

Policy:

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SANTA BARBARA MARITIME MUSEUM ENDOWMENT POLICY STATEMENT

Purpose

The purpose of this policy is to set spending guidelines for the Santa Barbara Maritime Museum (SBMM) Endowment Funds. Nothing herein is intended to conflict with the bylaws, which shall govern in all instances. Additionally, this policy is not intended to replace or conflict with the SBMM's gift acceptance and investment policies. In case of a conflict among the policies, the Gift Acceptance Policy takes precedence, followed by the Investment Policy.

Governance

Gifts made to the endowment funds include both donor restricted and board designated funds and are subject to the SBMM's Gift Acceptance Policy. Investment and growth of endowment and other invested funds are overseen by the Investment Committee and subject to the SBMM's Investment Policy. This policy addresses the distribution of endowment earnings in accordance with donor restrictions and board approval.

Endowment Distributions

The basic concept of endowments is to provide funding for long-term needs, whereby the funds contributed by donors are not spent immediately, but are invested to provide a stream of earnings which can then be used (or compounded). In addition, the Board may designate certain funds to be treated like an endowment to provide a stream of earnings. Thirdly, a donor might create a term endowment whereby SBMM may utilize the funds at a certain point in time. In order to promote long-term growth of the Endowment Fund, the Finance Committee and the Board are encouraged to spend as conservatively as possible, whenever possible.

With input from the staff as to SBMM financial needs, the Finance Committee will, during the first quarter after the end of calendar year, recommend to the Board an amount to be transferred from the Endowment in the **forthcoming fiscal year**. The amount will be calculated by applying up to 5% to an average of the past 12 quarterly asset balances (exclusive of restricted gifts indicating a different distribution amount), at market value, as of December 31. The Finance Committee will consider an annual adjustment such as CPI or similar Index so as to retain the present day value of contributions with consideration of inflation. Consequently, the amount of the distribution can range from 0% - 5%.

Should staff request expending any amount of more than 5% from the board designated endowment funds, the Finance Committee will need to recommend the request to the Board and an affirmative vote of 60% of the Board of SBMM in attendance, is required. Should staff request expending any portion of an "initial board designated contribution", the Finance Committee will need to recommend the request to the Board and an affirmative vote of 60% of the Board in attendance is required to un-designate the funds.

Draws of more than 5% from donor restricted endowments are allowable if the original gift document or with permission from the donor.

Decisions on the spending and distribution of amounts needed in excess of the 5% or un-designating board endowments shall need to support the mission of SBMM.

In accordance with Accounting Principles Generally Accepted in the United States of America, restricted distributions will be spent before unrestricted.

Endowment Fund Accounting and Disclosures

The endowment consists of individual funds including both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by Accounting Principles Generally Accepted in the United States of America, net assets associated with endowment funds, including those designated by the board, are classified and reported based on the existence or absence of donor-imposed restrictions.

SBMM has interpreted the Universal 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, the SBMM classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to 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 SBMM in a manner consistent with the standard for prudence prescribed by UPMIFA. In accordance with UPMIFA, the SBMM considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

Endowment Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor-restricted funds may fall below the level that current law requires the SBMM to retain for a fund of perpetual duration. In accordance with Accounting Principles General Accepted in the United States of America, these deficiencies will be reported as a reduction in net assets with donor restrictions. Such deficiencies may result from unfavorable market fluctuations. Any underwater permanent endowment funds at the most recent December 31 will be eliminated from the distribution allocation.