

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

**SANTA BARBARA
MUSEUM**
of
**NATURAL
HISTORY**

FOR THE YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

REED S. SPANGLER
JANE E. RUSSELL
WILLIAM L. JACKSON
VANESSA M. GARCIA

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

TRAVIS J. WILSON
HOWARD B. ATKINSON
DIANE M. RAVENSCROFT
DAVID E. LEHMAN
ANDREW J. TRICERRI
JO SALAMACK

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, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

RICHARD L. HUNT
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, 2019, 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 28 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, 2018, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

MacFarlane, Faletti, & Co., LLP

**Santa Barbara, California
February 25, 2021**

SANTA BARBARA MUSEUM OF NATURAL HISTORY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

(With Comparative Totals as of December 31, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 875,213	\$ 944,203
Grants and contributions receivable (Note 3)	268,475	319,755
Bequests receivable (Note 3)	589,295	159,691
Other receivables	6,633	3,692
Inventory	101,068	89,841
Prepaid expense and other assets	<u>144,256</u>	<u>146,473</u>
Total Current Assets	<u>1,984,940</u>	<u>1,663,655</u>
OTHER ASSETS		
Grants and contributions receivable - long-term (Note 3)	261,338	369,421
Investments (Note 4)	43,915,789	39,214,051
Charitable gift annuities (Note 5)	104,411	106,834
Interests in charitable remainder trusts (Note 6)	3,230,685	2,935,829
Interests in perpetual trusts (Note 6)	7,692,708	6,791,225
Rental property (Note 7)	1,750,000	630,000
Property and equipment, net (Note 8)	23,084,044	21,244,609
Collections (Note 2)	-	-
Total Other Assets	<u>80,038,975</u>	<u>71,291,969</u>
TOTAL ASSETS	<u>\$ 82,023,915</u>	<u>\$ 72,955,624</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 460,376	\$ 385,017
Accrued payroll and related expenses	375,975	315,777
Line of credit (Note 10)	400,000	-
Deferred revenue (Note 9)	<u>420,602</u>	<u>295,549</u>
Total Current Liabilities	<u>1,656,953</u>	<u>996,343</u>
OTHER LIABILITIES		
Charitable gift annuities liability (Note 5)	<u>79,248</u>	<u>81,178</u>
Total Other Liabilities	<u>79,248</u>	<u>81,178</u>
Total Liabilities	<u>1,736,201</u>	<u>1,077,521</u>
NET ASSETS (Note 11)		
Without Donor Restrictions	48,784,149	44,992,345
With Donor Restrictions	<u>31,503,565</u>	<u>26,885,758</u>
Total Net Assets	<u>80,287,714</u>	<u>71,878,103</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 82,023,915</u>	<u>\$ 72,955,624</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF ACTIVITIES & CHANGES IN NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2019
(With Comparative Totals for Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	All Funds	
			2019 Total	2018 Total
INCOME				
Support and Revenue				
Admissions	\$ 1,087,709	\$ -	\$ 1,087,709	\$ 729,840
Membership	480,435	-	480,435	402,821
Contributions, bequests, and grants	1,241,034	2,680,488	3,921,522	3,294,283
Net investment return	6,253,799	2,437,931	8,691,730	(2,744,274)
Education fees	194,330	-	194,330	237,900
Contracts	72,480	-	72,480	83,494
Change in value of charitable gift annuities	-	(4,486)	(4,486)	(1,231)
Change in value of charitable trusts (Note 6)	-	1,196,339	1,196,339	(550,755)
Income from perpetual trusts (Note 6)	208,570	119,709	328,279	340,042
Other income	49,156	166	49,322	152,847
Loss on retirement of assets, net	(5,932)	-	(5,932)	(13,095)
Total Support and Revenue	9,581,581	6,430,147	16,011,728	1,931,870
Revenue Centers				
Retail sales	540,787	-	540,787	446,369
Less retail expenses	(333,283)	-	(333,283)	(379,098)
Special events	599,132	-	599,132	612,840
Less special events expense	(335,994)	-	(335,994)	(326,452)
Rental income	278,918	-	278,918	255,775
Less rental expenses	(48,732)	-	(48,732)	(62,783)
Total Revenue Centers	700,828	-	700,828	546,651
Total Income	10,282,409	6,430,147	16,712,556	2,478,521
Net Assets Released from Restrictions	1,812,340	(1,812,340)	-	-
EXPENSES				
Program Expenses				
Exhibit and guest services	2,848,309	-	2,848,309	2,535,936
Education	1,319,046	-	1,319,046	1,269,811
Collections and research	1,800,217	-	1,800,217	1,841,941
Total Program Expenses	5,967,572	-	5,967,572	5,647,688
Supporting Services				
Management and general	1,510,176	-	1,510,176	1,254,721
Development	825,197	-	825,197	898,982
Total Supporting Services	2,335,373	-	2,335,373	2,153,703
Total Expenses	8,302,945	-	8,302,945	7,801,391
CHANGE IN NET ASSETS	3,791,804	4,617,807	8,409,611	(5,322,870)
NET ASSETS, BEGINNING OF YEAR	44,992,345	26,885,758	71,878,103	77,200,973
NET ASSETS, END OF YEAR	\$ 48,784,149	\$ 31,503,565	\$ 80,287,714	\$ 71,878,103

SANTA BABRARA MUSEUM OF NATURAL HISTORY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,409,611	\$ (5,322,870)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,309,564	1,053,423
Realized and unrealized (gain)/loss on investments	(8,032,714)	3,411,435
Loss on retirement of assets, net	5,932	13,095
Donated stock	(284,284)	(14,266)
Change in value of charitable gift annuities	2,423	1,231
Change in value of charitable trusts	(1,196,339)	550,755
Contributions restricted for long-term investment	(1,957,116)	(1,523,670)
Contributions of charitable gift annuities	-	(108,065)
Changes in		
Grants and contributions receivable	159,363	120,261
Bequests receivable	(429,604)	1,650,081
Other receivables	(2,941)	68,841
Inventory	(11,227)	(2,777)
Prepaid expense and other assets	2,217	37,726
Accounts payable and accrued expenses	(245,126)	(750,989)
Accrued payroll and related expenses	60,198	9,693
Deferred revenue	125,053	26,403
Charitable gift annuities liability	(1,930)	81,178
NET CASH USED BY OPERATING ACTIVITIES	(2,086,920)	(698,515)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,834,445)	(5,778,431)
Purchase of investments	(40,550,245)	(24,398,980)
Proceeds from sale of investments	43,045,504	29,345,918
NET CASH USED BY INVESTING ACTIVITIES	(339,186)	(831,493)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	1,957,116	1,523,670
Proceeds from line of credit	400,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,357,116	1,523,670
NET DECREASE IN CASH	(68,990)	(6,338)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	944,203	950,541
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 875,213	\$ 944,203

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2019
(With Comparative Totals as of December 31, 2018)

	Program Services				Supporting Services		Total 2019	Total 2018
	Exhibit & Guest Services	Store Expenses	Education	Collections & Research	Management & General	Development		
Salaries, benefits, & pensions	\$ 1,262,583	\$ 57,246	\$ 924,510	\$ 1,106,256	\$ 661,319	\$ 691,147	\$ 4,703,061	\$ 4,590,965
Payroll taxes	82,038	4,346	61,642	71,733	33,343	46,150	299,252	293,585
Acquisitions	-	-	-	25,345	-	-	25,345	83,303
Advertising	91,589	-	24,417	14,147	7,348	27,728	165,229	182,471
Depreciation	618,660	-	83,529	79,271	521,818	6,286	1,309,564	1,053,423
Equipment	28,428	-	10,081	16,540	21,549	4,924	81,522	91,566
Grants	-	-	-	105,293	-	-	105,293	91,081
Insurance	65,900	1,406	12,692	49,390	34,466	14,033	177,887	126,543
Miscellaneous	1,619	68	238	1,244	710	1,538	5,417	13,608
Printing	48,611	82	14,702	23,685	5,131	25,556	117,767	95,086
Postage & shipping	37,941	-	1,451	1,395	601	10,677	52,065	50,598
Purchases	-	228,285	-	-	-	-	228,285	217,470
Property taxes	-	-	-	-	12,733	-	12,733	18,942
Rentals	115,112	-	2,698	6,960	36,519	908	162,197	100,826
Repairs & maintenance	84,193	-	17,832	54,258	50,345	7,099	213,727	119,178
Services	149,521	28,188	47,400	62,975	111,312	144,835	544,231	613,703
Supplies	112,141	9,980	69,580	88,515	36,874	155,042	472,132	514,193
Transportation & travel	10,734	3,119	21,715	18,557	4,553	10,967	69,645	66,178
Utilities	139,239	563	26,559	74,653	20,287	14,300	275,601	247,005
Total Expenses by Function	<u>2,848,309</u>	<u>333,283</u>	<u>1,319,046</u>	<u>1,800,217</u>	<u>1,558,908</u>	<u>1,161,190</u>	<u>9,020,953</u>	<u>8,569,724</u>
Less expenses included with revenues on the statement of activities								
Retail cost of goods sold	-	(333,283)	-	-	-	-	(333,283)	(379,098)
Cost of direct benefit to donors	-	-	-	-	-	(335,993)	(335,993)	(326,452)
Rental expenses	-	-	-	-	(48,732)	-	(48,732)	(62,783)
Total included in expense section of Statement of Activities	<u>\$ 2,848,309</u>	<u>\$ -</u>	<u>\$ 1,319,046</u>	<u>\$ 1,800,217</u>	<u>\$ 1,510,176</u>	<u>\$ 825,197</u>	<u>\$ 8,302,945</u>	
Total Year Ended December 31, 2018	<u>\$ 2,535,936</u>	<u>\$ -</u>	<u>\$ 1,269,811</u>	<u>\$ 1,841,941</u>	<u>\$ 1,254,721</u>	<u>\$ 898,982</u>		<u>\$ 7,801,391</u>

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 14,500 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 2019 was 120,992. In addition, 24,793 children and adults attended educational programs, 17,671 attended community related events, 7,760 came as volunteers and 744 came specifically for research or professional symposia, for a total attendance at the Mission Canyon campus of 171,960.

Gate attendance at the Sea Center in 2019 was 93,361. In addition, 6,485 children and adults attended educational programs, 650 attended community related events, and 5,030 came as volunteers, for a total attendance at the Sea Center campus of 105,526.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported either as Net Assets Without Donor Restrictions or Net Assets with Donor Restrictions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net Assets With Donor Restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash, Cash Equivalents, and Restricted Cash

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes are considered to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to master planning, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Investments

The Museum records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

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

Grants, Contributions, 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 determined based on an analysis of historical experience, an assessment of economic conditions and a review of subsequent conditions. Bequests receivable are recorded at the time an unassignable right to the gift has been established and the proceeds are measurable in amount. Management believes these amounts will be fully collected and therefore no provision for uncollectible grants, contributions, and bequests receivable has been made. (See Note 3, Grants, Contributions, 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property, building, equipment, and improvements over \$5,000 are recorded at cost, or if donated, at estimated fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

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.

Financial Instruments and Credit Risk

The Museum manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from community members and foundations supportive of the Museum's mission. Investments are made by a variety of investment managers whose performance is monitored by the Museum, its investment consultant, and the investment committee of the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Revenue and Revenue Recognition

Exchange Transactions – Revenue is recognized when earned. Specifically, store sales are recognized at the time of purchase. Membership dues, which are nonrefundable, are comprised of an exchange element based on the benefits received, and a contribution element for the difference. The exchange portion of membership dues are recognized over the membership period, and the contribution portion immediately.

Contributions – Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Bequests are recorded at their estimated fair value when all events required for the transfer of the asset from the estate of the donor to the Museum have occurred and/or a court has issued an order to transfer the assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

Contributed Services - Over 900 volunteers donated over 38,000 hours of their time in 2019 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 prescribed by generally accepted accounting principles, no amount has been recorded in these financial statements for these services. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended December 31, 2019.

Functional Allocation of Expenses

The cost of providing program activities and supporting services is summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Expenses that are attributed to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. The expenses allocated include salaries, benefits, payroll taxes, occupancy, information technology, insurance, and depreciation. Information technology is allocated based upon the number of staff positions. Marketing expenses are allocated based upon estimated efforts and benefit to each division. Depreciation, insurance, and occupancy are allocated based upon square footage. All other costs are charged directly to the appropriate functional category.

Advertising

Advertising costs are expensed as incurred, and approximately \$165,000 and \$182,000 for the years ending December 31, 2019 and 2018, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

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 contributions and grants receivable
- Original cost of assets acquired before 1979
- Depreciable lives of buildings, equipment, and improvements

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Museum is a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes (under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3)) and by the Franchise Tax Board as exempt from state income taxes (under Section 23701d of the California Revenue and Taxation Code). The Museum qualifies for the charitable contribution deduction and has been determined not to be a private foundation. The Museum is required to annually file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Museum is subject to tax on income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Museum is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The Museum's tax filings are subject to examination by the IRS, generally for three years after they are filed and California, generally for four years. The Museum is not aware of any activities that would jeopardize its tax-exempt status.

Comparative Information

The accompanying 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 accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2018 from which the summarized information was derived.

Reclassifications

Certain items in the 2018 comparative totals were reclassified in order to conform to the 2019 presentation.

NOTE 3 GRANTS, CONTRIBUTIONS, AND BEQUESTS RECEIVABLE

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

In less than one year	\$ 857,770
In one to five years	<u>261,338</u>
	<u>\$ 1,119,108</u>

NOTE 4 FAIR VALUE

Certain assets and liabilities are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable.

NOTE 4 FAIR VALUE (Continued)

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Museum can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable to the asset or liability, either directly or indirectly. These include 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, and market – corroborated inputs.

Level 3 – Unobservable inputs for the assets or liabilities. In these situations, the Museum develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of the Museum investment assets are classified within Level 1 as they are comprised of common stock, exchange traded funds and open-ended mutual funds, with readily determinable fair values based on daily redemption values.

The Museum uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Charitable gift annuities are valued as described in Note 5. Perpetual income interest in trusts and charitable remainder trusts are valued as described in Note 6.

Real estate is valued based on appraised value or value in a bona fide offer on the interest. In 2019, the Museum's properties were appraised, and the value increased accordingly.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at December 31, 2019:

NOTE 4 FAIR VALUE (Continued)

	Total	Level 1	Level 2	Level 3	Investments Measured at NAV
Investments					
Cash and money market					
funds (at cost)	\$ 1,108,415	\$ 1,108,415	-	-	-
Domestic equities	12,794,197	12,794,197	-	-	-
International equities	10,099,223	10,099,223	-	-	-
Domestic fixed income securities*	5,910,901	5,910,901	-	-	-
Global fixed income	2,532,719	2,532,719	-	-	-
Real assets	2,063,197	2,063,197	-	-	-
Real estate	300,000	-	-	300,000	-
Rental property	1,750,000	-	-	1,750,000	-
High yield fixed income	1,949,124	-	-	-	1,949,124
Private equity	2,803,126	-	-	-	2,803,126
Hedge funds	4,354,887	-	-	-	4,354,887
Total Investments	<u>45,665,789</u>	<u>34,508,652</u>	<u>-</u>	<u>2,050,000</u>	<u>9,107,137</u>
Charitable gift annuities	104,411	104,411	-	-	-
Beneficial interests in					
Charitable trusts held					
by others	3,230,685	-	497,741	2,732,944	-
Perpetual trusts	7,692,708	-	-	7,692,708	-
Total Beneficial interest	<u>10,923,393</u>	<u>-</u>	<u>497,741</u>	<u>10,425,652</u>	<u>-</u>
Total Assets measured at fair value	<u>\$ 56,693,593</u>	<u>\$ 34,613,063</u>	<u>\$ 497,741</u>	<u>\$12,475,652</u>	<u>\$ 9,107,137</u>
Annuities payable					
Measured at fair value	<u>\$ 79,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,248</u>	<u>\$ -</u>

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

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2019:

	Beginning Balance	Investment Return, Net	Purchases and Issuances	Sales and Distributions	Ending Balance
Real estate	\$ 37,500	\$ 250,500	\$ 12,000	\$ -	\$ 300,000
Rental property	630,000	1,120,000	-	-	1,750,000
Charitable trusts	2,489,642	243,302	-	-	2,732,944
Perpetual trusts	<u>6,791,225</u>	<u>901,483</u>	<u>-</u>	<u>-</u>	<u>7,692,708</u>
Total December 31, 2019	<u>\$ 9,948,367</u>	<u>\$ 2,515,285</u>	<u>\$ 12,000</u>	<u>\$ -</u>	<u>\$12,475,652</u>

Investment return, net, consists of the total change in unrealized gain included in the changes in net assets relating to Level III investments still held at December 31, 2019.

NOTE 4 FAIR VALUE (Continued)

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows for the year ended December 31, 2019:

Investment	Number of Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
High yield fixed income	1	\$ 1,949,124	-	Quarterly Non- redeemable	60 days
Private equity	10	\$ 2,803,124	\$ 4,392,264	Monthly,	-
Hedge funds	4	\$ 4,354,887	-	Quarterly	45 - 60 days

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at December 31, 2018:

	Total	Level 1	Level 2	Level 3	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	\$ 1,304,289	\$ 1,304,289	-	-	-
Domestic equities	11,772,282	11,772,282	-	-	-
International equities	5,993,165	5,993,165	-	-	-
Domestic fixed income securities*	4,818,908	4,818,908	-	-	-
Global fixed income	5,260,905	5,260,905	-	-	-
Real assets	1,750,161	1,087,634	662,527	-	-
Real estate	37,500	-	-	37,500	-
Rental property	630,000	-	-	630,000	-
High yield fixed income	1,784,587	-	-	-	1,784,587
Private equity	2,561,368	-	-	-	2,561,368
Hedge funds	3,930,886	-	-	-	3,930,886
Total Investments	<u>39,844,051</u>	<u>30,237,183</u>	<u>662,527</u>	<u>667,500</u>	<u>8,276,841</u>
Charitable gift annuities	106,834	106,834	-	-	-
Beneficial interests in					
Charitable trusts held by others	2,935,829	-	446,187	2,489,642	-
Perpetual trusts	6,791,225	-	-	6,791,225	-
Total Beneficial interest	<u>9,727,054</u>	<u>-</u>	<u>446,187</u>	<u>9,280,867</u>	<u>-</u>
Total Assets measured at fair value	<u>\$ 49,677,939</u>	<u>\$ 30,344,017</u>	<u>\$1,108,714</u>	<u>\$ 9,948,367</u>	<u>\$ 8,276,841</u>
Annuities payable					
Measured at fair value	\$ 81,178	\$ -	\$ -	\$ 81,178	\$ -

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

NOTE 4 FAIR VALUE (Continued)

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2018:

	<u>Beginning Balance</u>	<u>Investment Return, Net</u>	<u>Purchases and Issuances</u>	<u>Sales and Distributions</u>	<u>Ending Balance</u>
Real Assets	\$ -	\$ -	\$ 37,500	\$ -	\$ 37,500
Rental property	630,000	-	-	-	630,000
Charitable trusts	2,262,413	227,229	-	-	2,489,642
Perpetual trusts	<u>7,482,732</u>	<u>(691,507)</u>	<u>-</u>	<u>-</u>	<u>6,791,225</u>
Total December 31, 2018	<u>\$ 10,375,145</u>	<u>\$ (464,278)</u>	<u>\$ 37,500</u>	<u>\$ -</u>	<u>\$ 9,948,367</u>

Investment return, net, consists of the total change in unrealized gain included in the changes in net assets relating to Level III investments still held at December 31, 2018.

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows for the year ended December 31, 2018:

<u>Investment</u>	<u>Number of Investments</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
High yield fixed income	1	\$ 1,784,587	-	Quarterly	60 days
Private equity	9	\$ 2,561,368	\$ 4,945,753	Non-redeemable Monthly, Quarterly,	-
Hedge funds	5	\$ 3,930,886	-	Semi-annual	45 - 90 days

High yield fixed income – Fund focused on multi-asset class, diversified portfolio of primarily below-investment grade debt securities. Fund does not utilize leverage or engage in short selling or invest in derivatives.

Private equity – includes nine broadly diversified private equity partnerships with varying allocations to buyouts, distressed and turnaround opportunities, venture capital, and sector-focused funds. Holdings are invested in diversified portfolios of investment partnerships, each of which has a defined term, typically ten to fourteen years, with no right to withdraw prior to termination of the investment partnership. Funds are called as needed by managers and distributions are received through liquidation of the underlying assets of the fund.

Hedge Funds – Long/short and multi strategy hedge Funds that can invest long and short, primarily in common stocks. Fund managers may invest in value, growth, or event-driven equity opportunities and typically are not restricted by market capitalization, industry sector, or geography. Leverage may be utilized, which can magnify changes in the values of the underlying securities.

NOTE 5 CHARITABLE GIFT ANNUITIES

The Museum established a charitable gift annuity program in 2019 in which donors make irrevocable gifts to the Museum and receive an annuity payment for their lifetime, their named beneficiary's lifetime, or jointly. The payments to the individuals are based on rates suggested by the American Council on Gift Annuities, and the lifetime annuity obligations are determined by Union Bank using the Annuity 2012 M&F table with an assumed rate of interest of 4% at December 31, 2019. The differences between the fair value of the assets transferred by the donor and the lifetime annuity obligation (that is the gift portions) are recognized as contributions received. The obligation to make payments to the annuitants is a general liability of the Museum. The gift portions of the charitable gift annuities can be used immediately for the purposes specified by the donors, but it is the Museum's policy to invest the assets transferred by the donor until the termination of the agreements. Under the counsel of Union Bank, the Museum is in compliance with the State of California's reserve requirements and limitations on investments.

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 \$328,279 and \$340,042 for the years ended December 31, 2019 and 2018, 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 \$7,692,708 and \$6,791,225 for the years ended December 31, 2019 and 2018, 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 2019 was 3%.

The Museum's interest in these charitable remainder trusts, classified as temporarily restricted net assets, totaled \$3,230,685 and 2,935,829 for the years ended December 31, 2019 and 2018, 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 \$6,625. Monthly rent amounts are adjusted by cost of living increases every five years. The rent received in 2019 and 2018 was \$79,494 and \$79,039, respectively. Originally valued at \$630,000, in 2019, the property was appraised at \$1,900,000 and sold in 2020 for \$1,850,000 (See Note 20, Subsequent Events).

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, 2019:

	2019	2018
Land and Improvements	\$ 314,388	\$ 314,388
Buildings and Improvements	30,260,973	29,894,311
Furniture and Equipment	2,816,990	2,570,113
Construction in Progress - Master Plan	2,613,835	148,380
Total Cost	36,006,186	32,927,192
Total Accumulated Depreciation	(12,922,142)	(11,682,583)
Property and Equipment, net	\$ 23,084,044	\$ 21,244,609
Depreciation Expense	\$ 1,309,564	\$ 1,053,423

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.

Five residential units and one office building are included in the above listing of land and buildings. These spaces are leased out to others. The initial lease terms are for one year and then they become month to month. Total rent received on these properties in 2019 and 2018 totaled \$155,000 and \$137,000, respectively. Minimum lease payments to be received in 2020 are \$41,742.

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 LINE OF CREDIT AND LETTER OF CREDIT

Line of Credit for Master Plan

The Museum has a line of credit with Union Bank 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, 2021. The loan rate is an adjustable interest rate of LIBOR plus 1.5%. The line of credit was drawn on during 2019 with a balance outstanding of \$400,000 at year end.

NOTE 10 LINE OF CREDIT AND LETTER OF CREDIT (Continued)

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. The letter of credit is with Union Bank and bears an interest rate of 1.5%. The walkway was completed in 2018. The City released the full amount of the security in 2020.

NOTE 11 NET ASSETS

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

Net Assets without donor restrictions:	2019	2018
Undesignated	\$ (1,026,844)	\$ 2,487,962
Invested in Fixed Assets	23,084,044	21,244,609
Board Designated		
Master Planning and Implementation	-	456,440
Strategic Reserve	1,995,713	226,278
Specific Projects	245,776	302,815
Quasi-Endowment	24,485,460	20,274,241
Total Net Assets without donor restrictions	48,784,149	44,992,345
 Net Assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Antique Natural History Art	2,187,280	1,924,938
Entomology	2,120,131	1,886,900
Earth Sciences	1,684,852	1,720,525
Condor research	532,975	641,334
Other Collections and Research	375,015	487,169
Education	1,107,683	948,720
Master Planning and Implementation	2,613,835	186,792
Sea Center	63,790	78,962
Other	43,627	42,834
Accumulated earnings on donor-endowed funds	475,539	10,585
	11,204,727	7,928,759
Subject to the passage of time:		
Beneficial interests in charitable trusts held by others	3,230,685	2,935,829
 Not subject to appropriation or expenditure, the income from which is expendable to support:		
Operations	11,630,987	10,921,996
Antique Natural History Art	2,586,666	2,394,174
Library & Archives	1,750,500	1,605,000
Invertebrate Zoology – Malacology	1,000,000	1,000,000
Museum Studies Internships	100,000	100,000
	17,068,153	16,021,170
 Total Net Assets with Donor restrictions	 31,503,565	 26,885,758
 Total All Net Assets	 \$ 80,287,714	 \$ 71,878,103

NOTE 12 ENDOWMENT

The Museum's endowment (the Endowment) consists of funds established by donors to provide annual funding for specific activities and general operations and includes beneficial interests in perpetual trusts and permanently restricted bequests receivable. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Trustees.

Interpretation of Relevant Law

The Board of the Museum has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, the Museum retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. However, the beneficial interests in perpetual trusts is not legally subject to the UPMIFA, because the Board does not have the ability to control the investments and spending policy of these trusts.

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Museum and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Museum
- (7) The investment policies of the Museum.

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$8,129,945, fair values of \$7,891,898, and deficiencies of \$238,047 were reported in net assets with donor restrictions. Those funds recovered their values and there were no funds with deficiencies at December 31, 2019.

Investment and Spending Policies

The Museum has adopted investment and spending policies for the endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments. The target minimum rate of return is the Consumer Price Index plus 5 percent on an annual basis. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

NOTE 12 ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum uses an endowment spending-rate formula to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. To that end, the Board has adopted its "Snake in the Tunnel" spending-rate formula for endowments over which the Trustees have control. Each year, the Museum may draw funds from the 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. During 2019, the spending rate was 5 percent. 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. In establishing this policy, the Museum considered the long-term expected return on the endowment and set the rate with the objective of maintaining the purchasing power of the endowment over time.

Endowment Net Asset Composition

Endowment net assets by type of fund consist of the following as of December 31, 2019:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment	\$ 24,485,425	\$ -	\$ 24,485,425
Donor restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	9,375,445	9,375,445
Accumulated investment gains	-	475,575	475,575
Donor restricted fund invested as endowment	-	6,675,613	6,675,613
Interest in perpetual trusts	-	7,692,708	7,692,708
Total	<u>\$ 24,485,425</u>	<u>\$ 24,219,341</u>	<u>\$ 48,704,766</u>

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 20,274,241	\$ 22,118,267	\$ 42,392,508
Investment income (loss)	4,760,640	2,557,672	7,318,312
Net change in trust assets	-	901,483	901,483
Bequests	-	145,500	145,500
Draw based on spending policy	(466,038)	(1,214,434)	(1,680,472)
Board approved expenditures for planning giving program	(83,418)	-	(83,418)
Donor-restricted expenditures	-	(289,147)	(289,147)
Endowment net assets, end of year	<u>\$ 24,485,425</u>	<u>\$ 24,219,341</u>	<u>\$ 48,704,766</u>

NOTE 12 ENDOWMENT (Continued)

Endowment Net Asset Composition (Continued)

Endowment net assets by type of fund consist of the following as of December 31, 2018:

	Without Donor Restriction	With Donor Restrictions	Total
Board designated endowment	\$ 20,274,241	\$ -	\$ 20,274,241
Donor restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	9,229,945	9,229,945
Accumulated investment gains	-	10,584	10,584
Donor restricted fund invested as endowment	-	6,086,513	6,086,513
Interest in perpetual trusts	-	6,791,225	6,791,225
Total	<u>\$ 20,274,241</u>	<u>\$ 22,118,267</u>	<u>\$ 42,392,508</u>

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 23,149,434	\$ 24,523,830	\$ 47,673,264
Investment income (loss)	(1,707,275)	(1,098,934)	(2,806,209)
Net change in trust assets	-	(691,507)	(691,507)
Bequests	162,969	105,000	267,969
Contributions	-	21,414	21,414
Transfers in	23,178	-	23,178
Draw based on spending policy	(1,204,395)	(489,267)	(1,693,662)
Board approved expenditures for planning giving program	(149,670)	-	(149,670)
Donor-restricted expenditures	-	(252,269)	(252,269)
Endowment net assets, end of year	<u>\$ 20,274,241</u>	<u>\$ 22,118,267</u>	<u>\$ 42,392,508</u>

NOTE 13 PENSION PLAN

The Museum maintains a tax deferred defined contribution retirement 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 was \$92,198 and \$95,492 in 2019 and 2018, respectively.

NOTE 14 MASTER PLANNING

The Museum re-opened its new Santa Barbara Gallery and the thoroughly refurbished Mammal Hall and Bird Habitat Hall in late May 2018. The response from visitors has been enthusiastically positive. By the end of the Summer of 2018, the redesigned and expanded Backyard and its anchor space, the Nature Clubhouse, were opened for visitor enjoyment. Simultaneously, the new Sprague Butterfly Pavilion was opened with a short run of the Museum's perennially popular Butterflies Alive exhibition.

NOTE 14 MASTER PLANNING (Continued)

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

The Centennial Campaign more than fully funded the Phase I “Centennial Project” described above and fundraising was successful at a pace that precluded the need for the Museum to finance any part of the construction and exhibit improvements. In the Summer of 2018, the Board of Trustees approved adding a comprehensive refurbishment of Fleischmann Auditorium to the scope of the project; agreed to raise an additional \$2M of capital funds; and authorized management to commence the design and permitting process so that all contracts could be executed in early 2019.

In 2019, the heating system was replaced; air conditioning installed; the entire floor area and the stage were made universally accessible; both the interior and exterior painted; the floors refinished and all the wood paneling, proscenium and stage floor were treated; theater quality LED lighting was installed in the room and the exhibit cases; acoustical treatments to enhance sound quality installed; the entire roof replaced to achieve enhanced insulation and seismic stability; the stage curtain and 350 chairs replaced, and a host of smaller upgrades were made to improve functionality and visitor comfort. The Auditorium was placed into service in January 2020.

Looking ahead to 2020, the Board and Management immediately turned their attention to the condition of the Collections & Research Center. The roof and almost all of the original HVAC units were reaching end of life and the ensuing danger of rain leaks and unstable environmental controls puts the over 3.5 million specimens housed in the building at risk. Planning for the “Collection Care Project” began in 2019. The Project will replace the roof and HVAC equipment, install solar panels, and complete a dedicated paleontology preparation lab. Total costs including design, engineering, permitting and equipment and construction will be between \$3M and \$3.5M. Construction is expected to begin early in 2021. As of December 31, 2019, \$87,000 in expenses had been incurred for design, permitting and pre-construction planning.

The Museum has been notified of a revocable pledge for more than \$1M which, when received, will cover the final \$700K on the Fleischmann Auditorium project and provide seed funding for the Collections Care Project.

NOTE 15 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 2019 and 2018 totaled \$21,675 and \$17,744, respectively.

NOTE 15 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Comprehensive Refurbishment of Fleischmann Auditorium

In the Summer of 2018, the Board of Trustees approved a comprehensive refurbishment of Fleischmann Auditorium. In 2019, contracts were entered into for architectural, engineering, and general contractor services and the construction project budget was set at \$2,300,000. As of December 31, 2019, the project was substantially completed with \$253,251 still payable to the general contractors for services.

Agreements with City of Santa Barbara

The Museum has entered into an agreement with the City of Santa Barbara 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.

Investment Property Expenses

As part of a 1977 bequest, the Museum received a minority interest in undeveloped land. The majority owners are now interested in selling the property and are actively working to obtain an approved planned development tract map. All owners, including the Museum have agreed to both pay for the costs of obtaining the approved tract map and to pay the owner/developer a commission of 2% of the sales price, paid from the net sales proceeds of the property sale. Through 2019, the Museum has paid \$49,500 towards development of the tract map.

Exhibits

In December 2019, the Museum entered into an agreement to mount a gem, mineral and fossil exhibition. Originally scheduled for 2020, the agreement was amended to move the exhibit to 2021. The Museum would be responsible for shipping, installation, insurance, and security expenses (estimated at \$60,000).

NOTE 16 CONCENTRATION OF RISKS

The Museum maintains cash balances at four 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, 2019, the Museum had approximately \$1,295,000 of uninsured cash on deposit.

NOTE 17 RELATED PARTY TRANSACTIONS

The Museum's Board consisted of 21 Trustees as of December 31, 2019. One of the trustees is the Regional Vice President at the same corporation that is the custodian of the Museum's investments, is the administrator of the Museum's Charitable Giving Annuity and provides the Museum's line of credit. Another trustee is a Senior Portfolio Manager at that company. The corporation only holds the Museum's investments, it does not manage the Museum's assets. The Museum paid fees totaling approximately \$27,000 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 2019 totaled approximately \$744,000.

NOTE 18 STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

Property and equipment in the amount of \$320,485 are included in accounts payable on the Statement of Financial Position and excluded from the Operating Activities section on the Statement of Cash Flows.

Total cash paid during the year for interest was \$2,094.

NOTE 19 LIQUIDITY AND AVAILABILITY

The Museum’s cash flow available for master planning fluctuated in 2019 and will fluctuate in 2020 attributable to timing of donations and pledge payments coming in for the master plan and related periodic construction expenditures. The Museum maintains a line of credit of \$2.5 million with a bank that is available to be drawn upon as needed to manage the master plan cash flow. As of December 31, 2019, \$400,000 has been drawn on the line of credit.

The Museum’s Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Board-designated endowment of \$24,485,425 is subject to the annual spending policy as described in Note 13. Although the Museum does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, the Museum has designated a strategic reserve, which had a balance of approximately \$1,995,713 as of December 31, 2019.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019:

Current Assets	
Cash and cash equivalents	\$ 875,213
Other receivables	6,633
Bequests receivable	589,295
Endowment spending-rate distributions and appropriations	2,090,754
	<u>\$ 3,561,895</u>

NOTE 20 SUBSEQUENT EVENTS

The Museum’s management has evaluated subsequent events through February 25, 2021, 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, 2019, except for the following:

Global Pandemic

On March 11, 2020, the World Health Organization declared the novel strain coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Also, in March 2020, as a result of the COVID-19 outbreak, Santa Barbara County mandated the closure of all “non-essential” businesses due to the impact of COVID-19 on public health and safety. The Museum was temporarily closed and re-opened with limited capacity in mid-June 2020.

NOTE 20 SUBSEQUENT EVENTS (Continued)

Global Pandemic (Continued)

In May 2020, the Museum was granted a loan from Customers Bank in the amount of \$914,930 under the Paycheck Protection Program ("PPP") through the Small Business Administration (SBA). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act").

In February 2021, the Museum received a second loan under the Paycheck Protection Program in the same amount of \$914,930 from Customers Bank.

Both loans are payable over five years and bears interest at a rate of 1% per annum, payable monthly with payment deferral until either the loan forgiveness amount is remitted by the SBA to the lender or 10 months after the end of the 24 week covered period. The loan may be prepaid at any time prior to maturity with no prepayment penalties. The loan and accrued interest are forgivable after 24 weeks as long as the Museum uses the loan proceeds for eligible purposes and maintains payroll levels. To be forgivable, funds from the loan must be used for payroll and related expenses, mortgage interest, rent, utilities, and transportation. The Museum used the entire loan amount for qualifying expenses.

The Museum applied for and received an Economic Impact Disaster Loan from the U.S. Small Business Administration in the amount of \$150,000 with an interest rate of 2.75% per annum. The first payment is due July 2021. Monthly payments are \$641, and the first payment is due July 2021 and will continue until July 2050.

The Museum cannot reasonably estimate the length of severity of this pandemic, or the extent to which the disruption may materially impact the Museum's financial position, changes in net assets, and cash flows in 2021 and the future.

Line of Credit

In January 2020, the outstanding balance of \$400,000 on the line of credit was paid in full. Subsequently, the Museum drew an additional \$350,000 and \$325,000 in February and March 2020, respectively. By December 2020, the outstanding balance was paid in full.

Early Retirement Incentive Program

In October 2020, the Museum announced an Early Retirement Incentive Program for employees 60 years and older with fifteen or more years of service at the Museum. Three employees applied for the program and will retire on January 15, 2021. As part of the agreement, the employees will receive a severance benefit equal to 22 to 26 weeks of the employee's base salary. The total payout is estimated at \$90K.

Sale of Land Held for Investment

In November 2020, the Museum sold land in Goleta, California, which was being leased to a convalescent hospital for \$1,850,000.

Lighting upgrade

In 2020, the Museum received a donation to upgrade lighting in the Collections and Research Center. The Museum signed a contractor proposal totaling \$50,000 to install the new energy efficient LED-lighting. The installation is expected to be significantly completed by the end of 2020.

NOTE 20 SUBSEQUENT EVENTS (Continued)

Pedestrian Bridge

In May 2020, the Museum learned that the its pedestrian bridge connecting one part of the Mission Creek Campus to the other over a creek bed had wood rot issues that could potentially affect the safety of users and closed the bridge. While the campus is still connected via a larger vehicle approved bridge, the Museum is working with engineers and contractors and is in the permitting process to repair the pedestrian bridge. The current estimate of the total cost to repair the bridge including engineers, other consultants and the general contractor is \$450,000. Repairs are currently estimated to be completed by August 2021. The Museum will be fundraising to cover the costs of bringing the bridge back on line.

Solar Installation at the Sea Center

The Museum has entered into an agreement to have solar panels installed on the roof of the Sea Center and is in the process of working with the installer to obtain all the necessary permits. The Museum is not paying for the installation of the panels. Once the permits are obtained and installation is completed, the Museum will then be required to pay for the electricity generated and used by it at a rate 0.202 per kWh escalating 3.6% annually for the later of 6 years or until \$110,096 has been paid, at which time the Museum can purchase the system for the then market price, continue to buy the electricity generated, or terminate the agreement. The Sea Center solar generation system started producing electricity May 2020.

Purchase of Exhibit

In December 2020, the Museum entered into a contract to purchase a set of animatronic dinosaurs for \$130,505. The Museum will take receipt of the dinosaur exhibit in early 2021.

Investment Commitment

In 2020, as part of the diversification of its investment portfolio, the Museum committed to invest \$1,000,000 in two private equity funds. The investment periods for the two funds are five to six years and both funds are expected to terminate in about 10 years.

SUPPLEMENTAL SCHEDULE

SANTA BARBARA MUSEUM OF NATURAL HISTORY
SUPPLEMENTAL SCHEDULE OF ACTIVITIES WITHOUT DONOR RESTRICTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	Operating	Other Without Donor Restriction	Board Designated	2019 Total	2018 Total
Income					
Support and Revenue					
Admissions	\$ 1,087,709	\$ -	\$ -	\$ 1,087,709	\$ 729,768
Membership	544,902	(65,892)	1,425	480,435	402,821
Contributions, bequests, and grants	622,906	-	618,128	1,241,034	799,189
Net investment return	(97)	-	6,128,586	6,128,489	(1,645,340)
Investment draw	1,680,472	(1,089,124)	(466,038)	125,310	45,695
Education fees	194,330	-	-	194,330	237,900
Contracts	54,600	-	17,880	72,480	83,494
Income from perpetual trusts	183,570	-	25,000	208,570	208,702
Other income	27,017	-	22,139	49,156	152,845
Loss on retirement of assets, net	-	(5,932)	-	(5,932)	(13,095)
Use of strategic reserve	206,870	-	(206,870)	-	-
Total Support and Revenue	4,602,279	(1,160,948)	6,140,250	9,581,581	1,001,979
Revenue Centers					
Retail sales	540,787	-	-	540,787	446,369
Less retail expenses	(334,815)	7,782	(6,250)	(333,283)	(379,098)
Special events	424,020	-	175,112	599,132	612,840
Less special events expense	(154,259)	(1,957)	(179,778)	(335,994)	(326,452)
Rental income	278,918	-	-	278,918	255,775
Less rental expenses	(48,732)	-	-	(48,732)	(62,783)
Total Revenue Centers	705,919	5,825	(10,916)	700,828	546,651
Total Income (Loss)	5,308,198	(1,155,123)	6,129,334	10,282,409	1,548,630
Net Assets Released from Restriction	823,511	1,089,123	(100,294)	1,812,340	14,351,355
Expenses					
Program Expenses					
Exhibit and Guest services	1,305,498	1,382,109	160,702	2,848,309	2,535,936
Education	972,190	336,293	10,563	1,319,046	1,269,811
Collections and research	610,725	498	1,188,994	1,800,217	1,841,941
Total Program Expenses	2,888,413	1,718,900	1,360,259	5,967,572	5,647,688
Supporting Services					
Management and general	2,152,952	(3,197,941)	2,555,165	1,510,176	1,254,721
Development	1,090,344	(282,442)	17,295	825,197	898,982
Total Supporting Services	3,243,296	(3,480,383)	2,572,460	2,335,373	2,153,703
Total Expenses	6,131,709	(1,761,483)	3,932,719	8,302,945	7,801,391
CHANGE IN NET ASSETS	\$ -	\$ 1,695,483	\$ 2,096,321	\$ 3,791,804	\$ 8,098,594