



FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2020



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 Santa Barbara Historical Museum (a non-profit organization)(the Organization) which comprise the statement of financial position as of June 30, 2020, 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 I 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 Santa Barbara Historical Museum as of June 30, 2020, 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, 2019, and expressed an unmodified audit opinion on those audited financial in my report dated November 21, 2019. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Amihouchine & Associates

Santa Barbara, California
September 17, 2020

SANTA BARBARA HISTORICAL MUSEUM
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
ASSETS				
Cash and cash equivalents	\$ 260,546	\$ 201,781	\$ 462,327	\$ 546,319
Pledges receivable	7,970	-	7,970	36,479
Prepaid expenses and deposits	44,546	-	44,546	29,730
Inventory	42,456	-	42,456	48,428
Unemployment reserve account	28,364	-	28,364	28,971
Investments (Note 3)	1,908,374	443,117	2,351,491	2,359,146
Interest in charitable trusts (Note 4)	-	674,990	674,990	662,688
Interest in perpetual trusts (Note 5)	-	2,068,930	2,068,930	2,051,561
Property and equipment - net (Note 6)	3,085,052	-	3,085,052	3,197,791
Historic land and buildings (Note 7)	119,197	-	119,197	119,197
Collections acquired since 1990	-	1,798,720	1,798,720	1,725,720
Total Assets	\$ 5,496,505	\$ 5,187,538	\$ 10,684,043	\$ 10,806,030
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 136,056	\$ -	\$ 136,056	\$ 38,256
Accrued liabilities	48,379	-	48,379	34,440
Long-term Loan - PPP (Note 15)	84,550	-	84,550	-
Total Liabilities	268,985	-	268,985	72,696
Net Assets				
Without donor restrictions:				
Unrestricted	3,523,294	-	3,523,294	3,808,249
Board designated (Note 8)	1,704,226	-	1,704,226	1,764,323
With donor restrictions:				
Temporarily restricted (Note 8)	-	931,303	931,303	1,000,640
Permanently restricted (Note 8)	-	4,256,235	4,256,235	4,160,122
Total Net Assets	5,227,520	5,187,538	10,415,058	10,733,334
Total Liabilities and Net Assets	\$ 5,496,505	\$ 5,187,538	\$ 10,684,043	\$ 10,806,030

See accompanying notes

SANTA BARBARA HISTORICAL MUSEUM
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
Support:				
Grants	\$ 234,950	\$ 19,000	\$ 253,950	\$ 237,055
Contributions	66,268	66,967	133,235	83,139
Special events, net of expenses of \$52,871 and \$48,454, respectively	3,609	28,800	32,409	121,507
In-kind contributions	-	73,000	73,000	142,550
Membership	47,025	-	47,025	62,195
Investment income (Note 3)	133,849	-	133,849	17,312
Trust income (Note 5)	49,598	11,937	61,535	61,748
Rental income	245,116	-	245,116	380,379
Museum store sales	18,777	-	18,777	23,881
Public programs	22,643	-	22,643	34,476
Library fees	2,669	-	2,669	3,510
Miscellaneous income	49	-	49	19,300
Change in value of charitable trusts	-	21,046	21,046	49,405
Total Support	824,553	220,750	1,045,303	1,236,457
Net Assets Released From Restrictions:				
Released due to capital expenditure	144,135	(144,135)	-	-
Release due to other expenditure	67,208	(67,208)	-	-
Total	1,035,896	9,407	1,045,303	1,236,457
Expenses:				
Program services:				
Curatorial, library, collection management, and exhibitions	260,683	-	260,683	261,004
Facilities and Historical Structures	459,380	-	459,380	443,285
Public programs, education, and outreach	232,997	-	232,997	343,505
Supporting services:				
Management and general	226,437	-	226,437	246,720
Membership	19,006	-	19,006	19,873
Fundraising	88,580	-	88,580	40,453
Total Expenses	1,287,083	-	1,287,083	1,354,840
Excess of Support Over/(Under) Expenses before other changes in net assets	(251,187)	9,407	(241,780)	(118,383)
Other Changes in Net Assets:				
Acquired before 1995	-	-	-	(135,195)
Change in unrealized gain on investments	(93,865)	-	(93,865)	27,295
Change in value of perpetual trusts	-	17,369	17,369	32,565
Change in Net Assets	(345,052)	26,776	(318,276)	(193,718)
Net Assets at Beginning of Year	5,572,572	5,160,762	10,733,334	10,927,052
Net Assets at End of Year	\$ 5,227,520	\$ 5,187,538	\$ 10,415,058	\$ 10,733,334

See accompanying notes

SANTA BARBARA HISTORICAL MUSEUM
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	\$ (318,276)	\$ (193,718)
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities:		
Depreciation	310,388	309,676
Realized (gain)/loss on sale of investments	(115,763)	12,905
Non-cash change in unrealized investment gains	93,826	(27,295)
Non-cash change in value of perpetual trusts	(17,369)	(32,565)
Non-cash change in charitable trusts	(12,302)	93,594
Non-cash change in collections	(73,000)	(7,355)
Loss on disposal of fixed assets	-	-
Changes in:		
Pledges receivable	28,509	28,321
Bequest receivable	-	26,340
Prepaid and other assets	(14,816)	4,741
Unemployment reserve account	607	4,405
Inventory	5,972	-
Accounts payable	(10,735)	(25,557)
Accrued liabilities	13,939	(3,589)
Net Cash (Used)/Provided by Operating Activities	<u>(109,020)</u>	<u>189,903</u>
Cash Flows from Investing Activities:		
Purchase of investments	(1,664,696)	(518,629)
Proceeds from sale of securities	1,638,573	579,096
Change in money market funds held for investment	55,715	(67,929)
Purchase of property and equipment	(89,114)	3,440
Net Cash Used by Investing Activities	<u>(59,522)</u>	<u>(4,022)</u>
Cash Flows from Financing Activities		
Proceeds from borrowing - Payroll Protection Program	84,550	-
Net Cash Provided by Financing Activities	<u>84,550</u>	<u>-</u>
Net (Decrease)/Increase in Cash	(83,992)	185,881
Cash and Cash Equivalents at Beginning of Year	<u>546,319</u>	<u>360,438</u>
Cash and Cash Equivalents at End of Year	<u>\$ 462,327</u>	<u>\$ 546,319</u>

Supplemental Disclosure of Cash Flow Information

Excluded from the cash used for the purchase of property is the balance due to the vendor of \$108,535; this amount is also excluded from the change in accounts payable.

See accompanying notes

SANTA BARBARA HISTORICAL MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019

	Program Services						2020	2019
	Curatorial, Library, Collection Management & Exhibitions	Facilities & Historical Structures	Public Programs, Education & Outreach	Management & General	Membership	Fundraising	Total	Total
Salaries	\$ 163,308	\$ 60,184	\$ 86,600	\$ 30,206	\$ 10,293	\$ 35,353	\$ 385,944	\$ 402,013
Personnel - benefits and taxes	24,139	6,891	18,652	12,098	1,179	12,687	75,646	60,091
Advertising and public relations	-	-	-	14,916	-	1,510	16,426	13,621
Computer support and software	2,062	1,682	1,682	9,103	2,499	2,499	19,527	14,631
Depreciation expense	-	263,830	-	38,798	-	7,760	310,388	309,676
Development costs	-	-	-	-	-	12,636	12,636	12,061
Museum store cost of sales	-	-	17,590	-	-	-	17,590	12,153
Insurance	6,577	23,787	129	10,042	350	350	41,235	41,735
Occupancy costs	16,085	27,269	8,132	9,447	2,363	2,363	65,659	67,803
Outside consultants	-	-	14,325	-	-	11,099	25,424	34,526
Legal and professional fees	34,652	2,000	6,000	65,930	-	-	108,582	130,065
Public programs	13,860	-	67,727	-	2,322	2,323	86,232	126,133
Repairs and maintenance	-	73,737	8,875	6,950	-	-	89,562	94,934
Special event costs	-	-	-	-	-	52,871	52,871	48,454
Supplies	-	-	2,948	24,357	-	-	27,305	27,626
Travel and mileage	-	-	337	4,590	-	-	4,927	7,772
Total Expenses by Function	260,683	459,380	232,997	226,437	19,006	141,451	1,339,954	1,403,294
Less expenses included with revenues on the Statement of Activities								
Cost of direct benefit to donors	-	-	-	-	-	(52,871)	(52,871)	(48,454)
Total Expenses Reported in Expenses on the Statement of Activities - 2020	\$ 260,683	\$ 459,380	\$ 232,997	\$ 226,437	\$ 19,006	\$ 88,580	\$ 1,287,083	
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

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. Contributions and grants from residents and foundations located in Santa Barbara County are a key source of income to the Museum. The Museum operates an event venue which generates additional operating revenue.

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 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."

Visitors to the Museum from all over the world and every age enjoy our permanent exhibitions: *The Story of Santa Barbara*, tracing the history of the area from the Chumash to the modern era and the *Edward Borein Gallery*, devoted to the life and legacy of one of the most highly regarded artists of the American West.

In addition to the Museum's signature exhibitions, the organization hosted four major educational exhibitions: *Project Fiesta: The History of Old Spanish Days*; *Great Photographers in Santa Barbara History: The Gledhill Library Collection*; *Henry Chapman Ford: The Museum Collection*; and *Capturing the West: The Artistry of Josef Muench*.

Public programming included nearly thirty educational events - history lectures, panel discussions, art demonstrations, film screenings, exhibition premieres, and walking tours. Public interest topics included life in early California, conservation, architecture, art, agriculture, and other local history topics.

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

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. Additionally, the Museum hosted tours of the Charles Fernald Mansion (1862) highlighting the Victorian Queen Anne-style home, a Santa Barbara City Historical Landmark.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 1: ORGANIZATIONAL INFORMATION (Continued)

On March 13, 2020, the Museum closed to the public due to the Covid-19 pandemic. A large capital project to improve the underground HVAC and collection storage was underway, which continued as planned. Staff continued to meet the public's educational needs by reimagining programming and improving overall access to the collection online. The Museum created virtual exhibition tours, filmed signature student programs, and introduced online activities and docent-led ZOOM conversations with classrooms. Continued public access was made possible through virtual programs for students and all in-person lectures were moved to an online platform. The longstanding lecture series was replaced by *History Happy Hour at Home*. In just three months, more than 1,300 individuals had participated in our new virtual lecture series – exceeding former in-person attendance. Additionally, a new e-newsletter connected history enthusiasts by sharing images, virtual visits, history talks, stories, videos, and curated reading lists. The Museum began a personal history project entitled "Quarantine Stories," to ensure the Gledhill Library documents our community's struggles for future generations. This program is bilingual and open to all ages. The library continued to serve researchers remotely.

Guests, including many school tours, visited the Museum to explore, attend public functions and utilize the research library in 2019-2020. Additionally, many others explored the Museum's satellite exhibits at the Hill-Carrillo Adobe, newly opened this year, plus 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.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

- 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.

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, 2020 and 2019.

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.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020 the Museum received as contributions 217 objects of historical significance each individually valued at less than \$5,000 from 86 donors for its library and artifact collections.

The \$1,798,720 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.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

▪ 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, 2020, board and committee members contributed approximately 2,411 hours and docents and general volunteers contributed approximately 1,248 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 in accordance with accounting standards. The Museum did not receive any significant contributions of such goods and services during the years ended June 30, 2020 and 2019.

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).

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2020, 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.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

SANTA BARBARA HISTORICAL MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019, balances as reported in the prior year financial statements to make them comparable to the balances reported for the year ended June 30, 2020.

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>2020</u>	<u>Cost</u>	<u>Market</u>	<u>Unrealized Appreciation</u>
Money Market	\$ 78,438	\$ 78,438	\$ -
Mutual funds	317,420	315,631	(1,789)
Exchange Traded Funds			
Equities	624,437	705,885	81,448
Fixed income	100,011	105,720	5,790
Government securities	238,387	247,458	9,071
Corporate bonds	63,491	66,771	3,280
Common stocks	<u>652,532</u>	<u>831,588</u>	<u>179,056</u>
Total	<u>\$ 2,074,716</u>	<u>\$ 2,351,491</u>	<u>\$ 276,775</u>
Decrease in unrealized appreciation over prior year		<u>\$ (93,865)</u>	

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 3: INVESTMENTS (Continued)

<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		<u>\$ 27,295</u>	

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

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 44,634	\$ 56,894
Realized gain/(loss), net, for the year	115,763	(12,905)
Less investment advisor fees	<u>(26,548)</u>	<u>(26,677)</u>
Total investment income	<u>\$ 133,849</u>	<u>\$ 17,312</u>

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.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 4: INTEREST IN CHARITABLE TRUSTS (Continued)

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, 2020 and 2019, is \$537,766 and \$529,160, 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, 2020 and 2019, is \$137,224 and \$133,528, 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.

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, 2020, was \$801,856 and at June 30, 2019, was \$814,816. The income received from the trust was \$33,000 and \$33,000 for the years ended June 30, 2020 and 2019, 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, 2020, was \$967,688 and at June 30, 2019, was \$934,600. The income received from the trust was \$16,599 and \$13,826 for the years ended June 30, 2020 and 2019, respectively.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 5: INTEREST IN PERPETUAL TRUSTS (Continued)

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, 2020, was \$299,386 and at June 30, 2019 was \$302,144. The income received from the trust was \$11,936 and \$11,867 for the years ended June 30, 2020 and 2019, respectively.

NOTE 6: PROPERTY AND EQUIPMENT

Depreciation expense for the years ended June 30, 2020 and 2019, was \$310,388 and \$309,676, respectively. The Museum is progressing with the planned upgrades to its facilities to utilize modern means to preserve its collections (Note 12). The current year projects consisted of an upgrade to the subterranean environment and add storage. An HVAC system was designed to promote airflow and climate control, particularly aimed to improve issues of extreme temperatures and humidity in the Decorative Arts and Textile Vault areas. Additionally, the Museum completed a significant compact storage system to house safely and to document collections.

Property and equipment, as of June 30 their value is as follows:

	<u>2020</u>	<u>2019</u>
Land – 118 East de la Guerra	\$ 28,500	\$ 28,500
Buildings and improvement	3,027,944	3,027,944
HVAC System	2,957,457	2,868,343
Gallery fixtures	343,295	343,295
Gallery equipment	46,624	46,624
Office equipment	95,010	95,010
Vehicles	11,628	11,628
Furniture and fixtures	48,993	48,993
Software	27,974	27,974
Vault	1,426,491	1,317,956
Security system	71,760	71,760
Costume mannequins	<u>14,770</u>	<u>14,770</u>
	8,100,446	7,902,797
Less accumulated depreciation	<u>(5,015,394)</u>	<u>(4,705,006)</u>
Property and Equipment - Net	<u>\$ 3,085,052</u>	<u>\$ 3,197,791</u>

NOTE 7: HISTORIC LAND AND BUILDINGS

Historic land and buildings at June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Library fund	\$ 665	\$ 665
Capital projects	66,988	135,472
General - income is designated for General operations	<u>1,636,573</u>	<u>1,542,025</u>
Total net assets without donor restrictions designated by the Board	<u>\$ 1,704,226</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>2020</u>	<u>2019</u>
Library fund	\$ 2,040	\$ 2,000
Curatorial funds	34,345	47,727
Textile conservation and education	14,428	51,472
Borein Publication	116,637	121,250
Directories	1,808	1,808
Landscape	1,596	11,852
Exhibits and upgrades	35,471	22,904
Capital projects	-	5,335
Educational programs	49,988	70,604
Charitable remainder and lead trusts	<u>674,990</u>	<u>665,688</u>
Total temporarily restricted net assets	<u>\$ 931,303</u>	<u>\$ 1,000,640</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>2020</u>	<u>2019</u>
Education and outreach	\$ 128,033	\$ 128,034
Collections - capitalized	1,798,720	1,725,720
Endowment for library	25,000	25,000
General operations	235,552	229,807
General operations - held in trust	<u>2,068,930</u>	<u>2,051,561</u>
Total permanently restricted net assets	<u>\$ 4,256,235</u>	<u>\$ 4,160,122</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, 2020, the Museum had uninsured funds of approximately \$295,000.

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.

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. During the year ended June 30, 2020, the Museum completed this project as described in Note 6. As of June 30, 2020, the balance due on this contract of approximately \$108,000 and is recorded in accounts payable.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

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.

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.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 12: ENDOWMENTS (Continued)

Investment Return Objectives, Risk Parameters and Strategies (Continued)

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 rate equal to or exceeding estimated 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, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowments
		Temporarily Restricted	Endowment Principal	
Donor- Restricted	\$ -	\$ -	\$ 2,457,515	\$ 2,457,515
Board- Designated	<u>1,514,978</u>	-	-	<u>1,514,978</u>
Total Endowment	<u>\$ 1,514,978</u>	<u>\$ -</u>	<u>\$ 2,457,515</u>	<u>\$ 3,972,493</u>

Endowment net assets as of June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total Endowments
		Temporarily Restricted	Endowment Principal	
Endowment Net Assets 6/30/2019	\$ 1,532,108	\$ -	\$ 2,434,402	\$ 3,966,510
Contributions	-	-	5,744	5,744
Investment income	133,235	-	-	133,235
Change in value of trusts	-	-	17,369	17,369
Appreciation/ (depreciation) – unrealized, net	(93,865)	-	-	(93,865)
Amounts appropriated for expenditure	<u>(56,500)</u>	<u>-</u>	<u>-</u>	<u>(56,500)</u>
Endowment Net Assets 6/30/2020	<u>\$ 1,514,978</u>	<u>\$ -</u>	<u>\$ 2,457,515</u>	<u>\$ 3,972,493</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, 2019 is as follows:

	Without Donor <u>Restrictions</u>	<u>With Donor Restrictions</u>		Total <u>Endowments</u>
		Temporarily <u>Restricted</u>	Endowment <u>Principal</u>	
Donor- Restricted	\$ -	\$ -	\$ 2,434,402	\$ 2,434,402
Board- Designated	<u>1,532,108</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 <u>Restrictions</u>	<u>With Donor Restrictions</u>		Total <u>Endowments</u>
		Temporarily <u>Restricted</u>	Endowment <u>Principal</u>	
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 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, 2020:

	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	\$ 78,438	\$ -	\$ -
Mutual funds			
Fixed income	46,889	-	-
Equities	268,742	-	-
Exchange traded funds			
Equities	705,885	-	-
Fixed income	105,720	-	-
Gov't securities	247,458	-	-
Corporate bonds	66,771	-	-
Common stocks	<u>831,588</u>	-	-
Securities subtotal	2,351,491	-	-
Charitable trusts	<u>-</u>	-	<u>2,743,920</u>
Total	<u>\$ 2,351,491</u>	<u>\$ -</u>	<u>\$ 2,743,920</u>

and 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	<u>906,963</u>	-	-
Securities subtotal	2,359,146	-	-
Charitable trusts	<u>-</u>	-	<u>2,714,249</u>
Total	<u>\$ 2,359,146</u>	<u>\$ -</u>	<u>\$ 2,714,249</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, 2019 to June 30, 2020:

	<u>2020</u>		<u>2019</u>	
	Investment in Perpetual Trusts	Charitable Remainder/Lead Trusts	Investment in Perpetual Trusts	Charitable Remainder/Lead Trusts
Beginning Balances	\$ 2,051,561	\$ 662,688	\$ 2,018,966	\$ 756,282
Contribution – charitable trust to Level 3	-	-	-	-
Transfer from Level 3 to Level 1	-	-	-	(98,360)
Total gains/ (losses) included in changes in net assets	<u>17,369</u>	<u>12,302</u>	<u>32,565</u>	<u>4,766</u>
Ending Balances	<u>\$ 2,068,930</u>	<u>\$ 674,990</u>	<u>\$ 2,051,561</u>	<u>\$ 662,688</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, 2020. 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		7,970
Prepaid expenses and deposits		44,546
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>410,883</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: RELATED PARTY

One Board member is the president of a bank at which the Museum holds banking and investment accounts as well as its Payroll Protection Program loan.

SANTA BARBARA HISTORICAL MUSEUM

NOTES TO FINANCIAL STATEMENTS

NOTE 16: CONTINGENCIES

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus known as COVID-19 a pandemic. As a result, economic uncertainties have arisen which are likely to impact net income negatively. Possible effects may include the disruption of revenue streams related to admissions, rentals, fundraising events, and foundation grants. Other financial impacts could occur though such potential impact is unknown at the time.

In response to the requirement to close in March 2020, management redirected the scheduled class field trips to a virtual tour, moved in-person lectures to an online platform, and assisted researchers with resources from its library remotely. Subsequent to year end, the Museum added displays and exhibits in its outdoor space when the Governor of California and the local health agency permitted visitors to outdoor museums. Management continues to monitor state and local guidance related to operations and to adapt its programming to meet the changes.

Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Museum applied for and received a Paycheck Protection Program (PPP) Loan in the amount of \$84,550. Under the terms of the loan, the Museum can expend minimally 60% of the funds for payroll and certain related expenses and 40% for rent and utilities initially over eight weeks and currently twenty-four weeks. If the lender approves all the expenditures, then the full amount of proceeds of the loan may be forgiven. Any amount not forgiven will have an annual interest rate of 1% and principal and interest will be payable over five years. The Museum analyzed its expenditures and anticipates the lender will forgive the full amount of the PPP loan.

NOTE 17: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 17, 2020, 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 except as disclosed in Footnote 16.