

Santa Barbara Bowl Foundation

Financial Statements

December 31, 2018
(With Comparative Totals for 2017)



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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, 2018, 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, 2018, 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 2017 financial statements, and our report dated August 9, 2018 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, 2017, 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^{LLP}
Los Angeles, California

August 16, 2019

Santa Barbara Bowl Foundation
Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 4,631,954	\$ 2,877,526
Investments	5,496,673	5,852,776
Contributions receivable, net	2,519,197	2,087,153
Master Plan improvements and equipment, net	29,859,994	30,784,227
Intangible asset	6,252	6,252
Total assets	\$ 42,514,070	\$ 41,607,934
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 224,104	\$ 299,540
Deferred revenue	701,563	716,142
Total liabilities	925,667	1,015,682
Commitments (Note 10)		
Net assets		
Without donor restrictions	38,677,223	38,137,198
With donor restrictions	2,911,180	2,455,054
Total net assets	41,588,403	40,592,252
Total liabilities and net assets	\$ 42,514,070	\$ 41,607,934

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

Santa Barbara Bowl Foundation
Statement of Activities
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenue and support				
Revenue				
Show revenue	\$ 1,518,984	\$ -	\$ 1,518,984	\$ 1,288,555
Concert club memberships	1,025,200	-	1,025,200	966,900
Sponsorships	427,500	-	427,500	441,000
Concession revenue	1,763,133	-	1,763,133	1,410,380
Contract revenue	571,429	-	571,429	571,429
Show fees	366,857	-	366,857	327,241
Parking fees	174,420	-	174,420	169,059
Total revenue	<u>5,847,523</u>	<u>-</u>	<u>5,847,523</u>	<u>5,174,564</u>
Contributions	119,920	1,892,541	2,012,461	722,293
Other income	56,682	-	56,682	19,253
Net assets released from restriction	1,436,415	(1,436,415)	-	-
Total	<u>1,613,017</u>	<u>456,126</u>	<u>2,069,143</u>	<u>741,546</u>
	<u>7,460,540</u>	<u>456,126</u>	<u>7,916,666</u>	<u>5,916,110</u>
Functional expenses				
Program Services	<u>6,030,142</u>	<u>-</u>	<u>6,030,142</u>	<u>5,137,212</u>
Support services				
Management and General	296,807	-	296,807	277,786
Fundraising	240,607	-	240,607	272,701
Total support services	<u>537,414</u>	<u>-</u>	<u>537,414</u>	<u>550,487</u>
Total functional expenses	<u>6,567,556</u>	<u>-</u>	<u>6,567,556</u>	<u>5,687,699</u>
Change in net assets from operations	892,984	456,126	1,349,110	228,411
Investment income, net	<u>(352,959)</u>	<u>-</u>	<u>(352,959)</u>	<u>648,819</u>
Change in net assets	540,025	456,126	996,151	877,230
Net assets, beginning of year	<u>38,137,198</u>	<u>2,455,054</u>	<u>40,592,252</u>	<u>39,715,022</u>
Net assets, end of year	<u>\$ 38,677,223</u>	<u>\$ 2,911,180</u>	<u>\$ 41,588,403</u>	<u>\$ 40,592,252</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, 2018
(With Comparative Totals for 2017)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2018 Total</u>	<u>2017 Total</u>
Personnel expenses					
Salaries and wages	\$ 682,883	\$ 129,351	\$ 127,845	\$ 940,079	\$ 885,970
Payroll taxes and employee benefits	184,964	35,036	34,627	254,627	251,677
Total personnel expenses	<u>867,847</u>	<u>164,387</u>	<u>162,472</u>	<u>1,194,706</u>	<u>1,137,647</u>
Other expenses					
Advertising	153,829	-	-	153,829	115,500
Bank charges	1,400	265	262	1,927	2,119
Caretaker housing expenses	24,874	-	-	24,874	24,174
Concession expenditures	1,081,618	-	-	1,081,618	822,677
Contract labor for shows	1,049,424	-	-	1,049,424	889,378
County arts subsidy	50,000	-	-	50,000	50,000
Depreciation and amortization	1,146,846	-	-	1,146,846	1,120,559
Donor cultivation	-	-	13,338	13,338	22,544
Dues and subscriptions	9,982	1,891	1,868	13,741	14,445
Fundraising expenses	-	-	9,023	9,023	24,339
Outreach	372,529	-	-	372,529	348,832
Community Relief	111,500	-	-	111,500	-
Insurance	73,494	13,921	13,759	101,174	94,644
Legal and professional fees	-	76,253	-	76,253	57,792
Miscellaneous	6,865	1,300	1,286	9,451	7,293
Other show expenses	354,562	-	-	354,562	257,800
Payroll processing	3,365	637	630	4,632	4,440
Office expenses	55,019	10,422	10,300	75,741	54,856
Postage and printing	16,603	3,145	3,108	22,856	19,769
Event rentals	126,855	-	-	126,855	125,834
Leases	5,148	975	964	7,087	4,900
Repairs and maintenance	314,880	-	-	314,880	237,389
Taxes and licenses	5,678	1,076	1,063	7,817	7,347
Transportation and auto	17,547	-	-	17,547	12,984
Utilities	180,277	22,535	22,534	225,346	230,437
Total other expenses	<u>5,162,295</u>	<u>132,420</u>	<u>78,135</u>	<u>5,372,850</u>	<u>4,550,052</u>
	<u>\$ 6,030,142</u>	<u>\$ 296,807</u>	<u>\$ 240,607</u>	<u>\$ 6,567,556</u>	<u>\$ 5,687,699</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, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 996,151	\$ 877,230
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,146,846	1,120,559
Realized gains on sales of investments	(28,831)	-
Unrealized gains and losses on investments	668,731	(477,220)
Interest and dividends, net of fees	(286,941)	(171,599)
Changes in operating assets and liabilities		
Contributions receivable	(432,044)	357,253
Accounts payable and accrued expenses	(75,436)	12,539
Deferred revenue	(14,579)	(515,729)
Net cash provided by operating activities	1,973,897	1,203,033
Cash flows from investing activities		
Purchases of property and equipment	(222,613)	(624,543)
Purchases of investments	(1,119,652)	(500,687)
Proceeds from sales of investments	1,122,796	500,267
Net cash used in investing activities	(219,469)	(624,963)
Net increase in cash and cash equivalents	1,754,428	578,070
Cash and cash equivalents, beginning of year	2,877,526	2,299,456
Cash and cash equivalents, end of year	\$ 4,631,954	\$ 2,877,526

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

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

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 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, 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.

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* (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 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.
- *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 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.

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, one donor comprised approximately 50% of the Foundation's total contribution revenue and approximately 55% of contributions receivable at December 31, 2018.

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 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, 2018.

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.

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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.

Master Plan improvements and equipment

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	Lessor 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.

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2018, 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).

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.

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, advertising costs totaled \$153,829.

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, 2018, or for any year which the statute remains open.

The Foundation's federal income tax returns for tax years ended December 31, 2015, 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, 2014, 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.

Reclassification

Certain December 31, 2017, balances have been reclassified in order to conform to the December 31, 2018, presentation, resulting in no effect on December 31, 2017, total net assets, nor on the total changes in net assets for the year then ended.

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Foundation has evaluated events subsequent to December 31, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through August 16, 2019, the date the financial statements were available to be issued. Subsequent to year end the facility was subject to a hillside failure that will require significant remediation, with an estimated potential cost of \$1 to \$1.5 million. Some of this cost will be defrayed (in part) by existing insurance coverage. No other subsequent events have 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).

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 77,471	\$ -	\$ -	\$ 77,471
Equities	3,358,057	-	-	3,358,057
Fixed income	1,386,055	-	-	1,386,055
Corporate bonds	<u>-</u>	<u>121,687</u>	<u>-</u>	<u>121,687</u>
	4,821,583	121,687	-	4,943,270
Other Assets (Actively Traded)	<u>553,403</u>	<u>-</u>	<u>-</u>	<u>553,403</u>
	<u>\$ 5,374,986</u>	<u>\$ 121,687</u>	<u>\$ -</u>	<u>\$ 5,496,673</u>

Activity in the investments during the year 2018 was as follows:

Balance, beginning of year	\$ 5,852,776
Purchases of investments	1,119,652
Proceeds from sales of investments	(1,122,796)
Realized gains on sales of investments	28,831
Unrealized losses on investments	(668,731)
Interest and dividend income, net of fees	<u>286,941</u>
Balance, end of year	<u>\$ 5,496,673</u>

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following pledges:

Due in less than one year	\$ 899,279
Due in two to five years	1,676,200
Thereafter	<u>37,500</u>
	2,612,979
Allowance for doubtful accounts	(35,360)
Discount to net present value	<u>(58,422)</u>
	<u>\$ 2,519,197</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 consist of the following:

Master Plan improvements	\$ 33,148,203
Land	1,188,102
Leasehold improvements	4,742,497
Other improvements	276,769
Furniture and equipment	1,713,437
Vehicles	43,247
Website	<u>24,031</u>
	41,136,286
Less accumulated depreciation and amortization	<u>(11,276,292)</u>
	<u>\$ 29,859,994</u>

Depreciation and amortization expense was \$1,146,846 for 2018.

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

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		
Outreach	\$	200,000
Time restricted		
Contributions receivable with donor-specified purpose restriction		2,319,197
Donor-restricted endowment funds		
Donor corpus restricted in perpetuity		<u>391,983</u>
	<u>\$</u>	<u>2,911,180</u>

The investment income from the donor-restricted endowment funds is utilized for Outreach programming. Included within the purpose-restricted net assets with donor restrictions are \$200,000 net assets with donor restrictions that are also time-restricted.

7. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

Board-designated - Facilities and equipment, net	\$	29,859,994
Board-designated - Continuing facilities improvements and maintenance		710,409
Board-designated - Outreach		999,452
Board-designated - Quasi-endowment funds for capital improvements		1,901,514
Board-designated - Quasi-endowment funds for outreach		3,669,138
Undesignated		<u>1,536,716</u>
	<u>\$</u>	<u>38,677,223</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.

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

8. DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (continued)

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.

The Foundation has designated portions of its net assets for maintenance and improvement to the facility and to support the 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, 2018 was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, beginning of year	\$ 5,047,756	\$ 405,401	\$ 5,453,157
Contributions	689,962	-	689,962
Investment income, net of fees	172,829	13,880	186,709
Unrealized gains on investments	<u>(339,895)</u>	<u>(27,298)</u>	<u>(367,193)</u>
Balance, end of year	<u>\$ 5,570,652</u>	<u>\$ 391,983</u>	<u>\$ 5,962,635</u>

Santa Barbara Bowl Foundation
Notes to the Financial Statements
December 31, 2018

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, 2018, the Foundation contributed \$46,008 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.

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."

Santa Barbara Bowl Foundation
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10. COMMITMENTS (continued)

County Lease Agreement (continued)

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	\$ 2,353
Other professional services	<u>17,082</u>
	<u>\$ 19,435</u>

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, 2018.

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12. LIQUIDITY AND AVAILABILITY (continued)

Liquidity of financial assets as of December 31, 2018, is as follows:

Cash and cash equivalents	\$ 4,631,954
Investments	5,496,673
Contributions receivable, net	<u>2,519,197</u>
	12,647,824
Net assets with donor restrictions	(2,911,180)
Contributions receivable due past one year	(1,713,700)
Less endowments without donor restrictions	<u>(5,570,652)</u>
Net liquid assets available for operations	<u><u>\$ 2,452,292</u></u>