

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

SANTA BARBARA
MUSEUM
of
NATURAL
HISTORY

FOR THE YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

JANE E. RUSSELL
WILLIAM L. JACKSON
VANESSA M. GARCIA

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

HOWARD B. ATKINSON
DIANE M. RAVENSCROFT
DAVID E. LEHMAN
ANDREW J. TRICERRI
MELANIE A. REYNOSO

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, 2020, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 auditor considers 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

As discussed in Note 21 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

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 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 of 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, 2019, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 25, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

MacFarlane, Faletti, & Co., LLP

**Santa Barbara, California
January 19, 2022**

SANTA BARBARA MUSEUM OF NATURAL HISTORY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2020

(With Comparative Totals as of December 31, 2019)

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,665,012	\$ 875,213
Grants and contributions receivable (Note 3)	620,802	268,475
Bequests receivable (Note 3)	265,496	589,295
Other receivables	11,823	6,633
Inventory	90,056	101,068
Prepaid expense and other assets	356,832	144,256
Total Current Assets	<u>3,010,021</u>	<u>1,984,940</u>
OTHER ASSETS		
Grants and contributions receivable - long-term (Note 3)	110,000	261,338
Investments (Note 4)	48,804,027	43,915,789
Charitable gift annuities (Note 5)	126,851	104,411
Interests in charitable remainder trusts (Note 6)	3,680,172	3,230,685
Interests in perpetual trusts (Note 6)	8,286,611	7,692,708
Rental property (Note 7)	-	1,750,000
Property and equipment, net (Note 8)	22,161,968	23,084,044
Collections (Note 2)	-	-
Total Other Assets	<u>83,169,629</u>	<u>80,038,975</u>
TOTAL ASSETS	<u>\$ 86,179,650</u>	<u>\$ 82,023,915</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 141,837	\$ 441,690
Accrued payroll and related expenses	469,688	375,975
Line of credit (Note 10)	-	400,000
Deferred revenue (Note 9)	242,381	420,602
Agency Funds	64,230	18,686
Total Current Liabilities	<u>918,136</u>	<u>1,656,953</u>
OTHER LIABILITIES		
Charitable gift annuities liability (Note 5)	92,803	79,248
Economic injury disaster loan (Note 11)	151,779	-
Total Other Liabilities	<u>244,582</u>	<u>79,248</u>
Total Liabilities	<u>1,162,718</u>	<u>1,736,201</u>
NET ASSETS (Note 12)		
Without Donor Restrictions	53,877,700	48,784,149
With Donor Restrictions	31,139,232	31,503,565
Total Net Assets	<u>85,016,932</u>	<u>80,287,714</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 86,179,650</u>	<u>\$ 82,023,915</u>

See accompanying notes to financial statements.

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF ACTIVITIES & CHANGES IN NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2020
(With Comparative Totals for Year Ended December 31, 2019)

			All Funds	
	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
INCOME				
Support and Revenue				
Admissions	\$ 301,150	\$ -	\$ 301,150	\$ 1,084,231
Membership	467,872	-	467,872	480,435
Contributions, bequests, and grants	1,256,531	1,216,252	2,472,783	3,921,522
Government grants (Note 11)	1,354,141	23,182	1,377,323	-
Net investment return	3,948,551	2,042,702	5,991,253	8,691,730
Education fees	52,060	-	52,060	194,330
Contracts	125,294	-	125,294	72,480
Change in value of charitable gift annuities	(4,487)	-	(4,487)	(4,486)
Change in value of charitable trusts (Note 6)	-	1,073,390	1,073,390	1,196,339
Income from perpetual trusts (Note 6)	232,740	129,333	362,073	328,279
Other income	32,185	929	33,114	49,322
Loss on retirement of assets, net	-	-	-	(5,932)
Total Support and Revenue	<u>7,766,037</u>	<u>4,485,788</u>	<u>12,251,825</u>	<u>16,008,250</u>
Revenue Centers				
Retail sales	230,025	-	230,025	544,265
Less retail expenses	(283,416)	-	(283,416)	(333,283)
Special events	445,787	-	445,787	599,132
Less special events expense	(223,863)	-	(223,863)	(335,994)
Rental income	225,847	-	225,847	278,918
Less rental expenses	(28,075)	-	(28,075)	(48,732)
Total Revenue Centers	<u>366,305</u>	<u>-</u>	<u>366,305</u>	<u>704,306</u>
Total Income	<u>8,132,342</u>	<u>4,485,788</u>	<u>12,618,130</u>	<u>16,712,556</u>
Net Assets Released from Restrictions	<u>4,850,121</u>	<u>(4,850,121)</u>	<u>-</u>	<u>-</u>
EXPENSES				
Program Expenses				
Exhibit and guest services	2,597,860	-	2,597,860	2,848,309
Education	1,087,432	-	1,087,432	1,319,046
Collections and research	1,876,543	-	1,876,543	1,800,217
Total Program Expenses	<u>5,561,835</u>	<u>-</u>	<u>5,561,835</u>	<u>5,967,572</u>
Supporting Services				
Management and general	1,556,877	-	1,556,877	1,510,176
Development	770,200	-	770,200	825,197
Total Supporting Services	<u>2,327,077</u>	<u>-</u>	<u>2,327,077</u>	<u>2,335,373</u>
Total Expenses	<u>7,888,912</u>	<u>-</u>	<u>7,888,912</u>	<u>8,302,945</u>
CHANGE IN NET ASSETS	<u>5,093,551</u>	<u>(364,333)</u>	<u>4,729,218</u>	<u>8,409,611</u>
NET ASSETS, BEGINNING OF YEAR	<u>48,784,149</u>	<u>31,503,565</u>	<u>80,287,714</u>	<u>71,878,103</u>
NET ASSETS, END OF YEAR	<u>\$ 53,877,700</u>	<u>\$ 31,139,232</u>	<u>\$ 85,016,932</u>	<u>\$ 80,287,714</u>

SANTA BABRARA MUSEUM OF NATURAL HISTORY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,729,218	\$ 8,409,611
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,357,068	1,309,564
Realized and unrealized gains on investments	(5,452,155)	(8,032,714)
Loss on retirement of assets, net	-	5,932
Donated stock	(55,614)	(284,284)
Change in value of charitable gift annuities	(22,440)	2,423
Change in value of charitable trusts	(1,073,390)	(1,196,339)
Charitable trust distribution	30,000	-
Contributions restricted for long-term investment	(735,378)	(1,957,116)
Changes in		
Grants and contributions receivable	238,222	159,363
Bequests receivable	323,799	(429,604)
Other receivables	(444,401)	(2,941)
Inventory	11,012	(11,227)
Prepaid expense and other assets	(212,576)	2,217
Accounts payable and accrued expenses	(362,055)	(245,126)
Accrued payroll and related expenses	93,713	60,198
Deferred revenue	(178,221)	125,053
Agency funds	45,544	-
Charitable gift annuities liability	13,555	(1,930)
NET CASH USED BY OPERATING ACTIVITIES	<u>(1,694,099)</u>	<u>(2,086,920)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(371,011)	(2,834,445)
Purchase of investments	(13,744,291)	(40,550,245)
Proceeds from sale of rental property	1,787,008	-
Proceeds from sale/distributions of investments	14,326,814	43,045,504
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	<u>1,998,520</u>	<u>(339,186)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	735,378	1,957,116
Proceeds from economic injury disaster loan	150,000	-
Proceeds from line of credit	675,000	400,000
Payments on line of credit	(1,075,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>485,378</u>	<u>2,357,116</u>
NET INCREASE/(DECREASE) IN CASH	789,799	(68,990)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>875,213</u>	<u>944,203</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,665,012</u>	<u>\$ 875,213</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2020
(With Comparative Totals as of December 31, 2019)

	Program Services				Supporting Services		Total 2020	Total 2019
	Exhibit & Guest Services	Store Expenses	Education	Collections & Research	Management & General	Development		
Salaries, benefits, & pensions	\$ 1,148,785	\$ 99,191	\$ 794,745	\$ 1,147,319	\$ 712,022	\$ 662,136	\$ 4,564,198	\$ 4,703,061
Payroll taxes	77,740	4,327	50,134	76,183	17,776	44,641	270,801	299,252
Acquisitions	-	-	-	33,544	-	-	33,544	25,345
Advertising	64,376	-	17,785	8,407	6,950	18,740	116,258	165,229
Depreciation	624,317	-	72,461	90,429	563,510	6,351	1,357,068	1,309,564
Equipment	29,031	1,482	10,302	23,367	9,656	5,482	79,320	81,522
Grants	-	-	-	111,297	-	-	111,297	105,293
Insurance	149,597	18	29,893	113,107	33,833	15,204	341,652	177,887
Miscellaneous	438	156	204	227	19,849	121	20,995	5,418
Printing	24,101	15	6,345	21,304	3,361	8,575	63,701	117,767
Postage & shipping	29,101	-	701	695	231	2,604	33,332	52,065
Purchases	-	161,067	-	-	-	-	161,067	228,285
Property taxes	-	-	-	-	13,929	-	13,929	12,733
Rentals	24,910	-	1,731	6,474	14,654	889	48,658	162,197
Repairs & maintenance	97,482	-	20,459	66,319	12,099	9,702	206,061	213,727
Services	96,425	9,568	33,992	59,105	136,842	149,245	485,177	544,231
Supplies	101,390	3,318	25,098	52,523	24,285	55,564	262,178	472,132
Transportation & travel	3,908	3,734	1,068	5,452	1,915	877	16,954	69,645
Utilities	126,259	540	22,514	60,791	14,040	13,932	238,076	275,601
Total Expenses by Function	<u>2,597,860</u>	<u>283,416</u>	<u>1,087,432</u>	<u>1,876,543</u>	<u>1,584,952</u>	<u>994,063</u>	<u>8,424,266</u>	<u>9,020,954</u>
Less expenses included with revenues on the statement of activities								
Retail cost of goods sold	-	(283,416)	-	-	-	-	(283,416)	(333,283)
Cost of direct benefit to donors	-	-	-	-	-	(223,863)	(223,863)	(335,994)
Rental expenses	-	-	-	-	(28,075)	-	(28,075)	(48,732)
Total included in expense section of Statement of Activities	<u>\$ 2,597,860</u>	<u>\$ -</u>	<u>\$ 1,087,432</u>	<u>\$ 1,876,543</u>	<u>\$ 1,556,877</u>	<u>\$ 770,200</u>	<u>\$ 7,888,912</u>	
Total Year Ended December 31, 2019	<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>

See accompanying notes to financial statements.

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 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 usually provided to over 14,500 school children as well as to 200,000 visitors - mostly families with children - who visit each year. With the closures required by the pandemic in 2020, the Museum served approximately 6,000 school children and 27,000 community members either on site or via a virtual program.

With the required closures, attendance at both locations was sharply reduced. Gate attendance at the Mission Canyon Campus in 2020 was 33,883. In addition, 6,095 children and adults attended educational programs, 2,971 attended community related events, 2,872 came as volunteers and 134 came specifically for research or professional symposia, for a total attendance at the Mission Canyon campus of 45,955.

Gate attendance at the Sea Center in 2020 was 27,869. In addition, 630 children and adults attended educational programs, 430 attended community related events, and 1,632 came as volunteers, for a total attendance at the Sea Center campus of 30,561.

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 13, '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 the organization to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Museum has 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 200 volunteers donated over 400 hours of their time in 2020 to the Museum as docents, interpreters, research associates, interns, and board members. 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. Professional services are recorded at the respective fair values of the services received.

Functional Allocation of Expenses

The cost of providing the various programs and activities have been summarized on the statement of activities on a functional basis. 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 \$116,000 and \$165,000 for the years ending December 31, 2020 and 2019, 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 is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code 23701d. Therefore, no amounts for income taxes are reflected in the accompanying financial statements. Unrelated business income tax, if any, is immaterial and no tax provision has been made in the accompanying financial statements.

The Museum is not aware of any activities that would jeopardize its tax-exempt status and had no uncertain tax positions requiring accrual as of December 31, 2020 and 2019. 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.

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, 2019 from which the summarized information was derived.

Reclassifications

Certain items in the 2019 comparative totals were reclassified in order to conform to the 2020 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	\$ 886,298
In one to five years	<u>110,000</u>
	<u>\$ 996,298</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 the 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 an 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.

The Museum's investment committee, in conjunction with the external investment advisors, monitors and analyzes the valuation of the investments on a quarterly basis. The investment committee reports to the Board of Trustees. The valuation considers variables such as financial performance of investments, recent sale prices of investments, and other pertinent information.

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 held for investment 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, 2020:

NOTE 4 FAIR VALUE (Continued)

	Total	Level 1	Level 2	Level 3	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	\$ 1,272,441	\$ 1,272,441	-	-	-
Domestic equities	13,246,450	13,246,450	-	-	-
International equities	11,184,895	11,184,895	-	-	-
Domestic fixed income securities*	7,692,485	7,692,485	-	-	-
Global fixed income	1,287,875	1,287,875	-	-	-
Real assets	2,145,178	2,145,178	-	-	-
Real estate	309,750	-	-	309,750	-
High yield fixed income	1,195,133	-	-	-	1,195,133
Private equity	4,435,250	-	-	-	4,435,250
Hedge funds	6,034,570	-	-	-	6,034,570
Total Investments	48,804,027	36,829,324	-	309,750	11,664,953
Charitable gift annuities	126,851	126,851	-	-	-
Beneficial interests in					
Charitable trusts held by others	3,680,172	-	515,203	3,164,969	-
Perpetual trusts	8,286,611	-	-	8,286,611	-
Total Beneficial interest	11,966,783	-	515,203	11,451,580	-
Total Assets measured at fair value	\$ 60,897,661	\$ 36,956,175	\$ 515,203	\$ 11,761,330	\$ 11,664,953
Annuities payable					
Measured at fair value	\$ 92,803	\$ -	\$ -	\$ 92,803	\$ -

* \$3,850,000 of total fixed income securities is securitized for a line of credit (See Note 10).

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, 2020:

	Beginning Balance	Investment Return, Net	Purchases and Issuances	Sales and Distributions	Ending Balance
Real estate	\$ 300,000	\$ -	\$ 9,750	\$ -	\$ 309,750
Rental property	1,750,000	-	-	1,750,000	-
Charitable trusts	2,732,944	459,178	-	27,153	3,164,969
Perpetual trusts	7,692,708	593,903	-	-	8,286,611
Total December 31, 2020	\$ 12,475,652	\$ 1,053,081	\$ 9,750	\$ 1,777,153	\$ 11,761,330

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, 2020.

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, 2020:

Investment	Number of Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
High yield fixed income	1	\$ 1,195,133	-	Quarterly	60 days
Private equity	11	\$ 4,435,250	\$ 3,013,796	Non-redeemable Monthly, Quarterly,	-
Hedge funds	5	\$ 6,034,570	-	Annually	45 - 90 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, 2019:

	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	45,665,789	34,508,652	-	2,050,000	9,107,137
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	10,923,393	-	497,741	10,425,652	-
Total Assets measured at fair value	\$ 56,693,593	\$ 34,613,063	\$ 497,741	\$12,475,652	\$ 9,107,137
Annuities payable					
Measured at fair value	\$ 79,248	\$ -	\$ -	\$ 79,248	\$ -

* \$3,850,000 of total fixed income securities is securitized for a line of credit (See Note 10).

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, 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	6,791,225	901,483	-	-	7,692,708
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.

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	60 days
Private equity	10	\$ 2,803,126	\$ 4,392,264	Non- redeemable	-
Hedge funds	4	\$ 4,354,887	-	Monthly, Quarterly	45 - 60 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 eleven 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 2018 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, 2020. 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 \$362,073 and \$328,279 for the years ended December 31, 2020 and 2019, 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 donor 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 net assets with donor restrictions, totaled \$8,286,611 and \$7,692,708 for the years ended December 31, 2020 and 2019, 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 net assets with donor restrictions. 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 2020 was 2%.

The Museum's interest in these charitable remainder trusts totaled \$3,680,172 and \$3,230,685 for the years ended December 31, 2020 and 2019, respectively.

NOTE 7 RENTAL PROPERTY

The Museum owned donated land, in Goleta, California, which it leased to a convalescent hospital. The rent received in 2020 and 2019 was \$66,245 and \$79,494, respectively. Originally valued at \$630,000, in 2019, the property was appraised at \$1,900,000 and sold in 2020 for \$1,850,000.

The Museum also owns five 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, 2020:

	2020	2019
Land and Improvements	\$ 314,388	\$ 314,388
Buildings and Improvements	32,726,785	30,260,973
Furniture and Equipment	2,889,322	2,649,985
Computer Hardware and Software	173,634	167,005
Construction in Progress	<u>330,182</u>	<u>2,613,835</u>
Total Cost	36,434,311	36,006,186
Total Accumulated Depreciation	<u>(14,272,343)</u>	<u>(12,922,142)</u>
Property and Equipment, net	\$ 22,161,968	\$ 23,084,044
Depreciation Expense	<u>\$ 1,357,068</u>	<u>\$ 1,309,564</u>

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

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 were for one year and as of December 31, 2020, are month to month. Total rent received on these properties in 2020 and 2019 totaled \$154,000 and \$155,000, respectively.

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 loan rate was an adjustable interest rate of LIBOR plus 1.5%. The line of credit was drawn on during 2020. The maximum amount outstanding was \$675,000 and the line was fully paid off as of December 31, 2020. The line of credit agreement expired on June 30, 2021 and a new line of credit was subsequently put in place (See Note 22, Subsequent Events).

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 PAYCHECK PROTECTION PROGRAM, EMPLOYEE RETENTION CREDIT AND ECONOMIC INJURY DISASTER LOAN

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").

The loan is 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 received official notification of forgiveness for the first PPP loan in 2021 and recorded the forgiveness as a government grant on the Statement of Activities and Changes in Net Assets.

As of December 31, 2021, the Museum accrued a grant receivable of approximately \$439,000, which represents the amounts expected to be received for the Employee Retention Credits (ERC) for 2020. Laws and regulations concerning government programs, including the ERC established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Organization.

On July 8, 2020, the Museum secured a loan of \$150,000 from the Small Business Administration (SBA) under the Economic Injury Disaster Loan (EIDL) Program. Interest on the loan is 2.75% per annum. Payments of \$641 are due monthly beginning in July 2021 with the final payment due in 2050, payments are first applied to accrued interest and then to principal. The note is secured by substantially all of the Museum's assets. The loan can be prepaid without penalty at any time. The following are the principle payments for the EIDL:

2021	\$ -
2022	1,406
2023	3,651
2024	3,753
2025	3,858
Thereafter	<u>137,332</u>
	<u>\$ 150,000</u>

NOTE 12 NET ASSETS

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

Net Assets without donor restrictions:	2020	2019
Undesignated	\$ 1,046,713	\$ (1,026,809)
Invested in Fixed Assets	22,161,968	23,084,044
Board Designated		
Strategic Reserve	2,789,308	1,995,713
Specific Projects	265,596	245,776
Quasi-Endowment	27,614,115	24,485,425
Total Net Assets without donor restrictions	<u>53,877,700</u>	<u>48,784,149</u>
Net Assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Antique Natural History Art	2,308,489	2,187,280
Entomology	2,253,907	2,120,131
Earth Sciences	1,616,523	1,684,852
Condor research	421,696	532,975
Other Collections and Research	299,224	375,015
Education	1,180,315	1,107,683
Master Planning and Implementation	352,983	2,613,835
Sea Center	64,214	63,790
Other	26,131	43,591
Accumulated earnings on donor-endowed funds	771,301	475,575
	<u>9,294,783</u>	<u>11,204,727</u>
Subject to the passage of time:		
Beneficial interests in charitable trusts held by others	3,680,172	3,230,685
Not subject to appropriation or expenditure, the income from which is expendable to support:		
Operations	12,095,381	11,630,987
Antique Natural History Art	2,716,175	2,586,666
Library & Archives	1,752,721	1,750,500
Invertebrate Zoology – Malacology	1,000,000	1,000,000
Museum Studies Internships	100,000	100,000
Teen Programs	500,000	-
	<u>18,164,277</u>	<u>17,068,153</u>
Total Net Assets with Donor restrictions	<u>31,139,232</u>	<u>31,503,565</u>
Total All Net Assets	<u>\$ 85,016,932</u>	<u>\$ 80,287,714</u>

NOTE 13 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 donor 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, 2020 and 2019, there were no such donor stipulations.

NOTE 13 ENDOWMENT (Continued)

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 are 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). The Museum has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There are no funds with deficiencies at December 31, 2020.

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.

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 2020, the spending rate was 5%. For endowments 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.

NOTE 13 ENDOWMENT (Continued)

Endowment Net Asset Composition

Endowment net assets by type of fund consist of the following as of December 31, 2020:

	Without Donor Restriction	With Donor Restrictions	Total
Board designated endowment	\$ 27,614,115	\$ -	\$ 27,614,115
Donor restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	9,877,666	9,877,666
Accumulated investment gains	-	771,301	771,301
Donor restricted fund invested as endowment	-	7,001,106	7,001,106
Interest in perpetual trusts	-	8,286,611	8,286,611
Total	<u>\$ 27,614,115</u>	<u>\$ 25,936,684</u>	<u>\$ 53,550,799</u>

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 24,485,425	\$ 24,219,341	\$ 48,704,766
Investment income (loss)	3,804,936	2,166,777	5,971,713
Net change in trust assets	-	593,903	593,903
Contributions	-	502,221	502,221
Draw based on spending policy	(552,157)	(1,161,580)	(1,713,737)
Board approved expenditures for planning giving program	(119,040)	-	(119,040)
Donor-restricted expenditures	-	(383,978)	(383,978)
Unrelated business income tax on investments	(5,049)	-	(5,049)
Endowment net assets, end of year	<u>\$ 27,614,115</u>	<u>\$ 25,936,684</u>	<u>\$ 53,550,799</u>

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

	Without Donor Restriction	With Donor Restrictions	Total
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>

NOTE 13 ENDOWMENT (Continued)

Endowment Net Asset Composition (Continued)

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

	Without Donor Restriction	With Donor Restrictions	Total
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 14 PENSION PLAN

The Museum maintains a tax deferred defined contribution retirement plan (the Plan) for all full-time employees. Employees are eligible to participate in the Plan upon hire and are totally vested in all contributions to the Plan. After one year of employment, the Museum matches each employee's contribution up to three percent of the employee's annual compensation. The Museum's contributions to the Plan was \$104,094 and \$92,198 in 2020 and 2019, respectively.

NOTE 15 CONSTRUCTION PROJECTS AND RELATED COMMITMENTS

Construction Projects Substantially Complete

In 2018, the Museum substantially completed the refurbishment of the Mammal Hall, Bird Habitat Hall, re-opened its new Santa Barbara Gallery, the redesigned and expanded Backyard and its anchor space, the Nature Clubhouse, and the new Sprague Pavilion, collectively called "Phase 1" of the Master Plan.

In January 2020, the Museum substantially completed a comprehensive refurbishment of Fleischmann Auditorium wherein 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 costs of the studies, consultants, design documents, and plans pertinent to these projects and the related permits have been capitalized.

The Museum, architect and general contractor are working together to ensure that all aspects of these two projects are finalized before final payment is released. At December 31, 2020, the Museum was holding \$66,000 in retention and close out costs.

NOTE 15 CONSTRUCTION PROJECTS AND RELATED COMMITMENTS (Continued)

Collection Care Project

After Phase 1 of the Master Plan and the refurbishment of Fleischmann Auditorium were complete the Board and Management 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 includes replacing the roof and HVAC equipment, installing solar panels, and a battery storage system, updating the IT computer server room, and completing a dedicated paleontology preparation lab. In 2019, the Museum signed contracts with the architect and general contractor for the Collection Care at an estimated total cost of \$3,100,000. The project was suspended in 2020 due to the global pandemic. In April 2021 the Notice to Proceed was issued and the construction guaranteed maximum price set at \$2,000,000. Construction substantially started in spring 2021. At December 31, 2020, the Museum owed \$3,000 for consulting services related to this project.

The Museum has been notified of a revocable pledge for more than one million dollars which, when received, will cover the final \$700,000 on the Fleischmann Auditorium project and provide funding for the Collections Care Project.

Pedestrian Bridge Repairs

In 2020 the Museum closed the pedestrian bridge that provides access from the main area of the Museum to the south side of Mission Creek after it was determined to be in need of structural repairs. After consulting with structural engineers and working with City and State agencies to determine the best method to repair the bridge, the Museum entered into agreements with architects, consultants and a general contractor to undertake the necessary work. The estimated total cost to repair the bridge including engineers, other consultants and the general contractor is \$450,000. The contract signed with the architect in 2020 totaled \$275,000 for the period from July 2020 through August 2021. In 2021, the Museum entered into an agreement with a general contractor for construction services to repair the bridge at a guaranteed maximum price of \$170,000. The project began March 2021 and was completed in August 2021.

NOTE 16 COMMITMENTS AND CONTINGENT LIABILITIES

The Museum has the following commitments and contingent liabilities in addition to those commitments enumerated above in the footnote on Construction Projects and Related Commitments.

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.

NOTE 16 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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 2020 and 2019 totaled \$7,967 and \$21,675, respectively.

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. In 2020 and 2019 the Museum paid \$9,750 and \$12,000 respectively towards these efforts. In December 2020, the owners entered into a purchase agreement with a potential buyer. After the expiration of that agreement, the owners entered into a purchase agreement with another buyer for \$3 million dollars with close of escrow to be on or before March 31, 2022.

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 2022. The Museum would be responsible for shipping, installation, insurance, and security expenses (estimated at \$60,000).

Purchase of Animatronic Dinosaurs

In December 2020 the Museum entered into an agreement to buy a package of animatronic dinosaurs at a cost of \$130,500. Title to the dinosaurs passed to the Museum upon receipt of the package. The first half of the purchase price was due and paid upon the signing of the agreement and is included in prepaid expenses at December 31, 2020. The final payment was due upon receipt of the dinosaurs. The dinosaurs were received January 2021 and the exhibition "Prehistoric Forest" set alongside the Mission Creek Campus opened to the public in March 2021.

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. The Museum pays for the electricity generated by the solar panels and used by the Sea Center 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. Payments in 2020 totaled \$9,760.

NOTE 17 CONCENTRATION OF RISKS

The Museum maintains cash balances at five banks. The standard Federal Deposit Insurance Corporation (FDIC) insurance coverage is limited to \$250,000 per depositor and per bank institution. At December 31, 2020, the Museum had approximately \$1,981,000 of uninsured cash on deposit.

NOTE 18 RELATED PARTY TRANSACTIONS

The Museum's Board consisted of 21 Trustees as of December 31, 2020. 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 \$17,000 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 2020 totaled approximately \$960,000.

NOTE 19 STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

Property and equipment in the amount of \$66,409 and \$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 for the years ended December 31, 2020, and 2019, respectively.

Total cash paid for interest in 2020 and 2019 for interest were \$10,000 and \$2,094, respectively and total cash paid for unrelated business income taxes were \$5,049 and \$0, respectively.

NOTE 20 LIQUIDITY AND AVAILABILITY

The Museum's cash flow available for master planning fluctuated in 2020 due to the timing of donations and pledge payments coming in for the master plan compared with the related periodic construction expenditures. The Museum maintained a line of credit of \$2.5 million with a bank that was available to be drawn upon as needed to manage the master plan cash flow through June 30, 2021. The full line was available at December 31, 2020. Subsequently, the Museum entered into a new line of credit agreement (See Note 22, Subsequent Events).

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 \$27,614,115 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 the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of its liquidity management plan, the Museum has designated a strategic reserve, which had a balance of \$2,789,308 as of December 31, 2020.

NOTE 20 LIQUIDITY AND AVAILABILITY (Continued)

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2020:

Current Assets	
Cash and cash equivalents	\$ 1,665,012
Pledges and grants receivable without purpose restriction	460,394
Other receivables	11,823
Bequests receivable	265,496
Endowment spending-rate distributions and appropriations	1,797,786
	<u>\$ 4,200,511</u>

NOTE 21 UNCERTAINTIES

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic and resulting global disruptions have caused significant economic uncertainty and volatility in financial markets. The impact of COVID-19 continues to evolve rapidly and the Museum is not able at this time to estimate its full impact on the financial statements for the year ending 2022.

NOTE 22 SUBSEQUENT EVENTS

The Museum's management has evaluated subsequent events through January 19, 2022, 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, 2020, except for the following:

Pandemic Closures

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 mandated to close on December 7, 2020. Outdoor areas of the Museum were able to reopen February 22, 2021. Indoor galleries at the Mission Creek Campus reopened March 17, 2021 and the Sea Center reopened its indoor operations March 19, 2021. Due to the pandemic, operating days and hours were reduced. In January 2022, the Museum chose to close for two weeks as a precaution due to the surge in COVID-19.

Paycheck Protection Program

In February 2021, the Museum received a second loan under the Paycheck Protection Program in the amount of \$914,930 from Union Bank. The Museum is in the process of applying for forgiveness for the second loan.

Line of Credit

Upon the expiration of the line of credit on June 30, 2021, the Museum entered into a new line of credit agreement, effective August 16, 2021 for \$3,000,000. Interest is calculated as the prime rate announced by the bank minus 1.75 percent, but never less than 0%. Interest is payable monthly. The line matures August 16, 2022 and is to be used for working capital purposes. It is collateralized by investments held at the bank.

Employee Retention Credit

The Museum filed for the Employee Retention Credit for 2021. The Museum is expecting to receive \$1,346,000 based upon its 2021 payroll tax returns.

NOTE 22

SUBSEQUENT EVENTS (Continued)

Shuttered Venue Operator Grant

In 2021, the Museum applied for and received a Small Business Administration's Shuttered Venue Operator grant in the amount of approximately \$248,000.

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 was approximately \$100,000.

Cabinetry

In October 2021, the Museum placed an order for new collection cabinetry to be delivered to the Museum in February 2022 at an estimated total cost of \$104,000.

Sea Center Building Infrastructure Repairs

In 2021, the Board authorized Management to enter into agreements with the Museum's architect and general contractor for construction services to investigate, repair and upgrade various elements of the infrastructure in the interior of the Sea Center building.

The total cost of the Sea Center Project is estimated at \$800,000 with a guaranteed maximum price for the construction costs of \$564,000. On September 7, 2021 the Sea Center closed to the public to accommodate construction and construction began September 20, 2021. Substantial completion of construction services is expected early 2022.

The final part of the project will be the installation of a new exhibit experience on the second floor of the Sea Center in preparation for a re-opening to the public in Spring 2022.

Mission Creek Campus Infrastructure Repairs

In 2021, the Board also authorized management to begin the design and permitting process necessary to implement the first two phases (or areas) of repairs – called Phase AB - of an infrastructure repair master plan. This work will take place in 2022. Phase AB will address roofing, heating, ventilation and air conditioning, and other infrastructure repairs to the buildings surrounding the historic courtyard at a total budget of \$1.6M. In 2021, the Museum contracted with an architect and general contractor for preconstruction services.

In each subsequent year (2023 – 2024), additional Phases (areas of the Museum campus) will have repairs made to them. This multi-year approach allows the Museum to remain open for visitation throughout the entire process.

Repatriation

The Santa Ynez Band of Chumash Indians notified the Museum in October of 2021 that it was exercising its right under the Native American Graves Protection and Repatriation Act of 1990 to request repatriation of items that have an ancestral association with the Tribe. The Museum is working with the Band to return the items and the first transfer of items was completed in December 2021.

Solar Battery Back Up System

The Museum entered into an agreement in January 2022 to install a battery back up system tied to the solar system which was installed on the Collections and Research Center in 2021. The total cost of the batteries and installation is \$116,000. The system is expected to be installed in mid-2022.

SUPPLEMENTAL SCHEDULE

SANTA BARBARA MUSEUM OF NATURAL HISTORY
SUPPLEMENTAL SCHEDULE OF ACTIVITIES WITHOUT DONOR RESTRICTIONS
FOR THE YEAR ENDED DECEMBER 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)

	Operating	Other Without Donor Restriction	Board Designated	2020 Total	2019 Total
Income					
Support and Revenue					
Admissions	\$ 301,150	\$ -	\$ -	\$ 301,150	\$ 1,087,709
Membership	327,337	140,205	330	467,872	480,435
Contributions, bequests, and grants	849,154	-	446,588	1,295,742	1,241,034
Government grant	1,314,930	-	-	1,314,930	-
Net investment return	(4,122)	-	3,828,598	3,824,476	6,128,489
Investment draw	1,713,738	(1,037,506)	(552,157)	124,075	125,310
Education fees	52,060	-	-	52,060	194,330
Contracts	149,190	-	(23,896)	125,294	72,480
Change in value of charitable gift annuities	-	-	(4,487)	(4,487)	-
Income from perpetual trusts	207,740	-	25,000	232,740	208,570
Other income	11,638	-	20,547	32,185	49,156
Loss on retirement of assets, net	-	-	-	-	(5,932)
Use of strategic reserve	(323,436)	-	323,436	-	-
Total Support and Revenue	<u>4,599,379</u>	<u>(897,301)</u>	<u>4,063,959</u>	<u>7,766,037</u>	<u>9,581,581</u>
Revenue Centers					
Retail sales	230,025	-	-	230,025	540,787
Less retail expenses	(230,150)	(34,888)	(18,378)	(283,416)	(333,283)
Special events	311,527	-	134,260	445,787	599,132
Less special events expense	(102,025)	8,779	(130,617)	(223,863)	(335,994)
Rental income	225,847	-	-	225,847	278,918
Less rental expenses	(28,075)	-	-	(28,075)	(48,732)
Total Revenue Centers	<u>407,149</u>	<u>(26,109)</u>	<u>(14,735)</u>	<u>366,305</u>	<u>700,828</u>
Total Income (Loss)	<u>5,006,528</u>	<u>(923,410)</u>	<u>4,049,224</u>	<u>8,132,342</u>	<u>10,282,409</u>
Net Assets Released from Restriction	<u>706,715</u>	<u>1,037,508</u>	<u>3,105,898</u>	<u>4,850,121</u>	<u>1,812,340</u>
Expenses					
Program Expenses					
Exhibit and Guest services	1,150,822	1,416,229	30,809	2,597,860	2,848,309
Education	798,731	282,689	6,012	1,087,432	1,319,046
Collections and research	613,789	535,475	727,279	1,876,543	1,800,217
Total Program Expenses	<u>2,563,342</u>	<u>2,234,393</u>	<u>764,100</u>	<u>5,561,835</u>	<u>5,967,572</u>
Supporting Services					
Management and general	2,196,906	(1,114,245)	474,216	1,556,877	1,510,176
Development	952,995	(190,920)	8,125	770,200	825,197
Total Supporting Services	<u>3,149,901</u>	<u>(1,305,165)</u>	<u>482,341</u>	<u>2,327,077</u>	<u>2,335,373</u>
Total Expenses	<u>5,713,243</u>	<u>929,228</u>	<u>1,246,441</u>	<u>7,888,912</u>	<u>8,302,945</u>
CHANGE IN NET ASSETS	<u>\$ -</u>	<u>\$ (815,130)</u>	<u>\$ 5,908,681</u>	<u>\$ 5,093,551</u>	<u>\$ 3,791,804</u>