

Attachment 2

**Santa Barbara Bowl
Foundation
2020 Audited
Financial Statement**

Santa Barbara Bowl Foundation

Financial Statements

December 31, 2020
(With Comparative Totals for 2019)



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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 the Santa Barbara Bowl Foundation (a California nonprofit corporation) (the "Foundation"), which comprise the statement of financial position as of December 31, 2020, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 the Santa Barbara Bowl Foundation as of December 31, 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited Santa Barbara Bowl Foundation's 2019 financial statements, and our report dated August 19, 2020 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
Woodland Hills, California

July 12, 2021

Santa Barbara Bowl Foundation
Statement of Financial Position
December 31, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 4,021,713	\$ 3,991,421
Investments	9,198,218	8,593,844
Contributions receivable, net	2,596,635	3,266,346
Prepaid expenses and other current assets	-	9,114
Master Plan improvements and equipment, net	29,528,535	28,807,408
Intangible asset	6,252	6,252
Total assets	\$ 45,351,353	\$ 44,674,385
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 513,758	\$ 254,650
Deferred revenue	954,680	592,283
Total liabilities	1,468,438	846,933
Commitments and contingency (Note 9)		
Net assets		
Without donor restrictions	40,818,149	40,115,511
With donor restrictions	3,064,766	3,711,941
Total net assets	43,882,915	43,827,452
Total liabilities and net assets	\$ 45,351,353	\$ 44,674,385

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

Santa Barbara Bowl Foundation
Statement of Activities
For the Year Ended December 31, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue, gains and other support				
Revenue				
Show revenue	\$ -	\$ -	\$ -	\$ 1,591,555
Concert club membership	127,865	-	127,865	1,043,850
Sponsorships	-	-	-	442,500
Concession revenue	649	-	649	1,931,979
Contract revenue	571,429	-	571,429	571,429
Show fees	-	-	-	460,512
Parking fees	-	-	-	167,563
Total revenue	<u>699,943</u>	<u>-</u>	<u>699,943</u>	<u>6,209,388</u>
Gains and other support				
Contributions	692,571	1,237,405	1,929,976	2,139,275
Investment income, net	583,865	22,536	606,401	1,122,812
Other income	108,625	-	108,625	52,578
Net assets released from restriction	<u>1,907,116</u>	<u>(1,907,116)</u>	<u>-</u>	<u>-</u>
Total gains and other support	<u>3,292,177</u>	<u>(647,175)</u>	<u>2,645,002</u>	<u>3,314,665</u>
Total revenue, gains and other support	<u>3,992,120</u>	<u>(647,175)</u>	<u>3,344,945</u>	<u>9,524,053</u>
Functional expenses				
Program services	<u>2,838,053</u>	<u>-</u>	<u>2,838,053</u>	<u>6,684,149</u>
Support services				
Management and general	246,088	-	246,088	309,070
Fundraising	<u>205,341</u>	<u>-</u>	<u>205,341</u>	<u>291,785</u>
Total support services	<u>451,429</u>	<u>-</u>	<u>451,429</u>	<u>600,855</u>
Total functional expenses	<u>3,289,482</u>	<u>-</u>	<u>3,289,482</u>	<u>7,285,004</u>
Change in net assets	702,638	(647,175)	55,463	2,239,049
Net assets, beginning of year	<u>40,115,511</u>	<u>3,711,941</u>	<u>43,827,452</u>	<u>41,588,403</u>
Net assets, end of year	<u>\$ 40,818,149</u>	<u>\$ 3,064,766</u>	<u>\$ 43,882,915</u>	<u>\$ 43,827,452</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, 2020
(With Comparative Totals for 2019)

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
Personnel expenses					
Salaries and wages	\$ 712,923	\$ 128,424	\$ 129,886	\$ 971,233	\$ 1,035,872
Payroll taxes and employee benefits	161,566	29,104	29,436	220,106	295,042
Total personnel expenses	<u>874,489</u>	<u>157,528</u>	<u>159,322</u>	<u>1,191,339</u>	<u>1,330,914</u>
Other expenses					
Advertising	38,202	-	-	38,202	160,475
Bank charges	241	43	44	328	2,143
Caretaker housing expenses	26,864	-	-	26,864	23,431
Concession expenditures	21,846	-	-	21,846	1,300,321
Contract labor for shows	64,957	-	-	64,957	1,115,232
County arts subsidy	-	-	-	-	50,000
Depreciation and amortization	1,144,920	-	-	1,144,920	1,161,560
Donor cultivation	-	-	236	236	19,719
Dues and subscriptions	8,761	1,578	1,596	11,935	21,560
Fundraising expenses	-	-	11,250	11,250	18,696
Education outreach	311,995	-	-	311,995	489,541
Equipment leases	5,682	1,024	1,035	7,741	7,813
Event rentals	8,349	-	-	8,349	129,162
Insurance	64,980	11,705	11,839	88,524	107,660
Legal and professional fees	-	54,272	-	54,272	75,063
Miscellaneous	893	161	162	1,216	28,565
Office expenses	29,219	5,263	5,324	39,806	91,575
Other show expenses	18,838	-	-	18,838	342,980
Payroll processing	3,381	609	616	4,606	5,363
Postage and printing	672	121	122	915	24,212
Repairs and maintenance	103,989	-	-	103,989	540,372
Taxes and licenses	5,207	938	949	7,094	8,108
Transportation and auto	1,805	-	-	1,805	17,683
Utilities	102,763	12,846	12,846	128,455	212,856
Total other expenses	<u>1,963,564</u>	<u>88,560</u>	<u>46,019</u>	<u>2,098,143</u>	<u>5,954,090</u>
	<u>\$ 2,838,053</u>	<u>\$ 246,088</u>	<u>\$ 205,341</u>	<u>\$ 3,289,482</u>	<u>\$ 7,285,004</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, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 55,463	\$ 2,239,049
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,144,920	1,161,560
Change in allowance for doubtful accounts	(250)	(27,360)
Unrealized gains on investments	(398,441)	(824,404)
Realized gains and losses on sales of investments	76,738	(68,933)
Interest and dividends, net of fees	(284,698)	(229,475)
Changes in operating assets and liabilities		
Contributions receivable	669,961	(719,789)
Prepaid expenses and other current assets	9,114	(9,114)
Accounts payable and accrued expenses	259,108	30,546
Deferred revenue	362,397	(109,280)
Net cash provided by operating activities	1,894,312	1,442,800
Cash flows from investing activities		
Purchases of Master Plan improvements and equipment	(1,866,047)	(108,974)
Purchases of investments	(2,467,740)	(2,885,396)
Proceeds from sales of investments	2,469,767	911,037
Net cash used in investing activities	(1,864,020)	(2,083,333)
Net increase (decrease) in cash and cash equivalents	30,292	(640,533)
Cash and cash equivalents, beginning of year	3,991,421	4,631,954
Cash and cash equivalents, end of year	\$ 4,021,713	\$ 3,991,421

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

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

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 Outreach programming and endowments, which is dedicated to providing support and funding for performing arts and music education in the greater Santa Barbara area. As part of the core of the Foundation's mission statement, Outreach reaches approximately 20,000 local school children 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 Outreach program.

Effective March 16, 2020 the Foundation closed the Santa Barbara Bowl to be in compliance with the mandated shelter in place orders issued by Santa Barbara County. Consequently the Foundation's 2020 season was postponed resulting in its operating revenues being reduced to \$699,943 (compared to \$6,209,388 in 2019). The Foundation was able to also reduce much of its operating expenses (\$3,289,482 in 2020 compared to \$7,285,004 in 2019) to offset the reduced revenues. Subsequent to year end (see Note 12) the Foundation availed itself of a loan pursuant to the Paycheck Protection Program ("PPP") and is also in the process of applying for a grant under the Shuttered Venue Grant (SVG) program. The Foundation has announced an abbreviated concert schedule for 2021 and expects to offer a full season in 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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*
 - 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 net assets - Include funds designated by the Board for continuing facility improvements and its Outreach program. These funds are subject to an annual review by the Board.

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions*
 - 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 net assets without donor restrictions. Restricted gifts and grants received are reported as unrestricted revenue if the restriction is met in the same reporting period.
 - Time-restricted - Include contributions receivable which are recorded as restricted revenue when the pledge is received. When the contributions receivable are collected, the net assets of this class are reclassified to net assets without restrictions.
 - Donor-restricted endowment - Include 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

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. The carrying value reported in the statement of financial position approximates fair value.

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, 2020, three donors comprised approximately 26%, 16%, and 12% (54%) of the Foundation's total contribution revenue and two donors approximately each 23% (46%) of contributions receivable at December 31, 2020.

In accordance with the terms of the lease agreement between the Foundation and the County of Santa Barbara, the Foundation contracts with one promoter each year to secure a majority of its shows (see Note 9).

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable, net

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 \$7,750 at December 31, 2020.

Investments

Investments with readily determinable fair values are stated at fair value. 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 income net of related fees, such as custodial and investment advisory fees, on the statement of activities.

Fair value measurements

The Foundation has adopted Accounting Standards Codification No. 820-10, *Fair Value Measurements and Disclosure* ("ASC 820-10") which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of inputs that may be used to measure fair value under ASC 820-10 are described below:

- Level 1 - Quoted prices in active market for identical assets or liabilities,
- Level 2 - Observable inputs based on quoted prices in non-active markets or in active markets for similar assets and liabilities. Inputs other than quoted prices that are observable or inputs that are not directly observable, but are corroborated by observable market data,
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the measurements of the assets or liabilities.

The asset's or liability'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 maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of fixed income and equity securities are based on quoted market prices.

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 9).

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.

Master Plan improvements and equipment, net

Master Plan improvements 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 Master Plan improvements 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 the 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 asset.

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 the year.

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2020, 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. During the year, members were given an opportunity to defer their annual membership payments for the 2020 season which resulted in an increase in total deferred revenue.

The Foundation also records advanced contract payments as deferred revenue which are recognized over the contract period (see Note 9).

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 Outreach program funding, facilities upkeep, and funding board-designated commitments.

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.

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020, advertising costs totaled \$38,202.

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 the Internal Revenue Code ("IRC") and the Franchise Tax Board under code Sections 501(c)(3) and 23071(d), 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, 2020, or for any year which the statute remains open.

The Foundation's federal income tax returns for tax years ended December 31, 2017 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, 2016 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.

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

3. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 384,483	\$ -	\$ -	\$ 384,483
Equities	6,935,925	-	-	6,935,925
Fixed income	410,623	-	-	410,623
Corporate bonds	-	79,967	-	79,967
Municipal bonds	-	819,471	-	819,471
REIT	26,038	-	-	26,038
Private equity	-	-	541,711	541,711
	<u>\$ 7,757,069</u>	<u>\$ 899,438</u>	<u>\$ 541,711</u>	<u>\$ 9,198,218</u>

The fair value of private equity investments is based on values reported by the respective investment manager using unobservable inputs, such as their internal valuation or other valuation methods.

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended December 31, 2020:

Balance, beginning of year	\$ 544,285
Contributions	27,658
Income, net	4,961
Distributions	<u>(35,193)</u>
Balance, end of year	<u>\$ 541,711</u>

Activity in the investments during the year 2020 was as follows:

Balance, beginning of year	\$ 8,593,844
Purchases of investments	2,467,740
Proceeds from sales of investments	(2,469,767)
Realized losses on sales of investments	(76,738)
Unrealized gains on investments	398,441
Interest and dividend income, net of fees	<u>284,698</u>
Balance, end of year	<u>\$ 9,198,218</u>

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following pledges:

Due in less than one year	\$ 1,082,612
Due in two to five years	1,539,200
Thereafter	<u>37,500</u>
	2,659,312
Allowance for doubtful accounts	(7,750)
Discount to net present value	<u>(54,927)</u>
	<u><u>\$ 2,596,635</u></u>

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

5. MASTER PLAN IMPROVEMENTS AND EQUIPMENT

Master Plan improvements and equipment consisted of the following:

Master Plan improvements	\$ 33,148,203
Land	1,188,102
Leasehold improvements	4,761,007
Other improvements	2,099,728
Furniture and equipment	1,846,988
Vehicles	43,247
Website	<u>24,031</u>
	43,111,306
Less accumulated depreciation and amortization	<u>(13,582,771)</u>
	<u><u>\$ 29,528,535</u></u>

Depreciation and amortization expense was \$1,144,920 for the year ended December 31, 2020.

6. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following:

Board-designated - Facilities and equipment, net	\$ 29,461,258
Board-designated - Quasi-endowment funds for capital improvements	2,691,149
Board-designated - Quasi-endowment funds for outreach	5,550,423
Board-designated - Continuing facilities improvements and maintenance	612,013
Board-designated - Outreach	631,925
Undesignated	<u>1,871,381</u>
	<u><u>\$ 40,818,149</u></u>

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

7. NET ASSETS WITH DONOR RESTRICTIONS

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

Subject to expenditure for specified purpose	
Outreach	\$ 498,150
Capital improvements and maintenance	<u>1,012,500</u>
Total subject to expenditure for specified purpose	1,510,650
Time restricted	1,085,985
Endowment - donor corpus restricted in perpetuity	<u>468,131</u>
	<u><u>\$ 3,064,766</u></u>

Included within the purpose-restricted net assets with donor restrictions are \$1,510,650 of net assets with donor restrictions that are also time-restricted net assets.

8. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS

A portion of net assets with donor restrictions consists of endowments that are restricted by the donor for investment in perpetuity. A portion of net assets without donor restrictions consist of endowments that are board designated quasi-endowments for outreach and capital improvements. As required by generally accepted accounting principles (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 Foundation's Board of Directors has 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 the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of 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 net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2020

8. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (continued)

Interpretation of relevant law (continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted 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 Foundation
- (7) The investment policies of the Foundation

Return objectives and risk parameters

The Foundation 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 Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the Foundation diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category. Actual returns in any given year may vary from their respective benchmarks.

Strategies employed for achieving objectives

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 a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy

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.

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8. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (continued)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions unless the income from such endowment funds is restricted as to use in which case such amounts are reflected in net assets with donor restrictions. There were no such deficiencies as of December 31, 2020.

Endowment composition

Activity in the endowment net assets for the year ended December 31, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, beginning of year	\$ 7,044,288	\$ 445,595	\$ 7,489,883
Contributions	843,820	-	843,820
Investment income, net of fees	173,155	11,040	184,195
Net unrealized gains	180,309	11,496	191,805
Balance, end of year	\$ 8,241,572	\$ 468,131	\$ 8,709,703

9. COMMITMENTS AND CONTINGENCY

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, which the Foundation exercised in December 2020. The Foundation will be paid a certain amount throughout the life of the Agreement. The annual payments are due January 15 for each successive year with the final payment due January 15, 2024, provided all conditions are met on January 15 of each year. To the extent that such payments have yet to be earned they will be recorded as deferred revenue in the statement of activities.

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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9. COMMITMENTS AND CONTINGENCY (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 \$0.50 per ticket sold 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.

Hillside repair and storage building

During 2019, the facility was subject to a hillside failure that will require significant remediation. The Foundation is currently working with the County of Santa Barbara on partial reimbursement of the cost of the hillside repair, estimated at \$1.3 million. The amount of reimbursement that may be received by the Foundation is unknown at this time. In conjunction with the hillside repair, the Foundation has committed to the construction of a storage building at the facility at an estimated cost of \$2.4 million. These costs are expected to be incurred through 2021.

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10. RETIREMENT PLAN

The Foundation has an IRC Section 403(b) plan (the "Plan") which covers all full-time employees. Employees may contribute up to \$19,500 (up to \$26,000 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, 2020, the Foundation contributed \$62,033 to the Plan. The Foundation's contributions vest over a five-year period of service.

11. 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 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 7), less related assets included within net assets without donor restrictions, as of December 31, 2020.

Liquidity of financial assets as of December 31, 2020 is as follows:

Cash and cash equivalents	\$ 4,021,713
Investments	9,198,218
Contributions receivable, net	<u>2,596,635</u>
	<u>15,816,566</u>
Less: contributions receivable due past one year	(1,576,700)
Less: net assets with donor restrictions	(3,064,766)
Less: quasi-endowments without donor restrictions	<u>(8,241,572)</u>
	<u>(12,883,038)</u>
Net liquid assets available for operations	<u><u>\$ 2,933,528</u></u>

The Board of Directors can at any time vote to remove any quasi-endowment status for certain net assets without donor restrictions that has previously been designated as such. As of December 31, 2020, there was \$8,298,379 of quasi-endowments without donor restrictions that is available for the Board of Directors to utilize for general operations if needed.

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12. SUBSEQUENT EVENTS

The the Foundation has evaluated events subsequent to December 31, 2020 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through July 12, 2021, the date the financial statements were available to be issued. There were no subsequent events that would require adjustments to or disclosures in these financial statements, other than the matters described below.

Notes payable - Paycheck Protection Program

In March 2021, the Foundation qualified for and received a loan pursuant to the PPP, a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, from a qualified bank, in the principal amount of \$197,500. The term on the loan is five years with an annual interest rate of 1%. Subject to SBA provisions and guidelines, payments of principal and interest are deferred for the first ten months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses, and the maintenance of workforce and compensation levels with certain limitations. The Company believes that it will likely qualify for full forgiveness, but there is uncertainty around the standards and operation of the PPP, and no assurance is provided that the Company will obtain forgiveness in whole or in part.

California Small Business COVID-19 Relief Grant Program

In April 2021, the Foundation was awarded a grant in the amount of \$25,000 under the California Small Business COVID-19 Relief Grant Program for businesses that meet the definition of an eligible nonprofit cultural institution.