

SANTA BARBARA MARITIME MUSEUM

FINANCIAL STATEMENTS

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Santa Barbara Maritime Museum
Santa Barbara, California

I have audited the accompanying financial statements of the Santa Barbara Maritime Museum which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from misstatements, 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. 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 these 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 that 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 the Santa Barbara Maritime Museum as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited the Santa Barbara Maritime Museum's 2015 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated December 8, 2015. In my opinion, the summarized comparative information presented herein as of and for the year June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gary A. Smith

January 16, 2017

SANTA BARBARA MARITIME MUSEUM
Statement of Financial Position
June 30, 2016
(With comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 157,695	\$ 202,113
Accounts receivable	32,084	13,346
Grants and pledges receivable (Note 3)	37,000	1,250
Inventory for resale	23,268	16,265
Prepaid expenses	10,449	5,645
Investments (Note 4)	121,486	219,951
Interest in charitable remainder trust (Note 5)	355,265	365,360
Property and equipment, net (Note 7)	2,497,856	2,494,987
Artifact collection	577,517	577,517
Deposits	2,064	2,064
Prepaid rent (Note 8)	<u>223,720</u>	<u>233,850</u>
Total assets	<u>\$ 4,038,404</u>	<u>\$4,132,348</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 12,913	\$ 9,228
Accrued salaries	30,495	28,377
Rental deposits	<u>20,050</u>	<u>11,800</u>
Total liabilities	<u>63,458</u>	<u>49,405</u>
 Net assets:		
Unrestricted	3,180,103	3,234,497
Temporarily restricted (Note 10)	304,578	348,086
Permanently restricted (Note 11)	<u>490,265</u>	<u>500,360</u>
Total net assets	<u>3,974,946</u>	<u>4,082,943</u>
Total liabilities and net assets	<u>\$ 4,038,404</u>	<u>\$4,132,348</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Activities
Year ended June 30, 2016
(With comparative totals for 2015)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>2016</u> <u>Totals</u>	<u>2015</u> <u>Totals</u>
Revenues, gains and other support:					
Donations	\$ 589,409	\$ 129,149	\$ --	\$ 718,558	\$ 751,530
Grants	30,300	183,450		213,750	235,000
Admissions	46,573			46,573	46,947
Retail sales	74,157			74,157	70,244
Education programs	42,674			42,674	38,657
Rental income, net of expenses of \$68,322 and \$53,978	54,223			54,223	29,380
Interest income		29		29	6
Change in value of charitable remainder trust			(10,095)	(10,095)	(14,598)
Realized and unrealized gain on investments					1,913
Special events, net of expenses of \$23,843 and \$20,621	74,110			74,110	91,923
Other income	125			125	8,692
Net assets released from restrictions (Note 14)	<u>356,136</u>	<u>(356,136)</u>			
Total	<u>1,267,707</u>	<u>(43,508)</u>	<u>(10,095)</u>	<u>1,214,104</u>	<u>1,259,694</u>
Expenses:					
Program services	865,105			865,105	803,335
Management and general	182,414			182,414	165,709
Fund raising	<u>274,582</u>			<u>274,582</u>	<u>233,136</u>
Total expenses	<u>1,322,101</u>	<u>--</u>	<u>--</u>	<u>1,322,101</u>	<u>1,202,180</u>
Change in net assets	(54,394)	(43,508)	(10,095)	(107,997)	57,514
Net assets, beginning of year	<u>3,234,497</u>	<u>348,086</u>	<u>500,360</u>	<u>4,082,943</u>	<u>4,025,429</u>
Net assets, end of year	<u>\$3,180,103</u>	<u>\$ 304,578</u>	<u>\$ 490,265</u>	<u>\$3,974,946</u>	<u>\$4,082,943</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Functional Expenses
Year ended June 30, 2016
(With comparative totals for 2015)

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fund</u> <u>Raising</u>	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
Salaries and benefits	\$ 260,802	\$ 108,746	\$115,847	\$ 485,395	\$ 437,265
Cost of goods sold	45,839			45,839	46,534
Computer operations	6,662	3,330	3,331	13,323	12,440
Office operations	20,692	2,587	2,587	25,866	22,388
Rent	89,901	6,764	6,764	103,429	100,276
Utilities	24,508	3,064	3,064	30,636	32,535
Insurance	16,164	4,502		20,666	19,225
Advertising and promotion	15,097		8,878	23,975	24,642
Repairs and maintenance	53,164	631	315	54,110	37,651
Operating supplies and services	178,475	33,565		212,040	214,935
Fundraising supplies and services			114,571	114,571	84,347
Depreciation and amortization	<u>153,801</u>	<u>19,225</u>	<u>19,225</u>	<u>192,251</u>	<u>169,942</u>
	<u>\$ 865,105</u>	<u>\$ 182,414</u>	<u>\$274,582</u>	<u>\$1,322,101</u>	<u>\$ 1,202,180</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Cash Flows
Year ended June 30, 2016
(With comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (107,997)	\$ 57,514
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	192,251	169,942
Realized and unrealized gain on investments		(1,913)
Change in value of charitable remainder trust	10,095	14,598
Contributions restricted for long-term purposes	(37,850)	(54,550)
Changes in assets and liabilities:		
Receivables	(54,488)	9,503
Inventory for resale	(7,003)	(6,565)
Prepaid expenses	(4,804)	1,510
Accounts payable	3,685	(6,567)
Accrued salaries	2,118	7,425
Rental deposits	<u>8,250</u>	<u>11,800</u>
Net cash provided by operating activities	<u>4,257</u>	<u>202,697</u>
Cash flows from investing activities:		
(Increase) decrease in cash held for investment purposes	98,465	(97,406)
Purchase of property and equipment	<u>(184,990)</u>	<u>(81,059)</u>
Net cash used by investing activities	<u>(86,525)</u>	<u>(178,465)</u>
Cash flows from financing activities:		
Borrowings on line of credit	25,000	
Payments on line of credit	(25,000)	
Contributions restricted for long-term purposes:		
Exhibits	<u>37,850</u>	<u>84,550</u>
Net cash provided by financing activities	<u>37,850</u>	<u>84,550</u>
Net increase (decrease) in cash and cash equivalents	(44,418)	108,782
Cash and cash equivalents, beginning of year	<u>202,113</u>	<u>93,331</u>
Cash and cash equivalents, end of year	<u>\$ 157,695</u>	<u>\$ 202,113</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 72</u>	<u>\$ -</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2016

Note 1: Organization

The Santa Barbara Maritime Museum's purpose is to preserve and present to the public the maritime heritage of California's Central Coast, while providing an ongoing educational platform to study and record human interaction with the marine environment.

Note 2: Summary of significant accounting policies

Donations

The Museum reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Administrative overhead is allocated to both exhibits and education programs for purposes of determining costs incurred to release net assets from restrictions.

The Museum reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be used, the Museum reports expirations of donor restrictions when donated or acquired long-lived assets are placed in service.

Unconditional promises to give (pledges) are recorded as receivables and revenues when pledge documents are executed. Management believes the pledges are fully collectible, therefore there is no allowance for uncollectible pledges.

Cash and cash equivalents

For financial statement purposes, all investments with maturities of three months or less are considered to be cash and cash equivalents.

Inventory for resale

Inventory purchased for resale in the Museum store is stated at the lower of cost (first-in, first out) or net realizable value.

Property and equipment

Purchased fixed assets are stated at cost. Donated fixed assets are stated at fair market value as of the date of the gift. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Artifact collection

The Museum maintains a comprehensive marine artifacts collection. The collection is used for the purposes of exhibition, education, study, research, publication and possible loans to other museums. The Museum recognizes donated collection items as contribution income. The income recognized is measured at the appraised fair market value of the artifact at the date of contribution.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2016

Tax status

The Museum is exempt from income taxes except for certain unrelated business income from the retail store operations. In 2016 store expenses exceeded revenues, resulting in no taxable income. The unused operating loss carryforward at June 30, 2016 is \$467,900 with a valuation allowance of the same amount, thus there are no deferred tax assets recorded. Management believes that the tax positions taken are more likely than not to be sustained upon examination. The Museum's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Donated services

A substantial number of unpaid volunteers have made contributions of their time estimated at 6,500 hours (unaudited) to the Museum's development. The value of this contributed time is not reflected in the financial statements since it does not meet the criteria for recognition.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

Note 3: Grants and pledges receivable

Grants and pledges receivable are collectible within one year or less.

Note 4: Investments

Investments consist of cash and cash equivalents restricted for long-term purposes.

Note 5: Interest on charitable remainder trust

A charitable trust agreement naming the Museum as an irrevocable beneficiary is recorded on the books of the Museum. Since the Museum has not been named the trustee for the charitable remainder trust in which it is named as the remainderman, the trust was recorded as a contribution and an asset equivalent to the present value of the trust assets and estimated future income net of the present value of estimated future payouts to the income beneficiaries.

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

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. The donor has specified the assets are to add to the endowment.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2016

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 risk-free rate of return currently estimated at 5%.

Note 6: Fair value measurements

The Museum measures the fair value of financial instruments in accordance with ASC Topic 820, Fair Value Measurements and Disclosures. ASC 820 applies to financial instruments that are measured and reported on a fair value basis. The standard establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active or inactive markets for the same or similar assets.
- Level 3: Inputs that are unobservable, with valuations based on cash flow models and similar techniques, and not based on market activity.

Level 1 and 2 inputs were not utilized in 2016 or 2015. Assets measured at fair value on a recurring basis as of June 30, 2016 and 2015 are as follows:

	Level 3	
	2016	2015
Interest in charitable remainder trust	\$ 355,265	\$ 365,360

The following is a reconciliation of the beginning and ending balances for assets measured as fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2016 and 2015:

	2016	2015
Level 3 balance at beginning of year	\$ 365,360	\$ 379,958
Change in value of charitable trust	(10,095)	(14,598)
Level 3 balance at end of year	\$ 355,265	\$ 365,360

Note 7: Property and equipment

Property and equipment consists of the following:

	2016	2015
Furniture and equipment	\$ 529,033	\$ 506,609
Marine vessel exhibits	158,000	158,000
Exhibits	2,501,507	2,419,382
Leasehold improvements	2,159,906	2,079,465
	5,348,446	5,163,456
Less: accumulated depreciation	(2,850,590)	(2,668,469)
	\$ 2,497,856	\$ 2,494,987

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Notes to the Financial Statements
June 30, 2016

Note 8: Prepaid rent

Prepaid rent represents the amount of base rent paid by the Museum in exercising a buyout option in its lease with the City of Santa Barbara in April 2013. The prepaid amount of \$255,800 is being amortized over the remaining life of the lease at the date of the buyout, or 25.25 years.

Note 9: Line of credit

The Museum has a line of credit in the amount of \$100,000 with a bank. The line expires in April 2017 and bears interest at an index of the prime rate plus 1% with a floor of 6.5%. There were no borrowings during or as of June 30, 2016.

Note 10: Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
Exhibits	\$ 200,407	\$ 281,055
Education programs	67,171	65,781
Periods after June 30:		
With purpose restrictions	35,000	
Without purpose restrictions	<u>2,000</u>	<u>1,250</u>
	<u>\$ 304,578</u>	<u>\$ 348,086</u>

As of June 30, 2016, the Museum has borrowed approximately \$195,700 of the net assets temporarily restricted for long-term planned exhibits to fund current operations. Borrowings as of June 30, 2015 were approximately \$175,000. The Board intends to restore the temporarily restricted net assets with unrestricted donations received in future periods.

Note 11: Permanently restricted net assets

Permanently restricted net assets are invested in perpetuity, the income from which is expendable to support any activities of the organization.

Note 12: Endowment

Interpretation of relevant law

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds. The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

Investment policy

The endowment assets are invested in a manner that is intended to produce results that preserve the gifts while assuming a low level of investment risk.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2016

Spending policy

The Museum has a policy of appropriating for distribution endowment earnings when received and available to distribute. Some earnings may be retained at the discretion of the Board of Directors in order to maintain purchasing power of the endowment assets.

Change in endowment net assets for the year ended June 30, 2016.

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$135,000	\$135,000
Investment return:			
Interest income	<u>29</u>	<u>-</u>	<u>29</u>
Total investment return	<u>29</u>	<u>-</u>	<u>29</u>
Appropriation of endowment asset for expenditures	<u>29</u>	<u>-</u>	<u>29</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$135,000</u>	<u>\$135,000</u>

Funds with deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the value of the initial and subsequent gift amounts. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As values recover, the increases are reported as unrestricted gains. At the reporting date, the Museum had no such declines in values.

Note 13: Net assets released from restrictions

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes specified by donors as follows:

Program expenses	\$ 188,639
Exhibits	<u>167,497</u>
	<u>\$ 356,136</u>

Note 14: Leases

The Museum has a lease agreement with the City of Santa Barbara for its facilities in the harbor area of Santa Barbara. The lease, which commenced in July 1998, has an initial term of five years and options to extend for seven consecutive five year terms. The rent includes base rent, store rent and percentage rent, as well as common area charges. The base rent was prepaid in April 2013. The store rent at June 30, 2016 was \$1,015 per month and is adjusted annually for increases in the Consumer Price Index. The percentage rent is the amount by which 10% of the gross receipts from the store operations exceeds store rent paid. No percentage rent was paid for the year ended June 30, 2016.

Rent expense for the years ended June 30, 2016 and 2015 was \$103,428 and \$100,276 respectively.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2016

Note 15: Concentration of credit risk

Financial instruments which potentially subject the Museum to concentrations of credit risk include cash and equivalents and pledges receivable. The cash and equivalents may, at times, exceed the federally insured limits. The Museum has not experienced any losses in such accounts. Regarding pledges receivable, the Museum performs ongoing evaluations of collectability and writes off uncollectible amounts as they become known.

Note 16: Concentration in amount of revenue from donors

In the year ended 2016, approximately 16% of the Museum's total revenue came from donations made by two donors.

Note 17: June 30, 2015 fiscal 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 generally accepted accounting principles

Note 18: Subsequent events

Subsequent events have been evaluated through January 16, 2017, which is the date the financial statements were available to be issued, noting:

- Drawings in amount of \$35,000 has been made on the Museum's line of credit.