

SANTA BARBARA
MUSEUM OF ART
JUNE 30, 2023
FINANCIAL STATEMENTS



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

SANTA BARBARA MUSEUM OF ART

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1 - 3
Statement of Financial Position	4
Statement of Activities and Changes in Net Assets.....	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements.....	8 - 27



INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees of
Santa Barbara Museum of Art:**

Opinion

We have audited the financial statements of the Santa Barbara Museum of Art (the Museum), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Santa Barbara Museum of Art as of June 30, 2023 and the results of its changes in 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

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

Other Matter

We have previously audited the Santa Barbara Museum of Art's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2023. In our 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.

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 Museum's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 our 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- 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 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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are 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 we identified during the audit.

Bantlett, Pringh + Wolf, LLP

Santa Barbara, California

January 15, 2025

SANTA BARBARA MUSEUM OF ART
STATEMENT OF FINANCIAL POSITION
June 30, 2023 and 2022

<u>ASSETS</u>		
	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 3,138,009	\$ 3,934,487
Restricted cash	1,648,225	1,709,051
Accounts receivable	11,187	18,515
Bequests and contributions receivable	3,675,087	1,970,140
Inventory	107,906	133,396
Prepaid expenses	519,393	316,539
Investments	57,734,958	54,773,675
Charitable remainder trusts, perpetual income trust interests and gift annuities	13,819,514	13,498,679
Buildings and equipment, net	<u>51,103,308</u>	<u>52,831,248</u>
 Total Assets	 <u><u>\$ 131,757,587</u></u>	 <u><u>\$ 129,185,730</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 594,587	\$ 1,152,362
Deferred income	1,317,651	1,063,207
Loans payable	924,607	955,273
Gift annuity liabilities	<u>-</u>	<u>2,208</u>
 Total Liabilities	 <u>2,836,845</u>	 <u>3,173,050</u>
Net Assets		
Without donor restrictions	84,777,345	81,193,354
With donor restrictions	<u>44,143,397</u>	<u>44,819,326</u>
 Total Net Assets	 <u>128,920,742</u>	 <u>126,012,680</u>
 Total Liabilities and Net Assets	 <u><u>\$ 131,757,587</u></u>	 <u><u>\$ 129,185,730</u></u>

See accompanying notes

SANTA BARBARA MUSEUM OF ART
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2023
With Comparative Totals for the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total All Funds	
			2023	2022
Income				
Support and Revenue:				
Admissions	\$ 200,231	\$ -	\$ 200,231	\$ 1,015,792
Events, programs, classes and lectures	91,215	-	91,215	51,008
Membership income	891,010	-	891,010	835,573
Contributions and grants	5,596,463	1,589,750	7,186,213	6,596,011
Special events, net of event expenses of \$98,499 and \$98,821	(71,573)	-	(71,573)	29,434
Membership tours, net of tour expenses of \$1,059,353 and \$560,448	109,228	-	109,228	(16,424)
Museum store sales, net of store expenses of \$653,369 and \$855,014	(126,929)	-	(126,929)	19,206
Change in value of charitable trusts and gift annuities	-	366,924	366,924	(604,738)
Distributions from perpetual trusts	306,231	-	306,231	461,646
Investment income (loss), net	3,390,473	1,649,055	5,039,528	(5,968,281)
Exhibition and collection management income	1,285	-	1,285	214,246
Other income	767	-	767	3,466
Total Income	10,388,401	3,605,729	13,994,130	2,636,939
Net assets released from restrictions	4,281,658	(4,281,658)	-	-
Expenses				
Program:				
Curatorial, collection, management and exhibitions	3,243,584	-	3,243,584	3,948,709
Education, programs and outreach	1,430,030	-	1,430,030	1,076,291
Tours, store and membership	567,326	-	567,326	253,186
Building services and security	2,717,942	-	2,717,942	1,907,658
Total Program Expenses	7,958,882	-	7,958,882	7,185,844
Supporting Services:				
Management and general	1,820,973	-	1,820,973	1,246,846
Fundraising and development	813,559	-	813,559	689,540
Total Supporting Services	2,634,532	-	2,634,532	1,936,386
Total Expenses	10,593,414	-	10,593,414	9,122,230
Excess (Deficit) of Revenue, Gains and Other Support Over Expenses Before Other Changes in Net Assets	4,076,645	(675,929)	3,400,716	(6,485,291)
Other Changes in Net Assets:				
Acquisition of art	(492,654)	-	(492,654)	(477,700)
Total Other Changes in Net Assets	(492,654)	-	(492,654)	(477,700)
Change in net assets	3,583,991	(675,929)	2,908,062	(6,962,991)
Net assets, beginning of the year	81,193,354	44,819,326	126,012,680	132,975,671
Net assets, end of year	<u>\$ 84,777,345</u>	<u>\$ 44,143,397</u>	<u>\$ 128,920,742</u>	<u>\$ 126,012,680</u>

See accompanying notes

SANTA BARBARA MUSEUM OF ART
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023
With Comparative Totals for the Year Ended June 30, 2022

	Program					Supporting Services			
	Curatorial, collection, management and exhibitions	Education, programs and outreach	Building services and security	Tours, store and membership	Total Program	Management and general	Fundraising and development	2023 Total Expenses	2022 Total Expenses
Salaries and related costs	\$ 1,436,346	\$ 855,574	\$ 1,592,988	\$ 548,399	\$ 4,433,307	\$ 972,440	\$ 582,517	\$ 5,988,264	\$ 5,468,534
Services and professional fees	258,644	171,106	50,965	90,859	571,574	286,824	25,711	884,109	857,678
Equipment and supplies	78,415	45,422	59,958	41,033	224,828	31,631	16,971	273,430	241,146
Postage and shipping	63,256	39,938	7,109	22,444	132,747	18,850	5,199	156,796	589,442
Maintenance and installation	181,071	30,838	243,157	3,360	458,426	12,292	4,498	475,216	537,904
Printing, publications and advertising	91,486	90,973	679	103,146	286,284	1,125	31,765	319,174	327,641
Occupancy	375,788	64,273	397,378	33,952	871,391	195,737	10,718	1,077,846	1,129,096
Depreciation	756,137	225,023	365,299	319,529	1,665,988	238,759	132,041	2,036,788	387,286
Merchandise	-	-	-	276,940	276,940	-	-	276,940	439,498
Merchant, bank and other fees	2,441	5,382	409	840,386	848,618	63,315	4,139	916,072	658,288
Total expenses by function	3,243,584	1,528,529	2,717,942	2,280,048	9,770,103	1,820,973	813,559	12,404,635	10,636,513
Less expenses included with revenues on the statement of activities									
Tour expenses	-	-	-	(1,059,353)	(1,059,353)	-	-	(1,059,353)	(560,448)
Store expenses	-	-	-	(653,369)	(653,369)	-	-	(653,369)	(855,014)
Special events	-	(98,499)	-	-	(98,499)	-	-	(98,499)	(98,821)
Total included in expense section on the statement of activities	\$ 3,243,584	\$ 1,430,030	\$ 2,717,942	\$ 567,326	\$ 7,958,882	\$ 1,820,973	\$ 813,559	\$ 10,593,414	\$ 9,122,230

See accompanying notes

SANTA BARBARA MUSEUM OF ART
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Change in net assets	\$ 2,908,062	\$ (6,962,991)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,036,788	387,286
Extinguishment of debt	-	(874,696)
Net realized and unrealized (gain) loss on investments	(3,704,158)	7,539,610
Non-cash change in value of charitable trusts and gift annuities	(366,924)	604,738
Changes in:		
Accounts receivable	7,328	(2,692)
Bequests and pledges receivable	(1,704,947)	883,021
Inventory	25,490	(46,170)
Prepaid expenses	(202,854)	(104,407)
Accounts payable and accrued expenses	(557,775)	(3,986)
Deferred revenue	254,444	479,155
Gift annuity liabilities	(2,208)	(390)
Net Cash Provided (Used) by Operating Activities	(1,306,754)	1,898,478
Cash Flows From Investing Activities		
Payments for equipment and building improvements	(308,849)	(782,665)
Proceeds from sale and maturities of investments	6,197,185	12,841,779
Purchases of investments	(5,454,310)	(9,917,168)
Net Cash Provided by Investing Activities	434,026	2,141,946
Cash Flows From Financing Activities		
Payments on long-term debt	(30,666)	(5,753,755)
Proceeds from draw on line of credit	-	7,444
Payments from gift annuitants	46,090	383,756
Net Cash Provided (Used) by Financing Activities	15,424	(5,362,555)
Decrease in cash and cash equivalents and restricted cash	(857,304)	(1,322,131)
Cash and cash equivalents and restricted cash, beginning of year	5,643,538	6,965,669
Cash and cash equivalents and restricted cash, end of year	\$ 4,786,234	\$ 5,643,538

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ 41,786	\$ 43,001
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See accompanying notes

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Organization

The Santa Barbara Museum of Art (the "Museum") is a California non-profit corporation founded in 1941 to collect, exhibit and interpret works of art and organize diverse exhibitions and programs to enhance public knowledge and appreciation of art. The mission of the Santa Barbara Museum of Art is to integrate art into the lives of people. The Museum believes in the power of art to ignite imagination, stimulate thought and generate experiences that are personally rewarding.

Recognizing that art museums play a constructive role in society, the Museum is committed to:

- Serve and educate the public.
- Champion a breadth of artistic expression.
- Enhance quality of life in the community.
- Accomplish these through the collection, research, preservation, and exhibition of works of art and the advancement of knowledge about them.
- Succeed as an organization through effective interdependence, collaboration and innovation.

The Museum's collection is comprised of approximately 25,000 works of art which span 5,000 years of human creativity and includes classical antiquities and masterpieces of French Impressionism. The Museum's collection of the arts of Asia, Europe and the Americas includes paintings, sculpture, prints, drawings, photographs, ceramics, glass, jades, bronzes, lacquer and textiles.

In addition to displaying its permanent collection, the Museum hosts special exhibitions, some traveling from other museums and some originated by its own curators. Its own exhibitions are often accompanied by scholarly catalogues and from time to time travel to other museums. The Museum has approximately 3,000 members, largely from the Santa Barbara area. Annual attendance at the Museum averages over 60,000 visitors.

The Museum brings people and art together through a broad array of formal and informal learning opportunities for all ages, both in the Museum and out in the community. The Museum provides more than twenty art education programs to over 20,000 people annually. These include academic, outreach and after school programs for K-twelfth-grade students, activities and events for families, classes for college students and lifelong learning opportunities for adults and seniors. In addition, the Museum regularly organizes and hosts lectures, symposia, film series, and focused gallery tours for the Museum's major exhibitions. Many of these programs involve collaborations with community organizations, schools and teachers, colleges and universities as well as selected artists.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Museum are prepared using the accrual basis of accounting.

Cash and Cash Equivalents

The Museum classifies its unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents, except for cash which is held by investment portfolio managers until suitable long-term investments are identified.

Inventory

Inventory consists of goods held for sale in the Museum store and is carried at the lower of cost (first-in, first-out method) or market.

Buildings and Equipment

Buildings and equipment are recorded at cost if purchased or at fair market value at time of contribution if donated. Depreciation and amortization expense are computed using the straight-line method over the lesser of the useful lives of the assets or the term of the related lease agreement. Depreciable lives of the assets range from 5 to 40 years. In general, the Museum capitalizes fixed assets with a cost of \$1,500 or more and with an expected life of greater than one year.

Investments

The Museum records investments in debt and equity securities with readily determinable market values at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year. The investments in partnerships and private equity, for which quoted market prices are not readily available, are determined by management in good faith with the assistance of third-party investment managers using methods it considers appropriate. The cost basis in alternative investments are adjusted for partnership activity estimated by the general partners. Realized and unrealized gains and losses are included in the change in net assets.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

Classification of Net Assets

The Museum reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Museum are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations without any donor-imposed restrictions. From time to time, the Museum's Board of Trustees may designate certain net assets for particular purposes and objectives.

Net assets with donor restrictions – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the Museum and/or the passage of time. These balances represent the unexpended portion of donor-restricted contributions and investment return to be used for specific programs and activities as directed by the donor. These balances also include net assets subject to donor-imposed restrictions that they must be maintained permanently (e.g. endowment funds). Typically, the donors of these types of assets allow the Museum to use the income earned on the related investments for general or specific purposes.

Collections

In conformity with the practice followed by art museums, art objects purchased or donated are not included in the accompanying statement of financial position. The Museum maintains a comprehensive fine arts collection. The collection is used for the purposes of exhibition, education, study, research, publications and loans to other museums. The collection is kept under curatorial care including extensive conservation practices and specialized fine arts insurance coverage, and is subject to the Museum's policy that requires proceeds from the sale of collection items to be used only for artwork. The Museum does not recognize donated collection items as contribution income as its collections are not capitalized.

Revenue Recognition

The Museum generates revenue and support from various sources. Revenues that are accounted for outside the scope of ASC 606 include non-exchange funds received by the Museum which are voluntary and un-reciprocal contributions, interest and dividend income, and certain state grants.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

In accordance with ASC 606, revenue is reported at the amount that reflects the consideration to which the Museum expects to be entitled in exchange for providing services to customers, and is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of services provided by the Museum. Performance obligations satisfied over time are related to memberships, as further described below. Performance obligations satisfied at a point in time include Museum admissions, special events, membership tours, Museum store sales, and lectures/classes.

The Museum offers a variety of membership levels that typically have a one year term period. Performance obligations are met and revenue is recognized over the term of the membership. Memberships that continue into the following fiscal year are recorded as deferred revenue and are recognized over the remainder of months left in the membership.

Contributions and Promises to Give

Unconditional contributions are considered to be non-exchange transactions and are recognized when cash, securities, other assets, or an unconditional promise to give is received. Contributions are recorded as *without donor restriction* unless the donor stipulates a specific purpose. Donor-restricted contributions are recorded as an increase in net assets *with donor restrictions* depending on the nature of the restriction. When a restriction expires, net assets are reclassified to *without donor restriction*. Donated marketable securities are recorded at fair market value on the date of donation.

Legally enforceable pledges, less an allowance for uncollectible amounts (if deemed necessary), are recorded as a receivable in the year made.

Conditional promises to give, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. No material conditional promises to give existed as of June 30, 2023.

Contributed Services

A substantial number of volunteers have donated their time to the Museum as docents, board members and in auxiliary organizations. As this volunteer service does not meet the recognition requirements of accounting principles generally accepted in the United States of America, no amounts have been recognized in the accompanying Statement of Activities and Changes in Net Assets.

**SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Summary of Significant Accounting Policies (Continued)

Exhibitions

The Museum records all contributions for future exhibitions as revenue with donor restrictions and all expenditures for future exhibitions as prepaid expenses. The revenue and expenses are recognized in the year the exhibition begins.

Functional Expenses

The Museum allocates its expenses on a functional basis among its various program, management and general, and fundraising expenses. Expenses that can be identified with a specific area are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

The Museum is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Revenue and Taxation Code; therefore, no provision for income taxes has been made. The Museum has not been classified as a private foundation.

The Museum evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2023, the Museum had no uncertain tax positions requiring disclosure or accrual.

The Museum files tax returns in California and U.S. federal jurisdictions. The Museum is no longer subject to U.S federal and state examinations by tax authorities for years ending before 2018.

Estimates

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Significant estimates used in preparing these financial statements include:

- Lives of fixed assets and method of depreciation.
- Net present value of income interest in trusts and future annuities payable by charitable and gift annuity trusts.
- Fair market values of assets held by charitable trusts.
- Fair market value of certain investments.
- Allocation of expenses to various program and support service categories.
- Uncertain tax positions.

It is at least reasonably possible that these estimates could change in the coming year.

**SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Summary of Significant Accounting Policies (Continued)

Comparative Amounts

The amounts shown for the year ended June 30, 2022, in the accompanying financial statements, are included to provide a basis for comparison with June 30, 2023, and are not intended to present all information necessary for a fair presentation of the June 30, 2022 financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Recent Accounting Updates

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (ASU 2016-02). This ASU provides accounting guidance for both lessee and lessor accounting models. Among other things, lessees will recognize a right-of-use asset and a lease liability for leases with a duration of greater than one year. For income statement purposes, ASU 2016-02 will require leases to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which deferred the effective date for these standards. The provisions of Topic 842 are now effective for annual reporting periods beginning after December 15, 2021. The new standard was effective for the Museum for the year ended June 30, 2023. The adoption of this standard did not have a material impact on its financial position, results of operations, or cash flows.

The Museum does not believe any pending accounting standard updates will have a material impact on the future financial statements.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, consist of the following:

Total financial assets available to fund general operations at June 30, 2023	\$ 33,456,750
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Plus other funds subject to appropriation
for operations on donor restricted endowment funds

Fiscal year 2024 estimated endowment appropriation for operations	732,459
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Fiscal year 2024 estimated trust distributions	<u>297,411</u>
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Total financial assets available within one year	<u><u>\$ 34,486,620</u></u>
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The Museum has endowment funds that consist of both donor-restricted and Board-designated amounts. The Board-designated funds available for general use are included above as are the estimated earnings on donor-restricted funds providing they are also available for general use.

As part of the Museum's liquidity management procedures, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Museum invests cash in excess of daily requirements in short term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve.

Note 4 - Bequests and Contributions Receivable

Unconditional promises to give are included in the financial statements as receivables and revenue of the appropriate net asset category. As of June 30, 2023, the Museum has total bequests and pledges receivable of \$3,675,087. Management expects no material write-offs for receivables at June 30, 2023; therefore, no current provision has been made. These contributions and bequests are expected to be collected as follows:

Less than one year	\$ 1,310,087
More than one year	<u>2,365,000</u>
Total bequests and contributions receivable	<u><u>\$ 3,675,087</u></u>

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 5 - Investments

Investments consist of the following at June 30, 2023:

	Cost	Market
Marketable Securities:		
Cash equivalents	\$ 2,520,219	\$ 2,520,219
Hedge mutual funds	2,417,292	2,218,652
Stock mutual funds	40,782,769	35,860,464
Bond mutual funds	10,817,027	9,120,126
Total Marketable Securities	56,537,307	49,719,461
Alternative Investments	8,015,497	8,015,497
Total Investments	<u>\$ 64,552,804</u>	<u>\$ 57,734,958</u>
Unrealized loss as of June 30, 2023		\$ (6,817,846)
Unrealized loss as of June 30, 2022		<u>(10,386,851)</u>
Change in unrealized gain (loss)		<u>\$ 3,569,005</u>

The market values of marketable securities are from quoted prices as of June 30, 2023, and the market value of alternative investment partnerships are provided by the general partners. These amounts are not necessarily indicative of the amounts the Museum could realize in a current market exchange. At June 30, 2023, the Museum had remaining investment commitments to alternative investment partnerships that are not readily marketable of approximately \$2,284,000. Investment income is allocated to participating funds based upon each fund's respective percentage share in the Museum's investment pool.

The Board of Trustees has adopted a "total return" methodology for providing operating support to the Museum's Operating Fund. This annual draw is calculated as 4.95% of the twenty-quarter moving average of the fair market value of the endowment investment funds as of December 31.

The net investment income for the year ended June 30, 2023 consists of:

Interest and dividends	\$ 1,555,892
Net realized gain	294,561
Partnership loss	(159,408)
Net change in unrealized gain (loss)	3,569,005
Less investment expenses	<u>(220,522)</u>
Net investment income	<u>\$ 5,039,528</u>

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 6 - Fair Value Measurement

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 6 - Fair Value Measurement (Continued)

Money market funds:	Money market funds valued at the net asset value (NAV) of shares held at year end.
Common stocks, fixed income, and mutual funds:	Exchange traded securities, mutual funds, and highly-liquid government bonds valued at quoted market prices or NAV of shares held as of year-end.
Charitable trust agreements and gift annuities:	Valued at estimated net present value (NPV) of beneficial interest in trust.
Partnerships:	Estimated by management and general partners in the absence of readily determinable fair values using net asset value (NAV) per share as a practical expedient and are therefore not categorized within the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level within the fair value hierarchy the assets at fair values as of June 30, 2023:

Description	Total	Level 1	Level 2	Level 3
Investments				
Money market	\$ 2,520,219	\$ 2,520,219	\$ -	\$ -
Hedge mutual funds	2,218,652	2,218,652	-	-
Stock mutual funds	35,860,464	35,860,464	-	-
Bond mutual funds	9,120,126	9,120,126	-	-
Total Investments	49,719,461	49,719,461	-	-
Charitable trust agreements and gift annuities	13,819,514	-	13,819,514	-
Total assets in the fair value hierarchy	<u>\$63,538,975</u>	<u>\$49,719,461</u>	<u>\$13,819,514</u>	<u>\$ -</u>
Investments measured at net asset value (a)	<u>8,015,497</u>			
Total Investments at fair value	<u>\$71,554,472</u>			

(a) In accordance with Subtopic 820-10, investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 7 - Gift Annuities

The Museum has entered into charitable gift annuity agreements. Pursuant to the agreements, the Museum received a charitable gift of marketable securities and is obligated to make annual payments for the remainder of the donor's life. The asset was originally recorded at fair market value on the date of creation. The liability is recorded at present value of future payments.

The assets for the annuities are physically and legally segregated from other assets of the Museum pursuant to the California Insurance Code. The California Department of Insurance Regulations requires that no more than 50% of these segregated assets be invested in stock. The Museum has its gift annuities currently invested in a balanced index fund.

Note 8 - Charitable Trust Agreements

Charitable trust agreements in which the Museum has been named as an irrevocable beneficiary are recorded on the books of the Museum and classified as net assets with donor restrictions. If the Museum is the trustee, the fair market value of the trust is recorded in the Museum's statement of financial position and a corresponding liability is recorded for the net present value of the required payments as specified in the agreement. A contribution is recorded for the difference between the two amounts. If the Museum is not the trustee, the trust is recorded as a contribution and an asset equivalent to the present value of the trust assets and the estimated future income net of the present value of the estimated future payments to other 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 the value of charitable remainder trusts.

The assets are recorded at approximate fair market value based upon the most recent tax return filed by the trust that is available to the Museum or current values provided by the trustee to the Museum. The present value of the estimated future value to be received by the Museum is calculated using the IRS annuity tables and a discount rate based either on the IRS discount rate as of June 30, 2023 or the determined rate of return, whichever is greater.

Note 9 - Perpetual Income Trust Interests

The Museum is named as an income beneficiary of four perpetual trusts, the corpus of which is not controlled by the management of the Museum. Under these arrangements, the Museum has the irrevocable right to receive income earned on the underlying assets held in perpetuity. Income received from three of the trusts is discretionary, while income from one trust is restricted for reimbursement of Asian art expenditures.

**SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS**

Note 9 - Perpetual Income Trust Interests (Continued)

For the four discretionary trusts, the Museum is a beneficiary of this stream of income in perpetuity. The Museum estimates the asset values by measuring its beneficial interest at fair value by using the fair value of the assets contributed to the trust. Any change in the estimate of the asset values based on changes to the fair value is recorded in the Statement of Activities as a change in value of interests in trusts.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions.

Note 10 - Buildings and Equipment

At June 30, 2023, the cost of buildings and equipment, net of accumulated depreciation was as follows:

Buildings and improvements	\$	31,593,026
Furniture and equipment		<u>31,719,207</u>
Total cost		63,312,233
Less accumulated depreciation		<u>(12,208,925)</u>
Buildings and equipment, net	\$	<u><u>51,103,308</u></u>

Depreciation expense for the year ended June 30, 2023 was \$2,036,788.

In 1982, the Museum deeded certain parcels of privately held land to the County of Santa Barbara in exchange for a lease agreement with the County. The original Museum building and the Park Wing addition is currently leased by the Museum from the County at no cost until March 2081. Two separate buildings have been constructed on the adjacent parcels. The buildings are physically integrated and operated as a single facility. An agreement exists between the Museum and the County addressing the separation of the two buildings, including reversion of improvements to the County, should integrated use of the two structures ever change. The lease agreement is valued at the recorded amount of the land at the time of conveyance, and no gain or loss has been recognized in the transaction. The leasehold is being amortized over a 40-year period.

Buildings and equipment include one residence which is pledged as collateral on a note payable of \$924,607.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 11 - Loans Payable

Secured Note Payable

The Museum has a note payable of \$924,607 secured by residential real estate at an interest rate of 4.375%. Payments of \$6,038 are due monthly with the final payment being due on May 15, 2042.

Principal payments are due as follows for the years ending June 30:

2024	\$	31,944
2025		33,501
2026		35,017
2027		36,603
2028		38,166
Thereafter		749,376
Total	\$	924,607

The Museum paid \$41,786 in interest for the year ended June 30, 2023.

Revolving Line of Credit

The Museum has entered into a \$12,000,000 non-revolving line of credit agreement with Bank of America. Under the terms of the agreement, the Museum may draw on the line of credit to fund costs associated with its renovation project. Interest is payable monthly at LIBOR plus 1.25%. The line of credit is secured by publicly traded securities in the Museum's investment account held at Bank of America. On September 30, 2020, all outstanding principal and interest automatically converted to a term loan with a fixed interest rate of 2.875%. Payment will be based on a 20 year amortization with outstanding principal and interest due on August 31, 2027. During the year ending June 30, 2022, the loan was paid in full. As of June 30, 2023 and 2022, the outstanding balance was \$0.

Paycheck Protection Program Loan Payable

On April 15, 2021, the Museum received loan proceeds of \$874,696 under the second draw of the Paycheck Protection Program ("PPP") established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The loan has an interest rate of 1.00% and maturity date of April 15, 2026. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. As of June 30, 2022, the loan has been forgiven in its entirety.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 12 - Deferred Revenue

Deferred revenue consists of money received in advance for memberships, member tours and for summer art classes that will take place after June 30, 2023.

Note 13 - Benefit Plan

Museum employees who work at least 20 hours per week are eligible immediately to participate in a deferred salary savings plan under Section 403(b) of the Internal Revenue Code. For eligible employees with more than one year of service and participating in the 403(b) deferred salary savings plan, the Museum matches the employee's contribution up to 5% of the participant's compensation. Total Museum match for the plan during the year ended June 30, 2023 was \$123,062.

Note 14 - Unemployment Benefits

The Museum is self-insured against claims filed with the state employment department by former employees for unemployment benefits.

Note 15 - Concentration of Risk

Credit Risk

The Museum maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2023, the Museum had approximately \$4,179,000 of cash deposits in excess of FDIC limits.

Investment Risk

The Museum holds its investments in a diversified portfolio. Nevertheless, these investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Geographical Concentration

The Museum's membership and donor base is largely drawn from Santa Barbara County. Visitors are both local and tourists.

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 16 - Operating Leases

The Museum leases various office equipment under non-cancellable operating leases through June 2024. Minimum rental payments under the terms of these leases are as follows for the year ending June 30:

2024	\$	52,079
2025		-
2026		-
2027		-
2028		-
Total	\$	<u>52,079</u>

Lease expense for the year ended June 30, 2023 totaled \$47,818.

Note 17 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other event specified by donors or by appropriation by the Board of Trustees for expenditure. For the year ended June 30, 2023, the passage of time or expenditures fulfilling restricted purposes is as follows:

Purpose restrictions:	
General operations	\$ 88,290
Art acquisition	459,810
Education	58,710
Exhibitions	141,599
Renovation project	2,509,176
	3,257,585
Distributions (proceeds are not restricted by donors):	
Assets held under split interest agreements	60,155
Restricted-purpose spending-rate distributions and appropriations:	
General operations	728,669
Exhibitions	158,781
Education	76,468
	963,918
Total released from restrictions	<u>\$ 4,281,658</u>

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 18 - Net Assets

Net assets without donor restrictions consist of funds without any donor-imposed time or purpose stipulations and are classified as either undesignated funds or Board-designated funds. Net assets without donor restrictions as of June 30, 2023, are as follows:

General unrestricted	\$ 55,825,903
Board-designated funds:	
General operations	18,738,889
Art acquisition	7,159,567
Conservation	1,872,758
Education	617,537
Exhibitions	562,691
Total Board-designated funds	28,951,442
Total net assets without donor restriction	\$ 84,777,345

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2023:

Subject to expenditure for specific purpose:	
General operations	\$ 229,448
Art Acquisition	260,011
Exhibitions	244,897
Education	229,277
	963,633
Subject to passage of time:	
Assets held under split-interest agreements	2,805,473
Promises to give	8,000
	2,813,473

**SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS**

Note 18 - Net Assets (Continued)

Endowments:

Subject to appropriation and expenditure when
a specified event occurs:

Restricted by donors for:

General operations	\$ 1,977,172
Art Acquisition	2,025,316
Conservation	2,037,435
Exhibitions	150,394
Education	104,152
	<u>6,294,469</u>

Subject to endowment spending policy
and appropriation:

General operations	19,300,377
Art Acquisition	1,001,093
Conservation	1,621,035
Exhibitions	497,000
Education	638,276
	<u>23,057,781</u>

Total Endowments	<u>29,352,250</u>
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Not subject to spending policy or appropriation:

Beneficial interests in perpetual trusts and split interest agreements	<u>11,014,041</u>
Total net assets with donor restrictions	<u><u>\$ 44,143,397</u></u>

Note 19 - Endowment Funds

The Museum's endowment consists of 62 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including those designated by Board of Trustees, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees has interpreted the California adopted Universal Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the value of

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 19 - Endowment Funds (Continued)

subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate earnings on donor designated endowment funds:

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

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

	<u>With donor restrictions</u>	<u>Without donor restrictions</u>	<u>Total endowment</u>
Endowment net assets, beginning of year	\$ 28,113,448	\$ 26,660,228	\$ 54,773,676
Net investment return (loss)	1,649,055	3,390,473	5,039,528
Contributions	-	883,003	883,003
Appropriations	(410,253)	(4,828,690)	(5,238,943)
Transfers into the endowment	<u>-</u>	<u>2,846,428</u>	<u>2,846,428</u>
Endowment net assets, end of year	<u>\$ 29,352,250</u>	<u>\$ 28,951,442</u>	<u>\$ 58,303,692</u>

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 19 - Endowment Funds (Continued)

Endowment net assets are composed of the following as of June 30, 2023

	<u>With donor restrictions</u>	<u>Without donor restrictions</u>	<u>Total endowment</u>
Board designated endowment	\$ -	\$ 26,399,005	\$ 26,399,005
Accumulated earnings on board designated endowments	-	2,552,437	2,552,437
Original donor-restricted gift amounts	23,057,781	-	23,057,781
Accumulated earnings on donor restricted endowments	<u>6,294,469</u>	<u>-</u>	<u>6,294,469</u>
Total	<u>\$ 29,352,250</u>	<u>\$ 28,951,442</u>	<u>\$ 58,303,692</u>

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity for donor-specified periods as well as Board-designated funds. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diverse portfolio utilizing various asset classes with a goal of reducing volatility and risk.

Strategies Employed for Achieving Goals

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objective within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum has a policy of appropriating for expenditure each year an amount not to exceed 4.95% of the twenty-quarter moving average fair value of the permanent endowment fund investments as of December 31. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its

SANTA BARBARA MUSEUM OF ART
NOTES TO FINANCIAL STATEMENTS

Note 19 - Endowment Funds (Continued)

endowment to maintain the purchasing power of its assets held in perpetuity as well as to provide additional real growth through new gifts and investment return. If additional funds beyond the 4.95% policy are needed by the Museum for operations or other specific Board approved purposes, then the additional amounts are drawn from Board-designated endowment funds.

Endowment Funds with Deficiencies

From time to time, the fair value of the assets associated with individual donor-designated funds may fall below the level that current law requires the Museum to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as a reduction in unrestricted net assets. Such deficiencies result from unfavorable market fluctuations. As of June 30, 2023, no such deficiency existed.

Note 20 - Subsequent Events

Management has evaluated subsequent events through January 15, 2025, which is the date the financial statements were available to be issued.