



FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2019



SANTA BARBARA HISTORICAL MUSEUM
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Santa Barbara Historical Museum

I have audited the accompanying financial statements of the Santa Barbara Historical Museum (a non-profit organization)(the Organization) which comprise the statement of financial position as of June 30, 2019, the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Those standards require that I 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, I 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.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara Historical Museum as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited the financial statements of the Santa Barbara Historical Museum as of June 30, 2018, and expressed an unmodified audit opinion on those audited financial in my report dated October 19, 2018. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Santa Barbara, California
November 21, 2019

SANTA BARBARA HISTORICAL MUSEUM
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
<u>ASSETS</u>				
Cash and cash equivalents	\$ 208,367	\$ 337,952	\$ 546,319	\$ 360,438
Pledges receivable	36,479	-	36,479	64,800
Bequest receivable	-	-	-	26,340
Prepaid expenses and deposits	29,730	-	29,730	34,471
Inventory	48,428	-	48,428	48,428
Unemployment reserve account	28,971	-	28,971	33,376
Investments (Note 3)	1,976,305	382,841	2,359,146	2,337,294
Interest in charitable trusts (Note 4)	-	662,688	662,688	756,282
Interest in perpetual trusts (Note 5)	-	2,051,561	2,051,561	2,018,996
Property and equipment - net (Note 6)	3,197,791	-	3,197,791	3,485,359
Historic land and buildings (Note 7)	119,197	-	119,197	119,197
Collections acquired since 1990	-	1,725,720	1,725,720	1,718,365
Total Assets	\$ 5,645,268	\$ 5,160,762	\$ 10,806,030	\$ 11,003,346
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities				
Accounts payable	\$ 38,256	\$ -	\$ 38,256	\$ 38,265
Accrued liabilities	34,440	-	34,440	38,029
Total Liabilities	72,696	-	72,696	76,294
Net Assets				
Without donor restrictions:				
Unrestricted	3,808,249	-	3,808,249	3,934,521
Board designated (Note 8)	1,764,323	-	1,764,323	1,902,356
With donor restrictions:				
Temporarily restricted (Note 8)	-	1,000,640	1,000,640	1,014,612
Permanently restricted (Note 8)	-	4,160,122	4,160,122	4,075,563
Total Net Assets	5,572,572	5,160,762	10,733,334	10,927,052
Total Liabilities and Net Assets	\$ 5,645,268	\$ 5,160,762	\$ 10,806,030	\$ 11,003,346

See accompanying notes

SANTA BARBARA HISTORICAL MUSEUM
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
Support:				
Grants	\$ 179,455	\$ 57,600	\$ 237,055	\$ 139,601
Contributions	63,439	19,700	83,139	223,646
Special events, net of expenses of \$48,454 and \$52,325, respectively	116,172	5,335	121,507	118,568
In-kind contributions	-	142,550	142,550	6,793
Membership	62,195	-	62,195	63,045
Investment income (Note 3)	17,312	-	17,312	102,412
Trust income (Note 5)	49,881	11,867	61,748	61,983
Rental income	380,379	-	380,379	382,639
Museum store sales	23,881	-	23,881	28,610
Public programs	34,476	-	34,476	23,750
Library fees	3,510	-	3,510	3,576
Miscellaneous income	19,300	-	19,300	-
Change in value of charitable trusts	-	49,405	49,405	(32,901)
Total Support	<u>950,000</u>	<u>286,457</u>	<u>1,236,457</u>	<u>1,121,722</u>
Net Assets Released From Restrictions:				
Released due to capital expenditure	5,709	(5,709)	-	-
Release due to other expenditure	107,531	(107,531)	-	-
Total	<u>1,063,240</u>	<u>173,217</u>	<u>1,236,457</u>	<u>1,121,722</u>
Expenses:				
Program services:				
Curatorial, library, collection management, and exhibitions	261,004	-	261,004	270,509
Facilities and Historical Structures	443,285	-	443,285	416,862
Public programs, education, and outreach	343,505	-	343,505	358,130
Supporting services:				
Management and general	246,720	-	246,720	238,862
Membership	19,873	-	19,873	24,952
Fundraising	40,453	-	40,453	87,824
Total Expenses	<u>1,354,840</u>	<u>-</u>	<u>1,354,840</u>	<u>1,397,139</u>
Excess of Support Over/(Under) Expenses before other changes in net assets	(291,600)	173,217	(118,383)	(275,417)
Other Changes in Net Assets:				
Loss on disposal of fixed assets	-	-	-	(5,106)
Abandonment of project	-	-	-	(8,760)
Adjustments to collections Acquired before 1995	-	(135,195)	(135,195)	-
Change in unrealized gain on investments	27,295	-	27,295	71,154
Change in value of perpetual trusts	-	32,565	32,565	14,006
Change in Net Assets	<u>(264,305)</u>	<u>70,587</u>	<u>(193,718)</u>	<u>(204,123)</u>
Net Assets at Beginning of Year	<u>5,836,877</u>	<u>5,090,175</u>	<u>10,927,052</u>	<u>11,131,175</u>
Net Assets at End of Year	<u>\$ 5,572,572</u>	<u>\$ 5,160,762</u>	<u>\$ 10,733,334</u>	<u>\$ 10,927,052</u>

See accompanying notes

SANTA BARBARA HISTORICAL MUSEUM
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ (193,718)	\$ (204,123)
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities:		
Depreciation	309,676	306,726
Realized loss/(gain) on sale of investments	12,905	(78,884)
Non-cash change in unrealized investment gains	(27,295)	(71,154)
Non-cash change in value of perpetual trusts	(32,565)	(14,006)
Non-cash change in charitable trusts	93,594	35,901
Non-cash change in collections	(7,355)	-
Loss on disposal of fixed assets	-	5,106
Changes in:		
Pledges receivable	28,321	19,653
Bequest receivable	26,340	635
Prepaid and other assets	4,741	(995)
Unemployment reserve account	4,405	(1,160)
Inventory	-	(7,462)
Accounts payable	(25,557)	(81,875)
Accrued liabilities	(3,589)	(4,070)
Net Cash Provided/(Used) by Operating Activities	<u>189,903</u>	<u>(95,708)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(518,629)	(504,571)
Proceeds from sale of securities	579,096	580,101
Change in money market funds held for investment	(67,929)	10,247
Purchase of property and equipment	3,440	(25,408)
Net Cash (Used)/Provided by Investing Activities	<u>(4,022)</u>	<u>60,369</u>
Net Increase/(Decrease) in Cash	185,881	(35,339)
Cash and Cash Equivalents at Beginning of Year	<u>360,438</u>	<u>395,777</u>
Cash and Cash Equivalents at End of Year	<u>\$ 546,319</u>	<u>\$ 360,438</u>

See accompanying notes

SANTA BARBARA HISTORICAL MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018

	Program Services						2019	2018
	Curatorial, Library, Collection Management & Exhibitions	Facilities & Historical Structures	Public Programs, Education & Outreach	Management & General	Membership	Fundraising	Total	Total
Salaries	\$ 159,575	\$ 40,495	\$ 130,477	\$ 54,351	\$ 11,410	\$ 5,705	\$ 402,013	\$ 488,298
Personnel - benefits and taxes	23,852	6,053	19,503	8,124	1,706	853	60,091	90,405
Advertising and public relations	-	-	-	12,127	1,494	-	13,621	21,070
Computer support and software	-	-	6,804	6,231	798	798	14,631	15,788
Depreciation expense	-	263,225	-	38,709	-	7,742	309,676	306,726
Development costs	-	-	-	-	-	12,061	12,061	18,510
Museum store cost of sales	-	-	12,153	-	-	-	12,153	10,130
Insurance	6,565	23,964	107	10,395	352	352	41,735	40,621
Occupancy costs	16,851	27,856	13,210	4,944	2,471	2,471	67,803	63,860
Outside consultants	-	-	25,697	-	-	8,829	34,526	49,283
Legal and professional fees	39,938	-	2,430	87,697	-	-	130,065	106,764
Publication- <i>Noticias</i>	-	-	-	-	-	-	-	5,400
Public programs	10,118	-	116,015	-	-	-	126,133	88,904
Repairs and maintenance	-	79,496	8,964	6,474	-	-	94,934	56,298
Special event costs	-	-	-	-	-	48,454	48,454	52,325
Supplies	4,105	-	8,145	12,092	1,642	1,642	27,626	32,564
Travel and mileage	-	2,196	-	5,576	-	-	7,772	2,518
Total Expenses by Function	261,004	443,285	343,505	246,720	19,873	88,907	1,403,294	1,449,464
Less expenses included with revenues on the Statement of Activities								
Cost of direct benefit to donors	-	-	-	-	-	(48,454)	(48,454)	(52,325)
Total Expenses Reported in Expenses on the Statement of Activities - 2019	\$ 261,004	\$ 443,285	\$ 343,505	\$ 246,720	\$ 19,873	\$ 40,453	\$ 1,354,840	
Total Expenses Reported in Expenses on the Statement of Activities - 2018	\$ 270,509	\$ 416,862	\$ 358,130	\$ 238,862	\$ 24,952	\$ 87,824		\$ 1,397,139

See accompanying notes

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATIONAL INFORMATION

Founded in 1932 and incorporated in 1943, the Santa Barbara Historical Museum (the Museum) is a California non-profit organization dedicated to promoting an appreciation and understanding of Santa Barbara regional history and the importance of history in general. Contributions and grants from residents and foundations located in Santa Barbara County are a key source of income to the Museum.

The Santa Barbara Historical Museum has a long legacy in our community, and an enduring commitment to its mission. The Museum remains dedicated to collecting, preserving, interpreting, and exhibiting the material culture of the Santa Barbara region in all its diversity; to educating through lectures, tours, and in the classroom; and to encouraging research, scholarship, and publication of the history of the Santa Barbara community. History can guide and inspire our actions, a tool with which we can build a better tomorrow. It is that belief which inspires the Museum's motto, "Building a future worth remembering."

In addition to the Museum's signature exhibitions, *The Story of Santa Barbara* the organization hosted four major educational exhibitions: *Project Fiesta: The History of Old Spanish Days*, *The West-Dressed Woman: Highlights of the Costume Collection*, *Great Photographers in Santa Barbara History: The Gledhill Library Collection*, *Before The Selfie: The Gledhill Portrait Collection*, and *Trusted Treasures: Favorite Works of our Trustees*.

The Museum also hosted transitional exhibitions in the *Edward Borein Gallery*, devoted to the art and life of one of the most highly regarded artists of the American West.

The Museum hosted tours of the Charles Fernald Mansion (1862) highlighting the Victorian Queen Anne-style home, a Santa Barbara City Historical Landmark, owned by Judge Charles Fernald, one of Santa Barbara's most prominent citizens in the late 1800s.

Public programming included nearly thirty educational events - history lectures, panel discussions, art demonstrations, film screenings, exhibition premieres, walking tours, plus continuing education sessions for the Museum's core volunteers' program. Public interest topics included life in early California, conservation, architecture, art, film, agriculture and other local history topics. Additionally, some 2500 patrons utilized the research materials of the Gledhill Library, delving into such diverse topics as genealogy, architectural history, and major events in the community's past.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATIONAL INFORMATION (Continued)

The Museum provided free after-hours receptions and family friendly activities for the public during eight "First Thursdays," a collaborative art and business promotion with Downtown Santa Barbara, along with playing host to numerous like-minded non-profit organizations, as well as educational groups. Additionally, the Museum hosted one fundraiser with an education/exhibition focus.

Over 28,000 guests, including many school tours, visited the Museum to explore, attend public functions and utilize the research library in 2018-2019. Additionally, many others explored the Museum's satellite exhibits at the Historic Terminal of the Santa Barbara Airport and the transitional exhibition dedicated to architect Lulah Maria Riggs through the Healing Arts Program at Santa Barbara Cottage Hospital.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The accompanying financial statements of the Museum have been prepared on the accrual basis. Assets, liabilities and net assets of the Museum are reported based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Museum and changes therein are classified and reported as follows:

- Net Assets without 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 certain net assets from net assets without donor restrictions for board designated endowments and various projects.

- Net Assets with Donor Restrictions:

Net Assets with Donor Restrictions are subject to donor-imposed stipulations that can be temporary in nature in that the restriction can be met either by actions of the Museum or by the passage of time. In addition, the donor can stipulate that the net assets are permanently restricted in that the donor can specify the resources are to be invested in perpetuity with only the income from these investments used.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash in bank and cash held in money market funds. Cash held by the investment custodian for the purpose of investing is classified as an investment.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Unconditional pledges to give are reported as assets and revenues or gains in the period in which the pledge is received. Conditional promises to give are recognized when the condition on which the promise depends is substantially met.

Pledges and bequests receivable are carried at their estimated collectible amount. Management periodically evaluates these receivables and records an allowance for any amounts estimated to be uncollectible. The evaluation is based upon a review of historical collections, current economic conditions, and an assessment of subsequent conditions. Management has determined these receivables are considered 100% collectible; therefore, no provision for uncollectible receivables is needed for the years ended June 30, 2019 and 2018.

Inventory

Inventory consists of books and other related materials available for sale to members and visitors in the Museum's store. Inventory is valued at the lower of cost on a first-in, first-out basis or net realizable value.

Investments

The Museum carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Investment income, related external investment expenses, and gains and losses on investments are classified as net assets without donor restrictions unless a donor or law temporarily or permanently restricts their use. Unrealized gains and losses are included in the change in net assets.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost or, if donated, at fair market value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

The Museum capitalizes all expenditures on land, buildings and equipment that are greater than \$2,500 and have a useful life in excess of one year.

Historic Land and Buildings

Purchased historic buildings are carried at cost. Donated land and buildings are recorded at the fair market value on the date of donation, if the value is determinable, plus restoration costs.

Historic buildings are considered inexhaustible and, therefore, are not being depreciated due to their historical value.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inexhaustible Collections

Purchased historic artifacts are capitalized when acquired. Donations of individual gifts valued in excess of \$5,000 are recorded at fair market value at the date of donation. Because the values of the collections existing as of December 31, 1990 are not readily determinable, the Museum has not capitalized them. For the year ended June 30, 2019 the Museum received as contributions 98 objects of historical significance each individually valued at less than \$5,000 from 28 donors for its library and artifact collections.

The \$1,725,720 in artifacts, which have been recorded in the financial statements, represents only a very small percentage of the estimated total value of the Museum's total artifacts.

Artifacts are considered inexhaustible and, therefore, are not being depreciated due to their historical value. The Museum's artifacts are held for exhibition to the public, for educational purposes or for research, with the intent of being protected, cared for and preserved. Any proceeds from the deaccessioning of collection items will be reinvested in the acquisition of or the protection, care, and preservation of other artifacts in accordance with a policy of the Museum's Board of Trustees.

Revenue and Revenue Recognition

▪ Recognition of Donor Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or designated by the Board of Trustees. Donor-restricted support is recorded as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified as net assets without restrictions.

▪ Exchange Transactions

Revenue from an exchange transaction is recognized when earned. Program service fees from public programs or the proceeds from the sale of event tickets received in advance, if any, are recorded as deferred revenue and recognized in the applicable period in which the related services are performed.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition (Continued)

- Contributed Services and Materials

A significant number of volunteers have contributed their services to the Museum. In accordance with accounting standards only those services provided by professionals have been valued and recorded in these financial statements. During the year ended June 30, 2019, board and committee members contributed approximately 1,832 hours and docents and general volunteers contributed approximately 1,170 hours. The Financial statements do not reflect the value of these contributed services because they do not meet the prescribed recognition criteria.

The Museum records, at fair market value, contributions of materials and professional services on the date of donation. The Museum did not receive any significant contributions of such goods and services during the years ended June 30, 2019 and 2018.

Draw - Operating Fund

Annually, the Board budgets an amount of investment income for operating activities. This amount is based upon the average balance of the previous 12 calendar quarters ending March 31 in the fiscal year of the market value of invested assets managed by the Museum as stated in its Spending Policy (See Note 12).

Functional Expenses

The costs of providing program services and supporting services are presented on a functional basis. Accordingly, the Museum has allocated certain costs among the programs and services, generally based on direct expenditures incurred. Any expenditures not directly chargeable, such as administration salaries, information technology, and depreciation, are allocated on the basis of their estimated benefit to the Museum. These natural expenses attributable to more than one function are allocated using a variety of cost allocation techniques. Allocations of general expenditures relating to the buildings are generally allocated based upon square footage; allocations of general expenditures related to staffing are allocated based upon payroll.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments and Credit Risk

The Museum manages deposit concentration risk by placing cash and money market accounts with financial institutions that Management believes to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Museum has not experienced any losses in any of these accounts. Credit risk associated with promises to give and bequest receivables is considered by Management to be limited due to high historical collection rates and because they are from donors supportive of the Museum. Investments are made by a variety of investment managers whose performance is monitored by the Museum's finance committee as well as the by the Board of Trustees. Although the fair value of investments is subject to fluctuation on a year-to-year basis, Management and the finance committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Significant estimates used in preparing these financial statements include:

- Net present value of income interests in trusts as determined by using the fair market value of the investments held in the trusts
- Allocation of expenses by function
- Fair market value of donated collections
- The present value of the estimated future value of assets held by charitable remainder trusts

Other estimates used in preparing these financial statements include:

- Collectability of receivables
- Lives and method of depreciating fixed assets
- Allocation of expenses by function

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

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Exempt Status

The Museum has been granted tax-exempt status by the Internal Revenue Service and the Franchise Tax Board under code sections 501(c) (3) and 23701d, respectively. Therefore, the Museum is only subject to income tax on unrelated business income. The Museum is not considered a private foundation. The Museum is not aware of any uncertain tax positions at June 30, 2019, or for any year for which the statute of limitations remains open which is generally for three years by the Internal Revenue Service and for four years by the California Franchise Tax Board.

Newly Adopted Accounting Pronouncement

During the year ended June 30, 2019, the Museum adopted Financial 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*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and the availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Museum has applied this ASU retrospectively to all periods with no material reclassifications between net assets without donor restrictions and net assets with donor restrictions.

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 U.S. GAAP.

Reclassifications

Certain reclassifications have been made to the June 30, 2018, balances as reported in the prior year financial statements to make them comparable to the balances reported for the year ended June 30, 2019.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 3: INVESTMENTS

Investments are stated at market value, based primarily on quoted market prices for those or similar instruments. The Trustees have engaged two investment advisory firms to manage the investments in accordance with the Museum's investment policy. The cost and market value of investments at June 30 are as follows:

<u>2019</u>	<u>Cost</u>	<u>Market</u>	<u>Unrealized Appreciation</u>
Money Market	\$ 134,153	\$ 134,153	\$ -
Mutual funds	326,564	321,262	(5,302)
Exchange Traded Funds			
Equities	480,817	640,422	159,605
Fixed income	47,255	47,546	291
Government securities	236,341	240,188	4,777
Corporate bonds	66,831	68,612	1,781
Common stocks	<u>696,545</u>	<u>906,963</u>	<u>210,417</u>
Total	<u>\$ 1,988,506</u>	<u>\$ 2,359,146</u>	<u>\$ 370,640</u>

Increase in unrealized appreciation over prior year \$ 27,295

<u>2018</u>	<u>Cost</u>	<u>Market</u>	<u>Unrealized Appreciation</u>
Money Market	\$ 66,224	\$ 66,224	\$ -
Mutual funds	352,436	341,431	(11,005)
Exchange Traded Funds			
Equities	480,816	620,231	139,415
Fixed income	47,255	45,399	(1,856)
Government securities	246,837	237,559	(9,278)
Corporate bonds	72,493	70,894	(1,599)
Common stocks	<u>727,888</u>	<u>955,556</u>	<u>227,668</u>
Total	<u>\$ 1,993,949</u>	<u>\$ 2,337,294</u>	<u>\$ 343,345</u>

Investment income in the statement of activities includes at June 30:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 56,894	\$ 50,572
Realized (loss)/gain, net, for the year	(12,905)	78,884
Less investment advisor fees	<u>(26,677)</u>	<u>(27,045)</u>
Total investment income	<u>\$ 17,312</u>	<u>\$ 102,412</u>

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 4: INTEREST IN CHARITABLE TRUSTS

Charitable trust agreements naming the Museum as an irrevocable beneficiary are recorded on the books of the Museum. Since the Museum is not the trustee for any of the charitable trusts in which it is named as the remainderman, the 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. Charitable 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.

Charitable Remainder Trusts

Any change in subsequent years in the present value of the estimated future benefits to be received when the charitable remainder trust assets will be distributed is recorded in the statement of activities as a change in the value of charitable remainder trusts.

The assets are recorded at approximate fair market value based upon the most recent tax return filed by the trust which is available to the Museum or current values provided by the settlor to the Museum. The present value of the estimated future value of assets to be received by the Museum is calculated using the IRS annuity tables and a discount rate based on the Museum's historic rate of return currently estimated at 5%. The estimated value of the charitable remainder trust at June 30, 2019 and 2018, is \$529,160 and \$626,004, respectively.

Charitable Lead Trust

In the fiscal year ended 2017, the Museum received notice it is a beneficiary of a charitable lead trust. The Museum will receive a fixed amount initially for 12 years; in addition, the Museum will receive a share of the residual amount. The present value of the estimated value of the assets to be received by the Museum is based upon the Museum's historic rate of return estimated at 5% and the number of years remaining of the trust. The estimated value of the charitable lead trust at June 30, 2019 and 2018, is \$133,528 and \$130,278, respectively

Additionally, the Museum has been named as a charitable beneficiary in wills and other charitable trusts; however, the donors have retained the right to change charitable beneficiaries. These intentions have not been recorded as assets in these financial statements.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: INTEREST IN PERPETUAL TRUSTS

The Museum is the permanent income beneficiary of the Georgiana Spalding Memorial Trust. The Museum does not have possession or control of the trust, which is held and administered by an outside agent. The market value of the underlying investments held in the trust has been used to estimate the value of the trust. The fair market value of the trust at June 30, 2019, was \$814,816 and at June 30, 2018, was \$812,665. The income received from the trust was \$33,000 and \$39,052 for the years ended June 30, 2019 and 2018, respectively.

The Museum also is the permanent income beneficiary of the "Private Trust" (Santa Barbara Historical Trust Irrev TUA under Agreement). All income from the trust is paid monthly to the Museum, but no payments from the principal are allowed. Wells Fargo Bank is the trustee. The market value of the underlying investments held in the trust has been used to estimate the value of the trust. The fair market value of the trust at June 30, 2019, was \$934,600 and at June 30, 2018, was \$908,812. The income received from the trust was \$13,826 and \$10,372 for the years ended June 30, 2018 and 2017, respectively.

In 2009, the Museum became the permanent income beneficiary of the Yvonne Dibblee Donohoe Fund ("Fund"). The Santa Barbara Foundation is the trustee. The trustee shall remit annually to the Museum 4% of the value of the Fund based upon a rolling average of the market value of the Fund for the previous twelve quarters.

The donor restricted expenditures for acquiring objects for the Museum's permanent collection, with preference given to objects from the de la Guerra family. The fair market value of the trust at June 30, 2019, was \$302,144 and at June 30, 2018 was \$297,518. The income received from the trust was \$11,867 and \$11,946 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6: PROPERTY AND EQUIPMENT

Depreciation expense for the years ended June 30, 2019 and 2018, was \$309,676 and \$306,726, respectively. The Museum is progressing with the planned upgrades to its facilities to utilize modern means to preserve its collections (Note 12). The primary projects in the current year consist of plans to upgrade the HVAC system and collection preservation. Projects in the prior year consisted of completion of the renovations for the new Borein Gallery.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 6: PROPERTY AND EQUIPMENT (Continued)

Property and equipment are summarized by major classifications, as of June 30 their value is as follows:

	<u>2019</u>	<u>2018</u>
Land – 118 East de la Guerra	\$ 28,500	\$ 28,500
Buildings and improvement	3,027,944	3,027,944
HVAC System	2,868,343	2,868,343
Gallery fixtures	343,295	343,295
Gallery equipment	46,624	30,318
Office equipment	95,010	120,734
Vehicles	11,628	11,628
Furniture and fixtures	48,993	85,344
Software	27,974	27,974
Vault	1,317,956	1,317,956
Security system	71,760	71,760
Costume mannequins	<u>14,770</u>	<u>14,770</u>
	7,902,797	7,948,566
Less accumulated depreciation	<u>(4,705,006)</u>	<u>(4,463,207)</u>
Property and Equipment - Net	<u>\$ 3,197,791</u>	<u>\$ 3,485,359</u>

NOTE 7: HISTORIC LAND AND BUILDINGS

Historic land and buildings at June 30, 2019 and 2018, are \$119,197.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 8: NET ASSETS WITHOUT DONOR RESTRICTIONS AND WITH DONOR RESTRICTIONS

Included in the net assets without donor restrictions are net assets designated by the board at June 30 for:

	<u>2019</u>	<u>2018</u>
Library fund	\$ 665	\$ 665
Storke Family fund	-	99,914
General - income is designated for:		
Capital projects	135,472	-
Gallery upgrade	-	259,752
General operations	<u>1,628,186</u>	<u>1,542,025</u>
Total net assets without donor restrictions designated by the Board	<u>\$ 1,764,323</u>	<u>\$ 1,902,356</u>

Net assets with donor restrictions

Those with temporary restrictions are those available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Library fund	\$ 2,000	\$ 7,286
Curatorial funds	47,727	39,527
Textile conservation and education	51,472	65,713
Borein Publication	121,250	123,900
Directories	1,808	1,808
Personnel	-	3,121
Landscape	11,852	11,852
Exhibit upgrades	22,904	21,057
Capital projects	5,335	-
Educational programs	70,604	79,426
Charitable remainder and lead trusts	<u>665,688</u>	<u>660,922</u>
Total temporarily restricted net assets	<u>\$ 1,000,640</u>	<u>\$ 1,014,612</u>

Those with donor restrictions requiring the funds be invested in perpetuity with the income to be used for the following at June 30:

	<u>2019</u>	<u>2018</u>
Education and outreach	\$ 128,034	\$ 128,034
Collections - capitalized	1,725,720	1,718,365
Endowment for library	25,000	25,000
General operations	229,807	89,808
General operations - held in trust	2,051,561	2,018,996
Charitable remainder trusts	<u>-</u>	<u>95,360</u>
Total permanently restricted net assets	<u>\$ 4,160,122</u>	<u>\$ 4,075,563</u>

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 9: OPERATING LEASES

The museum building is located on land leased from the County of Santa Barbara for one dollar per year until 2061, at which time a new lease can be negotiated. Under the agreement, the Museum assumes all management and control of the premises and all related costs.

NOTE 10: CONCENTRATION OF RISK

Investment Risk

The Museum derives a portion of its earnings from its investments. These investments are subject to the inherent risks of inflation, market fluctuation, volatility, bond credit risk and liquidity.

Geographical

The Museum's membership and donor base are largely drawn from Santa Barbara County. Visitors are both local and tourists.

Credit Risk

The Museum on occasion has more than \$250,000 on deposit with financial institutions. The Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit in an interest bearing account at any one institution. At June 30, 2019, the Museum had uninsured funds of approximately \$285,000.

Certain of the Museum's investments and cash and cash equivalents are held at two broker-dealers and are subject to Securities Investor Protection Corporation (SIPC). Under SIPC, cash and cash equivalents are insured up to \$250,000 per broker-dealer. On occasion, the Museum's cash balances exceed the insured threshold temporarily.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 11: COMMITMENTS

The Museum has entered into a contract initially for \$250,000 for additional storage capacity as a part of the Vault Upgrade, Phase III. The Museum has redetermined its needs and the updated contract is \$190,806 and has undertaken a fundraising campaign to continue into the fiscal year ending 2020 to pay for these costs. As of June 30, 2019, the balance on this contract is \$105,535.

The Museum entered into a construction contract prior to year-end for approximately \$88,000 to upgrade part of the vault's heating, ventilation, and air conditioning system.

NOTE 12: ENDOWMENTS

The Museum-maintained funds in endowments consist of several individual funds established for a variety of purposes. Its endowments include both with donor restrictions and without donor restrictions which have been designated by the Board of Trustees to function as endowments. Donor-restricted funds include perpetual trusts in which the Museum is named a beneficiary. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Museum has interpreted the 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. 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 UPMIFA. 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Museum's investment policies.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 12: ENDOWMENTS (Continued)

Investment Return Objectives, Risk Parameters and Strategies

The Museum has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding for expansion and for programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. Therefore, the Museum expects its endowment assets, over time, to produce an average rate of return of the draw plus inflation annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

Except for planned capital expenditures, the Museum has a policy of appropriating for distribution each year 5% of its endowment fund's fair value as per its policy described in Note 2. In establishing this policy, the Museum considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation.

On an annual basis, the Board determines an appropriate amount to be transferred from board designated funds to support operations. In determining the appropriate transfer, the board considers any deficit incurred by the Museum to run its various programs. The Board approves any draw exceeding the 5% budgeted amount. Should unrestricted donations exceed budget, the Museum will not utilize its budgeted draw in order to further the growth of the endowment fund.

The Museum expects the current spending policy to allow its endowment funds to grow at a nominal average rate approximating inflation annually. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

The Board Designated Endowment consists of funds not available for operations or withdrawal except by board approval. The endowments include funds not managed by the Museum.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 12: ENDOWMENTS (Continued)

Endowment net asset composition within the investments by type of fund, trusts restricted to endowment, and trusts in perpetuity as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowments
		Temporarily Restricted	Endowment Principal	
Donor- Restricted	\$ -	\$ -	\$ 2,434,402	\$ 2,434,402
Board- Designated	<u>1,532,108</u>	<u>-</u>	<u>-</u>	<u>1,532,108</u>
Total Endowment	<u>\$ 1,532,108</u>	<u>\$ -</u>	<u>\$ 2,434,402</u>	<u>\$ 3,966,510</u>

Endowment net assets as of June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowments
		Temporarily Restricted	Endowment Principal	
Endowment Net Assets 6/30/2018	\$ 1,620,001	\$ -	\$ 2,357,198	\$ 3,977,199
Contributions	-	-	44,639	44,639
Investment income	17,312	-	-	17,312
Change in value of trusts	-	-	32,565	32,565
Appreciation/ (depreciation) – unrealized, net	27,295	-	-	27,295
Amounts appropriated for expenditure	<u>(132,500)</u>	<u>-</u>	<u>-</u>	<u>(132,500)</u>
Endowment Net Assets 6/30/19	<u>\$ 1,532,108</u>	<u>\$ -</u>	<u>\$ 2,434,402</u>	<u>\$ 3,966,510</u>

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 12: ENDOWMENTS (Continued)

Endowment net asset composition within the investments by type of fund, trusts restricted to endowment, and trusts in perpetuity as of June 30, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowments .
		Temporarily Restricted .	Endowment Principal .	
Donor- Restricted	\$ -	\$ -	\$ 2,357,198	\$ 2,357,198
Board- Designated	<u>1,620,001</u>	<u>-</u>	<u>-</u>	<u>1,620,001</u>
Total Endowment	<u>\$ 1,620,001</u>	<u>\$ -</u>	<u>\$ 2,357,198</u>	<u>\$ 3,977,199</u>

Endowment net assets as of June 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowments .
		Temporarily Restricted .	Endowment Principal .	
Endowment Net Assets 6/30/2017	\$ 1,555,233	\$ -	\$ 2,374,556	\$ 3,929,789
Contributions	-	-	-	-
Investment income	102,412	-	-	102,412
Change in value of trusts	-	-	(17,358)	(17,358)
Appreciation/ (depreciation) – unrealized, net	71,154	-	-	71,154
Amounts appropriated for expenditure	<u>(108,798)</u>	<u>-</u>	<u>-</u>	<u>(108,798)</u>
Endowment Net Assets 6/30/18	<u>\$ 1,620,001</u>	<u>\$ -</u>	<u>\$ 2,357,198</u>	<u>\$ 3,977,199</u>

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 13: FAIR VALUE MEASUREMENT

The Museum is subject to the provisions of ASC Topic 820, Fair Value Measurements and Disclosures, which 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.

Using the fair value hierarchy established in ASC Topic 820, the Museum is required to maximize the use of observable inputs and to minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value:

Common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

Government Securities and Corporate bonds are valued at the closing price in which the individual security or bond is traded.

See Notes 4 and 5 for the methods for calculating the charitable remainder, lead, and perpetual trusts (charitable trusts).

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 13: FAIR VALUE MEASUREMENT (Continued)

In determining fair value, the Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The Foundation held certain assets and instruments that are required to be measured at fair value on a recurring basis at June 30, 2019:

	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities held for trading purposes:			
Money market	\$ 134,153	\$ -	\$ -
Mutual funds			
Fixed income	58,564	-	-
Equities	262,698	-	-
Exchange traded funds			
Equities	640,422	-	-
Fixed income	47,546	-	-
Gov't securities	240,188	-	-
Corporate bonds	68,612	-	-
Common stocks	906,963	-	-
Securities subtotal	2,359,146	-	-
Charitable trusts	-	-	2,714,249
Total	<u>\$ 2,359,146</u>	<u>\$ -</u>	<u>\$ 2,714,249</u>

and at June 30, 2018:

	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities held for trading purposes:			
Money market	\$ 66,224	\$ -	\$ -
Mutual funds			
Fixed income	88,387	-	-
Equities	253,044	-	-
Exchange traded funds			
Equities	620,231	-	-
Fixed income	45,399	-	-
Gov't securities	237,559	-	-
Corporate bonds	70,894	-	-
Common stocks	955,555	-	-
Securities subtotal	2,337,293	-	-
Bequests receivable	26,340	-	-
Charitable trusts	-	-	2,775,278
Total	<u>\$ 2,363,633</u>	<u>\$ -</u>	<u>\$ 2,775,278</u>

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 13: FAIR VALUE MEASUREMENT (Continued)

The following describes the changes in Level 3 assets from June 30, 2018 to June 30, 2019:

	2019		2018	
	Investment in Perpetual Trusts	Charitable Remainder/Lead Trusts	Investment in Perpetual Trusts	Charitable Remainder/Lead Trusts
Beginning Balances	\$ 2,018,996	\$ 756,282	\$ 2,004,990	\$ 792,183
Contribution – charitable trust to Level 3	-	-	-	-
Transfer from Level 3 to Level 1	-	(98,360)	-	(3,000)
Total gains/ (losses) included in changes in net assets	<u>32,565</u>	<u>4,766</u>	<u>14,006</u>	<u>(32,901)</u>
Ending Balances	<u>\$ 2,051,561</u>	<u>\$ 662,688</u>	<u>\$ 2,018,996</u>	<u>\$ 756,282</u>

During fiscal year ended June 30, 2019, a charitable remainder trust matured and, upon receipt of the funds, the Museum invested the funds in assets meeting the definition of valuation under Level 1. There were no significant transfers between Level 3 and Levels 1 and 2 during fiscal year ended June 30, 2018. As explained more fully in Note 5, the Museum is entitled to the income stream from the investment in perpetual trusts.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 14: LIQUIDITY AND AVAILABILITY

As a part of its liquidity management, the Museum structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Financial assets and resources available for general expenditure, that is, without donor restrictions limiting their use, within one year of the date of the statement of financial position comprise the following:

Cash and cash equivalents	\$	208,367
Pledges receivable		36,479
Prepaid expenses and deposits		29,730
Unrestricted income from assets held in trust (estimated)		50,000
Endowment spending rate distributions and appropriations		<u>100,000</u>
Total financial assets available within one year	\$	<u>424,576</u>

The Museum operates within a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. In addition, the Museum holds funds without donor restrictions designated by the Board (Note 8) of approximately \$1,600,000. Although the Museum does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the quasi-endowment can be made available if needed upon approval by the Board of Trustees.

For capital improvements or purchased collections, the Museum will generally undertake specific campaigns to generate the resources needed for such expenditures.

NOTE 15: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 21, 2019, which is the date the financial statements were available to be issued pending final approval by the Board of Trustees. Management has determined no subsequent events requiring disclosure have occurred.