321,484)
Less Investment Fees	<u>(165,221)</u>	<u>(163,034)</u>
Total Investment Income/(Loss)	<u>\$ 1,619,540</u>	<u>\$ (1,484,518)</u>

Investment income/(loss) 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	<u>7,460</u>	
Total Board Designated Investment Income		1,285,905
Temporarily Restricted		
Investment Income on funds restricted for specific purposes	<u>321,314</u>	
Total Temporarily Restricted Investment Income		<u>321,314</u>
Total Investment Income		<u>\$ 1,619,540</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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>

The Museum had an investment in a real estate fund. In 2010, the Museum wrote off most of its \$1,800,000 investment as a change in unrealized loss in that year. During 2015, the Museum became aware the fund was legally terminated, and the loss converted from an unrealized loss to a realized loss.

Investment income at December 31, 2015, is allocated as follows:

Operating		
Interest earned on cash	\$ <u>1,297</u>	
Total Operating Investment Income		\$ 1,297
Board Designated		
Investment income on quasi-endowment funds	(1,177,619)	
Investment income on facilities funds	<u>(12,113)</u>	
Total Board Designated Investment Income		(1,189,732)
Temporarily Restricted		
Investment income on funds restricted for specific purposes	<u>(296,083)</u>	
Total Temporarily Restricted Investment Income		<u>(296,083)</u>
Total Investment Loss		<u>\$ (1,484,518)</u>

The investment draw for the year ending December 31, 2015, is allocated as follows:

Operating		
Investment draws on quasi-endowment funds	\$ 1,476,454	
Investment draws on funds for specific operating purposes	<u>74,220</u>	
Total Operating Draw		\$ 1,550,674
Board Designated		
Investment draws on quasi-endowment funds for operations	(1,476,454)	
Investment draws on funds designated for facilities	<u>(28,484)</u>	
Total Draws on Board Designated Funds		(1,504,938)
Temporarily Restricted		
Investment draws on funds restricted for education	<u>(45,736)</u>	
Total Draws Temporarily Restricted Funds		<u>(45,736)</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.')

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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 \$164,265 and \$172,588 for the years ended December 31, 2016 and 2015, 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.

In addition the two perpetual trusts that the Museum continues to be the permanent income beneficiary, the Museum was named in the beginning of 2016 as the beneficiary of a third perpetual trust, the Hollis Norris Endowed Fund. The principal contributed to this trust in 2016 totals \$3,363,050. The first distribution is expected to be received in 2017.

The Museum's interest in these perpetual trusts, classified as permanently restricted net assets, totaled \$6,992,362 and \$3,263,828 for the years ended December 31, 2016 and 2015, 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.

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 2016 was 3% and 4% in 2015.

The Museum's interest in these charitable remainder trusts, classified as temporarily restricted net assets, totaled \$2,420,210 and \$2,167,014 for the years ended December 31, 2016 and 2015, 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 2016 and in 2015 was \$74,037.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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:

	<u>2016</u>	<u>2015</u>
Land and Improvements	\$ 314,388	\$ 309,388
Buildings and Improvements	17,629,356	17,172,645
Furniture and Equipment	2,247,939	2,140,308
Construction in Progress - Master Plan	3,665,714	2,457,041
Construction in Progress - Other	<u>-</u>	<u>321,476</u>
Total Cost	23,857,397	22,400,858
Total Accumulated Depreciation	<u>(10,108,410)</u>	<u>(9,337,776)</u>
Property and Equipment, net	<u>\$ 13,748,987</u>	<u>\$ 13,063,082</u>
Depreciation Expense	<u>\$ 810,273</u>	<u>\$ 785,769</u>

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.

The Museum is in process of finalizing the construction documents for Phase 1 of its master plan for its Mission Creek Campus (see Note 15).

Master Plan – Creation and Implementation – In Progress

	<u>2016</u>	<u>2015</u>
Balance – beginning of year	\$ 2,457,041	\$ 1,853,504
Costs incurred in current year	<u>1,208,673</u>	<u>603,537</u>
Total Cost	<u>\$ 3,665,714</u>	<u>\$ 2,457,041</u>

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 for this initiative have been donated by local foundations and total \$75,000 at December 31, 2016.

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 have been donated by community members. The project was completed in 2016 and all funds expended.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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 May 31, 2018. The loan rate is an adjustable interest rate of LIBOR plus 1.5%. The line of credit was not drawn on in 2016 or 2015 and had no balance outstanding at year end.

Line of Credit for General Business Needs – In 2015 and for part of 2016, the Museum had an unsecured line of credit for \$150,000. The line of credit agreement expired on May 21, 2016 and the Museum chose not to renew it due to lack of business need. The loan rate was an adjustable interest rate of prime less .5%, with a minimum of 4.5%. The line of credit was not drawn on in 2016 or 2015.

NOTE 12: NET ASSETS

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>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

The Museum's net assets as of December 31, 2015, consist of the following:

Unrestricted

Unrestricted – Operating	\$	-	
Unrestricted – Other		15,909,306	
Strategic Reserve	\$	861,833	
Specific Projects		251,106	
Quasi-Endowment		<u>20,226,245</u>	
Total Unrestricted – Board Designated		<u>21,339,184</u>	
Total Unrestricted			\$ 37,248,490

Temporarily Restricted

For Programs	7,248,233	
For Master Planning and Implementation	6,388,034	
Accumulated earnings on donor-endowed funds	294,480	
Interests in Trusts	<u>2,167,014</u>	
Total Temporarily Restricted		16,097,761

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	2,540,685		
Perpetual Trusts – Operations	723,143		
Donor-Endowed Funds - Operations	<u>6,524,945</u>		
Total Permanently Restricted		<u>10,888,773</u>	
Total Net Assets			<u>\$ 64,235,024</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. 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.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
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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 years ended December 31, 2016 and 2015.

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.

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, 2016:

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

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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 change in investments	(69,145)	(13,219)	365,484	283,120
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>\$ 20,277,320</u>	<u>\$ 6,077,094</u>	<u>\$ 14,617,307</u>	<u>\$ 40,971,721</u>

Endowment Net Asset Composition - Endowment net assets by type of fund consist of the following as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment	\$ 20,226,245	\$ -	\$ -	\$ 20,226,245
Donor restricted endowment funds	-	6,102,144	10,888,773	16,990,917
Total	<u>\$ 20,226,245</u>	<u>\$ 6,102,144</u>	<u>\$ 10,888,773</u>	<u>\$ 37,217,162</u>

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 23,161,404	\$ 6,562,822	\$ 11,132,493	\$ 40,856,719
Investment income	894,782	167,863	-	1,062,645
Net depreciation of investments	(2,106,347)	(395,156)	(243,720)	(2,745,223)
Bequests	2,589	-	-	2,589
Contributions	-	360	-	360
Investment draws based on spending policy	(1,504,938)	(45,736)	-	(1,550,674)
Board approved expenditures for facility maintenance	(182,545)	-	-	(182,545)
Board approved expenditures for planned giving program	(38,700)	-	-	(38,700)
Donor-restricted expenditures	-	(188,009)	-	(188,009)
Endowment net assets, end of year	<u>\$ 20,226,245</u>	<u>\$ 6,102,144</u>	<u>\$ 10,888,773</u>	<u>\$ 37,217,162</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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 \$93,700 and \$73,979 in 2016 and 2015, 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.

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. The construction of new buildings is not anticipated.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

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.

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. Phase 1 construction documents and permitting are expected to be complete by spring 2017. Construction is scheduled to begin in Fall 2017 with the Butterfly Pavilion, Backyard and the three galleries reopening in the Summer 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 2016 and 2015 totaled \$17,299 and \$19,205, 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, 2016, for the architects and consultants total \$1,593,000, of which approximately \$1,040,000 has been paid through December 31, 2016.

In 2016, 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 \$1,640,000 of which \$267,000 had been paid through December 31, 2016.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
NOTES TO FINANCIAL STATEMENTS

Capital Commitments for Future Investments - The Museum has entered into certain agreements for capital commitments in four private equity investment funds to make future investments in those funds. The outstanding commitments totaled \$1,097,276 as of December 31, 2016.

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, 2016, the Museum had approximately \$6,433,000 of uninsured cash on deposit.

NOTE 18: RELATED PARTY TRANSACTIONS

The Museum added several new Board members in 2016. One is the Regional Vice President at the same corporation that is the custodian of the Museum's investments. The Museum paid fees totaling \$28,903 to this bank.

Another board member 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 2016 totaled \$537,000.

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 has evaluated subsequent events through March 17, 2017, 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 except:

- Subsequent to year end, the Museum entered into an agreement totaling \$47,500 to rent an exhibit for Summer 2017.
- The Museum signed an agreement totaling \$67,375 with the Lawrence Hall of Science on behalf of an organization that the Museum is the fiscal agent for. The agreement is for facilitation of conversations among and between school districts and science rich institutions. There is sufficient balance in the agency fund to cover this expenditure in 2017.
- The Museum is undergoing a redesign of its website and in 2017 entered into an agreement with a web design firm with a maximum cost of \$75,000.
- The Museum is replacing its point-of-sale and related e-commerce systems in 2017 and subsequent to year end entered into a contract totaling \$63,000 for such a new system.
- A change order for Exhibit Design and Fabrication services related to the Master Plan totaling \$130,000 was signed subsequent to year end.
- In February 2017, the Museum signed a subscription agreement to commit investment funds, not to exceed \$1 million, in a private equity fund.

Supplemental Schedule

SANTA BARBARA MUSEUM OF NATURAL HISTORY
SUPPLEMENTAL SCHEDULE OF UNRESTRICTED ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	Operating	Other Unrestricted	Board Designated	2016 Total	2015 Total
Income					
Support and Revenue					
Admissions	\$ 1,049,405	\$ -	\$ 3,690	\$ 1,053,095	\$ 773,890
Membership	475,389	(20,438)	2,250	457,201	382,537
Contributions, bequests, and grants	555,245	-	684,467	1,239,712	477,721
Interest and dividends, net	12,321	-	529,411	541,732	288,746
Realized and unrealized (loss)/gain on investments, net	-	-	756,494	756,494	(1,477,181)
Investment draw	1,615,724	-	(1,567,930)	47,794	45,736
Education fees	239,365	-	-	239,365	234,899
Contracts	53,369	-	9,406	62,775	54,288
Change in value of charitable trusts	-	-	-	-	-
Income from perpetual trusts	37,231	-	-	37,231	35,891
Transfers	394,430	-	(395,423)	(993)	(9,653)
Other income	23,891	-	39,322	63,213	30,848
Loss on abandonment	-	(2,536)	-	(2,536)	-
Return of strategic reserve	(50,000)	-	50,000	-	-
Total Support and Revenue	4,406,370	(22,974)	111,687	4,495,083	837,722
Revenue Centers					
Retail sales	552,546	-	56,720	609,266	536,230
Less retail expenses	(389,808)	(17,320)	(29,806)	(436,934)	(354,388)
Special events	395,318	-	213,701	609,019	93,968
Less special events expense	(161,087)	-	(213,557)	(374,644)	(290,155)
Rental income	255,009	-	-	255,009	259,391
Less rental expenses	(40,296)	-	-	(40,296)	(28,116)
Total Revenue Centers	611,682	(17,320)	27,058	621,420	216,930
Total Income (Loss)	5,018,052	(40,294)	138,745	5,116,503	1,054,652
Net Assets Released from Restriction	485,759	-	3,138,510	3,624,269	2,986,404
Expenses					
Program Expenses					
Exhibit and visitor services	928,202	853,670	435,486	2,217,358	1,947,653
Education	910,845	297,863	14,314	1,223,022	1,150,159
Collections and research	663,104	423,364	628,078	1,714,546	1,567,922
Total Program Expenses	2,502,151	1,574,897	1,077,878	5,154,926	4,665,734
Supporting Services					
Management and general	1,934,103	(2,075,200)	1,226,170	1,085,073	1,074,844
Membership	131,891	118,833	-	250,724	231,547
Development	928,080	(297,880)	199,231	829,431	906,799
Total Supporting Services	2,994,074	(2,254,247)	1,425,401	2,165,228	2,213,190
Total Expenses	5,496,225	(679,350)	2,503,279	7,320,154	6,878,924
Net Excess	\$ 7,586	\$ 639,056	\$ 773,976	\$ 1,420,618	\$ (2,837,868)

See accompanying notes