

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

**SANTA BARBARA
MUSEUM
of
NATURAL
HISTORY**

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

REED S. SPANGLER
JANE E. RUSSELL
WILLIAM L. JACKSON

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

TRAVIS J. WILSON
VANESSA M. GARCIA
HOWARD B. ATKINSON
DIANE M. RAVENSCROFT
DAVID E. LEHMAN
ANDREW J. TRICERRI

We have audited the accompanying financial statements of the Santa Barbara Museum of Natural History (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

RICHARD L. HUNT
Consultant
SCOTT N. WILSON
Consultant

Management's Responsibility for the Financial Statements

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

Santa Barbara
115 E. MICHELTORENA ST.
SUITE 200
SANTA BARBARA
CALIFORNIA 93101
PHONE (805) 966-4157
FAX (805) 965-2454

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Los Olivos
2948 NOJOQUI AVE
SUITE 3
P.O. BOX 336
LOS OLIVOS
CALIFORNIA 93441
PHONE (805) 688-6449
FAX (805) 688-6440

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

E-MAIL cpa@mfcoco.com
WEBSITE www.mfcoco.com

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, 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of unrestricted activities presented on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit to the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Santa Barbara Museum of Natural History's December 31, 2017, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

MacFarlane, Faletti, & Co., LLP

**Santa Barbara, California
June 18, 2019**

SANTA BARBARA MUSEUM OF NATURAL HISTORY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

(With Comparative Totals as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 944,203	\$ 950,541
Grants and contributions receivable (Note 3)	319,755	382,497
Bequests receivable (Note 3)	159,691	1,809,772
Other receivables	3,692	72,533
Inventory	89,841	87,064
Prepaid expense and other assets	146,473	184,199
Total Current Assets	<u>1,663,655</u>	<u>3,486,606</u>
OTHER ASSETS		
Grants and contributions receivable - long-term (Note 3)	369,421	426,940
Investments restricted to capital improvements (Note 4)	93	5,083,848
Investments (Note 4)	39,213,958	42,474,310
Charitable gift annuities (Note 5)	106,834	-
Interests in charitable remainder trusts (Note 6)	2,935,829	2,795,077
Interests in perpetual trusts (Note 6)	6,791,225	7,482,732
Rental property (Note 7)	630,000	630,000
Property and equipment, net (Note 8)	21,244,609	16,532,696
Collections (Note 2)	-	-
Total Other Assets	<u>71,291,969</u>	<u>75,425,603</u>
TOTAL ASSETS	<u>\$ 72,955,624</u>	<u>\$ 78,912,209</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 385,017	\$ 1,136,006
Accrued payroll and related expenses	315,777	306,084
Deferred revenue (Note 9)	295,549	269,146
Total Current Liabilities	<u>996,343</u>	<u>1,711,236</u>
OTHER LIABILITIES		
Charitable gift annuities liability (Note 5)	81,178	-
Total Other Liabilities	<u>81,178</u>	<u>-</u>
Total Liabilities	<u>1,077,521</u>	<u>1,711,236</u>
NET ASSETS (Note 11)		
Without Donor Restrictions	44,992,345	36,893,751
With Donor Restrictions	26,885,758	40,307,222
Total Net Assets	<u>71,878,103</u>	<u>77,200,973</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 72,955,624</u>	<u>\$ 78,912,209</u>

SANTA BARBARA MUSEUM OF NATURAL HISTORY
STATEMENT OF ACTIVITIES & CHANGES IN NET ASSETS
FOR YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for Year Ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	All Funds	
			2018 Total	2017 Total
INCOME				
Support and Revenue				
Admissions	\$ 729,768	\$ 72	\$ 729,840	\$ 796,751
Membership	402,821	-	402,821	406,193
Contributions, bequests, and grants	799,189	2,495,094	3,294,283	5,544,040
Net investment return	(1,599,645)	(1,144,629)	(2,744,274)	6,205,380
Education fees	237,900	-	237,900	204,392
Contracts	83,494	-	83,494	72,664
Change in value of charitable gift annuities	-	(1,231)	(1,231)	-
Change in value of charitable trusts (Note 6)	-	(550,755)	(550,755)	865,237
Income from perpetual trusts (Note 6)	208,702	131,340	340,042	301,962
Other income	152,845	-	152,845	122,292
Loss on retirement of assets, net	(13,095)	-	(13,095)	(43,392)
Total Support and Revenue	1,001,979	929,891	1,931,870	14,475,519
Revenue Centers				
Retail sales	446,369	-	446,369	441,541
Less retail expenses	(379,098)	-	(379,098)	(367,802)
Special events	612,840	-	612,840	488,040
Less special events expense	(326,452)	-	(326,452)	(275,455)
Rental income	255,775	-	255,775	262,083
Less rental expenses	(62,783)	-	(62,783)	(34,156)
Total Revenue Centers	546,651	-	546,651	514,251
Total Income	1,548,630	929,891	2,478,521	14,989,770
Net Assets Released from Restrictions	14,351,355	(14,351,355)	-	-
EXPENSES				
Program Expenses				
Exhibit and visitor services	2,535,936	-	2,535,936	2,194,591
Education	1,269,811	-	1,269,811	1,264,353
Collections and research	1,841,941	-	1,841,941	1,857,073
Total Program Expenses	5,647,688	-	5,647,688	5,316,017
Supporting Services				
Management and general	1,254,721	-	1,254,721	1,108,655
Development	898,982	-	898,982	787,850
Total Supporting Services	2,153,703	-	2,153,703	1,896,505
Total Expenses	7,801,391	-	7,801,391	7,212,522
CHANGE IN NET ASSETS	8,098,594	(13,421,464)	(5,322,870)	7,777,248
NET ASSETS, BEGINNING OF YEAR	36,893,751	40,307,222	77,200,973	69,423,725
NET ASSETS, END OF YEAR	\$ 44,992,345	\$ 26,885,758	\$ 71,878,103	\$ 77,200,973

SANTA BABRARA MUSEUM OF NATURAL HISTORY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (5,322,870)	\$ 7,777,248
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities:		
Depreciation	1,053,423	808,093
Realized and unrealized loss/(gain) on investments	3,411,435	(4,996,300)
Loss on retirement of assets, net	13,095	43,392
Donated stock	(14,266)	(245,013)
Change in value of charitable gift annuities	1,231	-
Change in value of charitable trusts	550,755	(865,237)
Contributions restricted for long-term investment	(1,523,670)	(2,256,380)
Contributions of charitable gift annuities	(108,065)	-
Changes in		
Cash and cash equivalents restricted to master planning	-	5,055,723
Grants and contributions receivable	120,261	407,957
Bequests receivable	1,650,081	(1,276,272)
Other receivables	68,841	(34,853)
Inventory	(2,777)	13,712
Prepaid expense and other assets	37,726	(53,677)
Accounts payable and accrued expenses	(750,989)	714,623
Accrued payroll and related expenses	9,693	4,192
Grant payable	-	(36,254)
Deferred revenue	26,403	1,250
Charitable gift annuities liability	81,178	-
NET CASH (USED)/PROVIDED BY OPERATING ACTIVITIES	(698,515)	5,062,204
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(5,778,431)	(3,635,192)
Purchase of investments	(24,398,980)	(17,247,241)
Proceeds from sale of investments	29,345,918	12,988,996
NET CASH USED BY INVESTING ACTIVITIES	(831,493)	(7,893,437)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	1,523,670	2,256,380
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,523,670	2,256,380
NET DECREASE IN CASH	(6,338)	(574,853)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	950,541	1,525,394
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 944,203	\$ 950,541

SANTA BARBARA MUSEUM OF NATURAL HISTORY

STATEMENT OF FUNCTIONAL EXPENSES

DECEMBER 31, 2018

(With Comparative Totals as of December 31, 2017)

	Program Services				Supporting Services		Total 2018	Total 2017
	Exhibit & Visitor Services	Store Expenses	Education	Collections & Research	Management & General	Development		
Salaries, benefits, & pensions	\$ 1,180,077	\$ 116,755	\$ 875,465	\$ 1,191,426	\$ 526,012	\$ 701,230	\$ 4,590,965	\$ 4,275,617
Payroll taxes	76,884	7,418	57,807	75,961	29,886	45,629	293,585	263,033
Acquisitions	-	-	-	83,303	-	-	83,303	294,360
Advertising	67,911	-	21,183	9,816	7,745	75,816	182,471	130,075
Depreciation	553,990	-	89,496	56,659	346,992	6,286	1,053,423	808,093
Equipment	33,450	-	4,434	8,408	43,707	1,567	91,566	73,127
Grants	-	-	-	91,081	-	-	91,081	1,000
Insurance	47,446	1,225	9,000	35,658	24,802	8,412	126,543	117,963
Miscellaneous	429	1,132	2,578	4,219	4,271	979	13,608	5,296
Printing	41,708	73	15,620	4,489	4,594	28,602	95,086	83,791
Postage & shipping	39,526	-	1,478	2,303	406	6,885	50,598	54,231
Purchases	-	217,470	-	-	-	-	217,470	236,468
Property taxes	-	-	-	-	18,942	-	18,942	10,709
Rentals	47,944	-	1,723	5,837	44,556	766	100,826	132,525
Repairs & maintenance	96,935	-	18,172	54,785	70,267	7,518	247,677	104,172
Services	96,066	24,848	39,875	55,866	141,610	126,939	485,204	565,714
Supplies	123,216	7,448	82,549	68,621	42,980	189,379	514,193	403,869
Transportation & travel	4,726	1,999	23,416	21,248	4,335	10,454	66,178	72,230
Utilities	125,628	730	27,015	72,261	6,399	14,972	247,005	257,662
Total Expenses by Function	2,535,936	379,098	1,269,811	1,841,941	1,317,504	1,225,434	8,569,724	7,889,935
Less expenses included with revenues on the statement of activities								
Retail cost of goods sold	-	(379,098)	-	-	-	-	(379,098)	(367,802)
Cost of direct benefit to donors	-	-	-	-	-	(326,452)	(326,452)	(275,455)
Rental expenses	-	-	-	-	(62,783)	-	(62,783)	(34,156)
Total included in expense section of Statement of Activities	\$ 2,535,936	\$ -	\$ 1,269,811	\$ 1,841,941	\$ 1,254,721	\$ 898,982	\$ 7,801,391	
Total Year Ended December 31, 2017	\$ 2,194,591	\$ -	\$ 1,264,353	\$ 1,857,073	\$ 1,108,655	\$ 787,850		\$ 7,212,522

NOTE 1 ORGANIZATIONAL DATA

Founded in 1916, the Santa Barbara Museum of Natural History opened its doors in 1923 at its beautiful Mission Canyon property. From its inception, the Museum has served as a trusted repository of the natural and cultural heritage of the California Coastal region. Now over one hundred years old, the institution continues to provide compelling science and nature education to generations of Santa Barbara residents and visitors through its exhibits, programs, youth camps, collecting, and research projects. In 1987 the Museum opened a second campus – its Sea Center - focused on marine science and education on Stearns Wharf, thereby bookending the story of the Mission Creek watershed.

There are many things that make the Museum special - even among other natural history museums - the unique setting in 17 acres of woodland along Mission Creek where school groups and families can explore nature first hand; eleven galleries dedicated to the various natural sciences housed in historic Spanish Revival architecture that creates an intimate, welcoming visitor experience; and the access visitors have to our world-renowned curators and their collections of over 3.5 million natural and cultural artifacts.

The Museum is a place where the community gathers to explore and to celebrate the wonders of nature. As an institution, it is a community leader in the effort to reconnect the populace – especially children – with the natural world, thereby helping to combat “nature deficit disorder.” This term, coined by Richard Louv, describes the alarming and growing phenomenon in which children spend less time outdoors than previous generations did, losing the benefits that exposure to nature provides. This disconnection can result in increased health/behavioral issues, mental health problems, decreased understanding of biodiversity and natural systems, and a diminished capacity for environmental stewardship. Through the Museum’s leadership on this issue and its deliberate efforts to provide high-quality programs aligned with educational standards, the Santa Barbara Museum of Natural History stands as a model for educational institutions and a catalyst for change in our community.

The Museum’s educational programs promote scientific literacy and instill a passion for nature and a commitment to learning. These rich educational experiences are provided to over 20,000 school children as well as to 200,000 visitors - mostly families with children - who visit each year. The Museum does this at its two locations: Mission Canyon Campus at 2559 Puesta del Sol in Santa Barbara, California and Sea Center located at 211 Stearns Wharf in Santa Barbara, California.

Gate attendance at the Mission Canyon Campus in 2018 was 81,418. In addition, 23,031 children and adults attended educational programs, 23,013 attended community related events, 7,103 came as volunteers and 1,021 came specifically for research or professional symposia, for a total attendance at the Mission Canyon campus of 135,586.

Gate attendance at the Sea Center in 2018 was 87,211. In addition, 8,087 children and adults attended educational programs, 600 attended community related events, and 3,132 came as volunteers, for a total attendance at the Sea Center campus of 99,030.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements

The December 31, 2018 financial statements reflect adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 defines management’s responsibility to evaluate whether there is a substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The Museum adopted this ASU and concluded there was not substantial doubt of its continued operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

During 2018, the Museum adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet (statement of financial position) date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

In addition, the Museum made two reclassifications of net assets:

The Museum reclassified 2007 charitable remainder trust earnings from "without donor restrictions" to "with donor restriction" as those earnings are not available until the passage of time.

The Museum reclassified the difference between the 2017 earnings on its general endowment, that is the net assets that are not subject to appropriation or expenditure, but the income from which is expendable to support operations, and the amount that was appropriated for operations from "without donor restrictions" to "with donor restrictions" as the net accumulated earnings is not available until appropriated by the Board for operations.

Due to the adoption of ASU 2016-14 and net asset reclassification, net assets have been adjusted as of December 31, 2017 as follows:

Net Asset Classification	ASU 2016-14 Classifications		Total Net Assets
	Without Donor Restrictions	With Donor Restrictions	
<u>December 31, 2017</u>			
Unrestricted	\$ 19,333,355	\$ -	\$ 19,333,355
Unrestricted - Board Designated	25,344,255	-	25,344,255
Temporarily Restricted	-	15,915,686	15,915,686
Permanently Restricted	-	16,607,677	16,607,677
Net Assets as previously presented	44,677,610	32,523,363	77,200,973
Capital gifts for construction	(6,838,466)	6,838,466	-
Accumulated earnings on endowment	(693,996)	693,996	-
Charitable remainder trust earnings	(251,397)	251,397	-
Net assets as reported after adoption of ASU 2016-14 and reclassification	<u>\$ 36,893,751</u>	<u>\$ 40,307,222</u>	<u>\$ 77,200,973</u>

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Without Donor Restrictions are net assets available for use in general operations and not subject to donor restrictions. The Board of Trustees has designated, from net assets without donor restrictions, net assets for board-designated endowments, for a strategic reserve and for various projects and programs.

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

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

Cash, Cash Equivalents, and Restricted Cash

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

Investments

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

Investment Draw

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

Grants, Contributions, and Bequests Receivable

Unconditional pledges to give are reported as assets and as revenues or gains in the period in which the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. An allowance for uncollectible pledges to give is determined based on an analysis of historical experience, an assessment of economic conditions and a review of subsequent conditions. Bequests receivable are recorded at the time an unassignable right to the gift has been established and the proceeds are measurable in amount. Management believes these amounts will be fully collected and therefore no provision for uncollectible grants, contributions, and bequests receivable has been made. (See Note 3, Grants, Contributions, and Bequests Receivable.)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Collections

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

Financial Instruments and Credit Risk

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

Revenue and Revenue Recognition

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

Contributed Services - Over 800 volunteers donated over 38,000 hours of their time in 2018 to the Museum as docents, interpreters, research associates, interns, board members and in auxiliary organizations. This volunteer time is critical to the success of the Museum. However, as this volunteer service does not meet the recognition requirements prescribed by generally accepted accounting principles, no amount has been recorded in these financial statements for these services. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended December 31, 2018.

Functional Allocation of Expenses

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

Advertising

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

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 and estimated residual value of buildings, equipment and improvements

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

Comparative Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Reclassifications

Certain items in the 2017 comparative totals were reclassified in order to conform to the 2018 presentation.

NOTE 3 GRANTS, CONTRIBUTIONS, AND BEQUESTS RECEIVABLE

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

In less than one year	\$ 479,446
In one to five years	<u>369,421</u>
	<u>\$ 848,867</u>

NOTE 4 FAIR VALUE

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

NOTE 4 FAIR VALUE (Continued)

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

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable to the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market – corroborated inputs.

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

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

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

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

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

NOTE 4 FAIR VALUE (Continued)

	Total	Level 1	Level 2	Level 3	Investments Measured at NAV
Investments					
Cash and money market					
funds (at cost)	\$ 1,304,289	\$ 1,304,289	-	-	-
Domestic equities	11,772,282	11,772,282	-	-	-
International equities	5,993,165	5,993,165	-	-	-
Domestic fixed income securities*	4,818,908	4,818,908	-	-	-
Global fixed income	5,260,905	5,260,905	-	-	-
Real assets / real estate	1,787,661	1,087,634	662,527	37,500	-
High yield fixed income	1,784,587	-	-	-	1,784,587
Private equity	2,561,368	-	-	-	2,561,368
Hedge funds	3,930,886	-	-	-	3,930,886
Total Investments	<u>39,214,051</u>	<u>30,237,183</u>	<u>662,527</u>	<u>37,500</u>	<u>8,276,841</u>
Charitable gift annuities	106,834	106,834	-	-	-
Beneficial interests in					
Charitable trusts held					
by others	2,935,829	-	446,187	2,489,642	-
Perpetual trusts	6,791,225	-	-	6,791,225	-
Total Beneficial interest	<u>9,727,054</u>	<u>-</u>	<u>446,187</u>	<u>9,280,867</u>	<u>-</u>
Total Assets measured at fair value	<u>\$ 49,047,939</u>	<u>\$ 30,344,017</u>	<u>\$ 1,108,714</u>	<u>\$ 9,318,367</u>	<u>\$ 8,276,841</u>
Annuities payable					
Measured at fair value	\$ 81,178	\$ -	\$ -	\$ 81,178	\$ -

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

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

	Beginning Balance	Investment Return, Net	Purchases and Issuances	Sales and Distributions	Ending Balance
Real Assets	\$ -	\$ -	\$ 37,500	\$ -	\$ 37,500
Charitable trusts	2,262,413	227,229	-	-	2,489,642
Perpetual trusts	7,482,732	(691,507)	-	-	6,791,225
Total December 31, 2018	<u>\$ 10,277,809</u>	<u>\$ (550,755)</u>	<u>\$ 37,500</u>	<u>\$ -</u>	<u>\$ 9,764,554</u>

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

NOTE 4 FAIR VALUE (Continued)

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

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

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

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

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

NOTE 5 CHARITABLE GIFT ANNUITIES

The Museum established a charitable gift annuity program in 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, 2018. 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 \$340,042 for the year ended December 31, 2018. The Museum's initial interest in a perpetual trust is recorded as a contribution and as an asset at the fair value of the trust interest. As the Museum is the beneficiary of a stream of income into perpetuity, the fair value of its interest in the trust is recorded as a permanently restricted asset. Any increase or decrease in the value of the asset is recorded as a change in value of charitable trusts. The Museum believes that the market value as reported by the trustee is a good approximation of the fair value of the Museum's interest in the trusts.

The Museum's interest in these perpetual trusts, classified as permanently restricted net assets, totaled \$6,791,225 for the year ended December 31, 2018.

Charitable Remainder Trusts

Charitable remainder trust agreements in which the Museum has been named irrevocably as a remainder beneficiary are recorded on the books of the Museum. Since the Museum is not the trustee for any of the trusts, all trusts are recorded as a contribution and an asset equivalent to the present value of the trust assets and estimated future income net of the present value of estimated future payouts to the income beneficiaries. Any change in subsequent years in the present value of the estimated future benefits to be received when the trust assets will be distributed is recorded in the Statement of Activities as a change in the value of charitable trusts.

Charitable remainder trust agreements are classified as temporarily restricted net assets unless the donor has permanently restricted the Museum's use of its interest in the asset. The assets are recorded at approximate fair market value based upon the most recent tax return filed by the trust that is available to the Museum or current values provided by the trustee to the Museum. The present value of the estimated future value to be received by the Museum is calculated using the IRS annuity tables and a discount rate based on the Museum's historic risk-free rate of return. The discount rate used in 2018 was 3%.

The Museum's interest in these charitable remainder trusts, classified as temporarily restricted net assets, totaled \$2,935,829 for the year ended December 31, 2018.

NOTE 7 RENTAL PROPERTY

The Museum owns donated land, in Goleta, California, which it leases to a convalescent hospital. The lease term is seventy-five years and expires in the year 2042. The current monthly rent is \$6,170. Monthly rent amounts are adjusted by cost of living increases every five years. The rent received in 2018 was \$74,037.

The Museum also owns several residential units and one small office building, which are leased on a month-to-month basis, whose values are included in Property and Equipment.

NOTE 8 PROPERTY AND EQUIPMENT

The cost of land, buildings, improvements, and equipment, net of accumulated depreciation, are as follows at December 31, 2018:

Land and Improvements	\$ 314,388
Buildings and Improvements	29,894,311
Furniture and Equipment	2,570,113
Construction in Progress - Master Plan	<u>148,380</u>
Total Cost	32,927,192
Total Accumulated Depreciation	<u>(11,682,583)</u>
Property and Equipment, net	<u>\$ 21,244,609</u>
Depreciation Expense	<u>\$ 1,053,423</u>

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

NOTE 9 DEFERRED REVENUE

Deferred revenue is a result of membership income. The Museum offers one-year and two-year memberships for sale. The portion of membership dues that represents an economic benefit received by the member is recognized as income as it is earned. The portion of membership dues that represents a contribution is recognized as income when received.

NOTE 10 LINE OF CREDIT AND LETTER OF CREDIT

Line of Credit for Master Plan

The Museum has a line of credit to provide liquidity in case of unpredictable Master Plan cash flows. The total line available is \$2,500,000 and is secured by investments of at least \$3,850,000 in a segregated account. The line of credit agreement expires on June 30, 2019. The loan rate is an adjustable interest rate of LIBOR plus 1.5%. The line of credit was not drawn on in and had no balance outstanding at year end.

Letter of Credit for Improvements

The Museum was required by the City of Santa Barbara to obtain a letter of credit in the amount of \$178,000, in order to guarantee that the Museum would make improvements in the form of a new walkway along Puesta del Sol. The walkway was completed in 2018. It is anticipated that the City will release the full amount of the security in 2019.

NOTE 11 NET ASSETS

The Museum's net assets consist of the following as of December 31, 2018:

Net Assets without donor restrictions:

Undesignated	\$ 2,339,583
Invested in Fixed Assets	21,244,609
Board Designated	
Strategic Reserve	226,278
Specific Projects	907,634
Quasi-Endowment	20,274,241
Total Net Assets without donor restrictions	44,992,345

Net Assets with donor restrictions:

Subject to expenditure for specified purpose:

Antique Natural History Art	\$ 1,924,938
Entomology	1,886,900
Earth Sciences	1,720,525
Condor research	641,334
Other Collections and Research	487,169
Education	948,720
Master Planning and Implementation	186,792
Sea Center	78,962
Other	42,834
Accumulated earnings on donor-endowed funds	10,585
	7,928,759

Subject to the passage of time:

Beneficial interests in charitable trusts held by others	2,935,829

Not subject to appropriation or expenditure, the income from which is expendable to support:

Operations	10,921,996
Antique Natural History Art	2,394,174
Library & Archives	1,605,000
Invertebrate Zoology – Malacology	1,000,000
Museum Studies Internships	100,000
	16,021,170

Total Net Assets with Donor restrictions	26,885,758
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Total All Net Assets	\$ 71,878,103
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NOTE 12 ENDOWMENT

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

Interpretation of Relevant Law

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

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

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

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of \$8,129,945, fair values of \$7,891,898, and deficiencies of \$238,047 were reported in net assets with donor restrictions.

Investment and Spending Policies

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

NOTE 12 ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum uses an endowment spending-rate formula to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each year. To that end, the Board has adopted its "Snake in the Tunnel" spending-rate formula for endowments over which the Trustees have control. Each year, the Museum may draw funds from the endowment to support the operations of the Museum. The draw is calculated in a two-step process using the values of the past 12 quarters through June. First, the prior year draw is increased by 4.5% to come up with a preliminary payout. Second, that preliminary payout is then compared to minimum and maximum parameters, which it cannot exceed. The payout cannot exceed 5% of a trailing 12-quarter rolling average of the endowment corpus nor can it fall below 4% of that rolling average. During 2018, the spending rate was 5 percent. For endowments over which the Trustees do not control, such as its interests in perpetual trusts, the Museum expends annual distributions received from third parties on operations. In establishing this policy, the Museum considered the long-term expected return on the endowment and set the rate with the objective of maintaining the purchasing power of the endowment over time.

Endowment Net Asset Composition

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

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

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

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

NOTE 13 PENSION PLAN

The Museum maintains a tax deferred defined contribution retirement plan (the Plan) for all employees except part-time employees. Employees are eligible to participate in the Plan after one year of employment and are fully vested after participation begins. Participants are required to contribute three percent of their salaries to the Plan, and the Museum contributes three percent. The Museum's contributions to the Plan was \$95,492 in 2018.

NOTE 14 MASTER PLANNING

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

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

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

The scope of work to be undertaken in the Auditorium includes replacing the heating system and installing air conditioning; making the entire floor area and the stage universally accessible; painting both the interior and exterior; refinishing the floors and treating all the wood paneling, proscenium and stage floor; installing theater quality LED lighting in the room and in the exhibit cases; installing acoustical treatments to support the recent AV upgrades; replacing the entire roof to achieve enhanced insulation and seismic stability; replacing the stage curtain and the 350 chairs, and a host of smaller upgrades to improve functionality and visitor comfort.

NOTE 15 COMMITMENTS AND CONTINGENT LIABILITIES

Grants Received

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

Wharf Lease

The Sea Center is located on Stearns Wharf in Santa Barbara, California. While the Museum constructed the building and related improvements, it leases the wharf space from the City. That lease agreement terminates on June 30, 2022, with one five year option commencing on July 1, 2022. Per the terms of this lease, the Museum pays the City 10% of the gross receipts of the Sea Center store. Payments to the City in 2018 totaled \$17,744.

NOTE 15 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Master Planning Consultants

In 2017 the Museum commenced construction of Phase 1 and entered into a guaranteed maximum price construction contract with a general contractor. At December 31, 2018 the original contract plus approved changed orders totaled \$5,669,421 of which \$5,428,211 had been paid or accrued.

Comprehensive Refurbishment of Fleischmann Auditorium

In the Summer of 2018, the Board of Trustees approved adding a comprehensive refurbishment of Fleischmann Auditorium to the scope of the project. An agreement was signed with the general contractor for preconstruction services totaling \$29,970. In 2019, contracts were entered into for architectural, engineering, and general contractor services and the construction project budget was set at \$2,300,000.

Agreements with City of Santa Barbara

The Museum has entered into an agreement with the City of Santa Barbara to replace a residential structure which was demolished in 2017 within eight years by obtaining either a building permit for a new residence, approval of another appropriate primary use for the accessory structure which remained, or an amendment to the Museum's Conditional Use Permit.

Investment Property Expenses

As part of a 1977 bequest, the Museum received a minority interest in undeveloped land. The majority owners are now interested in selling the property and are actively working to obtain an approved planned development tract map. All owners, including the Museum have agreed to both pay for the costs of obtaining the approved tract map and to pay the owner/developer a commission of 2% of the sales price, paid from the net sales proceeds of the property sale. Through 2018, the Museum has paid \$37,500 towards development of the tract map.

Collection Cabinetry

The Museum entered into contracts totaling \$270,000 for the preparation, purchase, and installation of new collection cabinetry. The cabinets were installed in mid-2019.

2019 Exhibit

The Museum, as a regular course of business, enters into contracts for future exhibits. In 2018, the Museum had entered into an agreement for a dinosaur exhibition for summer 2019 totaling \$65,000.

NOTE 16 CONCENTRATION OF RISKS

The Museum maintains cash balances at three banks and one broker-dealer. The standard Federal Deposit Insurance Corporation (FDIC) insurance coverage is limited to \$250,000 per depositor and per bank institution. At December 31, 2018, the Museum had approximately \$1,748,000 of uninsured cash on deposit.

NOTE 17 RELATED PARTY TRANSACTIONS

The Museum's Board consisted of 22 Trustees as of December 31, 2018. One of the trustees is the Regional Vice President at the same corporation that is the custodian of the Museum's investments. The Museum paid fees totaling \$30,500 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 2018 totaled \$567,000.

NOTE 18 STATEMENT OF CASH FLOWS – SUPPLEMENTAL DISCLOSURES

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

As described in Note 6, the Museum records changes in the value of its interest in perpetual and charitable remainder trusts in its Statement of Activities. This change in the value of trust interests is not a source or use of cash.

NOTE 19 LIQUIDITY AND AVAILABILITY

The Museum's cash flow available for master planning fluctuated in 2018 and will fluctuate in 2019 attributable to timing of donations and pledge payments coming in for the master plan and related periodic construction expenditures. The Museum maintains a line of credit of \$2.5 million with a bank that is available to be drawn upon as needed to manage the master plan cash flow. The line of credit has not been drawn upon as of December 31, 2018.

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 \$20,274,241 is subject to the annual spending policy as described in Note 13. Although the Museum does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of our liquidity management plan, the Museum has designated a strategic reserve, which had a balance of approximately \$226,000 as of December 31, 2018.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018:

Current Assets	
Cash and cash equivalents	\$ 944,203
Pledges receivable without purpose restriction	673
Other receivables	3,692
Prepaid expenses and other assets	146,473
Bequests receivable	159,691
Endowment spending-rate distributions and appropriations	1,962,513
	<u>\$ 3,217,245</u>

NOTE 20 SUBSEQUENT EVENTS

The Museum's management has evaluated subsequent events through June 18, 2019, 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, 2018, except for the following:

- Comprehensive Refurbishment of Fleischmann Auditorium
In the Summer of 2018, the Board of Trustees approved adding a comprehensive refurbishment of Fleischmann Auditorium to the scope of the project. An agreement was signed with the general contractor for preconstruction services totaling \$29,970. In 2019, contracts were entered into for architectural, engineering, and general contractor services and the construction project budget was set at \$2,300,000.
- Office Improvements
The Museum entered into contracts totaling \$58,000 to reconfigure office space. That project was substantially completed in the first half of 2019.
- Solar Installation at the Sea Center
The Museum has entered into an agreement to have solar panels installed on the roof of the Sea Center and is in the process of working with the installer to obtain all the necessary permits. The Museum is not paying for the installation of the panels. Once the permits are obtained and installation is completed, the Museum will then be required to pay for the electricity generated and used by it at a rate 0.202 per kWh escalating 3.6% annually for the later of 6 years or until \$110,096 has been paid, at which time the Museum can purchase the system for the then market price, continue to buy the electricity generated, or terminate the agreement.
- Investment Commitment
In May 2019, as part of the diversification of its investment portfolio, the Museum committed to invest \$500,000 in a private equity fund. The investment period is just over six years and the fund is expected to terminate in about 10 years.
- Scanning Electron Microscope
The Museum has entered into a purchase agreement in 2019 for a Scanning Electron Microscope (SEM) totaling \$231,000 to replace its 2004 model. The new SEM will provide better imaging and improved capabilities.

SUPPLEMENTAL SCHEDULE

SANTA BARBARA MUSEUM OF NATURAL HISTORY
SUPPLEMENTAL SCHEDULE OF UNRESTRICTED ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Totals for the Year Ended December 31, 2017)

	Operating	Other Without Donor Restriction	Board Designated	2018 Total	2017 Total
Income					
Support and Revenue					
Admissions	\$ 729,768	\$ -	\$ -	\$ 729,768	\$ 793,468
Membership	416,209	(14,323)	935	402,821	406,193
Contributions, bequests, and grants	607,916	-	191,273	799,189	879,392
Net investment return	1,299,915	-	(2,899,560)	(1,599,645)	5,017,807
Education fees	237,900	-	-	237,900	204,392
Contracts	52,775	-	30,719	83,494	72,664
Income from perpetual trusts	183,702	-	25,000	208,702	176,645
Transfers	383,444	-	(383,444)	-	562
Other income	76,766	-	76,079	152,845	100,156
Loss on abandonment	-	(13,095)	-	(13,095)	(43,392)
Use of strategic reserve	376,180	-	(376,180)	-	-
Total Support and Revenue	4,364,575	(27,418)	(3,335,178)	1,001,979	7,607,887
Revenue Centers					
Retail sales	446,369	-	-	446,369	369,536
Less retail expenses	(343,418)	(9,502)	(26,178)	(379,098)	(367,872)
Special events	444,570	-	168,270	612,840	580,401
Less special events expense	(161,235)	(248)	(164,969)	(326,452)	(275,455)
Rental income	255,775	-	-	255,775	262,083
Less rental expenses	(62,781)	(2)	-	(62,783)	(34,156)
Total Revenue Centers	579,280	(9,752)	(22,877)	546,651	534,537
Total Income (Loss)	4,943,855	(37,170)	(3,358,055)	1,548,630	8,142,424
Net Assets Released from Restriction	824,962	-	13,526,393	14,351,355	5,078,530
Expenses					
Program Expenses					
Exhibit and visitor services	1,090,926	500,412	944,598	2,535,936	2,176,024
Education	936,855	314,325	18,631	1,269,811	1,264,353
Collections and research	699,956	436,377	705,608	1,841,941	1,857,073
Total Program Expenses	2,727,737	1,251,114	1,668,837	5,647,688	5,297,450
Supporting Services					
Management and general	2,011,423	(5,706,680)	4,949,978	1,254,721	1,127,152
Development	1,029,657	(264,440)	133,765	898,982	787,850
Total Supporting Services	3,041,080	(5,971,120)	5,083,743	2,153,703	1,915,002
Total Expenses	5,768,817	(4,720,006)	6,752,580	7,801,391	7,212,452
CHANGE IN NET ASSETS	\$ -	\$ 4,682,836	\$ 3,415,758	\$ 8,098,594	\$ 6,008,502