

SANTA BARBARA MARITIME MUSEUM

FINANCIAL STATEMENTS

June 30, 2022

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of the Santa Barbara Maritime Museum, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year ended, and the related notes to financial statements.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Santa Barbara Maritime Museum as of June 30, 2022, 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.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Santa Barbara Maritime Museum and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Santa Barbara Maritime Museum's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Santa Barbara Maritime Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Santa Barbara Maritime Museum's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Report on Summarized Comparative Information

I have previously audited the Santa Barbara Maritime Museum's 2021 financial statements, and I expressed an unmodified audit opinion, on those audited financial statements in my report dated December 6, 2021. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gary A. Smith

Santa Barbara, California
January 6, 2023

SANTA BARBARA MARITIME MUSEUM
Statement of Financial Position
June 30, 2022
(With comparative totals for 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 734,525	\$ 693,456
Accounts receivable	-	16,529
Grants and pledges receivable (Note 4)	61,750	10,195
Bequests receivable (Note 4)	305,554	60,000
Inventory for resale	29,553	24,481
Prepaid expenses	32,021	14,847
Cash restricted for exhibits	98,389	113,780
Investments (Note 5)	695,586	571,526
Interest in charitable remainder trust (Note 6)	454,075	541,239
Property and equipment, net (Note 8)	1,592,591	1,733,943
Artifact collection	-	-
Deposits	2,154	2,064
Prepaid rent (Note 9)	<u>162,935</u>	<u>173,066</u>
Total assets	<u>\$4,169,133</u>	<u>\$3,955,126</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 73,128	\$ 65,034
Accrued salaries	78,806	66,179
Advance deposits	27,740	-
Rental deposits (Note 10)	<u>2,800</u>	<u>19,700</u>
Total liabilities	<u>182,474</u>	<u>150,913</u>
Net assets:		
Without donor restrictions (Note 12)	2,554,074	2,649,377
With donor restrictions (Note 12)	<u>1,432,585</u>	<u>1,154,836</u>
Total net assets	<u>3,986,659</u>	<u>3,804,213</u>
Total liabilities and net assets	<u>\$4,169,133</u>	<u>\$3,955,126</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Activities
Year ended June 30, 2022
(With comparative totals for 2021)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	2022 <u>Totals</u>	2021 <u>Totals</u>
Revenues, gains and other support:				
Donations	\$1,007,295	\$ 296,323	\$1,303,618	\$ 934,833
Grants	22,000	174,187	196,187	250,250
Bequests	-	245,554	245,554	60,000
SBA Grant-Paycheck Protection Program (Note 16)	-	-	-	132,670
Employee Retention Credit (Note 17)	-	-	-	166,799
Memberships	28,021	-	28,021	33,977
Admissions	76,718	-	76,718	14,806
Retail sales	82,135	-	82,135	30,341
Education programs	2,031	-	2,031	-
Rental income, net of expenses of \$9,978 and \$20,283	38,297	-	38,297	(18,483)
Interest income	1,191	-	1,191	2,502
Realized and unrealized gains (losses)	(2,597)	(6,778)	(9,375)	149
Change in value of charitable remainder trust	-	(87,164)	(87,164)	121,326
Special events, net of expenses of \$23,667 and \$11,659	35,438	-	35,438	48,665
Other income	4,930	-	4,930	1,568
Net assets released from restrictions (Note 13)	<u>344,373</u>	<u>(344,373)</u>	<u>-</u>	<u>-</u>
Total	<u>1,639,832</u>	<u>277,749</u>	<u>1,917,581</u>	<u>1,779,403</u>
Expenses:				
Program services	1,044,772	-	1,044,772	752,388
Management and general	317,970	-	317,970	309,433
Fund raising	<u>372,393</u>	<u>-</u>	<u>372,393</u>	<u>263,368</u>
Total expenses	<u>1,735,135</u>	<u>-</u>	<u>1,735,135</u>	<u>1,325,189</u>
Change in net assets	(95,303)	277,749	182,446	454,214
Net assets, beginning of year	<u>2,649,377</u>	<u>1,154,836</u>	<u>3,804,213</u>	<u>3,349,999</u>
Net assets, end of year	<u>\$2,554,074</u>	<u>\$1,432,585</u>	<u>\$3,986,659</u>	<u>\$3,804,213</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Functional Expenses
Year ended June 30, 2022
(With comparative totals for 2021)

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fund-</u> <u>raising</u>	<u>2022</u> <u>Total</u>	<u>2021</u> <u>Total</u>
Salaries and benefits	\$ 519,228	\$ 160,906	\$ 241,695	\$ 921,829	\$ 674,523
Cost of goods sold	44,300	-	-	44,300	12,340
Contract services	23,944	65,688	43,203	132,835	101,595
Computer operations	27,831	11,867	2,918	42,616	39,330
Office operations	2,885	13,224	20	16,129	12,865
Rent	90,484	10,354	10,354	111,192	99,110
Utilities	18,362	2,295	2,295	22,952	16,119
Insurance	17,793	2,051	-	19,844	26,142
Advertising and promotion	-	14,346	3,870	18,216	16,484
Repairs and maintenance	27,954	-	-	27,954	20,398
Operating supplies and services	125,849	17,724	-	143,573	79,456
Fund raising supplies and services	-	-	72,190	72,190	57,490
Depreciation and amortization	<u>156,120</u>	<u>19,515</u>	<u>19,515</u>	<u>195,150</u>	<u>201,279</u>
Total expenses	1,054,750	317,970	396,060	1,768,780	1,357,131
Less: expenses included with revenues on the statement of activities:					
Rental expenses	(9,978)	-	-	(9,978)	(20,283)
Special events expenses	<u>-</u>	<u>-</u>	<u>(23,667)</u>	<u>(23,667)</u>	<u>(11,659)</u>
Total expenses on the statement of activities	<u>\$1,044,772</u>	<u>\$ 317,970</u>	<u>\$ 372,393</u>	<u>\$ 1,735,135</u>	<u>\$ 1,325,189</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Cash Flows
Year ended June 30, 2022
(With comparative totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 182,446	\$ 454,214
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	195,150	201,279
Change in value of charitable remainder trust	87,164	(121,326)
Contributions restricted for long-term purposes	(131,000)	(56,557)
Realized and unrealized loss on investments	9,375	-
Donated securities	(25,251)	-
Changes in assets and liabilities:		
Accounts and grants receivable	(35,026)	(10,976)
Bequest receivable	(245,554)	(60,000)
Inventory for resale	(5,072)	(909)
Prepaid expenses	(17,264)	(2,140)
Accounts payable	8,094	28,653
Accrued salaries	12,627	14,837
Advance deposits	27,740	-
Rental deposits	<u>(16,900)</u>	<u>1,500</u>
Net cash provided by operating activities	<u>46,529</u>	<u>448,575</u>
Cash flows from investing activities:		
Increase in cash held for investment purposes	(3,559)	(359,905)
Decrease in cash restricted for exhibits	15,391	19,857
Purchase of investments	(181,543)	(20,584)
Sales or maturities of investments	76,918	244,452
Purchase of property and equipment	<u>(43,667)</u>	<u>(52,166)</u>
Net cash used by investing activities	<u>(136,460)</u>	<u>(168,346)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes:		
Endowment	35,000	10,000
Exhibits	<u>96,000</u>	<u>46,557</u>
Net cash provided by financing activities	<u>131,000</u>	<u>56,557</u>
Net increase in cash and cash equivalents	41,069	336,786
Cash and cash equivalents, beginning of year	<u>693,456</u>	<u>356,670</u>
Cash and cash equivalents, end of year	<u>\$ 734,525</u>	<u>\$ 693,456</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 71</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2022

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 13,000-year maritime history. Exhibits honor people such as commercial divers or lighthouse keepers who, through everyday actions, enrich our lives today.

The Museum seeks 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.

The Museum receives over 40,000 visitors annually and focuses on interactive exhibits and hands-on educational programming. In 2020 the Museum received a 10-year Accreditation from the American Alliance of Museums (AAM), placing it into the top echelon of museums across the country. Of the more than 35,000 museums in the United States, less than 1,100 are currently accredited by AAM. In fiscal year 2022 the museum also completed the first year of its 5-year Strategic Plan, which provides staff and the Board of Directors the tools to navigate the future course of the museum.

In entering the post-COVID period, the Museum's education program has greatly expanded, offering new content for students across Santa Barbara County, including new classroom and outdoor instruction activities such as *Whales are Superheroes!*, which provides both instruction and an art activity to show how whales help with climate change. The Museum's nationally recognized *Maritime on the Move* program continues to grow, allowing students to have hands-on experiences along the Carpinteria coastline, the Santa Barbara Harbor, and Osos Flaco Lake. This innovative program has received multiple awards, 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 the Museum's program at the Council's 2021 national conference
- Received the Epic award for excellence in education

The majority of students participating in the Museum's education programs come from public elementary schools in Santa Barbara County that qualify for Title I funding and serve low-income households. Adults also enjoy the many educational programs operated by the Museum, including a lecture series that averages 120 attendees per month.

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Notes to the Financial Statements
June 30, 2022

During fiscal year 2022 the Museum displayed *Heritage, Craft, and Evolution: Surfboard Design 1885-1959*, a new exhibit featuring Renny Yater surfboards, upgraded its *Santa Barbara Yacht Club* exhibit, hosted six Sea Glass Festival pop-up events, debuted *Mermaids- Visualizing the Myths & Legends*, featuring photography by Ralph Clevenger and friends, which included an appearance by three live mermaids, and opened *Whales Are Superheroes!*, a county-wide collaboration of 14 organizations focused on climate change.

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.

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. The Museum has adopted an accounting policy of not capitalizing the artifact collection.

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.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2022

Tax status

The Museum is exempt from income taxes except for certain unrelated business income from the retail store operations. In 2022 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 5,317 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.

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.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 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.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2022

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.

Note 4: Grants, pledges and bequests 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 collectible; therefore, no provision for uncollectible receivables is needed for the years ended June 30, 2022.

Note 5: Investments

Investments consist of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 290,381	\$ 417,344
Money market funds	207,652	77,387
Certificates of deposit	25,549	76,795
U.S. Treasury Bills	124,848	-
Exchange traded funds	47,156	-
	<u>\$ 695,586</u>	<u>\$ 571,526</u>

Note 6: 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%.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2022

Note 7: 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, 2022 are as follows:

Measured on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money market funds	\$ 207,652	\$ -	\$ -	\$ 207,652
U.S. Treasury Bills	124,848	-	-	124,848
Exchange traded funds	<u>47,156</u>	<u>-</u>	<u>-</u>	<u>47,156</u>
	379,656	-	-	379,656
Interest in charitable remainder trust	<u>-</u>	<u>-</u>	<u>454,075</u>	<u>454,075</u>
	<u>\$ 379,656</u>	<u>\$ -</u>	<u>\$ 454,075</u>	<u>\$ 833,731</u>

Level 3 balance at beginning of year	\$ 541,239
Change in value of charitable trust	<u>(87,164)</u>
Level 3 balance at end of year	<u>\$ 454,075</u>

Note 8: Property and equipment

Property and equipment consists of the following:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 548,251	\$ 542,600
Marine vessel exhibits	158,000	158,000
Exhibits	2,678,040	2,654,059
Leasehold improvements	<u>2,236,977</u>	<u>2,222,942</u>
	5,621,268	5,577,601
Less: accumulated depreciation	<u>(4,028,677)</u>	<u>(3,843,658)</u>
	<u>\$1,592,591</u>	<u>\$1,733,943</u>

Note 9: 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 10: Rental deposits

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

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2022

Note 11: 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, 2022.

Note 12: Net assets

Net assets consist of the following:

	<u>2022</u>	<u>2021</u>
Without donor restrictions:		
Board designated for:		
Operating reserve	\$ 186,253	\$ 84,753
Endowment	62,910	65,000
Undesignated	<u>2,304,911</u>	<u>2,499,624</u>
Total without donor restrictions	2,554,074	2,649,377
With donor restrictions:		
Temporarily restricted:		
For exhibits	184,329	180,903
For education programs	163,655	177,499
Building improvements	50,000	-
Subject to passage of time	<u>821,379</u>	<u>611,434</u>
Sub-total	1,219,363	969,836
Permanently restricted:		
Held in perpetuity	<u>213,222</u>	<u>185,000</u>
Total with donor restrictions	<u>1,432,585</u>	<u>1,154,836</u>
Total net assets	<u>\$3,986,659</u>	<u>\$3,804,213</u>

Note 13: 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	\$ 10,195
Satisfaction of program restrictions	223,841
For exhibits	<u>110,337</u>
	<u>\$ 344,373</u>

Note 14: 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

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2022

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, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Investment Depreciation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Board designated endowment funds	\$ 62,910	\$ -	\$ -	\$ 62,910
Donor restricted endowment funds	<u>-</u>	<u>(6,778)</u>	<u>220,000</u>	<u>213,222</u>
	<u>\$ 62,910</u>	<u>\$ (6,778)</u>	<u>\$ 220,000</u>	<u>\$ 276,132</u>

Change in endowment net assets for the year ended June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		
		<u>Investment Depreciation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 65,000	\$ -	\$185,000	\$250,000
Investment return:				
Interest and dividends	158	512	-	670
Unrealized loss	<u>(2,248)</u>	<u>(7,290)</u>	<u>-</u>	<u>(9,538)</u>
Total investment return	(2,090)	(6,778)	-	(8,868)
Contributions	-	-	35,000	35,000
Endowment net assets, end of year	<u>\$ 62,910</u>	<u>\$ (6,778)</u>	<u>\$220,000</u>	<u>\$276,132</u>

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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 deficiencies in amount of \$6,778. Deficiencies of this nature exist in donor restricted endowment funds having an original gift value of \$220,000 and current fair value of \$213,222. The deficiencies resulted from unfavorable market fluctuations in the fiscal year ended June 30, 2022.

Note 15: 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, 2022 was \$1,197 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, 2022.

Rent expense for the year ended June 30, 2022 was \$111,192.

Note 16: 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.

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 17: 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 18: Retirement plan

The Museum maintains a SEP employee retirement plan covering eligible employees. Plan expenses incurred in 2022 were \$20,046.

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Note 19: 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

In the year ended 2022, approximately 36% of the Museum's total revenue came from donations made by three donors.

Note 20: Related party transactions

The Museum has a contract for telecommunications services with monthly payments of \$713. A board member has a family relationship with an individual who has an economic interest in the service provider.

Note 21: Financial assets and liquid resources

Financial assets and liquid resources that are available within one year of June 30, 2022 to fund general expenditures and other obligations as they become due are as follows:

Financial assets:	
Cash and cash equivalents	\$ 554,408
Grants and pledges receivable due within one year	36,750
Bequest receivable	305,554
Board designations:	
Operating reserve	<u>186,253</u>
Total financial assets available within one year	1,082,965
Liquidity resources:	
Bank line of credit	<u>150,000</u>
Total financial assets and liquidity resources available within one year	<u>\$1,232,965</u>

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 \$186,253 and a line of credit in amount of \$150,000. In addition, the Museum could appropriate up to \$62,910 of its Board designated endowment if needed.

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Note 22: June 30, 2021 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. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2021 from which the summarized information was derived.

Note 23: Subsequent events

Subsequent events have been evaluated through January 6, 2023, which is the date the financial statements were available to be issued.