

SANTA BARBARA MUSEUM  
OF NATURAL HISTORY  
FINANCIAL STATEMENTS  
DECEMBER 31, 2012  
(With Independent Auditors' Report Thereon)

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
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To the Board of Trustees of  
Santa Barbara Museum of Natural History

We have audited the accompanying financial statements of the Santa Barbara Museum of Natural History (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*MacFarlane, Faletti & Co. LLP*

Santa Barbara, California  
February 28, 2013

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2012 AND 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 2,543,129	\$ 3,020,987
Grants and pledges receivable	453,130	317,959
Other receivables	11,914	-
Investments	37,937,409	35,120,761
Inventory	79,672	84,638
Prepaid expense and other assets	124,274	133,725
Investment in trusts	6,429,091	6,053,328
Property held for investment	630,000	630,000
Property and equipment, net	14,093,344	13,831,012
Collections	-	-
Total Assets	<u>\$ 62,301,963</u>	<u>\$ 59,192,410</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 494,142	\$ 783,015
Deferred revenue	285,936	292,130
Agency funds	746,431	126,500
Total Liabilities	<u>1,526,509</u>	<u>1,201,645</u>
Net Assets		
Unrestricted	16,972,619	16,741,358
Unrestricted - Board Designated	22,868,689	20,888,242
Temporarily Restricted	9,968,330	9,578,023
Permanently Restricted	10,965,816	10,783,142
Total Net Assets	<u>60,775,454</u>	<u>57,990,765</u>
Total Liabilities and Net Assets	<u>\$ 62,301,963</u>	<u>\$ 59,192,410</u>

See accompanying notes

**SANTA BARBARA MUSEUM OF NATURAL HISTORY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011**

	Unrestricted				Temporarily Restricted	Permanently Restricted	All Funds	
	Operating	Other Unrestricted	Board Designated				2012 Total	2011 Total
<b>Income</b>								
<b>Support and Revenue</b>								
Admissions	\$ 807,600	\$ -	\$ -	\$ 2,814	\$ -	\$ 810,414	\$ 713,553	
Membership	437,336	-	-	2,020	-	439,356	419,236	
Contributions, bequests, and grants	316,537	-	204,898	1,482,666	-	2,004,101	3,894,302	
Investment income (loss)	5,584	-	3,752,635	944,690	-	4,702,909	(1,292,717)	
Investment draw	1,520,350	-	(1,480,296)	(40,054)	-	-	-	
Education fees	221,747	-	-	-	-	221,747	198,916	
Contracts	7,500	-	-	125,652	-	133,152	88,024	
Other income	42,509	-	26,496	65,375	-	134,380	57,014	
Change in value of charitable trusts	-	-	-	193,089	182,674	375,763	(334,767)	
Use of strategic reserve	399,602	-	(399,602)	-	-	-	-	
Income from perpetual trusts	17,041	-	-	124,426	-	141,467	133,005	
<b>Total Support and Revenue</b>	<b>3,775,806</b>	<b>-</b>	<b>2,104,131</b>	<b>2,900,678</b>	<b>182,674</b>	<b>8,963,289</b>	<b>3,876,566</b>	
<b>Revenue Centers</b>								
Store sales	459,897	-	3,227	-	-	463,124	385,419	
Less store expenses	(321,301)	(19,671)	(2,530)	-	-	(343,502)	(269,063)	
Special events	323,889	(213,639)	42,885	280,650	-	433,785	437,126	
Less special events expense	(130,442)	-	(28,289)	(139,691)	-	(298,422)	(257,203)	
Rental income	252,115	-	-	-	-	252,115	291,440	
Less rental expenses	(28,541)	-	-	-	-	(28,541)	(38,414)	
<b>Total Revenue Centers</b>	<b>555,617</b>	<b>(233,310)</b>	<b>15,293</b>	<b>140,959</b>	<b>-</b>	<b>478,559</b>	<b>549,305</b>	
<b>Total Income (Loss)</b>	<b>4,331,423</b>	<b>(233,310)</b>	<b>2,119,424</b>	<b>3,041,637</b>	<b>182,674</b>	<b>9,441,848</b>	<b>4,425,871</b>	
<b>Net Assets Released from Restriction</b>	<b>501,309</b>	<b>1,053,936</b>	<b>1,096,085</b>	<b>(2,651,330)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Expenses</b>								
<b>Program Expenses</b>								
Exhibit and visitor services	941,695	1,109,895	6,494	-	-	2,058,084	1,888,805	
Education	823,284	321,788	-	-	-	1,145,072	1,058,936	
Collections and research	669,084	1,156,382	5,639	-	-	1,831,105	1,994,812	
<b>Total Program Expenses</b>	<b>2,434,063</b>	<b>2,588,065</b>	<b>12,133</b>	<b>-</b>	<b>-</b>	<b>5,034,261</b>	<b>4,942,553</b>	
<b>Supporting Services</b>								
Management and general	1,620,578	(1,855,633)	1,081,960	-	-	846,905	656,191	
Membership	105,153	55,136	-	-	-	160,289	142,757	
Development	673,164	(198,429)	140,969	-	-	615,704	493,686	
<b>Total Supporting Services</b>	<b>2,398,895</b>	<b>(1,998,926)</b>	<b>1,222,929</b>	<b>-</b>	<b>-</b>	<b>1,622,898</b>	<b>1,292,634</b>	
<b>Total Expenses</b>	<b>4,832,958</b>	<b>589,139</b>	<b>1,235,062</b>	<b>-</b>	<b>-</b>	<b>6,657,159</b>	<b>6,235,187</b>	
<b>Net Excess (Deficit)</b>	<b>\$ (226)</b>	<b>\$ 231,487</b>	<b>\$ 1,980,447</b>	<b>\$ 390,307</b>	<b>\$ 182,674</b>	<b>\$ 2,784,689</b>	<b>\$ (1,809,316)</b>	

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at December 31, 2011	\$ 37,629,600	\$ 9,578,023	\$ 10,783,142	\$ 57,990,765
Change in Net Assets	<u>2,211,708</u>	<u>390,307</u>	<u>182,674</u>	<u>2,784,689</u>
Net Assets at December 31, 2012	<u>\$ 39,841,308</u>	<u>\$ 9,968,330</u>	<u>\$ 10,965,816</u>	<u>\$ 60,775,454</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at December 31, 2010	\$ 39,489,252	\$ 9,225,784	\$ 11,085,045	\$ 59,800,081
Change in Net Assets	<u>(1,859,652)</u>	<u>352,239</u>	<u>(301,903)</u>	<u>(1,809,316)</u>
Net Assets at December 31, 2011	<u>\$ 37,629,600</u>	<u>\$ 9,578,023</u>	<u>\$ 10,783,142</u>	<u>\$ 57,990,765</u>

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 2,784,689	\$ (1,809,316)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	764,093	782,601
Realized and unrealized (gain) loss on investments	(4,064,106)	1,983,083
Loss on retirement of asset	-	7,172
Change in value of trusts	(375,763)	334,767
Changes in		
Grants and pledges receivable	(135,171)	(114,397)
Other receivables	(11,914)	64,780
Inventory	4,966	(10,411)
Prepaid expense and other assets	9,451	(23,469)
Accounts payable	(288,873)	139,718
Deferred revenue	(6,194)	62,122
Agency funds	619,931	126,500
Net Cash (Used) Provided by Operating Activities	<u>(698,891)</u>	<u>1,543,150</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,026,425)	(1,771,764)
Purchase of investments	(12,373,963)	(44,320,947)
Proceeds from sale of investments	13,621,421	44,475,069
Net Cash Provided (Used) by Investing Activities	<u>221,033</u>	<u>(1,617,642)</u>
Net Decrease in Cash	<u>(477,858)</u>	<u>(74,492)</u>
Cash and Cash Equivalents, Beginning of Year	<u>3,020,987</u>	<u>3,095,479</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,543,129</u>	<u>\$ 3,020,987</u>

See accompanying notes

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATIONAL DATA

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

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

The Santa Barbara Museum of Natural History aims to spark curiosity and ignite a passion for nature. We strive to expand our understanding of the natural world, share the process of discovery, and communicate the interconnectedness of all species.

*The spirit of discovery drives our research, exhibits, and educational programs. We encourage involvement by making science fun and accessible, inspiring our audiences to explore the vast mysteries of nature.*

**Promoting Sustainability**

The Museum promotes the preservation of the Earth's natural systems as an urgent priority and fosters a sense of collective responsibility, necessary for maintaining biodiversity and for the well-being of our own species.

*We embrace sustainability as a critical element in all we do. We recognize that society's long term success requires an understanding and respect for nature's limits, and we strive to lead by example, illuminating the connections between research, policy and personal responsibility.*

**Connecting Our Communities**

The Museum is a community resource and a welcoming, accessible center for community engagement. We use the full range of the human experience to reach and connect people of all ages and backgrounds, transcending geographic, economic, and cultural boundaries.

*We pursue a broad web of relationships and partnerships to facilitate communication and mutual understanding, leveraging our resources and technology to bring the Museum into the lives of the widest possible range of professional and community groups.*

This mission is accomplished through collections, research, exhibits and educational programs.

The Museum operates in two locations; at its Mission Canyon Campus at 2559 Puesta del Sol in Santa Barbara, California and at its Ty Warner Sea Center located at 211 Stearns Wharf in Santa Barbara, California.

Gate attendance at Mission Canyon in 2012 was 93,199. In addition, 27,809 children and adults attended educational programs, 25,575 attended community related events, and 8,244 persons came to participate in museum programs as volunteers, for a total attendance at the Mission Canyon campus of 154,827.

Gate attendance at the Sea Center in 2012 was 86,833. In addition, 7,306 children and adults attended educational programs, 340 attended community related events, and 859 persons came to participate in museum programs/operations as volunteers, for a total attendance at the Sea Center campus of 95,338.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting – The accounts of the Museum are maintained in accordance with the principles of fund accounting. This accounting and reporting method classifies resources by their nature and purpose, based on the presence or absence of donor-imposed restrictions, into three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets consist of funds free of any donor-imposed restrictions and are sub-classified into undesignated funds and Board designated funds. Unrestricted net assets consist of the following:

- Operating funds that are unrestricted resources used to support the Museum’s operations.
- Other unrestricted funds that are primarily quasi-endowment funds consisting of realized and unrealized capital gains from the permanently restricted endowment funds as well as funds that the Board of Trustees (the Trustees) has decided to maintain intact and to invest to generate operating income.
- Board Designated funds that are resources designated for specific purposes by the Trustees.

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Museum that fulfill donor stipulations.

Permanently restricted net assets consist of contributions and other inflows of funds subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Museum. These funds are invested to provide income to support either specific activities or general operations, in accordance with donor stipulations.

Cash and Cash Equivalents – The Museum classifies its unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents, except for cash held for investment by portfolio managers.

Investments – The Museum maintains the following categories of investments:

- Short-term, fixed-income investments include commercial paper, demand notes, foreign currency, and corporate and government bonds. For statement of cash flows presentation purposes, these securities are considered to be cash equivalents, as such securities have original maturities of three months or less.
- Equity securities primarily consist of investments in both domestic and foreign corporate common stock securities.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

- Alternative investments represent investments in limited partnerships, limited liability companies, onshore and offshore hedge funds, private real estate investment trusts, and other nonpublic investments.
- Fixed-income securities include holdings in corporate and municipal bonds, as well as U.S. government securities, various mortgage and asset-backed bonds, and convertible corporate debentures.

Short Sales – Shorting securities refers to selling investments that the manager may or may not own in anticipation of a decline in the price of such securities or in order to hedge portfolio positions, with the obligation to purchase such investments at a future date. The Museum invests in partnerships and other private investment vehicles that engage in short selling. These securities have market risk to the extent that the Museum managers, in satisfying their obligations, may have to repurchase securities at a higher amount than that for which they were sold.

Investment Draw – The Draw consists of amounts designated by the Trustees based upon the spending policy to be drawn from quasi endowment and other funds to be used and expended for operations. (See Note 12, ‘Endowment,’ under the ‘Spending Policy and How the Investment Objectives Relate to Spending Policy.’)

Grants and Pledges Receivable – Unconditional pledges to give are reported as assets and as revenues or gains in the period in which the pledge is received. An allowance for uncollectible promises to give is recorded based on an analysis of collection histories and on reviews of the credit worthiness of major donors.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Museum received one conditional promise to give in 2012 to renovate and restore the legacy building and exhibits at the Museum. This promise is conditioned upon the Museum securing two other binding pledges of five million dollars each for that same or similar project. There were no conditional promises to give at December 31, 2011.

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

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

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

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

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

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

Investments are held at estimated fair value. In general, where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund-provided net asset values per share or ownership interest (NAVs) as allowed under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Fair value is discussed further in Note 3.

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

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

Contributed Services – Over 950 volunteers donated over 35,600 hours of their time in 2012 to the Museum as docents, research associates, interns, board members and in auxiliary organizations. This volunteer time is critical to the success of the Museum. However, as this volunteer service does not meet the recognition requirements under accounting principles generally accepted in the United States of America, (GAAP), no amount has been recorded in these financial statements for these services.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

Other estimates used in preparing these financial statements include:

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

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

Income Taxes – The Santa Barbara Museum of Natural History is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. The Museum is not considered a private foundation. The Museum is unaware of any uncertain tax positions at December 31, 2012, or for any period for which the statute of limitations remains open.

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

Reclassifications - The balances reported in the 2011 total column have been reclassified to make them comparable to the balances reported for the year ended December 31, 2012.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

NOTE 3: FAIR VALUE

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

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

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

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

*Level III* —Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format. Reported valuations of Level III securities may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Museum's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

The investments and interests in trusts carried on the statement of financial position by level within the valuation hierarchy as of December 31, 2012 and 2011 are as follows:

December 31, 2012

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money Market	\$ 275,187	\$ -	\$ -	\$ 275,187
Equity Securities	18,300,727	-	-	18,300,727
Fixed Income Securities	7,899,821	-	-	7,899,821
Alternative Investments:				
Private Equity			1,757,085	1,757,085
Real Estate Fund	-	-	60,628	60,628
Hedge Funds			6,383,277	6,383,277
Real Assets	<u>3,260,684</u>	<u>-</u>	<u>-</u>	<u>3,260,684</u>
Total Investments	<u>29,736,419</u>	<u>-</u>	<u>8,200,990</u>	<u>37,937,409</u>
Interest in Trusts	<u>-</u>	<u>4,596,019</u>	<u>1,833,072</u>	<u>6,429,091</u>
Total Assets Measured at Fair Value	<u>\$29,736,419</u>	<u>\$ 4,596,019</u>	<u>\$10,034,062</u>	<u>\$44,366,500</u>

December 31, 2011

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money Market	\$ 2,222,795	\$ -	\$ -	\$ 2,222,795
Equity Securities	16,365,051	-	-	16,365,051
Fixed Income Securities	6,859,580	-	-	6,859,580
Alternative Investments:				
Private Equity			1,244,955	1,244,955
Real Estate Fund	-	-	71,186	71,186
Hedge Funds			6,028,620	6,028,620
Real Assets	<u>2,328,574</u>	<u>-</u>	<u>-</u>	<u>2,328,574</u>
Total Investments	<u>27,776,000</u>	<u>-</u>	<u>7,344,761</u>	<u>35,120,761</u>
Interest in Trusts	<u>-</u>	<u>4,368,253</u>	<u>1,685,075</u>	<u>6,053,328</u>
Total Assets Measured at Fair Value	<u>\$27,776,000</u>	<u>\$ 4,368,253</u>	<u>\$9,029,836</u>	<u>\$41,174,089</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
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The changes in investments classified as Level III for the year ended December 31, 2012 are as follows:

	Private Equity	Real Estate Fund	Hedge Funds	Interest in Trusts	Total
Balance– January 1, 2012	\$1,244,955	\$ 71,186	\$6,028,620	\$1,685,075	\$ 9,029,836
Total realized and unrealized gains	196,018	40,059	497,592	-	733,669
Change in value of Level 3 trust interests				147,997	147,997
Purchases	455,900	-	1,500,000		1,955,900
Sales	<u>(139,788)</u>	<u>(50,617)</u>	<u>(1,642,935)</u>	<u>-</u>	<u>(1,833,340)</u>
Balance–December 31, 2012	<u>\$1,757,085</u>	<u>\$ 60,628</u>	<u>\$6,383,277</u>	<u>\$1,833,072</u>	<u>\$10,034,062</u>
Change in unrealized gain included in the changes in net assets relating to Level 3 investments still held at December 31, 2012	<u>\$ 196,018</u>	<u>\$ 40,059</u>	<u>\$ 414,378</u>	<u>\$ -</u>	<u>\$ 650,455</u>

Total realized and unrealized gains and losses recorded for Level III investments, if any, are reported in “Net realized and unrealized gains (losses) on investments” in both the statements of activities and changes in net assets and the statements of cash flows.

There were no significant transfers between Level I, Level II, and Level III of the fair value hierarchy during 2012.

NOTE 4: INVESTMENTS

Investment income for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Interest and Dividends	\$ 825,346	\$ 770,999
Change in Unrealized Gain	2,712,833	1,968,621
Realized Gain (Loss)	<u>1,351,273</u>	<u>(3,951,704)</u>
	4,889,452	(1,212,084)
Less Investment Fees	<u>(186,543)</u>	<u>(80,633)</u>
Total Investment Income (Loss)	<u>\$ 4,702,909</u>	<u>\$ (1,292,717)</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

Investment income at December 31, 2012 is allocated as follows:

Operating		
Interest earned on cash	\$ 5,584	
Total Operating Investment Income		\$ 5,584
Board Designated		
Investment income on quasi-endowment funds	3,667,170	
Investment income on facilities funds	<u>85,465</u>	
Total Board Designated Investment Income		3,752,635
Temporarily Restricted		
Investment income on funds restricted for specific purposes	<u>944,690</u>	
Total Temporarily Restricted Investment Income		<u>944,690</u>
Total Investment Income		<u>\$ 4,702,909</u>

The investment draw for the year ending December 31, 2012 is allocated as follows:

Operating		
Investment draws on quasi-endowment funds	\$ 1,435,533	
Investment draws on funds for specific operating purposes	<u>84,817</u>	
Total Operating Draw		\$ 1,520,350
Board Designated		
Investment draws on quasi-endowment funds for operations	(1,435,533)	
Investment draws on funds designated for facilities	<u>(44,763)</u>	
Total Draws on Board Designated Funds		(1,480,296)
Temporarily Restricted		
Investment draws on funds restricted for education	<u>(40,054)</u>	
Total Draws Temporarily Restricted Funds		<u>(40,054)</u>
Net Investment Draw		<u>\$ -0-</u>

Investment Draws consist of amounts designated by the Trustees based upon the spending policy to be drawn from quasi endowment and other funds to be used and expended for operations. (See Note 12, 'Endowment,' under the 'Spending Policy and How the Investment Objectives Relate to Spending Policy.')

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

NOTE 5: GRANTS AND PLEDGES RECEIVABLE

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

2013 - Current portion due	\$ 303,130
2014 - Long-term portion due	50,000
2015 - Long-term portion due	50,000
2016 - Long-term portion due	<u>50,000</u>
	<u>\$ 453,130</u>

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

NOTE 6: INTEREST IN TRUSTS

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

Perpetual Income Interest in Trusts – The Museum is the permanent income beneficiary of two perpetual trusts. The Museum does not have possession or control of the trusts or their assets. Distribution of income is nondiscretionary and totaled \$141,467 and \$133,005 for the years ended December 31, 2012 and 2011, respectively. The Museum’s initial interest in the perpetual trusts is recorded as a contribution and as an asset at the fair value of the trust interest. As the Museum is the beneficiary of a stream of income into perpetuity, the fair value of its interest in the trust is recorded as a permanently restricted asset. Any increase or decrease in the value of the asset is recorded as a change in value of trust interests. The Museum believes that the market value as reported by the trustee is a good approximation of the fair value of the Museum’s interest in the trusts.

The Museum’s interest in these perpetual trusts, classified as permanently restricted net assets, totaled \$3,340,871 and \$3,158,197 for the years ended December 31, 2012 and 2011, 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 trust interests.

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

The Museum's interest in these charitable remainder trusts, classified as temporarily restricted net assets, totaled \$3,088,220 and \$2,895,131 for the years ended December 31, 2012 and 2011, respectively.

**NOTE 7 PROPERTY HELD FOR INVESTMENT**

The Museum owns donated real property in Goleta California, which it leases to a convalescent hospital. The lease term is seventy-five years and expires in the year 2042. The current monthly rent is \$5,644. Monthly rent amounts are adjusted by cost of living increases every five years. The rent received in both 2012 and 2011 was \$67,728. The Museum also owns several residential units and one small office building, which are leased on a month-to-month basis.

**NOTE 8: PROPERTY AND EQUIPMENT**

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

	<u>2012</u>	<u>2011</u>
Land and Improvements	\$ 309,388	\$ 309,388
Buildings and Improvements	16,361,620	16,273,072
Furniture and Equipment	1,864,428	1,769,766
Construction in Progress	<u>2,774,188</u>	<u>1,930,973</u>
Total Cost	21,309,624	20,283,199
Total Accumulated Depreciation	<u>(7,216,280)</u>	<u>(6,452,187)</u>
Property and Equipment, net	<u>\$ 14,093,344</u>	<u>\$ 13,831,012</u>
Depreciation Expense	<u>\$ 764,093</u>	<u>\$ 782,602</u>

The Museum's Ty Warner 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.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
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NOTE 9: DEFERRED REVENUE and AGENCY FUNDS

Deferred Membership Revenue – 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.

Agency Funds – The Museum serves as an agent for the Condor Survival Funds. A payment was made into this fund by renewable energy companies as part of their permit application fee. The funds are to be used to support the California Condor Recovery Program’s conservation measures. The balance of \$746,431 at December 31, 2012 is the unexpended portion of these funds.

NOTE 10: LINE OF CREDIT

The Museum has a line of credit for \$150,000 for business needs. The line of credit agreement expires on May 21, 2013. The line of credit was not drawn on in 2012 and had no balance outstanding as of December 31, 2012 and 2011.

NOTE 11: NET ASSETS

The Museum’s net assets consist of the following:

**Unrestricted**

Unrestricted – Operating	\$	-	
Unrestricted – Other		16,972,619	
Unrestricted – Board Designated:			
Strategic Reserve	\$	713,642	
Specific Projects		151,115	
Quasi-Endowment		<u>22,003,932</u>	
Total Unrestricted-Board Designated		<u>22,868,689</u>	
Total Unrestricted			\$ 39,841,308

**Temporarily Restricted**

For Programs	6,880,110	
For Interests in Trusts	<u>3,088,220</u>	
Total Temporarily Restricted		9,968,330

**Permanently Restricted** - net assets restricted for investment in perpetuity, the income from which is expendable to support:

Invertebrate Zoology – Malacology	1,000,000	
Museums Studies Internships	100,000	
Maximus Gallery Collection of Antique Natural History Art	2,617,358	
Operations	<u>7,248,458</u>	
Total Permanently Restricted		<u>10,965,816</u>
Total Net Assets		<u>\$ 60,775,454</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

Quasi-endowment – Quasi-endowment funds are those funds the Trustees have designated primarily for investment and include unrealized and realized gains on the permanently restricted endowment fund. The Museum plans to leave the gains reinvested in perpetuity unless allocated for other purposes through Trustee resolution.

NOTE 12: ENDOWMENT

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

Interpretation of Relevant Law - The Trustees of the Museum have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

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

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Museum to retain as a fund of perpetual duration. No such deficiencies existed during the years ended December 31, 2012 or 2011.

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

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - In recognition of the foundational role the endowment and quasi-endowment play in the support of the core operations of the Museum, the purpose of the spending policy is to adopt a process that will virtually assure the continued growth of support for the operations of the Museum. To that end, the Museum has adopted its “Snake in the Tunnel” withdrawal formula. Each year, the Museum may draw funds from the endowment and quasi-endowment to support the operations of the Museum. The Museum’s formula takes 4.5% of a trailing 12-quarter average of the market value of the endowment corpus as of June 30 to base its designated expenditures for the following calendar year. The payout target is budgeted to increase by 4.5% a year; however the policy requires the actual withdrawal to fall within the limits that the payout will neither exceed 5% nor fall below 4% of a trailing 12 quarter rolling average of the endowment corpus. For the years ended December 31, 2012 and 2011, the draw was 5% of the twelve quarter average market values as of June 30, 2012 and June 30, 2011, respectively.

Endowment Net Asset Composition - Endowment net assets by type of fund consist of the following as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment	\$22,004,431	\$ -	\$ -	\$22,004,431
Donor restricted endowment funds	<u>-</u>	<u>6,071,237</u>	<u>7,624,945</u>	<u>13,696,181</u>
Total	<u>\$22,004,431</u>	<u>\$ 6,071,237</u>	<u>\$ 7,624,945</u>	<u>\$35,700,613</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
NOTES TO FINANCIAL STATEMENTS

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$19,794,778	\$ 5,880,799	\$ 7,624,945	\$33,300,522
Investment income	3,752,625	944,690	-	4,697,315
Contributions	27,000	500	-	27,500
Investment draws based on spending policy	(1,480,296)	(40,054)	-	(1,520,350)
Transfers to cover donor-restricted expenditures	-	(522,094)	-	(522,094)
Board approved expenditures for facility maintenance	(89,676)	-	-	(89,676)
Donor-restricted expenditures	-	(192,604)	-	(192,604)
Total	<u>\$22,004,431</u>	<u>\$6,071,237</u>	<u>\$7,624,945</u>	<u>\$35,700,613</u>

NOTE 13: PENSION PLAN

The Museum maintains a tax deferred annuity plan (the Plan) for all employees except adjunct and part-time employees. Employees are eligible for participation in the Plan after one year of employment and are fully vested after participation begins. Participants are required to contribute three percent of their salaries to the Plan, and the Museum contributes three percent. The Museum's contributions to the Plan were \$62,986 and \$61,057 in 2012 and 2011, respectively.

NOTE 14: MASTER PLANNING

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

The master planning effort also responded to a mandate by the City of Santa Barbara (the City) which required the Museum to submit a master plan for review and approval as part of the City's efforts of urban planning. This Master Plan would be the foundation for entitlement for any future capital projects granted by the City and provide the framework for an updated Conditional Use Permit (CUP) that would replace outdated earlier CUP documents and establish operational conditions and restrictions for the Museum henceforth.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
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Work on the Master Plan began in early 2009 under the leadership of the Board of Trustees' Master Planning Committee and with the participation of the full staff as well as involvement of community members. The first phase of the effort involved initial evaluation of the existing physical site and facilities, an assessment of programmatic space needs, and an evaluation of constraints for future development of the site. These efforts resulted at the end of 2009 in the issuance of a Long Range Development Plan (LRDP) that outlined not only needs, goals, constraints, and opportunities for future development but also established a vision for transformational changes in the nature and quality of the campus.

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

In 2011, the Museum submitted to the City a first, required "pre-application" filing, designed to provide preliminary information to the City's planning staff as a basis for feedback and guidance for the preparation of the final application for entitlement and approval of a CUP. Located within a historic district, the Museum is required to conform to extensive and detailed design guidelines under the jurisdiction of the City's Historic Landmarks Commission (HLC). As part of the review process, the Museum's planning team entered in a series of hearings before the HLC in order to gain preliminary approval from that body before proceeding to final application. The Museum expects to submit the final application in fall, 2013, which will be followed by an extensive environmental impact assessment of the proposed project.

The costs of the entitlement process which would ultimately lead to land use permits are being capitalized. Resources to support the project are being generated by a dedicated fundraising effort. The current effort is by far the most comprehensive and demanding planning process the Museum has undertaken in its nearly 100-year history, intended to lead to a centennial and generational transformation of the institution that will ensure its vigor and effectiveness as a vital community resource for decades to come.

The entitlement process requires extensive and coordinated efforts by Museum Trustees and staff, community members, and a broad array of professional consultants. The Museum has contracted with an architectural firm that has in turn subcontracted with a large team of consultants to assist in the planning process (see Note 15).

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
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Master Planning Budget – The following table presents actual funds raised and expenditures incurred for the Museum's Master Planning project for 2010 and 2011, 2012 and the projected totals for the period starting January 1, 2013 and ending September 30, 2015:

<u>Expenses</u>	<u>Actual</u>		<u>Projected</u>	<u>Total</u>
	<u>2010 - 2011</u>	<u>2012</u>	<u>2013 To September 2015</u>	
Entitlement expenses	\$1,933,000	\$883,000	\$4,224,000	\$ 7,040,000
Other project expenses	85,000	228,000	1,105,000	1,418,000
Contingency	-	-	<u>1,491,000</u>	<u>1,491,000</u>
Master Planning Actual and Budget Expenses	<u>\$2,018,000</u>	<u>\$1,111,000</u>	<u>\$6,820,000</u>	<u>\$ 9,949,000</u>
Amounts Raised to Date	<u>\$2,977,000</u>	<u>\$381,000</u>		

**NOTE 15: COMMITMENTS AND CONTINGENT LIABILITIES**

Grants Received - The Museum receives grants from various governmental agencies. These grants are subject to audit by the corresponding cognizant oversight agency as to allowable costs paid with federal funds and as to the share of costs contributed by the Museum. The Museum would be liable up to the full amount of federal funds expended should costs charged to the project be disallowed.

Wharf Lease - The Museum's Ty Warner Sea Center is located on Stearns Wharf in Santa Barbara, California. While the Museum constructed the building and related improvements, it leases the wharf space from the City. That lease agreement terminates on June 30, 2016, with a six year option to extend commencing July 1, 2016, and one five year option commencing on July 1, 2022.

Per the terms of this lease, the Museum pays the City 10% of the gross receipts of the Ty Warner Sea Center store. Payments to the City in 2012 and 2011 totaled \$15,653 and \$12,438, respectively.

Master Planning Consultants - The Museum has entered into an agreement with an architectural firm for services to be rendered by the firm and its sub consultants in association with the Master Planning project (see Note 14). The contract for the architects and consultants totals \$3.8 million, of which approximately \$2.2 million has been paid through December 31, 2012.

Exhibition Concept Study - The Museum has entered into a contract for a visualized exhibition concept study with an exhibit planning firm at a maximum fee of \$98,500, of which approximately \$76,000 has been paid.

SANTA BARBARA MUSEUM OF NATURAL HISTORY  
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Remodel of Director's House – The Museum has entered into an agreement with a general contractor for the remodeling of the Director's house in 2013. The contractor's fee is 15% of the cost of work.

Capital Commitments for Future Investments - The Museum has entered into certain agreements for capital commitments in two private equity investment funds to make future investments in those funds. The outstanding commitments totaled \$1,243,000 as of December 31, 2012.

NOTE 16: CONCENTRATION OF RISKS

The Museum maintains cash balances at two banks and two broker-dealers. The standard Federal Deposit Insurance Corporation (FDIC) insurance coverage, beginning December 31, 2010 and running through December 31, 2012 is unlimited for all noninterest bearing transaction accounts and is limited to \$250,000 per depositor and per bank institution for interest-bearing accounts. At December 31, 2012, the Museum had approximately \$1,373,000 of the uninsured cash on deposit.

On January 1, 2013, FDIC was limited to \$250,000 per depositor per bank institution. With this change, approximately \$1,769,000 of the Museum's cash on deposit was uninsured on January 1, 2013.

NOTE 17: STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

The following transactions did not affect the Museum's cash balances:

As described in Note 5, the Museum records changes in the value of its interest in perpetual and charitable remainder trusts in its Statement of Activities. This change in the value of trust interests is not a source or use of cash.

NOTE 18: SUBSEQUENT EVENTS

The Museum has evaluated subsequent events through February 28, 2013, the date which the financial statements were available to be issued pending approval by the Trustees. Management has determined no subsequent events requiring disclosure or significantly impacting disclosure have occurred.