

**Santa Barbara Bowl Foundation**

Financial Statements

December 31, 2017  
(With Comparative Totals for 2016)



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Santa Barbara Bowl Foundation  
Santa Barbara, California

We have audited the accompanying financial statements of Santa Barbara Bowl Foundation (a California nonprofit organization) (the "Foundation"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Bowl Foundation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited Santa Barbara Bowl Foundation's 2016 financial statements, and our report dated September 28, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
Los Angeles, California

August 9, 2018

Santa Barbara Bowl Foundation  
Statement of Financial Position  
December 31, 2017  
(With Comparative Totals for 2016)

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,877,526	\$ 2,299,456
Investments	5,852,776	5,203,537
Contributions receivable, net	2,087,153	2,444,406
Master plan improvements and equipment, net	30,784,227	31,280,243
Intangibles	6,252	6,252
Total assets	\$ 41,607,934	\$ 41,233,894
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 299,540	\$ 287,001
Deferred revenue	716,142	1,231,871
Total liabilities	1,015,682	1,518,872
Commitments (Note 10)		
Net assets		
Without donor restrictions	38,137,198	36,574,745
With donor restrictions	2,455,054	3,140,277
Total net assets	40,592,252	39,715,022
Total liabilities and net assets	\$ 41,607,934	\$ 41,233,894

The accompanying notes are an integral part of these financial statements.

Santa Barbara Bowl Foundation  
Statement of Activities  
For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2017 Total</u>	<u>2016 Total</u>
Revenue and support				
Revenue				
Show revenue	\$ 1,288,555	\$ -	\$ 1,288,555	\$ 1,353,512
Concert club memberships	966,900	-	966,900	936,800
Sponsorships	441,000	-	441,000	370,736
Concession revenue	1,410,380	-	1,410,380	1,394,611
Contract revenue	571,429	-	571,429	571,429
Show fees	327,241	-	327,241	316,092
Parking fees	<u>169,059</u>	<u>-</u>	<u>169,059</u>	<u>177,753</u>
Total revenue	<u>5,174,564</u>	<u>-</u>	<u>5,174,564</u>	<u>5,120,933</u>
Support				
Contributions	127,093	595,200	722,293	1,631,504
Other income	19,253	-	19,253	5,601
Net assets released from restriction	<u>1,280,423</u>	<u>(1,280,423)</u>	<u>-</u>	<u>-</u>
Total support	<u>1,426,769</u>	<u>(685,223)</u>	<u>741,546</u>	<u>1,637,105</u>
Total revenue and support	<u>6,601,333</u>	<u>(685,223)</u>	<u>5,916,110</u>	<u>6,758,038</u>
Functional expenses				
Program Services	<u>5,137,212</u>	<u>-</u>	<u>5,137,212</u>	<u>4,992,255</u>
Support services				
Management and General	277,786	-	277,786	329,263
Fundraising	<u>272,701</u>	<u>-</u>	<u>272,701</u>	<u>304,843</u>
Total support services	<u>550,487</u>	<u>-</u>	<u>550,487</u>	<u>634,106</u>
Total functional expenses	<u>5,687,699</u>	<u>-</u>	<u>5,687,699</u>	<u>5,626,361</u>
Change in net assets from operations	913,634	(685,223)	228,411	1,131,677
Investment income, net	<u>648,819</u>	<u>-</u>	<u>648,819</u>	<u>130,971</u>
Change in net assets	1,562,453	(685,223)	877,230	1,262,648
Net assets, beginning of year	<u>36,574,745</u>	<u>3,140,277</u>	<u>39,715,022</u>	<u>38,452,374</u>
Net assets, end of year	<u>\$ 38,137,198</u>	<u>\$ 2,455,054</u>	<u>\$ 40,592,252</u>	<u>\$ 39,715,022</u>

The accompanying notes are an integral part of these financial statements.

Santa Barbara Bowl Foundation  
Statement of Functional Expenses  
For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Personnel expenses					
Salaries and wages	\$ 625,701	\$ 128,239	\$ 132,030	\$ 885,970	\$ 866,953
Payroll taxes and employee benefits	<u>177,742</u>	<u>36,429</u>	<u>37,506</u>	<u>251,677</u>	<u>228,098</u>
Total personnel expenses	<u>803,443</u>	<u>164,668</u>	<u>169,536</u>	<u>1,137,647</u>	<u>1,095,051</u>
Other expenses					
Advertising	115,500	-	-	115,500	145,063
Bad debt expense	-	-	-	-	35,360
Bank charges	1,496	307	316	2,119	2,786
Caretaker housing expenses	24,174	-	-	24,174	23,537
Concession expenditures	822,677	-	-	822,677	834,687
Contract labor for shows	889,378	-	-	889,378	920,292
County arts subsidy	50,000	-	-	50,000	50,000
Depreciation and amortization	1,120,559	-	-	1,120,559	1,066,171
Donor cultivation	-	-	22,544	22,544	45,236
Dues and subscriptions	10,201	2,091	2,153	14,445	13,382
Fundraising expenses	-	-	24,339	24,339	25,025
Education outreach	403,072	-	-	403,072	336,132
Insurance	66,841	13,699	14,104	94,644	103,166
Legal and professional fees	-	57,792	-	57,792	65,401
Miscellaneous	14,487	2,969	3,057	20,513	27,163
Other show expenses	190,340	-	-	190,340	199,813
Payroll processing	3,135	643	662	4,440	4,183
Office expenses	38,741	7,940	8,175	54,856	76,072
Postage and printing	13,962	2,861	2,946	19,769	16,349
Event rentals	125,834	-	-	125,834	111,484
Leases	3,461	709	730	4,900	2,964
Repairs and maintenance	237,389	-	-	237,389	178,067
Taxes and licenses	5,189	1,063	1,095	7,347	7,256
Transportation and auto	12,984	-	-	12,984	12,758
Utilities	<u>184,349</u>	<u>23,044</u>	<u>23,044</u>	<u>230,437</u>	<u>228,963</u>
Total other expenses	<u>4,333,769</u>	<u>113,118</u>	<u>103,165</u>	<u>4,550,052</u>	<u>4,531,310</u>
	<u>\$ 5,137,212</u>	<u>\$ 277,786</u>	<u>\$ 272,701</u>	<u>\$ 5,687,699</u>	<u>\$ 5,626,361</u>

The accompanying notes are an integral part of these financial statements.

Santa Barbara Bowl Foundation  
Statement of Cash Flows  
For the Year Ended December 31, 2017  
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 877,230	\$ 1,262,648
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,120,559	1,066,171
Change in allowance for doubtful accounts	-	35,360
Realized gains on sales of investments	-	(2,589)
Unrealized gains on investments	(477,220)	(33,937)
Interest and dividends, net of fees	(171,599)	(94,445)
Changes in operating assets and liabilities		
Contributions receivable	357,253	(825,885)
Accounts payable and accrued expenses	12,539	113,720
Deferred revenue	(515,729)	812,371
Early termination settlement payable	-	(175,000)
Net cash provided by operating activities	1,203,033	2,158,414
Cash flows from investing activities		
Purchases of property and equipment	(624,543)	(670,416)
Transfer from operations	-	(5,076,114)
Purchases of investments	(500,687)	(4,976,273)
Proceeds from sale of investments	500,267	4,979,821
Net cash used in investing activities	(624,963)	(5,742,982)
Net increase (decrease) in cash and cash equivalents	578,070	(3,584,568)
Cash and cash equivalents, beginning of year	2,299,456	5,884,024
Cash and cash equivalents, end of year	\$ 2,877,526	\$ 2,299,456

The accompanying notes are an integral part of these financial statements.



Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

1. NATURE OF OPERATIONS

The Santa Barbara Bowl Foundation (the "Foundation") is a non-profit organization founded to manage, maintain and renovate the Santa Barbara Bowl, a community based outdoor performing arts venue, and to develop an annual plan which includes facility improvements and community arts events. Following a successful \$40 million renovation and restoration effort, the Foundation continues to raise funds to protect the community's investment and to stay at the forefront of technology, audience safety and amenities. The facility is located in the city of Santa Barbara and draws most of its attendance from a 100-mile radius.

The Foundation is also committed to raising funds for its Education Outreach programming and endowment, which is dedicated to providing support and funding for performing arts and music education in the greater Santa Barbara area. Part of the core of the Foundation's mission statement, Education Outreach reaches approximately 20,000 local schoolchildren annually. The program provides need-based support to music education programs, supports community access to the performing arts, and serves as an advocate for the performing arts in the community. The Foundation itself commits \$1.00 per paid ticket to the Education Outreach program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in accounting principle

During 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which requires (1) net assets be classified and presented in two categories: net assets without donor restrictions and net assets with donor restrictions and (2) additional disclosures concerning the liquidity of Foundation. This ASU is effective for fiscal years beginning after December 15, 2017, with earlier adoption allowed. Foundation elected to early adopt for the 2016 fiscal year.

Basis of accounting and financial statement presentation

The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* (see Note 7):
  - Include contributions, fundraising, fees and other forms of unrestricted revenue and expenditures related to the general operations and fundraising efforts of the Foundation.
  - Board-designated unrestricted net assets - Include funds designated by the Board for continuing facility improvements and its Education Outreach program. These funds are subject to an annual review by the Board.

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions* (see Note 6):
  - Subject to expenditure for specified purpose - Include gifts and grants received that are temporarily restricted with respect to use by the donor or grantor. When the restrictions expire, the net assets of this fund are reclassified to unrestricted net assets. Restricted gifts and grants received are reported as unrestricted revenue if the restriction is met in the same reporting period.
  - Time-restricted - Include pledges receivable which are recorded as restricted revenue when the pledge is received. When the pledges receivable are collected, the net assets of this class are reclassified to net assets without restrictions.
  - Donor-restricted endowment - Included assets that have been restricted by the donor in perpetuity while permitting the Foundation to use or expend part or all of the income derived from the assets.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Cash and cash equivalents

The Foundation considers all financial instruments purchased with an original maturity of three months or less to be cash equivalents, except for certain money market account balances included in investments.

Concentrations

Occasionally the Foundation's bank balances exceed the Federal Deposit Insurance Corporation insured limits. The Foundation has not experienced and does not anticipate any losses related to these balances.

For the year ended December 31, 2017, three donors comprised approximately 62% of the Foundation's total contribution revenue. Two donors comprised 58% pledges receivable at December 31, 2017.

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations (continued)

In accordance with the terms of the lease agreement between the Foundation and the County of Santa Barbara, the Foundation contracts with one agency each year to secure a majority of its shows (see Note 10).

Contributions receivable

Contributions receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management has established an allowance for doubtful accounts of \$35,360 at December 31, 2017.

Investments

Investments with readily determinable fair values are stated at fair value at the financial statement date. Investments without readily determinable fair values are stated at the lower of cost or estimated net realizable value. Marketable securities acquired by donation are stated at the fair market value at the date of donation.

The Foundation reports investment revenues net of related expenses, such as custodial and investment advisory fees on the statement of activities.

Master Plan

The Renovations and Restoration Master Plan (Master Plan) was created by the Foundation in 1993 as the framework of plans to complete major renovations and restorations to the property and facilities at the Santa Barbara Bowl over the course of twenty years. Implementation and completion of the Master Plan by the Foundation was stipulated in the initial 45-year lease agreement entered into with the County of Santa Barbara in 1994 (which has since been renewed as discussed in Note 10).

Significant infrastructure improvements that have been completed through the Master Plan include: a production roof, upgraded power, new sewer lines, a larger marquee, a new storm drain and more efficient drainage systems. In addition, the stage and backstage facilities were reconstructed increasing the overall useable square footage by nearly 300%. The Foundation completed the final major projects of the Master Plan in 2014.

The County of Santa Barbara acknowledges and agrees that the Foundation has fully performed its obligations under the 1994 lease, including the construction of substantial renovations, additions, alterations and improvements to the premises in accordance with the Master Plan.

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Master Plan improvements and equipment

Property and equipment are recorded at cost if purchased or at the fair value at the date of the gift if donated. Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Master Plan improvements	10 - 40 years
Other improvements	5 - 15 years
Furniture and equipment	3 - 10 years
Vehicles	7 - 10 years
Website	3 - 7 years
Leasehold improvements	Lesser of useful life or life of the lease

Normal repairs and maintenance are expensed as incurred, whereas significant charges which materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Impairment of long-lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Foundation during either year.

Intangible assets

During 2011, the Foundation acquired a license for sale of liquor in the amount of \$6,252. The license has an indefinite life and is not subject to amortization. Assets that are not subject to amortization are tested for impairment at least annually. During 2017, the Foundation determined no impairment is necessary.

Deferred revenue

The Foundation records advance payments toward annual memberships as deferred revenue. These memberships entitle members to reserve and purchase concert tickets for specified seats during the season as well as other benefits. Such amounts are recorded as revenue during the concert season. The Foundation also records advanced contract payments as deferred revenue which are recognized over the contract period (see Note 10).

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Grants and contributions consist of donations from foundations, corporations, businesses, individuals, and the general public. Grants and contributions are generally recognized when pledged or paid to the Foundation by the donor. Contributions are not recognized as revenue until all donor imposed conditions have been substantially met, or the possibility that such a condition would not be met is remote. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. The Foundation records donor-restricted contributions whose restrictions are met in the same reporting period as net assets without donor restrictions.

Pledged contributions to be received more than one year after the pledge date are discounted at an appropriate rate commensurate with the risk involved and the time value of money. Amortization of the discount is recorded as additional contribution revenue.

The Foundation's Board of Directors designates an annual percentage of unrestricted contributions, show revenue, and investment income to be used for the Education Outreach program funding, facilities upkeep, and funding board-designated reserves.

Donated services

A substantial number of volunteers have donated their time performing services for the Foundation. These estimated benefits are not recorded in the financial statements of the Foundation as the recognition does not meet the required standards.

Allocation of functional expenses

The Foundation allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated using bases determined by management to be reasonable.

Advertising costs

Advertising costs are expensed as incurred. During the year ended December 31, 2017, advertising costs totaled \$115,500.

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

The Foundation is a nonprofit public benefit corporation organized under the laws of California and, as such, is exempt from federal and state income taxes under Internal Revenue Code ("IRC") and the Franchise Tax Board under code Sections 501(c)(3) and 23071d, respectively. The Foundation is not considered a private foundation. The Foundation is subject to unrelated business income tax on revenues derived from advertising. The Foundation is not aware of any uncertain tax positions at December 31, 2017, or for any year which the statute remains open.

The Foundation's federal income tax returns for tax years ended December 31, 2014, and beyond remain subject to examination by the Internal Revenue Service. The returns for California, its only state jurisdiction, remain subject to examination by state taxing authorities for the tax years ended December 31, 2013, and beyond.

Endowment

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.

Subsequent events

The Foundation has evaluated events subsequent to December 31, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through August 9, 2018, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

3. INVESTMENTS

The Foundation reports its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

3. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 68,212	\$ -	\$ -	\$ 68,212
Equities	3,774,870	-	-	3,774,870
Fixed income	554,799	-	-	554,799
Corporate bonds	-	296,013	-	296,013
Municipal bonds	-	<u>634,343</u>	-	<u>634,343</u>
	<u>4,397,881</u>	<u>930,356</u>	-	<u>5,328,237</u>
Other Assets (Actively Traded)	<u>524,539</u>	-	-	<u>524,539</u>
	<u><u>\$ 4,922,420</u></u>	<u><u>\$ 930,356</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,852,776</u></u>

Activity in the investments during the year 2017 was as follows:

Balance, beginning of year	\$ 5,203,537
Purchases of investments	500,687
Proceeds from sales of investments	(500,267)
Unrealized gains on investments	477,220
Interest and dividend income	205,996
Investment fees	<u>(34,397)</u>
Balance, end of year	<u><u>\$ 5,852,776</u></u>

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following pledges:

Due in less than one year	\$ 588,922
Due in two to five years	1,537,200
Thereafter	<u>50,000</u>
	2,176,122
Allowance for doubtful accounts	(35,360)
Discount to net present value	<u>(53,609)</u>
	<u><u>\$ 2,087,153</u></u>

Contributions to be received more than one year after the pledge date are discounted at 1% per annum.

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

5. MASTER PLAN LEASEHOLD IMPROVEMENTS, LAND AND EQUIPMENT

Master plan leasehold improvements, land and equipment consist of the following:

Master Plan improvements	\$ 33,148,203
Land	1,188,102
Leasehold improvements	4,685,550
Other improvements	276,769
Furniture and equipment	1,547,771
Vehicles	43,247
Website	<u>24,031</u>
	40,913,673
Accumulated depreciation and amortization	<u>(10,129,446)</u>
	<u><u>\$ 30,784,227</u></u>

Depreciation and amortization expense was \$1,120,559 for 2017.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Education Outreach	\$ 72,500
Time Restricted	
Contributions receivable with donor-specified purpose restriction	1,977,153
Donor-restricted endowment funds	
Donor corpus restricted in perpetuity	<u>405,401</u>
	<u><u>\$ 2,455,054</u></u>

Included within the purpose-restricted net assets with donor restrictions are \$110,000 net assets with donor restrictions that are also time-restricted.



Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

7. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

Board-designated - Facilities and equipment, net	\$ 30,784,227
Board-designated - Continuing facilities improvements and maintenance	710,409
Board-designated - Education Outreach	832,319
Board-designated - Quasi-endowment funds for capital improvements	3,616,339
Board-designated - Quasi-endowment funds for education outreach	1,431,417
Undesignated	<u>762,487</u>
	<u>\$ 38,137,198</u>

8. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS

The Foundation's endowment consists of approximately three 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 funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation interpreted California's 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains the original value of all gifts to the donor-restricted endowment plus unspent accumulated earnings in accordance with the applicable donor gift instrument.

The Foundation has adopted an endowment investment policy, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. To satisfy its long-term rate of return objectives, the Foundation 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 Foundation targets a diversified asset allocation that places an emphasis on fixed income securities and equity investments to achieve its long-term rate of return objectives within prudent risk parameters.

The Foundation has a spending policy of appropriating for distribution each year what is needed in the current year to achieve its goals. In establishing this policy, the Foundation considered the short-term expected return on its endowment. Accordingly, over the short-term, the Foundation expects the current spending policy to allow its endowment to be spent as intended. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Santa Barbara Bowl Foundation  
Notes to the Financial Statements  
December 31, 2017

8. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (continued)

The Foundation has designated portions of its net assets for maintenance and improvement to the facility and to support the Education Outreach program. Upon the completion of the major projects of the Master Plan in the prior years, the Foundation is developing plans to fulfill these designations and investment strategies to provide the means to fulfill these designations.

Activity in the endowment net assets for the year ended December 31, 2017 was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, beginning of year	\$ 3,316,065	\$ 312,650	\$ 3,628,715
Contributions	1,410,841	62,500	1,473,341
Investment income, net of fees	87,505	8,250	95,755
Unrealized gains on investments	<u>233,345</u>	<u>22,001</u>	<u>255,346</u>
Balance, end of year	<u>\$ 5,047,756</u>	<u>\$ 405,401</u>	<u>\$ 5,453,157</u>

9. RETIREMENT PLAN

The Foundation has an IRC Section 403(b) plan (the "Plan") which covers all full-time employees. Employees may contribute up to \$18,000 (up to \$24,000 for individuals 50 or more years old) per year to the Plan and are fully vested in the employee contributions. The Foundation offers discretionary employer contributions to participating employees after one year of service. During the year ended December 31, 2017, the Foundation contributed \$45,500 to the Plan. The Organization's contributions vest over a five-year period of service.

10. COMMITMENTS

Promotional Services Agreement

In December of 2015 the Foundation entered into a Promotional Services Agreement (the Agreement) with a promoter, effective with the 2016 concert season. The Agreement expires in 2022 with an option to extend the agreement an additional two years. The Foundation will be paid a certain amount throughout the life of the agreement. To the extent that such payments have yet to be earned they will be recorded as deferred revenue. The annual payments are due January 15 for each successive year with the final payment due January 15, 2022, provided all conditions are met on January 15 of each year.

In addition to the above, the Agreement also provides for revenue sharing related to ticket and alcohol sales and calls for the receipt of agreed-upon amounts per ticket sale for facility and box office fees.

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10. COMMITMENTS (continued)

County Lease Agreement

On May 17, 2011, the Foundation renewed its lease agreement with the County of Santa Barbara for a period of 45 years beginning June 1, 2011. The Foundation has an option to extend the lease for another 25 years should the Foundation successfully complete the Master Plan. In the event the premises cease to be used as a nonprofit art events facility, the County of Santa Barbara has the right to terminate the lease. At the expiration or earlier termination of the lease term, title to all real property owned by the Foundation shall be transferred to County of Santa Barbara.

The lease allows the Foundation to hold up to 37 commercial performances per year.

In accordance with the lease, the Foundation will pay annual fees to the Santa Barbara Arts Commission (the "Commission") for the duration of the lease. The fee amount due each year is based on the number of tickets sold during the concert season of that year. The per-ticket fee is \$0.25 per ticket sold during the years 2010 through 2014, and \$0.50 per ticket sold beginning the 2015 concert season through the duration of the lease. Beginning with the 2015 concert season, the subsidy will be capped at \$50,000 annually for the period 2015 to 2019. For the 2020 concert season and for every five years thereafter until expiration of the lease, the annual maximum shall be subject to a Cost of Living (CPI) adjustment. The annual cost of the subsidy is recorded in the financial statements in the period the revenue is earned and is listed on the Statement of Functional Expenses as "County arts subsidy."

In addition to any other amounts payable by the Foundation pursuant to the lease, as consideration for granting of the lease agreement, the Foundation assumes all responsibility of all costs for maintenance, repairs, improvements, and operations relating to the property. Additionally, the Foundation shall fully implement the Master Plan and will assume responsibility for all costs associated with the improvements set forth in the Master Plan and any additions or amendments thereto.

According to the lease agreement between the Foundation and the County of Santa Barbara, title to the premises and all improvements are vested with the County of Santa Barbara. Title to all personal property is vested with the Foundation until termination of the lease agreement between the Foundation and the County at which time title to the personal property will transfer to the County for use on the premises.

11. RELATED PARTY

The following related party transactions occurred between the Foundation and certain of its Board members during the year as follows:

Construction management services	\$ 60,000
Other professional services	<u>64,560</u>
	<u>\$ 124,560</u>

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12. LIQUIDITY AND AVAILABILITY

The Foundation is significantly supported by contributions with donor restrictions. The Foundation maintains sufficient resources to meet its responsibilities to its donors. The Foundation's liquidity management policy structures its remaining financial assets to be available for operations as its general expenditures, liabilities, and other obligations come due.

The following reflects the Foundation's financial assets reported on the statement of financial position, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions. Consequently, amounts available exclude net assets with donor restrictions (see Note 6), less related assets included within net assets with donor restrictions, as of December 31, 2017.

Liquidity of financial assets as of December 31, 2017, is as follows:

Cash and cash equivalents	\$ 2,877,526
Investments	5,852,776
Contributions receivable, net	<u>2,087,153</u>
	10,817,455
Net assets with donor restrictions	(2,455,054)
Contributions receivable due in one year	588,922
Less endowments without donor restrictions	<u>(5,047,756)</u>
Net liquid assets available for operations	<u><u>\$ 3,903,567</u></u>