

Attachment 2

Santa Barbara Bowl 2019 Financial Statements

Santa Barbara Bowl Foundation

Financial Statements

December 31, 2019
(With Comparative Totals for 2018)



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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, 2019, 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, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Santa Barbara Bowl Foundation has implemented ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 12 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 the Santa Barbara Bowl Foundation's 2018 financial statements, and our report dated August 16, 2019 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
Woodland Hills, California

August 19, 2020

Santa Barbara Bowl Foundation
Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,991,421 | \$ 4,631,954 |
| Investments | 8,593,844 | 5,496,673 |
| Contributions receivable, net | 3,266,346 | 2,519,197 |
| Prepaid expenses and other current assets | 9,114 | - |
| Master Plan improvements and equipment, net | 28,807,408 | 29,859,994 |
| Intangible asset | <u>6,252</u> | <u>6,252</u> |
| Total assets | <u>\$ 44,674,385</u> | <u>\$ 42,514,070</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 254,650 | \$ 224,104 |
| Deferred revenue | <u>592,283</u> | <u>701,563</u> |
| Total liabilities | <u>846,933</u> | <u>925,667</u> |
| Commitments and contingency (Note 9 and 12) | | |
| Net assets | | |
| Without donor restrictions | 40,115,511 | 38,677,223 |
| With donor restrictions | <u>3,711,941</u> | <u>2,911,180</u> |
| Total net assets | <u>43,827,452</u> | <u>41,588,403</u> |
| Total liabilities and net assets | <u>\$ 44,674,385</u> | <u>\$ 42,514,070</u> |

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

Santa Barbara Bowl Foundation
Statement of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

| | Without Donor Restrictions | With Donor Restrictions | 2019 Total | 2018 Total |
|--|----------------------------------|----------------------------|----------------------|----------------------|
| Revenue, gains and other support | | | | |
| Revenue | | | | |
| Show revenue | \$ 1,591,555 | \$ - | \$ 1,591,555 | \$ 1,518,984 |
| Concert club memberships | 1,043,850 | - | 1,043,850 | 1,025,200 |
| Sponsorships | 442,500 | - | 442,500 | 427,500 |
| Concession revenue | 1,931,979 | - | 1,931,979 | 1,763,133 |
| Contract revenue | 571,429 | - | 571,429 | 571,429 |
| Show fees | 460,512 | - | 460,512 | 366,857 |
| Parking fees | <u>167,563</u> | <u>-</u> | <u>167,563</u> | <u>174,420</u> |
| Total revenue | <u>6,209,388</u> | <u>-</u> | <u>6,209,388</u> | <u>5,847,523</u> |
| Gains and other support | | | | |
| Contributions | 149,275 | 1,990,000 | 2,139,275 | 2,012,461 |
| Investment income, net | 1,069,200 | 53,612 | 1,122,812 | (352,959) |
| Other income | 52,578 | - | 52,578 | 56,682 |
| Net assets released from restriction | <u>1,242,851</u> | <u>(1,242,851)</u> | <u>-</u> | <u>-</u> |
| Total gains and other support | <u>2,513,904</u> | <u>800,761</u> | <u>3,314,665</u> | <u>1,716,184</u> |
| Total revenue, gains and other support | <u>8,723,292</u> | <u>800,761</u> | <u>9,524,053</u> | <u>7,563,707</u> |
| Functional expenses | | | | |
| Program services | <u>6,684,149</u> | <u>-</u> | <u>6,684,149</u> | <u>6,030,142</u> |
| Support services | | | | |
| Management and general | 309,070 | - | 309,070 | 296,807 |
| Fundraising | <u>291,785</u> | <u>-</u> | <u>291,785</u> | <u>240,607</u> |
| Total support services | <u>600,855</u> | <u>-</u> | <u>600,855</u> | <u>537,414</u> |
| Total functional expenses | <u>7,285,004</u> | <u>-</u> | <u>7,285,004</u> | <u>6,567,556</u> |
| Change in net assets | 1,438,288 | 800,761 | 2,239,049 | 996,151 |
| Net assets, beginning of year | <u>38,677,223</u> | <u>2,911,180</u> | <u>41,588,403</u> | <u>40,592,252</u> |
| Net assets, end of year | <u>\$ 40,115,511</u> | <u>\$ 3,711,941</u> | <u>\$ 43,827,452</u> | <u>\$ 41,588,403</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, 2019
(With Comparative Totals for 2018)

| | Program Services | Management and General | Fundraising | 2019 Total | 2018 Total |
|--|---------------------|---------------------------|-------------------|---------------------|---------------------|
| Personnel expenses | | | | | |
| Salaries and wages | \$ 751,909 | \$ 136,463 | \$ 147,500 | \$ 1,035,872 | \$ 940,079 |
| Payroll taxes and employee benefits | <u>214,162</u> | <u>38,868</u> | <u>42,012</u> | <u>295,042</u> | <u>254,627</u> |
| Total personnel expenses | <u>966,071</u> | <u>175,331</u> | <u>189,512</u> | <u>1,330,914</u> | <u>1,194,706</u> |
| Other expenses | | | | | |
| Advertising | 160,475 | - | - | 160,475 | 153,829 |
| Bank charges | 1,556 | 282 | 305 | 2,143 | 1,927 |
| Caretaker housing expenses | 23,431 | - | - | 23,431 | 24,874 |
| Community relief | - | - | - | - | 111,500 |
| Concession expenditures | 1,300,321 | - | - | 1,300,321 | 1,081,618 |
| Contract labor for shows | 1,115,232 | - | - | 1,115,232 | 1,049,424 |
| County arts subsidy | 50,000 | - | - | 50,000 | 50,000 |
| Depreciation and amortization | 1,161,560 | - | - | 1,161,560 | 1,146,846 |
| Donor cultivation | - | - | 19,719 | 19,719 | 13,338 |
| Dues and subscriptions | 17,102 | 1,104 | 3,354 | 21,560 | 13,741 |
| Fundraising expenses | - | - | 18,696 | 18,696 | 9,023 |
| Education outreach | 489,541 | - | - | 489,541 | 372,529 |
| Equipment leases | 5,671 | 1,029 | 1,113 | 7,813 | 7,087 |
| Event rentals | 129,162 | - | - | 129,162 | 126,855 |
| Insurance | 78,147 | 14,183 | 15,330 | 107,660 | 101,174 |
| Legal and professional fees | - | 75,063 | - | 75,063 | 76,253 |
| Miscellaneous | 20,735 | 3,763 | 4,067 | 28,565 | 9,451 |
| Office expenses | 66,472 | 12,064 | 13,039 | 91,575 | 75,741 |
| Other show expenses | 342,980 | - | - | 342,980 | 354,562 |
| Payroll processing | 3,893 | 707 | 763 | 5,363 | 4,632 |
| Postage and printing | 17,575 | 3,190 | 3,447 | 24,212 | 22,856 |
| Repairs and maintenance | 540,372 | - | - | 540,372 | 314,880 |
| Taxes and licenses | 5,885 | 1,068 | 1,155 | 8,108 | 7,817 |
| Transportation and auto | 17,683 | - | - | 17,683 | 17,547 |
| Utilities | <u>170,285</u> | <u>21,286</u> | <u>21,285</u> | <u>212,856</u> | <u>225,346</u> |
| Total other expenses | <u>5,718,078</u> | <u>133,739</u> | <u>102,273</u> | <u>5,954,090</u> | <u>5,372,850</u> |
| | <u>\$ 6,684,149</u> | <u>\$ 309,070</u> | <u>\$ 291,785</u> | <u>\$ 7,285,004</u> | <u>\$ 6,567,556</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, 2019
(With Comparative Totals for 2018)

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 2,239,049 | \$ 996,151 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 1,161,560 | 1,146,846 |
| Change in allowance for doubtful accounts | (27,360) | - |
| Unrealized gains on investments | (824,404) | (28,831) |
| Realized gains and losses on sales of investments | (68,933) | 668,731 |
| Interest and dividends, net of fees | (229,475) | (286,941) |
| Changes in operating assets and liabilities | | |
| Contributions receivable | (719,789) | (432,044) |
| Accounts payable and accrued expenses | 30,546 | (75,436) |
| Prepaid expenses and other current assets | (9,114) | - |
| Deferred revenue | (109,280) | (14,579) |
| Net cash provided by operating activities | <u>1,442,800</u> | <u>1,973,897</u> |
| Cash flows from investing activities | | |
| Purchases of Master Plan improvements and equipment | (108,974) | (222,613) |
| Purchases of investments | (2,885,396) | (1,119,652) |
| Proceeds from sales of investments | 911,037 | 1,122,796 |
| Net cash used in investing activities | <u>(2,083,333)</u> | <u>(219,469)</u> |
| Net increase (decrease) in cash and cash equivalents | (640,533) | 1,754,428 |
| Cash and cash equivalents, beginning of year | <u>4,631,954</u> | <u>2,877,526</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,991,421</u> | <u>\$ 4,631,954</u> |

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

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2019

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in accounting principle

Effective for entities for annual reporting periods beginning after December 15, 2019, the Foundation has early adopted Financial Accounting Standards Board ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* ("ASU 2018-08"). This standard clarifies guidance about whether funds received from contracts and grants are contributions or exchange transactions. The standard further provides that when both a barrier to be overcome and a right of return exist, a donor imposed condition exists and contribution revenue should not be recognized until the condition has been met. A probability assessment about whether the recipient is likely to meet the stipulation is not a factor when determining whether an agreement is a barrier. The Foundation has implemented the standard on a modified prospective basis, meaning that it has been applied to all arrangements that were not completed as of January 1, 2019, or were entered into after that date. As a result of the implementation of ASU 2018-08, there have been no material changes to the Foundation's recognized revenue.

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, 2019

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, 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, 2019, five donors comprised approximately 12%, 12%, 12%, 11% and 34% (81%) of the Foundation's total contribution revenue and two donors approximately 22% and 31% (53%) of contributions receivable at December 31, 2019.

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, 2019

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 \$8,000 at December 31, 2019.

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, 2019

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, 2019

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 2019, 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 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, 2019

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, 2019, advertising costs totaled \$160,475.

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, 2019, or for any year which the statute remains open.

The Foundation's federal income tax returns for tax years ended December 31, 2016 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, 2015 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, 2019

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, 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--------------------|---------------------|---------------------|-------------------|------------------|
| Money market funds | \$ 207,843 | \$ - | \$ - | \$ 207,843 |
| Equities | 4,199,928 | - | - | 4,199,928 |
| Fixed income | 2,444,223 | - | - | 2,444,223 |
| Corporate bonds | - | 459,372 | - | 459,372 |
| Municipal bonds | - | 738,193 | - | 738,193 |
| Private equity | <u>-</u> | <u>-</u> | <u>544,285</u> | <u>544,285</u> |
| | <u>\$ 6,851,994</u> | <u>\$ 1,197,565</u> | <u>\$ 544,285</u> | <u>8,593,844</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, 2019:

| | |
|----------------------------|-------------------|
| Balance, beginning of year | \$ 523,821 |
| Contributions | 34,458 |
| Income, net | 25,158 |
| Distributions | <u>(39,152)</u> |
| Balance, end of year | <u>\$ 544,285</u> |

Activity in the investments during the year 2019 was as follows:

| | |
|---|---------------------|
| Balance, beginning of year | \$ 5,496,673 |
| Purchases of investments | 2,885,396 |
| Proceeds from sales of investments | (911,037) |
| Realized gains on sales of investments | 68,933 |
| Unrealized gains on investments | 824,404 |
| Interest and dividend income, net of fees | <u>229,475</u> |
| Balance, end of year | <u>\$ 8,593,844</u> |

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2019

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following pledges:

| | |
|---------------------------------|----------------------------|
| Due in less than one year | \$ 1,081,362 |
| Due in two to five years | 2,233,200 |
| Thereafter | <u>37,500</u> |
| | 3,352,062 |
| Allowance for doubtful accounts | (8,000) |
| Discount to net present value | <u>(77,716)</u> |
| | <u><u>\$ 3,266,346</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 | 4,751,950 |
| Other improvements | 276,769 |
| Furniture and equipment | 1,812,958 |
| Vehicles | 43,247 |
| Website | <u>24,031</u> |
| | 41,245,260 |
| Less accumulated depreciation and amortization | <u>(12,437,852)</u> |
| | <u><u>\$ 28,807,408</u></u> |

Depreciation and amortization expense was \$1,161,560 for the year ended December 31, 2019.

6. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consisted of the following:

| | |
|---|-----------------------------|
| Board-designated - Facilities and equipment, net | \$ 28,807,408 |
| Board-designated - Quasi-endowment funds for capital improvements | 2,590,158 |
| Board-designated - Quasi-endowment funds for outreach | 4,454,130 |
| Board-designated - Continuing facilities improvements and maintenance | 612,013 |
| Board-designated - Outreach | 807,557 |
| Undesignated | <u>2,844,245</u> |
| | <u><u>\$ 40,115,511</u></u> |

Santa Barbara Bowl Foundation
Notes to Financial Statements
December 31, 2019

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 | \$ 568,400 |
| Capital improvements and maintenance | <u>1,225,000</u> |
| Total subject to expenditure for specified purpose | 1,793,400 |
| Time restricted | 1,472,946 |
| Endowment - donor corpus restricted in perpetuity | <u>445,595</u> |
| | <u><u>\$ 3,711,941</u></u> |

Included within the purpose-restricted net assets with donor restrictions are \$1,793,400 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.

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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, 2019.

Endowment composition

Activity in the endowment net assets for the year ended December 31, 2019 is as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------|---------------------------------------|------------------------------------|---------------------|
| Balance, beginning of year | \$ 5,570,652 | \$ 391,983 | \$ 5,962,635 |
| Contributions | 711,731 | - | 711,731 |
| Investment income, net of fees | 182,831 | 12,865 | 195,696 |
| Unrealized gains on investments | <u>579,074</u> | <u>40,747</u> | <u>619,821</u> |
| Balance, end of year | <u>\$ 7,044,288</u> | <u>\$ 445,595</u> | <u>\$ 7,489,883</u> |

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. 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, 2022, 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 the year 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 during the years ended December 31, 2020 and 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 \$19,000 (up to \$25,000 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, 2019, the Foundation contributed \$67,008 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, 2019.

Liquidity of financial assets as of December 31, 2019 is as follows:

| | |
|---|---------------------|
| Cash and cash equivalents | \$ 3,991,421 |
| Investments | 8,593,844 |
| Contributions receivable, net | <u>3,266,346</u> |
| | <u>15,851,611</u> |
| Less: contributions receivable due past one year | (2,270,700) |
| Less: net assets with donor restrictions | (3,711,941) |
| Less: quasi-endowments without donor restrictions | <u>(7,044,288)</u> |
| | <u>(13,026,929)</u> |
| Net liquid assets available for operations | <u>\$ 2,824,682</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, 2019, there was \$7,044,288 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 Foundation has evaluated events subsequent to December 31, 2019, to assess the need for potential recognition or disclosure in the financial statements. There were no subsequent events that would require adjustments to or disclosures in these financial statements, other than the matter described below.

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 COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. The Foundation closed the Santa Barbara Bowl to the general public beginning March 16, 2020 to comply with mandated shelter in place orders. At this time it is not known when the Santa Barbara Bowl will be able to reopen. The ultimate financial impact to the Foundation and duration of the closure cannot be reasonably estimated at this time. However, the Foundation has taken measures to significantly reduce its monthly expenditures in response to the closing of the Santa Barbara Bowl to help mitigate the loss of revenue.