

SANTA BARBARA MUSEUM  
OF NATURAL HISTORY  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2014 AND 2013  
(With Independent Auditors' Report Thereon)

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
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## INDEPENDENT AUDITORS' REPORT

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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, 2014 and 2013, 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, 2014, 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 (GAAP); 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, 2014 and 2013, 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.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of unrestricted activities presented on page 29 is presented for 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, 2013, financial statements and our report, dated March 14, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Santa Barbara, California  
March 11, 2015

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2014 AND 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and cash equivalents (Notes 2 & 9)	\$ 2,353,789	\$ 1,569,175
Grants and pledges receivable (Note 4)	351,734	2,084,055
Other receivables	-	10,483
Inventory	87,920	87,687
Prepaid expense and other assets	223,415	86,529
<b>Total Current Assets</b>	<b>3,016,858</b>	<b>3,837,929</b>
<b>Other Assets</b>		
Cash and cash equivalents restricted to master planning	5,055,794	2,537,547
Grants and pledges receivable - long-term (Note 4)	544,727	400,000
Investments (Note 5)	40,721,186	40,335,321
Interests in trusts (Note 6)	5,803,843	6,243,824
Rental property (Note 7)	630,000	630,000
Property and equipment, net (Note 8)	12,621,080	12,484,619
Collections (Note 2)	-	-
<b>Total Other Assets</b>	<b>65,376,630</b>	<b>62,631,311</b>
<b>Total Assets</b>	<b>\$ 68,393,488</b>	<b>\$ 66,469,240</b>
<u><b>Liabilities and Net Assets</b></u>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 567,999	\$ 465,849
Grant payable (Note 11)	54,366	-
Refundable advance (Note 9)	-	2,637,470
Deferred revenue (Note 10)	273,229	326,956
Agency funds (Note 11)	10,290	12,500
<b>Total Current Liabilities</b>	<b>905,884</b>	<b>3,442,775</b>
<b>Net Assets (Note 13)</b>		
Unrestricted	15,505,034	15,367,420
Unrestricted - Board Designated	24,581,324	24,520,065
Temporarily Restricted	16,268,753	12,005,067
Permanently Restricted	11,132,493	11,133,913
<b>Total Net Assets</b>	<b>67,487,604</b>	<b>63,026,465</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 68,393,488</b>	<b>\$ 66,469,240</b>

See accompanying notes

**SANTA BARBARA MUSEUM OF NATURAL HISTORY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	All Funds	
				2014 Total	2013 Total
<b>Income</b>					
<b>Support and Revenue</b>					
Admissions	\$ 762,132	\$ 14,309	\$ -	\$ 776,441	\$ 659,525
Membership	427,059	2,087	-	429,146	396,889
Contributions, bequests, and grants	606,487	7,784,556	-	8,391,043	3,791,075
Investment income (Note 5)	917,693	230,506	-	1,148,199	4,984,446
Investment draw (Note 5)	43,161	(43,161)	-	-	-
Education fees	233,481	500	-	233,981	242,898
Contracts	57,324	80,717	-	138,041	111,834
Change in value of charitable trusts (Note 6)	-	(438,561)	(1,420)	(439,981)	611,904
Income from perpetual trusts (Note 6)	34,912	136,962	-	171,874	165,021
Other income	(7,523)	33,734	-	26,211	68,821
Loss on retirement of assets, net (Note 8)	(24,061)	-	-	(24,061)	(3,115,683)
<b>Total Support and Revenue</b>	<b>3,050,665</b>	<b>7,801,649</b>	<b>(1,420)</b>	<b>10,850,894</b>	<b>7,916,730</b>
<b>Revenue Centers</b>					
Store sales	451,383	-	-	451,383	398,351
Less store expenses	(332,271)	-	-	(332,271)	(274,218)
Special events	164,490	313,917	-	478,407	400,562
Less special events expense	(279,550)	-	-	(279,550)	(251,317)
Rental income	283,220	-	-	283,220	294,978
Less rental expenses	(22,623)	-	-	(22,623)	(22,127)
<b>Total Revenue Centers</b>	<b>264,649</b>	<b>313,917</b>	<b>-</b>	<b>578,566</b>	<b>546,229</b>
<b>Total Income</b>	<b>3,315,314</b>	<b>8,115,566</b>	<b>(1,420)</b>	<b>11,429,460</b>	<b>8,462,959</b>
<b>Net Assets Released from Restriction</b>	<b>3,851,880</b>	<b>(3,851,880)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenses</b>					
<b>Program Expenses</b>					
Exhibit and visitor services	2,059,713	-	-	2,059,713	1,884,613
Education	1,278,780	-	-	1,278,780	1,192,874
Collections and research	1,788,794	-	-	1,788,794	1,782,084
<b>Total Program Expenses</b>	<b>5,127,287</b>	<b>-</b>	<b>-</b>	<b>5,127,287</b>	<b>4,859,571</b>
<b>Supporting Services</b>					
Management and general	954,074	-	-	954,074	583,070
Membership	160,169	-	-	160,169	134,529
Development	726,791	-	-	726,791	634,778
<b>Total Supporting Services</b>	<b>1,841,034</b>	<b>-</b>	<b>-</b>	<b>1,841,034</b>	<b>1,352,377</b>
<b>Total Expenses</b>	<b>6,968,321</b>	<b>-</b>	<b>-</b>	<b>6,968,321</b>	<b>6,211,948</b>
<b>Net Excess</b>	<b>\$ 198,873</b>	<b>\$ 4,263,686</b>	<b>\$ (1,420)</b>	<b>\$ 4,461,139</b>	<b>\$ 2,251,011</b>

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at December 31, 2012	\$ 39,841,308	\$ 9,968,330	\$ 10,965,816	\$ 60,775,454
Change in Net Assets	<u>46,177</u>	<u>2,036,737</u>	<u>168,097</u>	<u>2,251,011</u>
Net Assets at December 31, 2013	\$ 39,887,485	\$ 12,005,067	\$ 11,133,913	\$ 63,026,465
Change in Net Assets	<u>198,873</u>	<u>4,263,686</u>	<u>(1,420)</u>	<u>4,461,139</u>
Net Assets at December 31, 2014	<u>\$ 40,086,358</u>	<u>\$ 16,268,753</u>	<u>\$ 11,132,493</u>	<u>\$ 67,487,604</u>

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 4,461,139	\$ 2,251,011
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	779,558	786,631
Realized and unrealized gain on investments	(320,690)	(4,260,680)
Loss on retirement of assets, net	21,061	3,119,681
Donated stock	(2,693,404)	(2,562,902)
Donation for long term purposes	(5,055,794)	-
Change in value of trusts (Note 19)	439,981	(611,904)
Charitable trust distribution received	-	803,595
Contribution of interest in perpetual trust	-	(6,424)
Changes in		
Grants and pledges receivable	1,587,594	(2,030,925)
Other receivables	10,483	1,431
Inventory	(233)	(8,015)
Prepaid expense and other assets	(136,886)	37,745
Accounts payable	102,150	(28,293)
Grant payable (Note 11)	54,366	-
Refundable advance (Note 9)	(99,923)	99,923
Deferred revenue	(53,727)	41,020
Agency funds (Note 11)	(2,210)	(733,931)
Net Cash Used by Operating Activities	<u>(906,535)</u>	<u>(3,102,037)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(940,080)	(2,297,589)
Proceeds from disposal of property and equipment	3,000	-
Purchase of investments	(22,626,975)	(13,108,420)
Proceeds from sale of investments	25,255,204	17,534,092
Net Cash Provided by Investing Activities	<u>1,691,149</u>	<u>2,128,083</u>
Net Increase/(Decrease) in Cash	<u>784,614</u>	<u>(973,954)</u>
Cash and Cash Equivalents, Beginning of Year	<u>1,569,175</u>	<u>2,543,129</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,353,789</u>	<u>\$ 1,569,175</u>

See accompanying notes



SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATIONAL DATA

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

**Inspiring an Awe for Nature and a Thirst for Discovery**

The 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 Mission Canyon in 2014 was 82,354. In addition, 27,319 children and adults attended educational programs, 25,054 attended community related events, and 9,713 persons came to participate in museum programs as volunteers, for a total attendance at the Mission Canyon campus of 144,440.

Gate attendance at the Sea Center in 2014 was 88,443. In addition, 8,002 children and adults attended educational programs, 822 attended community related events, and 438 persons came to participate in museum programs/operations as volunteers, for a total attendance at the Sea Center campus of 97,705.

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 – For the purposes of the statement of cash flows, 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. For statement of cash flows presentation purposes, these securities are considered to be cash equivalents, as such securities have original maturities of three months or less.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

- 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.

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 14, ‘Endowment,’ under the ‘Spending Policy and How the Investment Objectives Relate to Spending Policy.’)

Grants and Pledges Receivable – Unconditional pledges to give are reported as assets and as revenues or gains in the period in which the pledge is received. 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.

Inventory – Inventory consists of goods held for sale in the Museum store and is carried at the lower of cost (first-in, first-out method) or market value.

Property and Equipment – Property, building, equipment and improvements are recorded at cost, or if donated, at estimated fair value at date of donation. Assets having an estimated useful life in excess of one year and original cost or donated value of \$5,000 or more are capitalized in the year of acquisition. Depreciation expense is computed using the straight-line method over the useful lives of the assets. Depreciable lives of the assets range from 3 to 40 years. Donor restrictions on contributions for the purchase of buildings, equipment or improvements are considered satisfied when the expenditure is incurred and a transfer from temporarily restricted to unrestricted net assets is made at that time.

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

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

The Museum is continually developing its collections, which currently include more than three million specimens, artifacts, other cultural objects, books and manuscripts. These holdings are used by Museum scientists and a worldwide network of researchers from a variety of disciplines. Their usage forms the basis of published findings, as well as programs in education and Museum exhibitions. The collection is kept under curatorial care including conservation practices, and is subject to the Museum's policy that requires proceeds from the sale of collection items to be used only for acquisition of additional collections. The Museum does not recognize as a contribution any income from donated collection items, as its collections are not capitalized.

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

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 3.

Membership Revenue – Membership revenue is comprised of both a contribution component and an earned income component. The portion of membership dues that represents an economic benefit received by the member is recognized as income as it is earned. The portion of membership dues that represents a contribution is recognized as income when received.

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

Contributed Services – Over 800 volunteers donated over 37,500 hours of their time in 2014 to the Museum as docents, research associates, interns, board members and in auxiliary organizations. This volunteer time is critical to the success of the Museum. However, as this volunteer service does not meet the recognition requirements under accounting principles generally accepted in the United States of America, (GAAP), no amount has been recorded in these financial statements for these services.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

Museum League – The Museum conducts annual fund raising activities through an auxiliary unit, the Museum League, which supports essential Museum projects. The income from these activities is included in special events on the Statement of Activities in the Board Designated column.

Functional Allocation of Expenses – The costs of providing the various programs and other activities are charged to each department based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to each department based on the estimated benefit to that department.

Advertising – The Museum expenses advertising costs as incurred. Advertising expense was \$196,876 and \$118,028 for the years ending December 31, 2014 and 2013, respectively.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

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

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

Other estimates used in preparing these financial statements include:

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

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

Income Taxes – The Museum is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The Museum is not considered a private foundation. The Museum is unaware of any uncertain tax positions at December 31, 2014, or for any period for which the statute of limitations remains open.

Comparative Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP.

Change in Presentation – Changes were made to the presentation of the 2013 comparative totals to conform to the 2014 presentation.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

NOTE 3: GRANTS AND PLEDGES RECEIVABLE

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

2015 – Current portion due	\$ 351,734
2016 – Long-term portion due	182,000
2017 – Long-term portion due	181,000
2018 – Long-term portion due	81,000
Thereafter	<u>100,727</u>
	<u>\$ 896,461</u>

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

NOTE 4: FAIR VALUE

*Fair Value Measurements*—The Museum is subject to the provisions of ASC 820-10, *Fair Value Measurements*. ASC 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e., the exit price). In accordance with ASU No. 2009-12, *Investment in Certain Entities that Calculate Net Asset Value Per Share*, the NAV per share or its equivalent is used to fair value investments that follow the American Institute of Certified Public Accountants Guide in arriving at their reported NAV.

ASC 820-10 also establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories. The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Museum's perceived risk of that investment.

*Level I*—Quoted prices are available in active markets for identical investments as of the reporting date. This category includes active exchange traded money market funds and equity securities.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

*Level II* —Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined using models or other valuation methodologies.

*Level III* —Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format. 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 fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Museum's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The investments and interests in trusts carried on the statement of financial position by level within the valuation hierarchy as of December 31, 2014 and 2013, are as follows:

December 31, 2014

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money Market	\$ 758,448	\$ -	\$ -	\$ 758,448
Equity Securities*	20,192,305	-	-	20,192,305
Fixed Income Securities**	5,714,120	-	1,571,508	7,285,628
Alternative Investments:				
Private Equity	-	-	2,373,480	2,373,480
Hedge Funds	-	-	7,417,912	7,417,912
Real Assets	<u>2,693,413</u>	<u>-</u>	<u>-</u>	<u>2,693,413</u>
Total Investments	<u>29,358,286</u>	<u>-</u>	<u>11,362,900</u>	<u>40,721,186</u>
Interest in Trusts	<u>-</u>	<u>4,530,853</u>	<u>1,272,990</u>	<u>5,803,843</u>
Total Assets Measured at Fair Value	<u>\$ 29,358,286</u>	<u>\$ 4,530,853</u>	<u>\$ 12,635,890</u>	<u>\$ 46,525,029</u>

\*Included in equity securities are domestic securities valued at \$11,202,049 and international securities valued at \$8,990,256.

\*\* \$3,850,000 of total fixed income securities is securitized for a line of credit (see Note 12).

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December 31, 2013

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money Market	\$ 529,269	\$ -	\$ -	\$ 529,269
Equity Securities	19,687,200	-	-	19,687,200
Fixed Income Securities	6,224,070	-	1,547,475	7,771,545
Alternative Investments:				
Private Equity	-	-	2,162,860	2,162,860
Real Estate Fund	-	-	1,556	1,556
Hedge Funds	-	-	7,169,782	7,169,782
Real Assets	<u>3,013,110</u>	<u>-</u>	<u>-</u>	<u>3,013,110</u>
Total Investments	<u>29,453,649</u>	<u>-</u>	<u>10,881,673</u>	<u>40,335,322</u>
Interest in Trusts	<u>-</u>	<u>4,549,083</u>	<u>1,694,741</u>	<u>6,243,824</u>
Total Assets Measured at Fair Value	<u>\$ 29,453,649</u>	<u>\$ 4,549,083</u>	<u>\$ 12,576,414</u>	<u>\$ 46,579,146</u>

The changes in investments classified as Level III for the year ended December 31, 2014 are as follows:

	<u>Fixed Income</u>	<u>Private Equity</u>	<u>Real Estate Fund</u>	<u>Hedge Funds</u>	<u>Interest in Trusts</u>	<u>Total</u>
Balance –						
January 1, 2014	\$1,547,475	\$ 2,162,860	\$ 1,556	\$ 7,169,782	\$ 1,694,741	\$ 12,576,414
Total realized and unrealized gains	300	246,580	112	90,110	-	337,102
Change in value of Level 3 trust interests	-	-	-	-	(425,282)	(425,282)
Purchases	23,733	460,020	-	2,982,189	-	3,465,942
Sales	<u>-</u>	<u>(495,980)</u>	<u>(1,668)</u>	<u>(2,824,169)</u>	<u>-</u>	<u>(3,321,817)</u>
Balance –						
December 31, 2014	<u>\$1,571,508</u>	<u>\$ 2,373,480</u>	<u>\$ -</u>	<u>\$ 7,417,912</u>	<u>\$ 1,269,459</u>	<u>\$ 12,632,359</u>
Change in unrealized gain included in the changes in net assets relating to Level 3 investments still held at December 31, 2014	<u>\$ (22,904)</u>	<u>\$ 222,936</u>	<u>\$ 112</u>	<u>\$ (363,401)</u>	<u>\$ -</u>	<u>\$ 163,257</u>

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.



SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

There were no significant transfers between Level I, Level II, and Level III of the fair value hierarchy during 2014.

The changes in investments classified as Level III for the year ended December 31, 2013 are as follows:

	<u>Fixed Income</u>	<u>Private Equity</u>	<u>Real Estate Fund</u>	<u>Hedge Funds</u>	<u>Interest in Trusts</u>	<u>Total</u>
Balance –						
January 1, 2013	\$ -	\$ 1,757,085	\$ 60,628	\$ 6,383,277	\$ 1,833,072	\$ 10,034,062
Total realized and unrealized gains	22,902	228,416	36,076	807,689	-	1,095,083
Change in value of Level 3 trust interests	-	-	-	-	199,072	199,072
Trust transfer to level 2	-	-	-	-	(343,827)	(343,827)
New trust contributed	-	-	-	-	6,424	6,424
Purchases	1,524,573	380,319	-	1,471,434	-	3,376,326
Sales	<u>-</u>	<u>(202,960)</u>	<u>(95,148)</u>	<u>(1,492,618)</u>	<u>-</u>	<u>(1,833,340)</u>
Balance –						
December 31, 2013	<u>\$ 1,547,475</u>	<u>\$ 2,162,860</u>	<u>\$ 1,556</u>	<u>\$ 7,169,782</u>	<u>\$ 1,694,741</u>	<u>\$ 12,576,414</u>
Change in unrealized gain included in the changes in net assets relating to Level 3 investments still held at December 31, 2013	<u>\$ 22,902</u>	<u>\$ 169,773</u>	<u>\$ 102,858</u>	<u>\$ 815,071</u>	<u>\$ -</u>	<u>\$ 1,110,604</u>

One Interest in Trust was transferred from Level III to Level II as of January 1, 2013 as it was determined that the underlying assets are invested in marketable securities.

NOTE 5: INVESTMENTS

Investment income for the years ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Interest and Dividends	\$ 986,359	\$ 844,008
Change in Unrealized Gain	(1,369,200)	2,718,054
Realized Gain	<u>1,689,892</u>	<u>1,542,626</u>
	1,307,051	5,104,688
Less Investment Fees	<u>(158,852)</u>	<u>(120,242)</u>
Total Investment Income	<u>\$ 1,148,199</u>	<u>\$ 4,984,446</u>

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Investment income at December 31, 2014 is allocated as follows:

Operating		
Interest earned on cash	\$ 1,735	
Total Operating Investment Income		\$ 1,735
Board Designated		
Investment income on quasi-endowment funds	898,673	
Investment income on facilities funds	<u>17,285</u>	
Total Board Designated Investment Income		915,958
Temporarily Restricted		
Investment income on funds restricted for specific purposes	<u>230,506</u>	
Total Temporarily Restricted Investment Income		<u>230,506</u>
Total Investment Income		<u>\$ 1,148,199</u>

The investment draw for the year ending December 31, 2014 is allocated as follows:

Operating		
Investment draws on quasi-endowment funds	\$ 1,438,790	
Investment draws on funds for specific operating purposes	<u>76,705</u>	
Total Operating Draw		\$ 1,515,495
Board Designated		
Investment draws on quasi-endowment funds for operations	(1,438,790)	
Investment draws on funds designated for facilities	<u>(33,544)</u>	
Total Draws on Board Designated Funds		(1,472,334)
Temporarily Restricted		
Investment draws on funds restricted for education	<u>(43,161)</u>	
Total Draws Temporarily Restricted Funds		<u>(43,161)</u>
Net Investment Draw		<u>\$ -</u>

Investment income at December 31, 2013 is allocated as follows:

Operating		
Interest earned on cash	\$ 2,383	
Total Operating Investment Income		\$ 2,383
Board Designated		
Investment income on quasi-endowment funds	3,923,478	
Investment income on facilities funds	<u>70,732</u>	
Total Board Designated Investment Income		3,994,210
Temporarily Restricted		
Investment income on funds restricted for specific purposes	<u>987,853</u>	
Total Temporarily Restricted Investment Income		<u>987,853</u>
Total Investment Income		<u>\$ 4,984,446</u>

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The investment draw for the year ending December 31, 2013 is allocated as follows:

Operating		
Investment draws on quasi-endowment funds	\$ 1,434,705	
Investment draws on funds for specific operating purposes	<u>80,932</u>	
Total Operating Draw		\$ 1,515,637
Board Designated		
Investment draws on quasi-endowment funds for operations	(1,434,705)	
Investment draws on funds designated for facilities	<u>(39,341)</u>	
Total Draws on Board Designated Funds		(1,474,046)
Temporarily Restricted		
Investment draws on funds restricted for education	<u>(41,591)</u>	
Total Draws Temporarily Restricted Funds		<u>(41,591)</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 14, 'Endowment,' under the 'Spending Policy and How the Investment Objectives Relate to Spending Policy.')

NOTE 6: INTERESTS IN TRUSTS

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

Perpetual Income Interest in Trusts – The Museum is the permanent income beneficiary of two perpetual trusts. The Museum does not have possession or control of the trusts or their assets. Distribution of income is nondiscretionary and totaled \$171,874 and \$165,021 for the years ended December 31, 2014 and 2013, respectively. The Museum's initial interest in the perpetual trusts is recorded as a contribution and as an asset at the fair value of the trust interest. As the Museum is the beneficiary of a stream of income into perpetuity, the fair value of its interest in the trust is recorded as a permanently restricted asset. Any increase or decrease in the value of the asset is recorded as a change in value of trust interests. The Museum believes that the market value as reported by the trustee is a good approximation of the fair value of the Museum's interest in the trusts.

The Museum's interest in these perpetual trusts, classified as permanently restricted net assets, totaled \$3,507,548 and \$3,508,968 for the years ended December 31, 2014 and 2013, 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

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benefits to be received when the trust assets will be distributed is recorded in the Statement of Activities as a change in the value of trust interests.

Charitable remainder trust agreements are classified as temporarily restricted net assets unless the donor has permanently restricted the Museum's use of its interest in the asset. The assets are recorded at approximate fair market value based upon the most recent tax return filed by the trust that is available to the Museum or current values provided by the trustee to the Museum. The present value of the estimated future value to be received by the Museum is calculated using the IRS annuity tables and a discount rate of 4%, based on the Museum's historic risk free rate of return.

The Museum's interest in these charitable remainder trusts, classified as temporarily restricted net assets, totaled \$2,296,295 and \$2,734,856 for the years ended December 31, 2014 and 2013, respectively.

NOTE 7: RENTAL PROPERTY

The Museum owns donated real property (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 2014 was \$74,037 and in 2013 was \$73,511.

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>2014</u>	<u>2013</u>
Land and Improvements	\$ 309,388	\$ 309,388
Buildings and Improvements	16,970,714	16,903,121
Furniture and Equipment	1,983,776	1,948,656
Construction in Progress - Master Plan	1,853,504	1,159,737
Construction in Progress - Other	<u>128,259</u>	<u>52,000</u>
Total Cost	21,245,641	20,372,902
Total Accumulated Depreciation	<u>(8,624,561)</u>	<u>(7,888,283)</u>
Property and Equipment, net	<u>\$ 12,621,080</u>	<u>\$ 12,484,619</u>
Depreciation Expense	<u>\$ 779,558</u>	<u>\$ 786,631</u>

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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 creating a master plan for its Mission Creek Campus (see Note 16). In 2013, the Museum revised its master plan, moving from the proposed multi-phase campus development project to a revitalization of existing facilities, refocusing the project to more effectively showcase its scientific, programmatic and education strengths. In making this change, studies, plans, and costs capitalized and directly related to the original master plan were written off and are shown on the statement of activity as “Loss on Abandonment.”

Master Plan – In Progress

	<u>2014</u>	<u>2013</u>
Balance – beginning of year	\$ 1,159,737	\$ 2,714,251
Costs incurred in current year	693,767	1,495,626
Abandoned portion of Plan	<u>-</u>	<u>(3,050,140)</u>
Total Cost	<u>\$ 1,853,504</u>	<u>\$ 1,159,737</u>

Loss on Abandonment incurred in 2013 is comprised of the following:

Write-off of Master Plan expenses incurred in:	
2012 and earlier	\$ 2,002,955
2013	<u>1,047,185</u>
Master Plan written off	3,050,140
Other assets abandoned & replaced	<u>65,543</u>
Loss on Abandonment	<u>\$ 3,115,683</u>

NOTE 9: REFUNDABLE ADVANCE

The Museum received a \$5 million conditional promise to give in 2012 to renovate and restore the legacy building and exhibits at the Museum. This support was conditioned upon the Museum achieving specific institutional branding changes. Approximately \$2.5 million of this \$5 million promise was received in 2013, as well as an additional \$100,000 donation that was also tied to the same institutional branding changes. The funds received were considered a liability on the Statements of Financial Position and shown as “Refundable advance.” The cash is held in a money market accounts and is included as “Cash and cash equivalents restricted to master planning” on the Statements of Financial Position.

In 2014, the remainder of the \$5 million conditional promise to give was received. The specific institutional branding changes were completed, and the condition considered to have been met. Accordingly the \$5 million was recognized as revenue in 2014.

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NOTE 10: 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 11: AGENCY FUNDS

Agency Funds – In 2013, the Museum began serving 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 balance of \$10,290 and \$12,500 at December 31, 2014 and 2013, respectively, is the unexpended portion of these funds.

The Museum, for a number of years has served as an agent for the Condor Survival Funds. Payments were made into this fund by renewable energy companies as part of their permit application fee. The funds are to be used to support the California Condor Recovery Program's conservation measures. In 2013, as the process for making the grants out of this fund was finalized, management determined that the Museum has a role in determining the beneficiaries of the Condor Survival Fund distributions and ensuring that the grants are in line with the purpose of the fund. This authority to veto potential beneficiaries means that this is not an "Agency Fund" and the Museum should recognize the assets and contributions to the fund. As with all temporarily restricted funds, revenue and expenses related to the project are tracked and a separate fund balance is maintained. The 2012 Agency Fund balance of \$746,431 at December 31, 2012 was recorded as contribution support in 2013. The balance in the Condor Survival Funds is now included in temporarily restricted net assets.

NOTE 12: LINE OF CREDIT

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

Line of Credit for General Business Needs – The total line is \$150,000 and is unsecured. The line of credit agreement expires on May 21, 2015. The loan rate is an adjustable interest rate of prime less .5%, with a minimum of 4.5%. The line of credit was not drawn on in 2014 and had no balance outstanding as of December 31, 2014 and 2013.

Line of Credit for Master Plan – In 2014, the Museum opened a second line of credit to cover 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, 2016. The loan rate is an adjustable interest rate of LIBOR plus 1.5%. The line of credit was not drawn on in 2014 and had no balance outstanding as of December 31, 2014.

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NOTE 13: NET ASSETS

The Museum's net assets consist of the following;

**Unrestricted**

Unrestricted – Operating	\$	-
Unrestricted – Other		15,505,034
Strategic Reserve	\$ 1,175,300	
Specific Projects	244,620	
Quasi-Endowment	<u>23,161,404</u>	
Total Unrestricted – Board Designated		<u>24,581,324</u>
Total Unrestricted		\$ 40,086,358

**Temporarily Restricted**

For Programs		8,203,593
For Master Planning and Implementation		5,768,865
For Interests in Trusts		<u>2,296,295</u>
Total Temporarily Restricted		16,268,753

**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
Maximus Gallery Collection of Antique Natural History Art Operations		<u>2,733,938</u>
Total Permanently Restricted		<u>11,132,493</u>
Total Net Assets		<u>\$ 67,487,604</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 14: ENDOWMENT

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

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

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absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA.

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

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

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Museum to retain as a fund of perpetual duration. No such deficiencies existed during the years ended December 31, 2014 and 2013.

Return Objectives and Risk Parameters - The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity mutual fund 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



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formula. 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 the years ended December 31, 2014 and 2013, the preliminary payout exceeded the ceiling and the draw was limited to 5% of the twelve-quarter average market values as of June 30, 2013 and June 30, 2012, respectively.

Endowment Net Asset Composition - Endowment net assets by type of fund consist of the following as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment	\$ 23,161,404	\$ -	\$ -	\$ 23,161,404
Donor restricted endowment funds	-	6,562,822	7,624,945	14,187,767
Total	<u>\$ 23,161,404</u>	<u>\$ 6,562,822</u>	<u>\$ 7,624,945</u>	<u>\$ 37,349,171</u>

Changes in endowment net assets for the year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 22,873,899	\$ 6,579,911	\$ 7,624,945	\$ 37,078,755
Investment income	2,008,218	392,537	-	2,400,755
Net depreciation of Investments	(1,092,259)	(213,499)	-	(1,305,758)
Bequests	119,430	-	-	119,430
Contributions	-	2,300	-	2,300
Matured charitable trust	803,595	-	-	803,595
Investment draws based on spending policy	(1,472,334)	(43,161)	-	(1,515,495)
Repayment of Board allocation for master planning loan	82,217	-	-	82,217
Board approved expenditures for facility maintenance	(123,497)	-	-	(123,497)
Board approved expenditures for planned giving program	(37,865)	-	-	(37,865)
Donor-restricted expenditures	-	(155,266)	-	(155,266)
Total	<u>\$ 23,161,404</u>	<u>\$ 6,562,822</u>	<u>\$ 7,624,945</u>	<u>\$ 37,349,171</u>

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NOTE 15: PENSION PLAN

The Museum maintains a tax deferred annuity plan (the Plan) for all employees except adjunct and part-time employees. Employees are eligible for participation in the Plan after one year of employment and are fully vested after participation begins. Participants are required to contribute three percent of their salaries to the Plan, and the Museum contributes three percent. The Museum's contributions to the Plan were \$69,106 and \$64,580 in 2014 and 2013, respectively.

NOTE 16: MASTER PLANNING

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

The master planning effort also responded to a mandate by the City of Santa Barbara (the City) which required the Museum to submit a master plan for review and approval as part of an updated Conditional Use Permit (CUP) that would replace outdated earlier CUP documents and establish operational conditions and restrictions for the Museum henceforth.

Work on the Master Plan began in early 2009 under the leadership of the Board of Trustees' Master Planning Committee and with the participation of the full staff as well as involvement of community members. The first phase of the effort involved initial evaluation of the existing physical site and facilities, an assessment of programmatic space needs, and an evaluation of constraints for future development of the site.

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

In 2012 and 2013, the Museum began the technical studies necessary for the application and studied the timelines for fundraising and construction. Through that analysis, it became clear that while community support for the Museum is both broad and deep, the timelines for fundraising and construction were not aligned with one another to the degree they needed to be to enable in order for the Museum to proceed in the way it had envisioned. Moreover, as the Museum studied the first phase of its project, the Museum concluded that the project did not showcase the institution's scientific, programmatic and educational strengths as fully as it might.

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Based on this assessment, in June 2013, the Board of Trustees decided not to go forward with the proposed application for a multi-phase campus development project. With this change, studies, plans, and costs capitalized that were directly related to the original master plan were written off on the statement of activity as “Loss on Abandonment”. (See Note 8.)

During the second half of 2013, based upon further study the project’s goals and utilizing the knowledge gained from previous planning efforts, the project was refocused to take place within the existing facilities or outside in spaces where outdoor activities already occur. The vision that guides this 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 engagement in, and a deepened understanding of, 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 we undertake on-site, with our 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.

In March of 2014, the Museum submitted its Master Plan and updated Conditional Use Permit application to the City of Santa Barbara; these were unanimously approved by the Planning Commission in early January of 2015. The Planning Commission’s approval has been appealed to the Santa Barbara City Council and will be before the Council in Spring 2015.

The costs of the studies and plans that are pertinent to the new project and necessary for the entitlement process, which would ultimately lead to land use permits, are being capitalized.

**NOTE 17: 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, 2016, with a six year option to extend commencing July 1, 2016, and one five year option commencing on July 1, 2022.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

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 2014 and 2013 totaled \$19,107 and \$16,895 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 schematic design and documentation to meet submittal requirements for the City of Santa Barbara's Conditional Use permit and additional services to support the Conditional Use Permit process. (see Note 16). The current contract for the architects and consultants totals \$627,000, of which approximately \$192,000 has been paid through December 31, 2014. In 2015, the Museum directly entered into agreements totaling \$63,595 with two consultants to support the planning process (see Note 20).

Observatory Project - The Museum has entered into an agreement for \$207,000 with a construction firm to remodel the Museum's Observatory (see Note 20).

Exhibitions - The Museum has entered into an agreement to bring the exhibit *Megalodon: Largest Shark that Ever Lived* to the Mission Creek Campus in 2015 and another agreement to bring *A T. Rex Named Sue* to the Museum in 2016. These two agreements total \$150,000 of which \$82,500 has been paid as of December 31, 2014. The Museum is in the process of updating its Sea Center exhibits and entered into an agreement totaling \$170,220 for exhibit fabrication.

Capital Commitments for Future Investments - The Museum has entered into certain agreements for capital commitments in five private equity investment funds to make future investments in those funds. The outstanding commitments totaled \$3,336,308 as of December 31, 2014.

NOTE 18: 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, 2014, the Museum had approximately \$6,700,000 of uninsured cash on deposit.

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.

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NOTE 20: SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through March 11, 2015, 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 agreements totaling \$63,595 with two consultants to support the planning process for Master Planning.
- Subsequent to year end, the Museum entered into an agreement for \$207,000 with a construction firm to remodel the Museum's Observatory.
- Subsequent to year end, the Museum agreed to change orders to an existing contract relating to the exhibitions at the Sea Center. The total amount of changes is \$47,955.

Supplemental Schedule

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
SUPPLEMENTAL SCHEDULE OF UNRESTRICTED ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Operating</u>	<u>Other Unrestricted</u>	<u>Board Designated</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Income</b>					
<b>Support and Revenue</b>					
Admissions	\$ 755,296	\$ -	\$ 6,836	\$ 762,132	\$ 659,525
Membership	427,059	-	-	427,059	395,394
Contributions, bequests, and grants	413,900	-	192,587	606,487	1,317,216
Investment income	1,735	-	915,958	917,693	3,996,594
Investment draw	1,515,495	-	(1,472,334)	43,161	41,591
Education fees	233,481	-	-	233,481	242,898
Contracts	57,324	-	-	57,324	42,613
Change in value of charitable trusts	-	-	-	-	-
Income from perpetual trusts	34,912	-	-	34,912	34,153
Other income	179,304	-	(186,827)	(7,523)	19,816
Loss on abandonment	-	(24,061)	-	(24,061)	(3,115,683)
Use of strategic reserve	348,000	-	(348,000)	-	-
<b>Total Support and Revenue</b>	<b>3,966,506</b>	<b>(24,061)</b>	<b>(891,780)</b>	<b>3,050,665</b>	<b>3,634,117</b>
<b>Revenue Centers</b>					
Store sales	451,383	-	-	451,383	398,351
Less store expenses	(305,779)	(23,905)	(2,587)	(332,271)	(274,218)
Special events	275,832	(200,000)	88,658	164,490	144,893
Less special events expense	(147,469)	(103,337)	(28,744)	(279,550)	(155,618)
Rental income	283,220	-	-	283,220	294,978
Less rental expenses	(22,623)	-	-	(22,623)	(22,127)
<b>Total Revenue Centers</b>	<b>534,564</b>	<b>(327,242)</b>	<b>57,327</b>	<b>264,649</b>	<b>386,259</b>
<b>Total Income (Loss)</b>	<b>4,501,070</b>	<b>(351,303)</b>	<b>(834,453)</b>	<b>3,315,314</b>	<b>4,020,376</b>
<b>Net Assets Released from Restriction</b>	<b>551,634</b>	<b>1,262,407</b>	<b>2,037,839</b>	<b>3,851,880</b>	<b>2,237,749</b>
<b>Expenses</b>					
<b>Program Expenses</b>					
Exhibit and visitor services	831,653	1,228,060	-	2,059,713	1,884,613
Education	858,831	419,949	-	1,278,780	1,192,874
Collections and research	685,745	1,103,049	-	1,788,794	1,782,084
<b>Total Program Expenses</b>	<b>2,376,229</b>	<b>2,751,058</b>	<b>-</b>	<b>5,127,287</b>	<b>4,859,571</b>
<b>Supporting Services</b>					
Management and general	1,832,375	(1,820,795)	942,494	954,074	583,070
Membership	109,914	50,255	-	160,169	134,529
Development	734,043	(206,885)	199,633	726,791	634,778
<b>Total Supporting Services</b>	<b>2,676,332</b>	<b>(1,977,425)</b>	<b>1,142,127</b>	<b>1,841,034</b>	<b>1,352,377</b>
<b>Total Expenses</b>	<b>5,052,561</b>	<b>773,633</b>	<b>1,142,127</b>	<b>6,968,321</b>	<b>6,211,948</b>
<b>Net Excess</b>	<b>\$ 143</b>	<b>\$ 137,471</b>	<b>\$ 61,259</b>	<b>\$ 198,873</b>	<b>\$ 46,177</b>

See accompanying notes