

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

**SANTA BARBARA
MUSEUM
of
NATURAL
HISTORY**

FOR THE YEAR ENDED DECEMBER 31, 2021

SANTA BARBARA MUSEUM OF NATURAL HISTORY
FOR THE YEAR ENDED DECEMBER 31, 2021
CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENT OF CASH FLOWS	5
STATEMENT OF FUNCTIONAL EXPENSES	6
NOTES TO FINANCIAL STATEMENTS	7 - 25
SUPPLEMENTAL SCHEDULE	
SUPPLEMENTAL SCHEDULE OF ACTIVITIES WITHOUT DONOR RESTRICTIONS	27

INDEPENDENT AUDITOR'S REPORT

JANE E. RUSSELL
WILLIAM L. JACKSON
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To the Board of Trustees of
Santa Barbara Museum of Natural History

Opinion

We have audited the accompanying financial statements of the Santa Barbara Museum of Natural History (a nonprofit organization) (Museum), which comprise the statement of financial position as of December 31, 2021, 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.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of activities without donor restrictions on page 27 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, 2020, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 19, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

MacFarlane, Faletti, & Co., LLP

Santa Barbara, California
May 30, 2023

SANTA BARBARA MUSEUM OF NATURAL HISTORY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

(With Comparative Totals as of December 31, 2020)

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 2,403,620	\$ 1,665,012
Grants and contributions receivable (Note 3)	2,028,709	620,802
Bequests receivable (Note 3)	4,046,296	265,496
Other receivables	30,728	11,823
Inventory	75,675	90,056
Prepaid expense and other assets	299,427	356,832
Total Current Assets	8,884,455	3,010,021
OTHER ASSETS		
Grants and contributions receivable - long-term (Note 3)	377,000	110,000
Investments (Note 4)	53,657,067	48,804,027
Charitable gift annuities (Note 5)	133,221	126,851
Interests in charitable remainder trusts (Note 6)	3,962,345	3,680,172
Interests in perpetual trusts (Note 6)	9,089,924	8,286,611
Property and equipment, net (Note 8)	23,119,718	22,161,968
Collections (Note 2)	-	-
Total Other Assets	90,339,275	83,169,629
TOTAL ASSETS	\$ 99,223,730	\$ 86,179,650
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 207,411	\$ 141,270
Accrued payroll and related expenses	448,586	469,804
Deferred revenue (Note 9)	401,051	242,832
Line of credit (Note 10)	-	-
Agency Funds	64,230	64,230
Total Current Liabilities	1,121,278	918,136
OTHER LIABILITIES		
Charitable gift annuities liability (Note 5)	90,040	92,803
Economic injury disaster loan (Note 11)	151,779	151,779
Total Other Liabilities	241,819	244,582
Total Liabilities	1,363,097	1,162,718
NET ASSETS (Note 12)		
Without Donor Restrictions	64,359,307	53,877,700
With Donor Restrictions	33,501,326	31,139,232
Total Net Assets	97,860,633	85,016,932
TOTAL LIABILITIES AND NET ASSETS	\$ 99,223,730	\$ 86,179,650

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF ACTIVITIES & CHANGES IN NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2021
(With Comparative Totals for Year Ended December 31, 2020)

	Without Donor Restrictions	With Donor Restrictions	All Funds	
			2021 Total	2020 Total
INCOME				
Support and Revenue				
Admissions	\$ 1,234,769	\$ -	\$ 1,234,769	\$ 301,150
Membership	455,043	-	455,043	467,872
Contributions, bequests, and grants	5,019,979	3,500,633	8,520,612	2,472,783
Government grants (Note 11)	2,656,004	6,029	2,662,033	1,377,323
Net investment return	4,070,378	1,886,583	5,956,961	5,991,253
Education fees	65,134	-	65,134	52,060
Contracts	120,760	-	120,760	125,294
Change in value of charitable gift annuities	-	(4,829)	(4,829)	(4,487)
Change in value of charitable trusts (Note 6)	-	1,085,486	1,085,486	1,073,390
Income from perpetual trusts (Note 6)	236,358	135,809	372,167	362,073
Other income	127,320	-	127,320	33,114
Loss on retirement of assets, net	(113,111)	-	(113,111)	-
Total Support and Revenue	13,872,634	6,609,711	20,482,345	12,251,825
Revenue Centers				
Retail sales	617,609	-	617,609	230,025
Less retail expenses	(404,122)	-	(404,122)	(283,416)
Special events	80,336	-	80,336	445,787
Less special events expense	(128,601)	-	(128,601)	(223,863)
Rental income	151,226	-	151,226	225,847
Less rental expenses	(38,336)	-	(38,336)	(28,075)
Total Revenue Centers	278,112	-	278,112	366,305
Total Income	14,150,746	6,609,711	20,760,457	12,618,130
Net Assets Released from Restrictions	4,247,617	(4,247,617)	-	-
EXPENSES				
Program Expenses				
Exhibit and guest services	2,545,948	-	2,545,948	2,597,860
Education	1,158,525	-	1,158,525	1,087,432
Collections and research	1,894,741	-	1,894,741	1,876,543
Total Program Expenses	5,599,214	-	5,599,214	5,561,835
Supporting Services				
Management and general	1,544,590	-	1,544,590	1,556,877
Development	772,952	-	772,952	770,200
Total Supporting Services	2,317,542	-	2,317,542	2,327,077
Total Expenses	7,916,756	-	7,916,756	7,888,912
CHANGE IN NET ASSETS	10,481,607	2,362,094	12,843,701	4,729,218
NET ASSETS, BEGINNING OF YEAR	53,877,700	31,139,232	85,016,932	80,287,714
NET ASSETS, END OF YEAR	\$ 64,359,307	\$ 33,501,326	\$ 97,860,633	\$ 85,016,932

SANTA BABRARA MUSEUM OF NATURAL HISTORY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Totals for the Year Ended December 31, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,843,701	\$ 4,729,218
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,390,992	1,357,068
Realized and unrealized gains on investments	(4,583,729)	(5,452,155)
Loss on retirement of assets, net	113,112	-
Donated stock	(844,095)	(55,614)
Change in value of charitable gift annuities	(6,370)	(22,440)
Change in value of charitable trusts	(1,085,486)	(1,073,390)
Charitable trust distribution	-	30,000
Contributions restricted for long-term investment	(2,502,496)	(735,378)
Changes in		
Grants and contributions receivable	(1,674,907)	238,222
Bequests receivable	(3,780,800)	323,799
Other receivables	(18,905)	(444,401)
Inventory	14,381	11,012
Prepaid expense and other assets	57,405	(212,576)
Accounts payable and accrued expenses	(87,066)	(362,055)
Accrued payroll and related expenses	(21,218)	93,713
Deferred revenue	158,219	(178,221)
Agency funds	-	45,544
Charitable gift annuities liability	(2,763)	13,555
NET CASH USED BY OPERATING ACTIVITIES	(30,025)	(1,694,099)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,308,649)	(371,011)
Purchase of investments	(36,130,289)	(13,744,291)
Proceeds from sale of rental property	-	1,787,008
Proceeds from sale/distributions of investments	36,705,075	14,326,814
NET CASH (USED)/PROVIDED BY INVESTING ACTIVITIES	(1,733,863)	1,998,520
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	2,502,496	735,378
Proceeds from economic injury disaster loan	-	150,000
Proceeds from line of credit	-	675,000
Payments on line of credit	-	(1,075,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,502,496	485,378
NET INCREASE IN CASH	738,608	789,799
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,665,012	875,213
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,403,620	\$ 1,665,012

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF FUNCTIONAL EXPENSES
DECEMBER 31, 2021
(With Comparative Totals as of December 31, 2020)

	Program Services				Supporting Services		Total 2021	Total 2020
	Exhibit & Guest Services	Store Expenses	Education	Collections & Research	Management & General	Development		
Salaries, benefits, & pensions	\$ 991,102	\$ 105,664	\$ 882,712	\$ 1,160,547	\$ 734,561	\$ 637,176	\$ 4,511,762	\$ 4,564,198
Payroll taxes	65,329	7,089	56,672	76,011	30,589	44,333	280,023	270,801
Acquisitions	-	-	-	14,134	-	-	14,134	33,544
Advertising	63,179	-	13,464	13,942	5,992	17,857	114,434	116,258
Depreciation	648,452	-	59,114	88,590	588,490	6,346	1,390,992	1,357,068
Equipment	29,023	1,301	6,436	22,964	7,993	5,095	72,812	79,320
Grants	-	-	149	32,914	-	-	33,063	111,297
Insurance	210,170	219	39,538	164,593	38,369	23,924	476,813	341,652
Miscellaneous	980	409	3,480	683	3,011	87	8,650	20,995
Printing	34,843	8	8,807	9,354	2,768	10,066	65,846	63,701
Postage & shipping	25,873	-	1,636	839	468	2,993	31,809	33,332
Purchases	-	248,561	-	-	-	-	248,561	161,067
Property taxes	-	-	-	-	13,315	-	13,315	13,929
Rentals	33,530	-	1,392	7,419	9,626	17,486	69,453	48,658
Repairs & maintenance	103,638	-	19,814	69,642	-	8,963	202,057	203,606
Services	115,740	31,863	23,787	69,538	109,790	62,264	412,982	487,632
Supplies	88,103	8,424	17,696	93,482	22,497	49,690	279,892	262,178
Transportation & travel	2,506	44	578	5,184	1,157	955	10,424	16,954
Utilities	133,480	540	23,250	64,905	14,300	14,318	250,793	238,076
Total Expenses by Function	<u>2,545,948</u>	<u>404,122</u>	<u>1,158,525</u>	<u>1,894,741</u>	<u>1,582,926</u>	<u>901,553</u>	<u>8,487,815</u>	<u>8,424,266</u>
Less expenses included with revenues on the statement of activities								
Retail cost of goods sold	-	(404,122)	-	-	-	-	(404,122)	(283,416)
Cost of direct benefit to donors	-	-	-	-	-	(128,601)	(128,601)	(223,863)
Rental expenses	-	-	-	-	(38,336)	-	(38,336)	(28,075)
Total included in expense section of Statement of Activities	<u>\$ 2,545,948</u>	<u>\$ -</u>	<u>\$ 1,158,525</u>	<u>\$ 1,894,741</u>	<u>\$ 1,544,590</u>	<u>\$ 772,952</u>	<u>\$ 7,916,756</u>	
Total Year Ended December 31, 2020	<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>

NOTE 1 ORGANIZATIONAL DATA

Founded in 1916, the Santa Barbara Museum of Natural History (Museum) 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.

Closures necessitated by the pandemic continued to reduce attendance at both locations. Gate attendance at the Mission Canyon Campus in 2021 was 103,636. In addition, 2,822 children and adults attended educational programs, 3,138 came as volunteers, 166 came for community uses and 191 came specifically for research or professional symposia, for a total attendance at the Mission Canyon campus of 109,953.

In September 2021, the Sea Center closed for the remainder of the year for infrastructure repairs. Gate attendance in 2021 at the Sea Center was 53,479. In addition, 2,422 came as volunteers, for a total attendance at the Sea Center campus of 55,901.

In 2021, the Museum added a new resource under its Collection and Research Division when it took over management of the Central Coast Information Center of the California Historical Resources Information System. The Center maintains the site records and reports pertaining to archaeological and historical resources for Santa Barbara and San Luis Obispo counties, providing cultural resources information on a fee-for-service basis to local governments, state and federal agencies, Native American tribes, individuals with responsibilities under federal and state laws, and the general public. Two staff positions were added to carry out the work of the Center and 2021 income totaled \$92,500.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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.

Reclassifications

Certain items in the 2020 comparative totals were reclassified in order to conform to the 2021 presentation.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and admissions 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.

Contributed Services - 350 volunteers donated over 17,500 hours of their time in 2021 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

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 \$114,000 and \$116,000 for the years ending December 31, 2021 and 2020, 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.

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, 2021 and 2020. 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, 2020 from which the summarized information was derived.

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	\$ 6,075,005
In one to five years	<u>377,000</u>
	<u>\$ 6,452,005</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.

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.

NOTE 4 FAIR VALUE (Continued)

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, 2021:

	Total	Level 1	Level 2	Level 3	Investments Measured at NAV
Investments					
Cash and money market funds (at cost)	\$ 1,363,799	\$ 1,363,799	-	-	-
Domestic equities	13,545,444	13,545,444	-	-	-
International equities	10,671,809	10,671,809	-	-	-
Domestic fixed income securities*	9,480,368	9,408,368	-	-	-
Global fixed income	1,428,770	1,428,770	-	-	-
Real assets	2,622,914	2,622,914	-	-	-
Real estate	463,951	-	-	463,951	-
High yield fixed income	1,494,852	1,494,852	-	-	-
Private equity	6,410,714	-	-	-	6,410,714
Hedge funds	6,246,446	-	-	-	6,246,446
Total Investments	<u>53,657,067</u>	<u>40,535,956</u>	<u>-</u>	<u>463,951</u>	<u>12,657,160</u>
Charitable gift annuities	133,221	133,221	-	-	-
Beneficial interests in					
Charitable trusts held by others	3,962,345	-	521,149	3,441,196	-
Perpetual trusts	9,089,924	-	-	9,089,924	-
Total Beneficial interest	<u>13,052,269</u>	<u>-</u>	<u>521,149</u>	<u>12,531,120</u>	<u>-</u>
Total Assets measured at fair value	<u>\$ 66,842,557</u>	<u>\$ 40,669,177</u>	<u>\$ 521,149</u>	<u>\$12,995,071</u>	<u>\$ 12,657,160</u>
Annuities payable					
Measured at fair value	\$ 90,040	\$ -	\$ -	\$ 90,040	\$ -

* \$5,000,000 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, 2021:

	Beginning Balance	Investment Return, Net	Purchases and Issuances	Sales and Distributions	Ending Balance
Real estate	\$ 309,750	\$ 154,201	\$ -	\$ -	\$ 463,951
Charitable trusts	3,164,969	276,227	-	-	3,441,196
Perpetual trusts	8,286,611	803,313	-	-	9,089,924
Total December 31, 2021	<u>\$ 11,761,330</u>	<u>\$ 1,233,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,995,071</u>

NOTE 4 FAIR VALUE (Continued)

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, 2021.

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, 2021:

Investment	Number of Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	11	\$ 6,410,714	\$ 1,748,985	Non-redeemable Monthly and	-
Hedge funds	5	\$ 6,246,446	-	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, 2020:

	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).

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, 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	<u>7,692,708</u>	<u>593,903</u>	<u>-</u>	<u>-</u>	<u>8,286,611</u>
Total December 31, 2020	<u>\$ 12,475,652</u>	<u>\$ 1,053,081</u>	<u>\$ 9,750</u>	<u>\$ 1,777,153</u>	<u>\$11,761,330</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, 2020.

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 - 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, 2021.

NOTE 5 CHARITABLE GIFT ANNUITIES (Continued)

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 \$372,167 and \$362,073 for the years ended December 31, 2021 and 2020, 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 \$9,089,924 and \$8,286,611 for the years ended December 31, 2021 and 2020, 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 2021 was 2%. The Museum's interest in these charitable remainder trusts totaled \$3,962,345 and \$3,680,172 for the years ended December 31, 2021 and 2020, respectively.

NOTE 8 PROPERTY AND EQUIPMENT

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 listing of land and buildings below. These spaces are leased out to others. The initial lease terms were for one year and as of December 31, 2021, are month to month. Total rent received on these properties in 2021 and 2020 totaled \$147,500 and \$154,000, respectively.

NOTE 8 PROPERTY AND EQUIPMENT (Continued)

The cost of land, buildings, improvements, and equipment, net of accumulated depreciation, are as follows at December 31, 2021 and 2020:

	2021	2020
Land and Improvements	\$ 314,388	\$ 314,388
Buildings and Improvements	34,699,854	32,726,785
Furniture and Equipment	2,986,971	2,889,322
Computer Hardware and Software	124,798	173,634
Construction in Progress	443,460	330,182
Total Cost	38,569,471	36,434,311
Total Accumulated Depreciation	(15,449,753)	(14,272,343)
Property and Equipment, net	\$ 23,119,718	\$ 22,161,968
Depreciation Expense	\$ 1,390,992	\$ 1,357,068

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

The Museum has a margin line of credit to provide liquidity in case of unpredictable Master Plan cash flows. The total line available is \$3,000,000 and is collateralized by investments held at the bank. Draws on the line of credit must be less than 60% of investments held in a segregated account. The loan rate was an adjustable interest rate calculated as the bank's prime rate minus 1.75%, but never less than 0%. The line of credit was not drawn on during 2021 and had no balance throughout 2021.

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 and 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 Museum was granted a second PPP loan in the same amount in 2021.

The loan and accrued interest are forgivable 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 forgiveness for the second loan in 2022. Both amounts for loan forgiveness are recorded as government grants on the Statement of Activities and Changes in Net Assets.

The Museum applied for the Employee Retention Credit As of December 31, 2021, the Museum accrued a grant receivable of approximately \$1,865,000, which represents the amounts expected to be received for the Employee Retention Credits (ERC) for 2020 and 2021. 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 Museum's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Museum.

NOTE 11 PAYCHECK PROTECTION PROGRAM, EMPLOYEE RETENTION CREDIT AND ECONOMIC INJURY DISASTER LOAN (Continued)

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:

2022	\$	1,406
2023		3,651
2024		3,753
2025		3,858
2026		3,965
Thereafter		133,367
		\$ 150,000

NOTE 12 NET ASSETS

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

Net Assets without donor restrictions:	2021	2020
Undesignated	\$ 2,371,723	\$ 1,046,713
Invested in Fixed Assets	23,119,718	22,161,968
Board Designated		
Strategic Reserve	5,418,651	2,789,308
Infrastructure Repairs	2,668,400	-
Specific Projects	276,433	265,596
Quasi-Endowment	30,504,382	27,614,115
Total Net Assets without donor restrictions	64,359,307	53,877,700
Net Assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Antique Natural History Art	2,463,972	2,308,489
Entomology	2,419,935	2,253,907
Earth Sciences	1,539,888	1,616,523
Condor research	410,369	421,696
Other Collections and Research	686,594	299,224
Education	1,262,543	1,180,315
Master Planning and Implementation	61,344	352,983
Sea Center	164,956	64,214
Other	75,931	26,131
Accumulated earnings on donor-endowed funds	1,171,088	771,301
	10,256,620	9,294,783
Subject to the passage of time:		
Beneficial interests in charitable trusts held by others	3,962,345	3,680,172
Not subject to appropriation or expenditure, the income from which is expendable to support:		
Operations	12,713,275	12,095,381
Antique Natural History Art	2,901,594	2,716,175
Library & Archives	1,752,721	1,752,721
Invertebrate Zoology – Malacology	1,000,000	1,000,000
Museum Studies Internships	100,000	100,000
Sea Center	102,271	-
Teen Programs	712,500	500,000
	19,282,361	18,164,277
Total Net Assets with Donor restrictions	33,501,326	31,139,232
Total All Net Assets	\$ 97,780,633	\$ 85,016,932

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, 2021 and 2020, there were no such donor stipulations.

As a result of this interpretation, the Museum retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. However, the beneficial interests in perpetual trusts 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, 2021.

Investment and Spending Policies

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

NOTE 13 ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum uses an endowment spending-rate formula to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. To that end, the Board has adopted its "Snake in the Tunnel" spending-rate formula for endowments, over which the Trustees have control. Each year, the Museum may draw funds from the endowment to support the operations of the Museum. The draw is calculated in a two-step process using the values of the past 12 quarters through June.

First, the prior year draw is increased by 4.5% to come up with a preliminary payout. Second, that preliminary payout is then compared to minimum and maximum parameters, which it cannot exceed. The payout cannot exceed 5% of a trailing 12-quarter rolling average of the endowment corpus nor can it fall below 4% of that rolling average. During 2021, 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.

Endowment Net Asset Composition

Endowment net assets by type of fund consist of the following as of December 31, 2021:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board designated endowment	\$ 30,504,382	\$ -	\$ 30,504,382
Donor restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	10,192,437	10,192,437
Accumulated investment gains	-	1,171,088	1,171,088
Donor restricted fund invested as endowment	-	7,642,881	7,642,881
Interest in perpetual trusts	-	9,089,924	9,089,924
Total	<u>\$ 30,504,382</u>	<u>\$ 28,096,330</u>	<u>\$ 58,600,712</u>

Changes in endowment net assets for the year ended December 31, 2021 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 27,614,115	\$ 25,936,684	\$ 53,550,799
Investment income (loss)	3,781,170	1,980,176	5,761,346
Bequests	160	-	160
Net change in trust assets	-	803,313	803,313
Contributions	-	314,771	314,771
Draw based on spending policy	(794,860)	(893,988)	(1,688,848)
Board approved expenditures for planning giving program	(96,203)	-	(96,203)
Donor-restricted expenditures	-	(364,626)	(364,626)
Transfer of funds	-	320,000	320,000
Endowment net assets, end of year	<u>\$ 30,504,382</u>	<u>\$ 28,096,330</u>	<u>\$ 58,600,712</u>

NOTE 13 ENDOWMENT (Continued)

Endowment Net Asset Composition (Continued)

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

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
Bequests	-	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>

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 \$93,229 and \$104,094 in 2021 and 2020, respectively.

NOTE 15 CONSTRUCTION PROJECTS AND RELATED COMMITMENTS

Collection Care Project

The Collections & Research Center houses over 3.5 million specimens. 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 had the potential for putting those specimens at risk. Planning for the "Collection Care Project" began in 2019. The Project included replacing the roof and HVAC equipment, installing solar panels, and a battery storage system, updating the computer server room, and completing a dedicated paleontology preparation lab.

NOTE 15 CONSTRUCTION PROJECTS AND RELATED COMMITMENTS (Continued)

Collection Care Project (Continued)

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. The project was substantially complete as of spring 2022. At December 31, 2021, there was \$455,000 remaining on the consulting and construction contracts related to this project.

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 \$840,000 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. Construction and installation of a new exhibit experience on the second floor were completed in early 2022 and the Sea Center re-opened to the public in February 2022. At December 31, 2021, there was \$275,000 remaining on the consulting and construction contracts related to this project.

Mission Creek Campus Infrastructure Repairs

In 2021, the Board 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 took place in 2022. Phase AB addressed roofing, heating, ventilation and air conditioning, and other infrastructure repairs to the buildings surrounding the historic courtyard at a total budget of \$1,600,000. In 2021 the Museum contracted with an architect and general contractor for preconstruction services. At December 31, 2021, the Museum owed \$15,500 for services on this project. 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.

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.

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, 2027. 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 2021 and 2020 totaled \$15,457 and \$7,967, respectively.

NOTE 16 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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 an 18.75% 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 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. Escrow closed March 1, 2022 with the Museum receiving \$37,500 in 2021 and \$464,000 in 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).

Cabinetry

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

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 2021 and 2020 totaled \$15,024 and \$9,760 respectively.

NOTE 17 RELATED PARTY TRANSACTIONS

The Museum's Board consisted of 23 Trustees as of December 31, 2021. One of the trustees is the Regional Vice President of the bank that serves as the administrator of the Museum's Charitable Giving Annuity program, was the custodian of the Museum's investments and provided the Museum's line of credit for the first half of 2021. Another trustee is a Senior Portfolio Manager at that same bank. The Museum paid fees totaling \$20,000 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 2021 totaled approximately \$1,051,000.

NOTE 18 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, 2021, the Museum had approximately \$3,390,000 of uninsured cash on deposit.

NOTE 19 STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

Property and equipment in the amount of \$153,207 and \$66,409 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, 2021, and 2020, respectively.

Total cash paid for interest in 2021 and 2020 for interest were \$3,866 and \$10,000, respectively and total cash paid for unrelated business income taxes were \$0 and \$5,049, respectively.

NOTE 20 LIQUIDITY AND AVAILABILITY

The Museum’s cash flow regularly monitors liquidity required to meet its operating needs, its master planning construction and other contractual commitments, while also striving to maximize the investment of its available funds. The Museum has various sources of liquidity at its disposal including cash and cash equivalents and a line of credit. Cash flow fluctuates during the year due to the timing of donations and pledge payments coming in for the master plan compared with the related periodic construction expenditures as due to the timing of bequests, special events, and general operations. The Museum maintains a line of credit of \$3,000,000 that was available to be drawn upon as needed to manage the master plan cash flow and is secured by a portion of the Board-designated endowment. The full line was available at December 31, 2021.

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 \$30,504,382 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 \$5,418,651 as of December 31, 2021.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2021:

Current Assets	
Cash and cash equivalents	\$ 2,403,620
Pledges and grants receivable without purpose restriction	1,903,526
Other receivables	30,728
Endowment spending-rate distributions and appropriations	1,857,069
	\$ 6,194,943

NOTE 21 SUBSEQUENT EVENTS

The Museum's management has evaluated subsequent events through May 30, 2023, 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, 2021, 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. In January 2022, the Museum chose to close for two weeks as a precaution due to the surge in COVID-19.

Line of Credit converted to loan

In January, 2022, the Museum drew the full \$3,000,000 on its line of credit to assist with future infrastructure repairs. In February, the line of credit was converted to a five year term loan bearing interest at an annual rate of 3.6%. Interest is payable monthly, and the principal is due in 2027. The loan is secured by an account holding fixed income investments at the bank.

Sale of Residential Real Estate

In December, 2021, the Museum received a bequest of a personal residence in Santa Barbara. In 2022, the Museum sold the residence for \$3,600,000.

Mission Creek Campus Infrastructure Repairs

In 2022, the Museum issued the Notice to Proceed on Phase AB of the Mission Creek Campus Infrastructure Repairs Master Plan which addresses roofing, heating, ventilation and air conditioning, and other infrastructure repairs to the buildings surrounding the historic courtyard at a total budget of \$1,836,000 including construction guaranteed maximum price contract of \$1,300,000.

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. Planning for Phase CE began in 2022. Phase CE includes infrastructure repairs at the Mission Creek Campus including Maximus, Mammal Hall, Bird Hall, lighting improvements for parking lot and whale courtyard. An agreement was signed with the architects for design services estimated to total \$214,000. An agreement was also signed in 2022 to approve ordering the HVAC units needed for Phase C/E at a cost of \$79,000. Planning for Phase CE started February 2022 and construction is expected to be completed October 2023. The total estimated project cost is \$2,000,000 including \$1,400,000 for construction.

Planning for Phase DF started February 2023 with construction expected to commence and finish in 2024.

In February 2023, the Museum entered into two repair contracts totaling \$100,000. One contract is to replace a section of roof on one of its Mission Creek Campus buildings and the other to paint the exterior of a stand alone office building on that campus.

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 was installed in 2022.

NOTE 21 SUBSEQUENT EVENTS (Continued)

Cabinetry

In November 2022, the Museum placed an additional order for cabinetry for its lepidoptera collection to be installed to the Museum in early 2022 at an estimated total cost of \$217,000.

Accounting and donor databases

The Museum entered into a three year contract for support its accounting and donor databases which calls for annual payments of \$24,000 through 2025.

Planetarium Projector

The Museum signed an agreement in December 2022 for the purchase and installation of projector system for its planetarium. Installation is anticipated in Spring 2023 and the entire project is estimated at \$425,000.

Investment Commitments

The Museum routinely makes adjustment to its investment portfolio and considers alternative investment opportunities. In early 2023, the Museum committed \$250,000 to a venture capital fund, and a \$1,000,000 commitment to a real estate opportunity fund. These commitments are expected to be called over several years.

Wharf Lease

In early 2022, the Museum exercised its final 5 year lease extension option on the lease with eth City of Santa Barbara for the wharf space upon which the Sea Center was built. The lease now expires June 30, 2027.

SUPPLEMENTAL SCHEDULE

SANTA BARBARA MUSEUM OF NATURAL HISTORY
SUPPLEMENTAL SCHEDULE OF ACTIVITIES WITHOUT DONOR RESTRICTIONS
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Totals for the Year Ended December 31, 2020)

	Operating	Other Without Donor Restriction	Board Designated	2021 Total	2020 Total
Income					
Support and Revenue					
Admissions	\$ 1,234,769	\$ -	\$ -	\$ 1,234,769	\$ 301,150
Membership	562,043	(107,000)	-	455,043	467,872
Contributions, bequests, and grants	860,782	-	4,159,197	5,019,979	(58,399)
Government grant	2,622,067	-	33,937	2,656,004	1,314,930
Net investment return	2,027	-	3,967,871	3,969,898	3,824,476
Investment draw	1,688,848	(793,508)	(794,860)	100,480	124,075
Education fees	65,134	-	-	65,134	52,060
Contracts	122,500	-	(1,740)	120,760	125,294
Change in value of charitable gift annuities	-	-	-	-	(4,487)
Income from perpetual trusts	211,358	-	25,000	236,358	232,740
Other income	12,059	-	115,261	127,320	32,185
Loss on retirement of assets, net	-	(113,111)	-	(113,111)	-
Use of strategic reserve	(2,408,116)	-	2,408,116	-	-
Total Support and Revenue	4,973,471	(1,013,619)	9,912,782	13,872,634	6,411,896
Revenue Centers					
Retail sales	617,609	-	-	617,609	230,025
Less retail expenses	(375,741)	(3,881)	(24,500)	(404,122)	(283,416)
Special events	154,351	-	(74,015)	80,336	445,787
Less special events expense	(70,009)	-	(58,592)	(128,601)	(223,863)
Rental income	151,226	-	-	151,226	225,847
Less rental expenses	(38,336)	-	-	(38,336)	(28,075)
Total Revenue Centers	439,100	(3,881)	(157,107)	278,112	366,305
Total Income (Loss)	5,412,571	(1,017,500)	9,755,675	14,150,746	6,778,201
Net Assets Released from Restriction	553,900	793,508	2,900,209	4,247,617	4,850,121
Expenses					
Program Expenses					
Exhibit and Guest services	1,163,865	1,064,141	317,942	2,545,948	2,597,860
Education	857,083	298,846	2,596	1,158,525	1,087,432
Collections and research	591,009	624,728	679,004	1,894,741	1,876,543
Total Program Expenses	2,611,957	1,987,715	999,542	5,599,214	5,561,835
Supporting Services					
Management and general	2,380,230	(2,839,529)	2,003,889	1,544,590	1,556,877
Development	974,284	(218,483)	17,151	772,952	770,200
Total Supporting Services	3,354,514	(3,058,012)	2,021,040	2,317,542	2,327,077
Total Expenses	5,966,471	(1,070,297)	3,020,582	7,916,756	7,888,912
CHANGE IN NET ASSETS	\$ -	\$ 846,305	\$ 9,635,302	\$ 10,481,607	\$ 3,739,410