

**SANTA BARBARA MARITIME MUSEUM**

**FINANCIAL STATEMENTS**

**June 30, 2021**

**GARY A. SMITH**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**350 SOUTH HOPE AVENUE, SUITE A-205**  
**SANTA BARBARA, CALIFORNIA 93105**  
**(805) 563-4800**  
**gary@garysmithaccounting.com**

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, 2021, 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, 2021, 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 2020 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated January 19, 2021. In my opinion, the summarized comparative information presented herein as of and for the year June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Gary A. Smith*

Santa Barbara, California  
December 6, 2021

**SANTA BARBARA MARITIME MUSEUM**  
**Statement of Financial Position**  
**June 30, 2021**  
**(With comparative totals for 2020)**

	<u>2021</u>	<u>2020</u> <u>(Restated)</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 693,456	\$ 356,670
Accounts receivable	16,529	7,500
Grants and pledges receivable (Note 5)	10,195	8,248
Bequest receivable	60,000	
Inventory for resale	24,481	23,572
Prepaid expenses	14,847	12,707
Investments (Note 6)	685,306	569,126
Interest in charitable remainder trust (Note 7)	541,239	419,913
Property and equipment, net (Note 9)	1,733,943	1,872,925
Artifact collection	--	--
Deposits	2,064	2,064
Prepaid rent (Note 10)	<u>173,066</u>	<u>183,197</u>
Total assets	<u><u>\$3,955,126</u></u>	<u><u>\$3,455,922</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 65,034	\$ 36,381
Accrued salaries	66,179	51,342
Rental deposits (Note 11)	<u>19,700</u>	<u>18,200</u>
Total liabilities	<u>150,913</u>	<u>105,923</u>
Net assets:		
Without donor restrictions (Note 13)	2,649,377	2,429,384
With donor restrictions (Note 13)	<u>1,154,836</u>	<u>920,615</u>
Total net assets	<u>3,804,213</u>	<u>3,349,999</u>
Total liabilities and net assets	<u><u>\$3,955,126</u></u>	<u><u>\$3,455,922</u></u>

See notes to financial statements.

**SANTA BARBARA MARITIME MUSEUM**  
**Statement of Activities**  
**Year ended June 30, 2021**  
**(With comparative totals for 2020)**

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>2021</u> <u>Totals</u>	<u>2020 Totals</u> <u>(Restated)</u>
Revenues, gains and other support:				
Donations	\$ 871,161	\$ 63,672	\$ 934,833	\$ 930,262
Grants	59,722	190,528	250,250	186,500
Bequest		60,000	60,000	
SBA Grant-Paycheck Protection Program (Note 17)	132,670		132,670	132,917
Employee Retention Credit (Note 18)	166,799		166,799	
Memberships	33,977		33,977	27,441
Admissions	14,806		14,806	32,269
Retail sales	30,341		30,341	42,439
Education programs				23,189
Rental income, net of expenses of \$20,283 and \$73,978	(18,483)		(18,483)	(2,061)
Interest income	2,502		2,502	8,929
Realized and unrealized gains (losses)	149		149	
Change in value of charitable remainder trust		121,326	121,326	1,177
Special events, net of expenses of \$11,659 and \$12,491	48,665		48,665	88,013
Other income	1,568		1,568	23,217
Net assets released from restrictions (Note 14)	<u>201,305</u>	<u>(201,305)</u>		
Total	<u>1,545,182</u>	<u>234,221</u>	<u>1,779,403</u>	<u>1,494,292</u>
Expenses:				
Program services	752,388		752,388	941,718
Management and general	309,433		309,433	285,188
Fund raising	<u>263,368</u>		<u>263,368</u>	<u>232,217</u>
Total expenses	<u>1,325,189</u>	<u>--</u>	<u>1,325,189</u>	<u>1,459,123</u>
Change in net assets	219,993	234,221	454,214	35,169
Net assets, beginning of year (Restated) (Note 23)	<u>2,429,384</u>	<u>920,615</u>	<u>3,349,999</u>	<u>3,314,830</u>
Net assets, end of year	<u>\$2,649,377</u>	<u>\$1,154,836</u>	<u>\$3,804,213</u>	<u>\$3,349,999</u>

See notes to financial statements.

**SANTA BARBARA MARITIME MUSEUM**  
**Statement of Functional Expenses**  
**Year ended June 30, 2021**  
**(With comparative totals for 2020)**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>2021 Total</u>	<u>2020 (Restated)</u>
Salaries and benefits	\$ 360,533	\$ 135,444	\$ 178,546	\$ 674,523	\$ 742,704
Cost of goods sold	12,340			12,340	25,930
Contract services	22,880	76,389	2,326	101,595	85,244
Computer operations	21,005	15,312	3,013	39,330	36,340
Office operations	6,167	6,430	268	12,865	29,151
Rent	79,288	9,911	9,911	99,110	90,596
Utilities	12,895	1,612	1,612	16,119	24,220
Insurance	20,525	5,617		26,142	15,667
Advertising and promotion		14,751	1,733	16,484	32,592
Repairs and maintenance	20,398			20,398	31,550
Operating supplies and services	55,617	23,839		79,456	182,415
Fund raising supplies and services			57,490	57,490	37,758
Depreciation and amortization	<u>161,023</u>	<u>20,128</u>	<u>20,128</u>	<u>201,279</u>	<u>211,425</u>
Total expenses	772,671	309,433	275,027	1,357,131	1,545,592
Less: expenses included with revenues on the statement of activities:					
Rental expenses	(20,283)			(20,283)	(73,978)
Special events expenses	<u>          </u>	<u>          </u>	<u>(11,659)</u>	<u>(11,659)</u>	<u>(12,491)</u>
Total expenses on the statement of activities	<u>\$ 752,388</u>	<u>\$ 309,433</u>	<u>\$ 263,368</u>	<u>\$ 1,325,189</u>	<u>\$ 1,459,123</u>

See notes to financial statements.

**SANTA BARBARA MARITIME MUSEUM**  
**Statement of Cash Flows**  
**Year ended June 30, 2021**  
**(With comparative totals for 2020)**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 454,214	\$ 35,169
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	201,279	211,425
Change in value of charitable remainder trust	(121,326)	(1,177)
Contributions restricted for long-term purposes	(56,557)	(60,100)
Changes in assets and liabilities:		
Accounts and grants receivable	(10,976)	126,872
Bequest receivable	(60,000)	
Inventory for resale	(909)	(275)
Prepaid expenses	(2,140)	17,774
Accounts payable	28,653	1,047
Accrued salaries	14,837	8,419
Rental deposits	<u>1,500</u>	<u>(71,010)</u>
Net cash provided by operating activities	<u>448,575</u>	<u>268,144</u>
Cash flows from investing activities:		
Increase in cash held for investment purposes	(340,048)	(82,324)
Purchase of investments	(20,584)	(169,171)
Sales or maturities of investments	244,452	80,000
Purchase of property and equipment	<u>(52,166)</u>	<u>(36,830)</u>
Net cash used by investing activities	<u>(168,346)</u>	<u>(208,325)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes:		
Endowment	10,000	10,000
Exhibits	<u>46,557</u>	<u>50,100</u>
Net cash provided by financing activities	<u>56,557</u>	<u>60,100</u>
Net increase in cash and cash equivalents	336,786	119,919
Cash and cash equivalents, beginning of year	<u>356,670</u>	<u>236,751</u>
Cash and cash equivalents, end of year	<u>\$ 693,456</u>	<u>\$ 356,670</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 71</u>	<u>\$ 186</u>

See notes to financial statements.

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

**Note 1: Organization**

The Santa Barbara Maritime Museum's ("Museum") mission includes creating quality exhibits and educational experiences that celebrate the Santa Barbara Channel and illuminate our rich connections with the sea. The Museum's created exhibits, both permanent and rotating, highlight the local maritime history of the California Central Coast and give visitors and locals a sense of Santa Barbara's thousand year maritime history. Exhibits honor people such as commercial divers and lighthouse keepers who, through everyday actions, enrich our lives today.

During the past year SBMM received 10-year Accreditation from the American Alliance of Museums (AAM), placing it into the top echelon of museums across the country. Out of more than 33,000 museums in the United States, fewer than 1,100 are AAM accredited. The museum also completed a five-year Strategic Plan, providing staff and Board Members the tools to navigate the future of the museum.

SBMM also made many operational adjustments during Fiscal Year 2020-2021 due to the COVID-19 shutdown. Immediately after closing its doors to the public, an SBMM At Home page was created on the website, sbmm.org, to allow teachers and homebound families access to the Museum's various education programs. With the cancellation of in-person Science Nights, SBMM created a video with Science Night activities and posted on the website. The Museum's new Maritime on the Move education program was digitized, translated into Spanish, and expanded to include three unique coastal environments: Carpinteria, the Santa Barbara Harbor, and Osos Flaco Lake. This innovative program has received national recognition, including:

- Being named a finalist in the American Alliance of Museum's 2021 EdCom Award for Innovation and Education Award–Pandemic Edition
- Being awarded the California Natural Resources Agency Secretary's Public Education Award for Excellence in Sustainability
- Being asked by the Council of American Maritime Museums to present about this program at their 2021 national conference

SBMM also added to its website video tours of the museum, its first virtual exhibit, the *Brooks Models*, a Curator's Log, and the Deeper Dive Video Series, all providing a more detailed base of information about the rich maritime history of the Santa Barbara Channel. Back open after 370 days, the museum opened a national traveling exhibit, *Arthur Beaumont: Art of the Sea*, and then became the only museum to exhibit *Heritage, Craft, and Evolution: Surfboard Design 1885 – 1959*, a new exhibit featuring Renny Yater surfboards.

**Note 2 Summary of significant accounting policies**

**Basis of presentation**

The financial statements of the Museum have been prepared in accordance with U.S. generally accepted principles (GAAP). GAAP requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions.



**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

Accordingly, net assets and changes in net assets are categorized as follows:

*Net Assets without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. This net asset classification includes amounts designated by the Board for special purposes.

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

**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 maritime artifacts collection. The collection is used for the purposes of exhibition, education, study, research, publication and possible loans to other museums. In 2020 the Museum adopted an accounting policy of not capitalizing the artifact collection, which is discussed more fully in Note 4.

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.

**Tax status**

The Museum is exempt from income taxes except for certain unrelated business income from the retail store operations. In 2021 store expenses exceeded revenues, resulting in no taxable income. 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 2,172 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.

**Advertising**

Advertising costs are expensed when incurred and are included in functional expenses.

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

**Functional expenses**

The costs of providing the Museum's various programs and supporting services have been summarized on a functional basis in the statement of activities. Certain costs, based upon estimates by management, have been allocated among the programs and supporting services benefited. The estimates by management take into consideration personnel and space utilization.

**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.

**Recent accounting pronouncement**

In June 2020, the Museum adopted Financial Accounting Standards Board (FASB) ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The Museum utilized the modified prospective method, in which the cumulative effect of standard (if any) is recognized at the date of initial application. There was no cumulative effect adjustment, but the disclosures regarding revenue recognition are more robust.

**Reclassifications**

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation.

**Note 3: Revenue from contracts with customers**

The Museum derives revenue from admissions, rental of Museum space for events, the Museum retail store and other. The Museum recognizes revenue from these activities in the period in which it satisfies the performance obligation related to the goods or services provided.

**Admissions**

Revenue from admissions is recognized at a point in time, that being when tickets are sold at the point of entrance. Ticket pricing varies, with young people and members granted free admission. Other groups are offered reduced prices.

**Rental of Museum space**

Revenue from rental of space, primarily for events such as weddings, is generally recognized at the point in time in which the event occurs. All events require an advance deposit. These deposits are recorded as deferred revenue when they are received. The deposits are refundable up to 30 days before the event occurs. For events cancelled within the 30 day period, revenue is recognized at the time of cancellation.

**Museum retail store**

The Museum operates a retail store, selling maritime books and artifacts to those visiting the Santa Barbara area and others visiting the premises. Store revenue is recognized at the time of sale.

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

**Note 4: Change in accounting policy for artifact collection**

Effective July 1, 2020 the Museum changed its accounting policy regarding collections. The Museum has elected not to capitalize its collections. Previously, the Museum's collections were capitalized and recorded as an asset on the balance sheet. Both treatments are acceptable under GAAP.

The change in policy has been made because it is management's opinion that the change will simplify financial reporting but still provide the relevant information that users require. In addition, the subjectivity involved in determining the value of collection items when donated and the potential impairment of those items would cease to be an issue.

Below is a summary of the impact of the change in policy on the prior year's totals.

	<u>As previously reported</u>	<u>Adjustment</u>	<u>Restated Amount</u>
Artifact collection	\$ 551,364	\$ (551,364)	\$ --
Donations – artifact collection	35,099	(35,099)	--
Deaccession of collections	(28,252)	28,252	--
Change in net assets	42,016	(6,847)	35,169
Net assets, beginning of year	3,859,347	(544,517)	3,314,830

**Note 5: Grants and pledges receivable**

These receivables are collectible within one year or less. 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, 2021.

**Note 6: Investments**

Investments consist of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents restricted for long-term purposes	\$ 608,511	\$ 268,463
Certificates of deposit	<u>76,795</u>	<u>300,663</u>
	<u>\$ 685,306</u>	<u>\$ 569,126</u>

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

**Note 7: Interest in 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 a 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 not restricted the Museum's interest in the assets.

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 8: 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.

Assets measured at fair value as of June 30, 2021 are as follows:

Measured on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest in charitable remainder trust	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>541,239</u>
Level 3 balance at beginning of year			\$ 419,913
Change in value of charitable trust			<u>121,326</u>
Level 3 balance at end of year			<u>\$ 541,239</u>

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

**Note 9: Property and equipment**

Property and equipment consists of the following:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 542,600	\$ 540,217
Marine vessel exhibits	158,000	158,000
Exhibits	2,654,059	2,649,302
Leasehold improvements	<u>2,222,942</u>	<u>2,177,916</u>
	5,577,601	5,525,435
Less: accumulated depreciation	<u>(3,843,658)</u>	<u>(3,652,510)</u>
	<u>\$1,733,943</u>	<u>\$1,872,925</u>

**Note 10: 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 initial 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 11: Rental deposits**

Rental deposits consist of advance payments for use of Museum facilities for events such as weddings and meetings.

**Note 12: Line of credit**

The Museum has a line of credit in the amount of \$150,000 with a bank. The line expires in April 2023 and bears interest at an index of the prime rate plus 1% with a floor of 6.5%. There were no borrowings as of June 30, 2021.

**Note 13: Net assets**

Net assets consist of the following:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Board designated for:		
Operating reserve	\$ 84,753	\$ 73,651
Endowment	65,000	
Undesignated	<u>2,499,624</u>	<u>2,355,733</u>
Total without donor restrictions	2,649,377	2,429,384
With donor restrictions:		
Temporarily restricted:		
For exhibits	180,903	192,048
For education programs	177,499	124,524
Subject to appropriation and spending policy		882
Subject to passage of time	<u>611,434</u>	<u>428,161</u>
Sub-total	969,836	745,615
Permanently restricted:		
Held in perpetuity	<u>185,000</u>	<u>175,000</u>
Total with donor restrictions	<u>1,154,836</u>	<u>920,615</u>
Total net assets	<u>\$3,804,213</u>	<u>\$3,349,999</u>

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

**Note 14 Net assets released from restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Satisfaction of time restrictions	\$ 3,053
Satisfaction of program restrictions	132,718
For exhibits	<u>65,534</u>
	<u>\$ 201,305</u>

**Note 15: Endowment**

The Museum's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions

**Interpretation of relevant law**

The Board of Directors 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 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 UPMIFA.

**Investment policy**

The objectives of the Museum's investment policy are to maintain the purchasing power of the endowment assets and achieve returns in excess of inflation while maintaining a prudent level of overall portfolio risk.

**Spending policy**

The annual distribution rate from the Endowment Fund is based on a recommendation determined by the Finance Committee. The rate is expected to be in the range of 4-6% of the average rolling three-year market value of the invested assets as of the end of the calendar year preceding the start of the next fiscal year.

Endowment net asset composition by type for the year ended June 30, 2021 is as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Investment</u> <u>Appreciation</u>	<u>Held in</u> <u>Perpetuity</u>	<u>Total</u>
Board designated endowment funds	\$ 65,000	\$ -	\$ -	\$ 65,000
Donor restricted endowment funds			<u>185,000</u>	<u>185,000</u>
	<u>\$ 65,000</u>	<u>\$ -</u>	<u>\$ 185,000</u>	<u>\$ 250,000</u>

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

Change in endowment net assets for the year ended June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Investment Appreciation</u>	<u>Held in Perpetuity</u>	
Endowment net assets, beginning of year	\$ -	\$ 882	\$175,000	\$175,882
Investment return:				
Interest and dividends	_____	963	_____	963
Total investment return	-	963	-	963
Contributions			10,000	10,000
Transfers in	65,000			65,000
Appropriation for expenditures	_____	(1,845)	_____	(1,845)
Endowment net assets, end of year	<u>\$ 65,000</u>	<u>\$ -</u>	<u>\$185,000</u>	<u>\$250,000</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 as net assets with donor restrictions. As values recover, the increases are reported as restricted gains. At the reporting date, the Museum had no such declines in values.

**Note 16: 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, 2021 was \$1,145 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, 2021.

Rent expense for the years ended June 30, 2021 and 2020 was \$99,110 and \$90,596 respectively.

**Note 17: Paycheck Protection Program**

In January 2021 the Museum received an advance under the Paycheck Protection Program (“PPP”) in the amount of \$132,670. The PPP was established as part of the CARES Act, which provides for loans and advances to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The advance and any accrued interest are forgiven as long as the business spends the advance for eligible purposes, which include payroll, benefits, rent, and utilities. Unforgiven amounts will bear an interest rate of 1% with principal and interest payable over five years.

**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

The Museum expended the full advance before June 30, 2021 and recognized the amount as revenue in the period in which expenses were incurred.

**Note 18: Employee Retention Credit**

The Employee Retention Credit (ERC) is a credit against certain payroll taxes allowed to an eligible employer for qualifying wages. The credit was established as part of the CARES Act. For accounting purposes, the ERC is considered a conditional grant. The grant is recognized as income when performance barriers are met. In this case, the performance barriers are met as payroll expenditures are incurred.

**Note 19: Retirement plan**

The Museum maintains a SEP employee retirement plan covering eligible employees. Plan expenses incurred in 2021 were \$16,389.

**Note 20: Concentrations**

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.

Concentration of revenue

Government programs available during the fiscal year and not expected to occur in the future accounted for 17% of revenue.

**Note 21: Related party transactions**

The Museum has a contract for telecommunications services with monthly payments of approximately \$700. A board member has a family relationship with an individual who has an economic interest in the service provider.

**Note 22: Financial assets and liquid resources**

Financial assets and liquid resources that are available within one year of June 30, 2021 to fund general expenditures and other obligations as they become due are as follows:

Financial assets:	
Cash and cash equivalents	\$ 493,629
Grants and pledges receivable due within one year	10,195
Bequest receivable	60,000
Board designations:	
Operating reserve	84,753
Total financial assets available within one year	<u>648,577</u>
Liquidity resources:	
Bank line of credit	<u>150,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 798,577</u>



**SANTA BARBARA MARITIME MUSEUM**  
**Notes to the Financial Statements**  
**June 30, 2021**

The Museum may experience budgetary short-falls due to the unpredictability and timing of the receipt of grants and donations, and the seasonal nature of admissions and rentals. To manage liquidity the Museum maintains an operating reserve in the amount of \$84,753 and a line of credit in amount of \$150,000. In addition, the Museum could appropriate up to \$250,000 of its Board designated endowment if needed.

**Note 23: Prior period restatement of net assets**

Net assets as of June 30, 2020 have been restated as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets at June 30, 2020, as previously reported	\$3,024,348	\$ 877,015	\$3,901,363
Change in accounting policy effecting periods ended June 30, 2019 and prior (See Note 4)	(544,517)		(544,517)
Change in accounting policy effecting the year ended June 30, 2020 (See Note 4)	(6,847)		(6,847)
Prior period adjustment effecting the year ended June 30, 2020 (See Note 24)	<u>(43,600)</u>	<u>43,600</u>	
Net assets at June 30, 2020 as adjusted	<u>\$2,429,384</u>	<u>\$ 920,615</u>	<u>\$3,349,999</u>

**Note 24: Prior period adjustment**

The Museum has discovered that the previously issued financial statements included an error related to the recording of donations with donor restrictions. In the year ended June 30, 2020, restricted donations in amount of \$43,600 were erroneously recorded as unrestricted. The effect of the adjustment is to increase donations with restrictions by \$43,600 and decrease donations without restrictions by a like amount.

**Note 25: Uncertainties**

The United States and the world are experiencing a health pandemic known as COVID-19. Treatments to protect against serious illness have been developed and vaccinations are taking place. Business and governmental entities are reopening but some at a reduced capacity. Recently there has been an increase in cases attributable to a new variant of the virus and there is a major effort by governments and health care officials to get more people vaccinated.

The Museum reopened to the public in April 2021 but with reduced hours. The Museum store and other revenue generating activities are becoming operational again. Staff continue to add exhibits and education programs to online platforms. However, the virus is not fully contained in the U.S. or other countries. Because of this, it is not possible to predict the impact of the virus on the Museum's future financial position.

**Note 26: June 30, 2020 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 27: Subsequent events**

Subsequent events have been evaluated through December 6, 2021, which is the date the financial statements were available to be issued.