

SANTA BARBARA MARITIME MUSEUM

FINANCIAL STATEMENTS

June 30, 2023

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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, 2023, 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, 2023, 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 2022 financial statements, and I expressed an unmodified audit opinion, on those audited financial statements in my report dated January 6, 2023. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gary A. Smith

Santa Barbara, California
January 8, 2024

SANTA BARBARA MARITIME MUSEUM
Statement of Financial Position
June 30, 2023
(With comparative totals for 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 482,044	\$ 734,525
Grants and pledges receivable (Note 4)	31,620	61,750
Bequests receivable (Note 4)	-	305,554
Inventory for resale	24,749	29,553
Prepaid expenses	48,419	32,021
Cash restricted for exhibits	88,380	98,389
Investments (Note 5)	1,920,676	695,586
Interest in charitable remainder trust (Note 6)	487,327	454,075
Right-of-use assets (Note 12)	233,782	-
Property and equipment, net (Note 8)	1,519,342	1,592,591
Artifact collection	-	-
Deposits	2,154	2,154
Prepaid rent (Note 9)	<u>152,805</u>	<u>162,935</u>
Total assets	<u>\$4,991,298</u>	<u>\$4,169,133</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 81,700	\$ 73,128
Accrued salaries	79,236	78,806
Advance deposits (Note 10)	127,740	27,740
Rental deposits (Note 11)	2,800	2,800
Lease liability (Note 12)	<u>236,991</u>	<u>-</u>
Total liabilities	<u>528,467</u>	<u>182,474</u>
Net assets:		
Without donor restrictions (Note 14)	3,335,878	2,554,074
With donor restrictions (Note 14)	<u>1,126,953</u>	<u>1,432,585</u>
Total net assets	<u>4,462,831</u>	<u>3,986,659</u>
Total liabilities and net assets	<u>\$4,991,298</u>	<u>\$4,169,133</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Activities
Year ended June 30, 2023
(With comparative totals for 2022)

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	2023 <u>Totals</u>	2022 <u>Totals</u>
Revenues, gains and other support:				
Donations	\$ 834,588	\$ 270,981	\$1,105,569	\$1,303,618
Grants	10,000	81,000	91,000	196,187
Bequests	1,004,129	-	1,004,129	245,554
Memberships	40,685	-	40,685	28,021
Admissions	82,240	-	82,240	76,718
Retail sales	72,440	-	72,440	82,135
Education programs	1,515	-	1,515	2,031
Rental income, net of expenses of \$5,085 and \$9,978	(3,010)	-	(3,010)	38,297
Interest and dividend income	4,372	662	5,034	1,191
Realized and unrealized gains (losses)	12,573	14,986	27,559	(9,375)
Change in value of charitable remainder trust	-	33,252	33,252	(87,164)
Special events, net of expenses of \$84,365 and \$23,667	46,057	-	46,057	35,438
Other income	7,708	-	7,708	4,930
Net assets released from restrictions (Note 15)	706,513	(706,513)	-	-
Total	<u>2,819,810</u>	<u>(305,632)</u>	<u>2,514,178</u>	<u>1,917,581</u>
Expenses:				
Program services	1,281,491	-	1,281,491	1,044,772
Management and general	429,400	-	429,400	317,970
Fund raising	327,115	-	327,115	372,393
Total expenses	<u>2,038,006</u>	<u>-</u>	<u>2,038,006</u>	<u>1,735,135</u>
Change in net assets	781,804	(305,632)	476,172	182,446
Net assets, beginning of year	<u>2,554,074</u>	<u>1,432,585</u>	<u>3,986,659</u>	<u>3,804,213</u>
Net assets, end of year	<u>\$3,335,878</u>	<u>\$1,126,953</u>	<u>\$4,462,831</u>	<u>\$3,986,659</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Functional Expenses
Year ended June 30, 2023
(With comparative totals for 2022)

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fund-</u> <u>raising</u>	<u>2023</u> <u>Total</u>	<u>2022</u> <u>Total</u>
Salaries and benefits	\$ 664,538	\$ 260,746	\$ 166,359	\$ 1,091,643	\$ 921,829
Cost of goods sold	42,722	-	-	42,722	44,300
Contract services	13,717	60,429	39,249	113,395	132,835
Computer operations	42,571	19,265	4,224	66,060	42,616
Office operations	13,602	9,463	559	23,624	16,129
Rent	89,987	10,244	10,244	110,475	111,192
Utilities	23,932	2,992	2,992	29,916	22,952
Insurance	25,591	646	-	26,237	19,844
Advertising and promotion	-	8,883	27,902	36,785	18,216
Repairs and maintenance	35,490	-	-	35,490	27,954
Operating supplies and services	179,912	37,418	-	217,330	143,573
Fund raising supplies and services	-	-	140,637	140,637	72,190
Depreciation and amortization	<u>154,514</u>	<u>19,314</u>	<u>19,314</u>	<u>193,142</u>	<u>195,150</u>
Total expenses	1,286,576	429,400	411,480	2,127,456	1,768,780
Less: expenses included with revenues on the statement of activities:					
Rental expenses	(5,085)	-	-	(5,085)	(9,978)
Special events expenses	<u>-</u>	<u>-</u>	<u>(84,365)</u>	<u>(84,365)</u>	<u>(23,667)</u>
Total expenses on the statement of activities	<u>\$1,281,491</u>	<u>\$ 429,400</u>	<u>\$ 327,115</u>	<u>\$ 2,038,006</u>	<u>\$ 1,735,135</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Statement of Cash Flows
Year ended June 30, 2023
(With comparative totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 476,172	\$ 182,446
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization	193,142	195,150
Change in value of charitable remainder trust	(33,252)	87,164
Contributions restricted for long-term purposes	(116,381)	(131,000)
Realized and unrealized (gain) loss on investments	(27,559)	9,375
Donated securities	-	(25,251)
Changes in assets and liabilities:		
Accounts and grants receivable	30,130	(35,026)
Bequest receivable	305,554	(245,554)
Inventory for resale	4,804	(5,072)
Prepaid expenses	(16,398)	(17,264)
Accounts payable	8,572	8,094
Accrued salaries	430	12,627
Advance deposits	100,000	27,740
Lease liability	3,208	-
Rental deposits	-	(16,900)
Net cash provided by operating activities	<u>928,422</u>	<u>46,529</u>
Cash flows from investing activities:		
Increase in cash held for investment purposes	(301,805)	(3,559)
Increase in short-term investments	(24,160)	-
Decrease in cash restricted for exhibits	10,009	15,391
Purchase of investments	(871,566)	(181,543)
Sales or maturities of investments	-	76,918
Purchase of property and equipment	(109,762)	(43,667)
Net cash used by investing activities	<u>(1,297,284)</u>	<u>(136,460)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes:		
Endowment	35,000	35,000
Exhibits	<u>81,381</u>	<u>96,000</u>
Net cash provided by financing activities	<u>116,381</u>	<u>131,000</u>
Net increase (decrease) in cash and cash equivalents	(252,481)	41,069
Cash and cash equivalents, beginning of year	<u>734,525</u>	<u>693,456</u>
Cash and cash equivalents, end of year	<u>\$ 482,044</u>	<u>\$ 734,525</u>

See notes to financial statements.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2023

Note 1: Organization

The Santa Barbara Maritime Museum's (Museum) mission is "Creating excellent exhibits and educational experiences that celebrate the Santa Barbara Channel and illuminate our rich connections to the sea." The museum's exhibits mainly 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 and cultures such as the Chumash, commercial divers and fishermen, lighthouse keepers, and surfers.

The Museum seeks to preserve and present to the public the maritime heritage of the Santa Barbara Channel, while providing ongoing educational platforms to study, record, and honor human interaction with our coastal environment.

The Museum hosts over 40,000 visitors annually and focuses on interactive exhibits and hands-on, project-based educational programming. In 2020 the Museum received a 10-year accreditation from the American Alliance of Museums (AAM), placing it in the top echelon of museums across the United States. Of the more than 35,000 museums in the United States, less than 1,100 are currently accredited by AAM. In fiscal year 2023 the Museum completed the second year of its 5-year Strategic Plan, which provides staff and the Board of Directors the tools to navigate their future course of the Museum.

This past fiscal year the Museum's educational program continued to expand, offering new content to students throughout Santa Barbara County, and due to demand, from surrounding counties and even the East Coast. The Museum's Girls In Ocean Science expanded to include both junior high and high school young women, and now includes trips aboard the NOAA research vessel *Shearwater*. The national award-winning Maritime on the Move program served more than 1,400 students in the summer of 2023, most of whom come from socio-economically challenged households.

The Museum also debuted a new interactive Tall Ship program aboard the *Mystic Whaler*, through the California Coastal Ocean Adventures Foundation. This program gives students a working knowledge of life for 1830s sailors, visiting California to trade hides and tallow. All of the Museum's educational programming is provided at no cost for schools and after school groups serving primarily low-income households.

During Fiscal Year 2023 the Museum placed one of its traveling exhibits, *Marine Megotropolis*, at the Santa Barbara Airport, and another traveling exhibit, *170 Years of Santa Barbara Harbor History*, inside the Anchor Rose Restaurant. The Museum also exhibited *The Peaceful Sea*, featuring artwork by Kevin Short and *The Lure of Lighthouses & Dancing Waves*, featuring photographs by Emmy Award winner Dan Merkel. The Museum also upgraded its *Pilot House* exhibit into *Navigating Jack Tar to Safe Harbor*, featuring a challenging, animated voyage from Santa Barbara Island to the Santa Barbara Harbor.

In addition, thanks to a planned estate gift, the Museum's Endowment exceeds \$1 million.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2023

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.

Tax status

The Museum is exempt from income taxes except for certain unrelated business income from the retail store operations. In 2023 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.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2023

Donated services

A substantial number of unpaid volunteers have made contributions of their time estimated at 7,191 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.

Recent Accounting Pronouncements

Effective July 1, 2022, the Museum adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended. This guidance is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months. Key provisions in this guidance include additional disclosures surrounding the amount, timing, and cash flows arising from leases. The Museum elected the effective date transition method and the package of practical expedients that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date.

As of July 1, 2022 the Museum recognized (a) an operating lease liability of \$251,421, which represents the present value of the remaining lease payments of \$319,892, discounted using a risk free discount rate of 2.98%, and (b) an operating right-of-use asset of \$251,421.

Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 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.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2023

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.

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 year ended June 30, 2023.

Note 5: Investments

Investments consist of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 592,186	\$ 290,381
Money market funds	1,009,867	207,652
Certificates of deposit	25,576	25,549
U.S. Treasury Bills	148,981	124,848
Exchange traded funds	144,066	47,156
	<u>\$1,920,676</u>	<u>\$ 695,586</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, 2023

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, 2023 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	\$1,009,867	\$ -	\$ -	\$1,009,867
U.S. Treasury Bills	148,981	-	-	148,981
Exchange traded funds	144,066	-	-	144,066
	<u>1,302,914</u>	<u>-</u>	<u>-</u>	<u>1,302,914</u>
Interest in charitable remainder trust	-	-	487,327	487,327
	<u>\$1,302,914</u>	<u>\$ -</u>	<u>\$ 487,327</u>	<u>\$1,790,241</u>

Level 3 balance at beginning of year	\$ 454,075
Change in value of charitable trust	33,252
Level 3 balance at end of year	<u>\$ 487,327</u>

Note 8: Property and equipment

Property and equipment consists of the following:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 564,411	\$ 548,251
Marine vessel exhibits	182,901	158,000
Exhibits	2,683,170	2,678,040
Leasehold improvements	<u>2,300,548</u>	<u>2,236,977</u>
	5,731,030	5,621,268
Less: accumulated depreciation	<u>(4,211,688)</u>	<u>(4,028,677)</u>
	<u>\$1,519,342</u>	<u>\$1,592,591</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: Advance deposits

Advance deposits consist of funds received from other entities that the Museum is holding as a fiscal agent. The funds will be disbursed under the direction of the entity providing the funds.

Note 11: 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, 2023

Note 12: 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 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, 2023.

The right-of-use assets and corresponding liabilities associated with future lease payments at June 30, 2023 are shown below:

Right-of-use assets	\$ 233,782
Lease liability	\$ 236,991

Weighted Average:

Discount rate	2.98%
Remaining lease term (years)	14.158

(a) Lease cost

Lease costs are reported as rent and operating supplies and services in the statements of activities. These costs amounted to \$117,314 in the year ended 2023 as follows:

Operating leases	\$ 25,134
Short-term leases	<u>92,180</u>
Total	<u>\$ 117,314</u>

(b) Future lease payments

The Museum leases retail store space and office equipment under operating lease agreements expiring in July 2039. Future minimum lease payments are as follows:

2024	\$ 22,303
2025	22,689
2026	21,375
2027	16,653
2028	17,069
Thereafter	<u>197,878</u>
	297,967
Less present value discount	<u>(60,976)</u>
Lease liability	<u>\$ 236,991</u>

Note 13: Line of credit

The Museum has a line of credit in the amount of \$150,000 with a bank. The line expires in April 2024 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, 2023.

SANTA BARBARA MARITIME MUSEUM
Notes to the Financial Statements
June 30, 2023

Note 14: Net assets

Net assets consist of the following:

	<u>2023</u>	<u>2022</u>
Without donor restrictions:		
Board designated for:		
Operating reserve	\$ 375,733	\$ 186,253
Capital reserve	38,164	-
Building improvements	50,000	-
Coffee buildout	100,000	-
Endowment	909,206	62,910
Undesignated	<u>1,862,775</u>	<u>2,304,911</u>
Total without donor restrictions	3,335,878	2,554,074
With donor restrictions:		
Temporarily restricted:		
For exhibits	159,276	184,329
For education programs	84,860	163,655
Building improvements	100,000	50,000
Subject to appropriation and spending policy	8,870	-
Subject to passage of time	<u>518,947</u>	<u>821,379</u>
Sub-total	871,953	1,219,363
Permanently restricted:		
Held in perpetuity	<u>255,000</u>	<u>213,222</u>
Total with donor restrictions	<u>1,126,953</u>	<u>1,432,585</u>
Total net assets	<u>\$4,462,831</u>	<u>\$3,986,659</u>

Note 15: 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	\$ 335,684
Satisfaction of program restrictions	272,285
For exhibits	<u>98,544</u>
	<u>\$ 706,513</u>

Note 16: 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.

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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, 2023 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Investment Appreciation</u>	<u>Held in Perpetuity</u>	
Board designated endowment funds	\$909,206	\$ -	\$ -	\$ 909,206
Donor restricted endowment funds	<u>-</u>	<u>8,870</u>	<u>255,000</u>	<u>263,870</u>
	<u>\$ 909,206</u>	<u>\$ 8,870</u>	<u>\$ 255,000</u>	<u>\$ 1,173,076</u>

Change in endowment net assets for the year ended June 30, 2023:

	<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	\$ 62,910	\$ (6,778)	\$220,000	\$ 276,132
Investment return:				
Interest and dividends	547	662	-	1,209
Unrealized gains	<u>12,395</u>	<u>14,986</u>	<u>-</u>	<u>27,381</u>
Total investment return	12,942	15,648	-	28,590
Contributions	-	-	35,000	35,000
Transfers in	<u>833,354</u>	<u>-</u>	<u>-</u>	<u>833,354</u>
Endowment net assets, end of year	<u>\$909,206</u>	<u>\$ 8,870</u>	<u>\$255,000</u>	<u>\$1,173,076</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 funds with deficiencies.

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Note 17: Retirement plan

The Museum maintains a SEP employee retirement plan covering eligible employees. Plan expenses incurred in 2023 were \$25,538.

Note 18: 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 2023, approximately 36% of the Museum's total revenue came from one bequest.

Note 19: Related party transactions

The Museum has a contract for telecommunications services with annual payments of \$9,339. A board member has a family relationship with an individual who has an economic interest in the service provider.

Note 20: Financial assets and liquid resources

Financial assets and liquid resources that are available within one year of June 30, 2023 to fund general expenditures and other obligations as they become due are as follows:

Financial assets:	
Cash and cash equivalents	\$ 107,040
Grants and pledges receivable due within one year	31,620
Board designations:	
Operating reserve	<u>375,733</u>
Total financial assets available within one year	514,393
Liquidity resources:	
Bank line of credit	<u>150,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 664,393</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 \$375,733 and a line of credit in amount of \$150,000. In addition, the Museum could appropriate up to \$909,206 of its Board designated endowment, \$8,870 from unappropriated investment appreciation, and \$188,164 from other Board designated reserves, if needed.

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Note 21: Commitments

In May 2023, the Museum entered into an agreement with a contractor for construction services in amount of \$209,900.

Note 22: June 30, 2022 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, 2022 from which the summarized information was derived.

Note 23: Subsequent events

Subsequent events have been evaluated through January 8, 2024, which is the date the financial statements were available to be issued, noting the following:

Change orders in amount of \$89,800 have been added to the construction contract discussed in Note 21 above.