



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

SANTA BARBARA FOUNDATION

December 31, 2019 With Summarized Comparative Totals For
December 31, 2018

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated statements of financial position	3
Consolidated statements of activities and changes in net assets	4
Consolidated statements of functional expenses	5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7–29

Report of Independent Auditors

To the Audit Committee
Santa Barbara Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Santa Barbara Foundation and its supporting organizations and affiliates, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Foundation and its supporting organizations and affiliates as of December 31, 2019, and the change in their net assets and 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 consolidated financial statements, as of January 1, 2019, Santa Barbara Foundation and its supporting organizations and affiliates adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, using the modified retrospective approach, and Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*, using the prospective basis. Our opinion is not modified with respect to this matter.

Other Matter*Prior Period Consolidated Financial Statements and Summarized Comparative Information*

The summarized comparative information presented herein was derived from the prior year consolidated financial statements of Santa Barbara Foundation and its supporting organizations and affiliates, as of and for the year ended December 31, 2018. The prior year consolidated financial statements and comparative information were audited by other auditors whose report dated September 12, 2019, expressed an unmodified opinion on those 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 consolidated financial statements from which it has been derived.

Moss Adams LLP

Los Angeles, California
September 10, 2020

Santa Barbara Foundation
Consolidated Statements of Financial Position

	ASSETS		2019 Total	Summarized 2018 Total
	Without Donor Restrictions	With Donor Restrictions		
CURRENT ASSETS				
Cash and cash equivalents	\$ 34,986,788	\$ -	\$ 34,986,788	\$ 35,456,800
Contributions receivable, net	471,524	-	471,524	90,400
Student loans receivable, net	200,000	-	200,000	300,000
Notes receivable, net	1,500,000	-	1,500,000	1,500,000
Other current assets	917,592	-	917,592	150,299
Total current assets	<u>38,075,904</u>	<u>-</u>	<u>38,075,904</u>	<u>37,497,499</u>
INVESTMENTS	272,776,349	54,112,049	326,888,398	301,444,598
PROPERTY AND EQUIPMENT, net	14,301,911	-	14,301,911	14,028,686
CONTRIBUTIONS RECEIVABLE, net	45,011,959	192,489	45,204,448	47,236,095
STUDENT LOANS RECEIVABLE, net	670,807	-	670,807	912,615
NOTES RECEIVABLE, net	3,503,153	-	3,503,153	3,634,410
MISSION RELATED INVESTMENTS, net	454,832	-	454,832	454,301
ASSETS HELD UNDER CHARITABLE TRUST AGREEMENTS	-	63,762,245	63,762,245	63,578,937
PERPETUAL INCOME INTERESTS	-	16,230,954	16,230,954	13,927,585
Total assets	<u>\$ 374,794,915</u>	<u>\$ 134,297,737</u>	<u>\$ 509,092,652</u>	<u>\$ 482,714,726</u>
	LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 537,573	\$ -	\$ 537,573	\$ 469,327
Grants payable, net	20,000	-	20,000	160,000
Notes payable, net	128,868	-	128,868	86,934
Total current liabilities	<u>686,441</u>	<u>-</u>	<u>686,441</u>	<u>716,261</u>
GRANTS PAYABLE, net	18,141	-	18,141	35,417
NOTES PAYABLE, net	3,538,242	-	3,538,242	3,079,253
LIABILITIES UNDER CHARITABLE TRUST AGREEMENTS	-	1,323,889	1,323,889	1,367,741
FUNDS HELD ON BEHALF OF OTHERS	23,305,784	-	23,305,784	19,260,851
OTHER LIABILITIES	28,984	-	28,984	21,889
Total liabilities	<u>27,577,592</u>	<u>1,323,889</u>	<u>28,901,481</u>	<u>24,481,412</u>
NET ASSETS	<u>347,217,323</u>	<u>132,973,848</u>	<u>480,191,171</u>	<u>458,233,314</u>
Total liabilities and net assets	<u>\$ 374,794,915</u>	<u>\$ 134,297,737</u>	<u>\$ 509,092,652</u>	<u>\$ 482,714,726</u>

See accompanying notes.

Santa Barbara Foundation

Consolidated Statements of Activities and Changes in Net Assets

	Without Donor Restrictions	With Donor Restrictions	2019 Total	Summarized 2018 Total
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 25,388,269	\$ 115,940	\$ 25,504,209	\$ 23,233,702
Less: contributions raised on behalf of others	(1,876,737)	-	(1,876,737)	(4,254,212)
Total contributions and bequests	23,511,532	115,940	23,627,472	18,979,490
Investment income (loss)	30,987,607	6,513,234	37,500,841	(10,648,418)
Less: investment (income) loss on behalf of others	(2,896,739)	-	(2,896,739)	440,655
Total investment income	28,090,868	6,513,234	34,604,102	(10,207,763)
Change in value of bequests receivable	-	-	-	(25,688,607)
Change in value of trusts	-	3,391,753	3,391,753	(2,349,439)
Charitable remainder trust contributions	-	375,209	375,209	235,821
Other income	428,703	-	428,703	949,461
Net assets released from restrictions:				
Available for distribution per spending policy	2,078,032	(2,078,032)	-	-
Reclassifications and other releases from restrictions	(2,709,181)	2,709,181	-	-
Total revenue, gains, and other support	51,399,954	11,027,285	62,427,239	(18,081,037)
EXPENSES				
Program services				
Grants, net of rescinds	30,849,330	-	30,849,330	32,726,864
Less: grants made on behalf of others	(728,544)	-	(728,544)	(2,591,585)
Total grants, net of rescinds	30,120,786	-	30,120,786	30,135,279
Grant making and direct program	6,171,851	-	6,171,851	3,156,957
Total program services	36,292,637	-	36,292,637	33,292,236
Support services				
Administrative and fund management	2,257,212	-	2,257,212	1,967,057
Fundraising and development	1,919,533	-	1,919,533	1,627,722
Total support services	4,176,745	-	4,176,745	3,594,779
Total expenses	40,469,382	-	40,469,382	36,887,015
CHANGE IN NET ASSETS	10,930,572	11,027,285	21,957,857	(54,968,052)
NET ASSETS, January 1	336,286,751	121,946,563	458,233,314	513,201,366
NET ASSETS, December 31	\$ 347,217,323	\$ 132,973,848	\$ 480,191,171	\$ 458,233,314

Santa Barbara Foundation
Consolidated Statements of Functional Expenses

	Program Services	Administrative and Fund Management	Fundraising and Development	Total 2019	Summarized Total 2018
EXPENSES					
Grants, net of rescinds	\$ 30,120,786	\$ -	\$ -	\$ 30,120,786	\$ 30,135,279
Consultants and professional services	3,380,510	90,259	317,132	3,787,901	1,545,063
Salaries	748,329	1,158,281	775,035	2,681,645	2,350,418
Meetings and conferences	545,584	85,180	43,497	674,261	178,533
Employee benefits	173,155	264,953	179,875	617,983	456,818
Insurance	456,713	19,048	6,066	481,827	20,299
Depreciation and amortization	135,209	204,604	123,736	463,549	416,568
Community relations	124,666	4,616	131,842	261,124	257,028
Technology	80,458	87,729	45,222	213,409	185,292
Occupancy	66,947	76,238	65,973	209,158	150,788
Payroll taxes	42,259	64,898	43,768	150,925	184,551
Interest	55,412	61,486	31,397	148,295	134,313
Program	116,505	-	-	116,505	622,109
Office	54,350	28,836	21,375	104,561	66,578
Dues, subscriptions, and licenses	30,884	39,782	20,314	90,980	67,676
Rent	26,281	34,085	17,405	77,771	72,340
Publications	25,461	6,817	40,905	73,183	39,805
Advertising	31,328	-	40,726	72,054	45,876
Telephone	18,063	28,328	14,465	60,856	36,680
Permits	54,470	-	-	54,470	-
Scholarship awards	4,300	-	-	4,300	-
Equipment and maintenance	967	1,567	800	3,334	6,056
Unrelated business income tax	-	505	-	505	(85,055)
Total expenses, 2019	<u>\$ 36,292,637</u>	<u>\$ 2,257,212</u>	<u>\$ 1,919,533</u>	<u>\$ 40,469,382</u>	
Total expenses, 2018	<u>\$ 33,292,236</u>	<u>\$ 1,967,057</u>	<u>\$ 1,627,722</u>		<u>\$ 36,887,015</u>

See accompanying notes.

Santa Barbara Foundation

Consolidated Statements of Cash Flows

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 21,957,857	\$ (54,968,052)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	463,549	416,568
Realized and unrealized (gain) loss on investments	(30,398,054)	13,571,955
Provision for bad debts	(9,000)	(14,703)
Present value discount adjustment	92,560	(411,727)
Contributions restricted for long-term investment	(115,940)	(761,500)
Non-cash contributions of stock	(8,242,920)	(7,555,666)
(Increase) decrease in		
Accounts receivable	-	15,960
Contributions	1,659,689	27,502,719
Other current assets	(767,293)	(37,729)
Assets held under charitable trust agreements	(183,308)	1,661,359
Perpetual income interest	(2,303,369)	1,718,032
Increase (decrease) in		
Accounts payable and accrued expenses	68,246	(72,660)
Grants payable	(157,276)	(476,454)
Liabilities under charitable trust agreements	(43,852)	(181,140)
Funds held on behalf of others	4,044,933	714,865
Other liabilities	7,095	(50,525)
Net cash used by operating activities	<u>(13,927,083)</u>	<u>(18,928,698)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of lease commissions	-	(81,152)
Purchase of property and equipment	(736,774)	(59,069)
Purchases of investments	(42,165,758)	(180,935,495)
Proceeds from sales of investments	54,782,655	199,201,526
Student loan repayments	379,808	464,209
Return on capital shareholder distribution	580,277	1,112,520
Mission related investment loan repayments	-	53,000
Net cash provided by investing activities	<u>12,840,208</u>	<u>19,755,539</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	115,940	761,500
Proceeds from notes payable	586,303	-
Payments on notes payable	(85,380)	(81,888)
Net cash provided by financing activities	<u>616,863</u>	<u>679,612</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(470,012)	1,506,453
CASH AND CASH EQUIVALENTS, January 1	<u>35,456,800</u>	<u>33,950,347</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 34,986,788</u>	<u>\$ 35,456,800</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 148,305</u>	<u>\$ 134,313</u>
Cash paid during the year for unrelated business income tax	<u>\$ 505</u>	<u>\$ -</u>

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – The Santa Barbara Foundation (“SBF”) is a community foundation incorporated in 1928 under the laws of the state of California as a nonprofit corporation to enrich the lives of the people of Santa Barbara County through philanthropy. It is the mission of SBF to mobilize collective wisdom and philanthropic capital to build empathetic, inclusive, and resilient communities. SBF continues to serve as one of the largest private funding sources for area nonprofits, agencies, and college-bound students.

Supporting organizations – SBF works with entities organized as supporting organizations to SBF for the specific and primary purpose of benefiting, performing functions of, and engaging in activities consistent with SBF’s charitable purposes. SBF appoints a majority of the members of the governing boards of the supporting organizations. Each governing board may create its own investment policy and grant guidelines. In 2019, the following supporting organizations were effectively under SBF’s control and were consolidated for financial statement purposes:

- Highland Santa Barbara Foundation, Inc. (HSBF) – organized in November 2011
- The Eric and Kelly Schwartz Charitable Trust (EKSCT) – organized in August 2015

Affiliates – In 2019, the following affiliates were effectively under SBF’s control and were consolidated for financial statement purposes:

- 1111 Chapala Street, LLC, whose primary operating asset is a commercial building located in Santa Barbara, CA;
- 300 East Islay Street, LLC, whose primary operating asset is a residential building located in Santa Barbara, CA; and
- SBF Properties, LLC, whose purpose is to receive gifts of real property.

Principles of consolidation – The accompanying consolidated financial statements as of December 31, 2019, include the financial statements of SBF and its supporting organizations and affiliates, listed above. All material inter-organizational transactions and balances have been eliminated in the consolidation.

Basis of accounting – The accompanying financial statements of SBF have been prepared on the accrual basis of accounting.

Reclassifications – Certain amounts from the December 31, 2018, financial statements have been reclassified to conform to the December 31, 2019, financial statement presentation.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Recently adopted accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods and services. The accounting guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. SBF has adopted this standard as of January 1, 2019, using the modified retrospective method applied to all contracts. The adoption of this guidance did not have a material impact on the SBF consolidated financial statements.

In June 2019, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and determining whether a contribution is conditional. SBF has adopted this standard as of January 1, 2019, prospectively. The adoption of this guidance did not have a material impact on the SBF consolidated financial statements.

Description of net assets – SBF reports information regarding its financial position and activities in two classes of net assets – with donor restrictions and without donor restrictions – based on the existence or absence of donor-imposed restrictions.

SBF's governing documents provide the Board of Trustees with the variance power to modify any restriction or condition placed on gifts to SBF if, in its sole judgment, the Board of Trustees determines that the restriction becomes in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served.

Without donor restrictions

Net assets without donor restrictions represent net assets that are not subject to donor-imposed time or use restrictions. Net assets without donor restrictions include board-designated funds.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

With donor restrictions

Net assets with donor restrictions represent net assets that are subject to donor-imposed time or use restrictions. Net assets with donor restrictions generally include contributions and bequests receivable and planned gifts. Earnings on net assets with donor restrictions are reported as an increase in net assets with donor restrictions. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as “net assets released from restrictions.” Net assets with donor restrictions include perpetual income trusts for which the related income is reported as contributions without donor restrictions when received on the consolidated statements of activities and changes in net assets. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the consolidated statements of activities and changes in net assets. Net assets with donor restrictions also consist of those donor-restricted endowments held by SBF as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Functional expense allocation – Salaries, employee benefits, and payroll taxes are allocated based on time spent in each functional area by specific employee as estimated by management. Indirect costs included in meetings and conferences, depreciation and amortization, technology, occupancy, office, and rent expense are allocated based on number of employees by functional area based on time spent by specific employee as estimated by management. Certain advertising costs are allocated based on the percentage of the publication devoted to each functional area. All other costs are charged directly to the appropriate functional category.

Comparative amounts – The amounts shown for 2018 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2019 and are not intended to present all information necessary for a fair presentation of the 2018 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America.

Cash and cash equivalents – SBF considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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 amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. It is at least reasonably possible that the significant estimates could change in the coming year.

Significant estimates used in the preparation of these consolidated financial statements include:

- Allocation of certain expenses by function;

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

- Discount factors used in determining contributions and bequests receivable, student loans, notes receivable, grants payable, annuities payable by charitable trust, and income interest in charitable trusts;
- Allowance for uncollectible student loans and contributions and bequests receivable;
- Fair value of assets held by charitable trusts;
- Fair value of certain investments; and
- Depreciable lives of property and equipment.

Contributions – Contributions received are recorded at their fair value on the date of donation. Contributions receivable are recognized as revenue when committed and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions have been evaluated and determined to be non-reciprocal and unconditional. Contributions, including unconditional promises to give, are recognized as revenue when received. Unconditional promises to give must be accompanied by written documentation prior to being recognized as revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Bequests are recorded at their estimated fair value when all the events required for the transfer of the assets from the estate of the donor to SBF have occurred and/or the court has issued an order to transfer the assets.

Donated goods and services – Donated goods and services received by SBF are recorded as contributions at fair value at the time of the donation or receipt. For the year ended December 31, 2019, numerous volunteers gave their time and expertise to SBF in a wide variety of areas including: committees, administrative activities, technical and financial advice, and office and public relations activities. These contributions, despite their considerable value to the mission of SBF, are not reflected in the consolidated financial statements. Donated or contributed services are reported at fair value in the consolidated financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets, or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation.

Discount to present value – A discount factor of 5% is applied to amounts receivable in more than one year.

Investments in securities – SBF records investments at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the year. The investments in hedge funds, partnerships, and private equity, for which quoted market prices are not readily available, are determined by management in good faith with the assistance of third-party investment managers using methods they consider appropriate at net asset value (NAV). SBF defines real assets as investments in real estate and other commodities. Realized and unrealized gains and losses are included in the change in net assets.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Income taxes – SBF and its supporting organizations and affiliates are tax-exempt organizations and are not subject to federal or state income taxes, except on unrelated business income, in accordance with Section 501(a) of the Internal Revenue Code. In addition, SBF and its supporting organizations and affiliates qualified for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and have been classified as organizations that are not private foundations. Unrelated business income tax, if any, is immaterial and no tax provision has been made in the accompanying consolidated financial statements.

SBF and its supporting organizations and affiliates evaluate uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2019, SBF and its supporting organizations and affiliates have no uncertain tax positions requiring accrual.

Property and equipment – Property and equipment is stated at cost, or fair value if donated. In general, SBF capitalizes assets with a cost of \$5,000 or more and an expected useful life of greater than one year. Depreciation is calculated using the straight-line method over their estimated useful lives as follows:

Land	Non-depreciable
Building	27.5 – 40 years
Leasehold improvements	10 – 40 years
Office equipment	3 – 10 years
Furniture	5 – 10 years

No depreciation is recorded for artwork as they are deemed to be a non-depreciable collection asset in accordance with generally accepted accounting principles.

Funds held on behalf of others – SBF receives and distributes assets under certain agency and intermediary arrangements. If a not-for-profit organization (NPO) establishes a fund at SBF with its own funds and specifies itself or its affiliate as the beneficiary of that fund, then SBF accounts for this transfer of assets by such NPO as a liability. The liability is established at the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPO and is reflected under “Funds Held on Behalf of Others” on the consolidated statements of financial position.

Grants – Grants are recorded as expenses when they are approved by the Board of Trustees. A discount factor of 5% is applied to grants payable in more than one year. SBF records the rescission of grants in the year the grant is cancelled.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Subsequent events – SBF has evaluated subsequent events through September 10, 2020, the date which the consolidated financial statements were available to be issued.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus outbreak a public health emergency. Results of operations could be adversely affected to the extent that coronavirus or any other epidemic harms the global economy. SBF will continue to monitor the situation closely, but given the uncertainty about the situation, cannot estimate the impact to the consolidated financial statements. SBF held investments at December 31, 2019, that have experienced a significant decline in market value in 2020 as a result of market reaction to the coronavirus outbreak. At this time management believes the decline in fair value for these securities is temporary. SBF will continue to monitor the situation closely, but given the uncertainty about the situation, cannot estimate the impact to the consolidated financial statements.

Note 2 – Contributions Receivable

Unconditional promises are included in the consolidated financial statements as contributions receivable. At December 31, 2019, contributions and bequests receivable are expected to be collected as follows:

In one year or less	\$ 471,524
In more than one year	45,254,059
Discount to present value	<u>(49,611)</u>
Contributions receivable, net	<u><u>\$ 45,675,972</u></u>

Note 3 – Student Loans Receivable

Student loans receivable are comprised of the following as of December 31, 2019:

Total student loan balances	\$ 1,529,092
Allowance for amounts to be forgiven	(371,285)
Allowance for uncollectible loans	(82,000)
Discount to present value	<u>(205,000)</u>
Net student loans receivable	<u><u>\$ 870,807</u></u>

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 3 – Student Loans Receivable (continued)

Management estimates the student loans receivable will be repaid as follows:

Receivable in less than one year	\$ 200,000
Receivable in one to ten years	752,807
Allowance for uncollectible loans	<u>(82,000)</u>
Net student loans receivable	<u><u>\$ 870,807</u></u>

Student loans receivable are administered by the Scholarship Foundation of Santa Barbara. SBF provides an allowance for doubtful accounts based on collection history. Generally, any loan past due for 90 days or more is considered doubtful. In 2015 SBF ended its loan program and converted its student loan funds to scholarship funds. The balances above are for loans made prior to 2015.

Note 4 – Notes Receivable

SBF has unsecured loans from a donor-advised fund to a nonprofit charitable organization. Loans from donor-advised funds are presented in the consolidated financial statements as notes receivable and are comprised of the following as of December 31, 2019:

Receivable in less than one year	\$ 1,500,000
Receivable in three to seven years	<u>4,000,000</u>
Total donor advised notes receivable	5,500,000
Discount to present value	<u>(496,847)</u>
Notes receivable, net	<u><u>\$ 5,003,153</u></u>

The notes receivable in less than one year bear interest ranging from 0.61% to 0.64%. Interest and principal are due December 31, 2020.

The note receivable due in three to seven years bears interest at a variable rate of 1-month LIBOR, 1.7625% at December 31, 2019, plus 1%. Interest is payable in semi-annual installments. Payments of 5% of the outstanding principal balance are due annually, commencing October 15, 2022, with the remaining principal balance due October 15, 2026.

Note 5 – Mission-Related Investments

Mission related investments consist of loans from board-designated funds to nonprofit organizations to support charitable activities consistent with SBF's tax-exempt purpose. As of December 31, 2019, the total outstanding loan balance of \$500,000 is discounted by \$45,168 to reflect the present value of \$454,832.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 6 – Investments

Investments are presented in the consolidated statements of financial position at fair value. Fair value is defined as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction at the date of the consolidated statements of financial position. These amounts are not necessarily indicative of the amounts SBF could realize in a current market exchange. Realized and unrealized gains and losses on investments are reflected in the consolidated statements of activities and changes in net assets. At December 31, 2019, investments consisted of the following:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Global equities	\$ 64,651,925	\$ 75,673,737	\$ 11,021,812
Domestic equities	9,668,287	11,019,093	1,350,806
International equities	1,284,975	1,647,056	362,081
Domestic fixed income	2,119,169	2,169,002	49,833
Global fixed income	70,466,029	76,796,170	6,330,141
Fixed income (illiquid)	25,376,523	67,247,737	41,871,214
Closely held stock	29,368,272	48,324,277	18,956,005
Real assets/real estate	19,401,388	19,280,974	(120,414)
Infrastructure	3,841,609	3,982,315	140,706
Private equity	8,799,791	11,882,428	3,082,637
Partnerships	4,415,042	3,396,000	(1,019,042)
Hedge funds	5,553,710	5,469,609	(84,101)
	<u>\$ 244,946,720</u>	<u>\$ 326,888,398</u>	<u>\$ 81,941,678</u>

The following summarizes the net change in unrealized gain on investments:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gain</u>
Balance at end of year	\$ 244,946,720	\$ 326,888,398	\$ 81,941,678
Balance at beginning of year	250,270,561	301,444,598	<u>51,174,037</u>
Change in unrealized gain			<u>\$ 30,767,641</u>

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 6 – Investments (continued)

The following summarizes the investment return in the consolidated statement of activities and changes in net assets for the year ended December 31, 2019:

Interest and dividends	\$ 4,904,148
Less: interest and dividends on behalf of others	<u>(300,747)</u>
Total interest and dividends	<u>4,603,401</u>
Realized gain on investments	2,471,868
Unrealized gain on investments	30,767,641
Less: realized and unrealized gain on behalf of others	<u>(2,841,455)</u>
Total realized and unrealized gain on investments	<u>30,398,054</u>
Less: investment fees	(642,816)
Add back: investment fees on behalf of others	<u>245,463</u>
Total investment fees	<u>(397,353)</u>
Investment income, net	<u><u>\$ 34,604,102</u></u>

Note 7 – Fair Value Measurement

Fair value is defined as the price that would be received by SBF to sell an asset or be paid by SBF to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. There are three levels of input to measure fair value. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The standard describes the three levels used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 7 – Fair Value Measurement (continued)

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the consolidated statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models quoted prices of securities with similar characteristics or discounted cash flows. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value of Level 3 securities is based on information provided by fund managers, external investment advisors, and other market factors to determine if the carrying value of these investments should be adjusted. Other factors may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Because of the inherent uncertainty of valuations, however, those estimated values may differ from the values that would have been used had a ready market existed, and the differences could be material. Independent appraisals of significant real estate held for investment are conducted at frequencies as determined by the fund manager for valuation purposes.

Financial instruments are considered valued at NAV when the investment (hedge funds, private equity, commingled funds, and real asset/real estate funds) are valued at NAV based on capital statements provided by entities that calculate fair value using NAV per share or its equivalent.

The Investment Committee, in conjunction with the external investment advisors, monitors and analyzes the valuation of the investments on a quarterly basis. The Investment Committee reports to the Board of Trustees. The valuation considers variables such as financial performance of investments, recent sale prices of investments, and other pertinent information.

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 7 – Fair Value Measurement (continued)

The following table presents assets recognized in the consolidated statements of financial position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2019:

Description	Level 1	Level 2	Level 3	NAV or Equivalent	Total
Investments					
Global equities	\$47,010,078	\$ -	\$ -	\$ 28,663,659	\$ 75,673,737
Domestic equities	11,019,093	-	-	-	11,019,093
International equities	1,647,056	-	-	-	1,647,056
Domestic fixed income	2,169,002	-	-	-	2,169,002
Global fixed income	16,273,856	6,239,756	-	54,282,558	76,796,170
Fixed income (illiquid)	-	-	67,247,737	-	67,247,737
Closely held stock	-	-	-	48,324,277	48,324,277
Real estate/natural resources	8,388,408	-	-	10,892,566	19,280,974
Infrastructure	972,861	-	-	3,009,454	3,982,315
Private equity	-	-	-	11,882,428	11,882,428
Partnerships	-	-	3,396,000	-	3,396,000
Hedge funds	434,087	-	-	5,035,522	5,469,609
Total investments	87,914,441	6,239,756	70,643,737	162,090,464	326,888,398
Assets held under charitable trust agreements					
Charitable trusts, life policy	-	-	61,382,889	-	61,382,889
Charitable remainder trusts	1,059,493	-	-	-	1,059,493
Charitable gift annuities	808,471	-	-	-	808,471
Pooled income funds	511,392	-	-	-	511,392
Total assets held under charitable trust agreements	2,379,356	-	61,382,889	-	63,762,245
Perpetual income interest	-	-	16,230,954	-	16,230,954
Total assets measured at fair value	\$90,293,797	\$ 6,239,756	\$ 148,257,580	\$ 162,090,464	\$ 406,881,597
Charitable trust liabilities measured at fair value	\$ -	\$ -	\$ 1,323,889	\$ -	\$ 1,323,889

The following is a description of the general classification of investments pursuant to the valuation hierarchy:

Global equities – includes investment in domestic and international equities of varying market capitalizations selected by the investment manager. Equities are held as separate ownership shares of a specific company or in the form of mutual funds, commingled funds or ETFs.

Domestic and international equities – includes investment in either domestic or international equities of varying market capitalizations. Equities are held as separate ownership shares of a specific company or in the form of mutual funds, commingled funds, or ETFs.

Domestic fixed income – includes investment in domestic fixed income positions as held in the investment portfolio through either individual bond holdings (treasuries, corporate, government, mortgage, etc.), commingled funds, or through fixed income mutual funds.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 7 – Fair Value Measurement (continued)

Global fixed income – includes investment in domestic and international fixed income positions held through either individual bond holdings (treasuries, corporate, government, mortgage, etc.) or through fixed income mutual funds, commingled funds, or ETFs.

Fixed income (illiquid) – includes 100 participation shares in a non-controlling partnership interest composed primarily of collateralized loan obligations. 100% of this investment is held by a supporting organization, HSBF.

Closely held stocks (illiquid) – includes shares of a C-Corporation held by EK SCT, a supporting organization.

Real estate/natural resources – includes 11 limited partnerships that invest in a diverse group of private real estate investment funds or similar entities that focus on the acquisition, redevelopment, operation and management of real estate properties; or natural resources: timber, precious metals, commodities, mining, energy, etc. All of the partnerships are illiquid and cannot be redeemed.

Infrastructure – includes an exchange-traded fund and three core infrastructure funds that have exposure in transportation, communication, food-related water and electricity, power, and energy services.

Private equity – includes 15 broadly diversified private equity partnerships with varying allocations to buyouts, distressed opportunities, venture capital, special situations, and secondary funds. Holdings are invested in diversified portfolios of investment partnerships, each of which has a defined term, typically ten to fifteen years, with no right to withdraw prior to termination of the investment partnership. Funds are called as needed by managers and distributions are received through the liquidation of the underlying assets of the fund. Unfunded commitments totaled \$11,762,527. All of these private equity interests are illiquid and not redeemable.

Partnerships – includes a 24% interest in one partnership that consists of a real estate holding. Income distributions from this partnership vary from year to year and are controlled by the general partner. Another partnership of which SBF holds a 7.7% interest is comprised of many different partnerships with both domestic and international exposure. SBF holds a 38.44% interest in limited partnership comprised of other real estate holdings. This partnership interest will terminate in June 2062. All of these partnership interests are illiquid.

Hedge funds – There are currently two hedge funds, which are in the latter stages of full redemption. There are also three risk mitigating hedge funds which started investment in 2019.

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 7 – Fair Value Measurement (continued)

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) for the year ended December 31, 2019:

Description	Beginning Balance	Net Gains and (Losses)	Purchases and Issuances	Transfers In and Out	Sales and Settlements	Ending Balance
Global fixed income	\$ 5,723,520	\$ 441,236	\$ 75,000	\$ (6,239,756)	\$ -	\$ -
Fixed income (illiquid)	65,800,000	1,447,737	-	-	-	67,247,737
Partnerships	3,426,646	(30,646)	-	-	-	3,396,000
Charitable trusts, life policy	61,164,956	1,265,504	263,636	-	(1,311,207)	61,382,889
Perpetual income interest	-	2,303,369	-	13,927,585	-	16,230,954
Total	\$136,115,122	\$ 5,427,200	\$ 338,636	\$ 7,687,829	\$ (1,311,207)	\$148,257,580

Global fixed income included \$5,723,520 of investments categorized at Level 3 on December 31, 2018. Due to change in the composition of these investments in 2019, the balance has been reclassified in Level 2. Perpetual income interest, previously categorized at Level 1 on December 31, 2018, has been reclassified to Level 3 in 2019.

The following table represents the Level 3 financial instruments as of December 31, 2019, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Investment	Total Fair Value	Valuation Technique	Unobservable Inputs	Range
Fixed income (illiquid)	\$ 67,247,737	Fair Value with Qualitative Discounting Model	Lack of Control Discount and Lack of Marketability Discount	5% - 7.2%
Partnerships	\$ 3,396,000	Market Comparables	Listing Prices and General Partner Estimates	-
Charitable trusts, life policy	\$ 61,382,889	Discounted Cash Flow	Discounted Rate, Life Expectancies, and Remaining Payments	5%, 2 to 65 years
Perpetual income interest	\$ 16,230,954	Fair value	Remaining payments	-

SBF has entered into certain agreements for capital commitments to various private limited partnerships investment funds to make future investments in those funds. The outstanding commitments to these funds totaled \$22,750,222 as of December 31, 2019.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 7 – Fair Value Measurement (continued)

The following table provides redemption data and unfunded commitments for privately held investments at NAV or equivalent:

Investment	Total Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Closely held stock	\$ 48,324,277	\$ -	Non-redeemable	-
Global equities	28,663,659	-	Monthly	3 to 5 days
Global fixed income	54,282,558	-	Monthly	3 to 14 days
Infrastructure	3,009,454	3,058,007	Non-redeemable	-
Real estate/natural resources	10,892,566	7,929,688	Non-redeemable	-
Private equity	11,882,428	11,762,527	Non-redeemable	-
Hedge funds				
RD Legal	1,816	-	In redemption	90 days
AG Super Fund, LP	5,477	-	In redemption	90 days
TSE Capital	1,759,109	-	Quarterly	90 days
36 South	1,648,305	-	Monthly	30 days
BHDG Systematic	1,620,815	-	Daily	1 business day
Total	\$ 162,090,464	\$ 22,750,222		

Note 8 – Split-Interest Agreements and Deferred Funds

A split-interest agreement is a contribution that results in the sharing of legal rights to certain assets by the nonprofit and the donor. SBF records such split-interest agreements held in charitable remainder trusts, charitable gift annuities, pooled income funds, and perpetual interest trusts as follows:

Charitable Remainder Trusts

SBF is named as an irrevocable remainder beneficiary of charitable trusts, which have been established by donors to provide income, generally for life, to designated beneficiaries. SBF is also the irrevocable remainder beneficiary of two life insurance policies. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trusts will be transferred to the Foundation. Each year, beneficiaries receive a percentage of the trust's fair value, generally limited to net income or net income with make-up provisions.

If SBF is the trustee, the fair value of the trust is recorded in the consolidated statements of financial position. A corresponding liability is recorded for the present value of the future payments as specified in the trust agreement using a discount rate of 5%. A contribution is recorded for the difference between the two amounts. The fair value of these six trusts was \$1,059,493 with a corresponding payment liability for future payments of \$626,047 at December 31, 2019.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 8 – Split-Interest Agreements and Deferred Funds (continued)

If SBF is not the named trustee and does not exercise control over the assets, contribution revenue and assets are recognized using the fair value of the assets less the present value of the estimated future payments to named beneficiaries. Subsequent changes to the fair value of the assets and liabilities of all trusts are recognized as changes in value of charitable remainder trusts. At December 31, 2019, the present value of these trusts where SBF is not the trustee was \$57,709,618, including both life insurance policies.

SBF is named income beneficiary for five charitable lead trusts held by a third-party trustee. The present value of the expected annual payments over the remaining years of each trust is recorded. The expected cash flow from the trusts to SBF was \$3,673,271 at December 31, 2019.

Charitable Gift Annuities

Charitable gift annuity donors have contributed assets to SBF in exchange for a promise by SBF to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of the agreements, no trust exists, as the assets received are held by SBF, and the liability is an obligation of SBF. SBF records new gifts at the fair value of the assets, less the present value of the estimated future payments to the named beneficiaries. The present value of the payments is calculated using an IRS discount rate in effect at the time of the contract. Subsequent changes in value from the prior year are recorded using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries using a discount factor of 5%. The change in value is recorded in the consolidated statements of activities and changes in net assets under changes in value of charitable remainder trusts. The total fair value of the 42 charitable gift annuities was \$808,471 with a corresponding present value liability of \$569,373 at December 31, 2019.

Pooled Income Funds

Pooled income fund donors have contributed assets to SBF in exchange for a net income payout for a specified period of time. Under the terms of the agreements, no trust exists, as the assets are held by SBF. The fair value of the asset is recorded in the consolidated statements of financial position and a corresponding liability is recorded for the present value of the future payments to the named beneficiaries. Subsequent changes in value from the prior year are recorded using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries using the average annual return of the past three years for each portfolio as the discount factor. The change in value is recorded in the consolidated statements of activities and changes in net assets under changes in value of charitable remainder trusts. The fair value of the pooled income funds at December 31, 2019, was \$511,392 with a corresponding present value liability of \$128,469.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 8 – Split-Interest Agreements and Deferred Funds (continued)

Perpetual income trust interest – SBF is named as an income beneficiary of seven perpetual trusts, the corpus of which is not controlled by the management of SBF. Under these arrangements, SBF has the irrevocable right to receive income earned on the underlying assets held in perpetuity. Income received from four of the trusts is discretionary, while income from one trust is restricted for student aid, and one is restricted for Lompoc area projects. SBF also has a future interest in the income of assets yet to be received by one of the above trusts.

Since SBF is a beneficiary of this stream of income in perpetuity, SBF's share of the fair value of the trusts' investments is recorded as an asset, with a fair value of \$16,230,954 at December 31, 2019. Any change in subsequent years in the fair value of SBF's share of the trust investments is recorded in the consolidated statements of activities and changes in net assets as a change in value of interests in perpetual trusts.

Note 9 – Property and Equipment

Property and equipment at December 31, 2019, consists of the following:

Building and leasehold improvements	\$ 14,322,636
Land	3,265,379
Office equipment	316,649
Furniture	304,777
Donated artwork	<u>17,500</u>
Total property and equipment	18,226,941
Less: accumulated depreciation and amortization	<u>(3,925,030)</u>
Property and equipment, net	<u><u>\$ 14,301,911</u></u>

Note 10 – Notes Payable

The Partnership for Resilient Communities has a fiscal sponsorship agreement with SBF and a note payable guaranteed by SBF with Montecito Bank & Trust at an interest rate of 4%. Interest payments are due monthly. Principal and interest payments of \$40,000 are due annually with a final balloon payment due on March 15, 2024.

SBF has a mortgage note payable on the 1111 Chapala Street building with Montecito Bank & Trust and secured by the property at an interest rate of 4.125%. Principal and interest payments of \$18,017 are due monthly with a final balloon payment due on October 20, 2021.

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 10 – Notes Payable (continued)

Future maturities of principal obligations are as follows as of December 31, 2019:

2020	\$ 128,868
2021	3,028,158
2022	38,300
2023	38,427
2024	<u>433,357</u>
Total	<u><u>\$ 3,667,110</u></u>

Note 11 – Grants

Future minimum grants payable are as follows as of December 31, 2019:

2020	\$ 20,000
2021	<u>20,000</u>
Subtotal	40,000
Less: discount	<u>(1,859)</u>
Grants payable	38,141
Less: current portion	<u>(20,000)</u>
Long-term portion	<u><u>\$ 18,141</u></u>

Grant expense is comprised of the following for the year ended December 31, 2019:

Donor advised	\$ 16,410,908
Competitive	4,959,483
Field of interest	3,743,906
Pass-through	1,629,020
Donor designated	1,385,179
Supporting organizations	1,579,500
Fiscal sponsorships	<u>412,790</u>
Total grants, net of rescinds	<u><u>\$ 30,120,786</u></u>

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 12 – Concentrations and Risks

Credit risk – SBF maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC only insures the first \$250,000 of funds on deposit at any one institution. SBF had uninsured cash of approximately \$28,500,000 deposited with six different banks. In addition, SBF maintains significant cash balances in money market funds. Such balances are not fully insured.

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

Concentrated investments – As of the year ended December 31, 2019, approximately 36% of the fair value of investments and a significant portion of the unrealized gains and losses are attributable to the two supporting organizations, HSBF and EK SCT. The fair value of HSBF's illiquid fixed income and EK SCT's closely held stock position are based upon annual independent third-party valuations using the same techniques and variables as in prior years.

Supporting organization assets – As of the year ended December 31, 2019, approximately 23% of total assets were in the two supporting organization, HSBF and EK SCT.

Major contributions – For the year ended December 31, 2019, SBF received approximately 27% of its contributions from four donors.

Note 13 – Endowment Funds

Interpretation of relevant law – The Board of Trustees of SBF, in concurrence with the advice of legal counsel, has interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the original gift, as of the gift date. As a result of this interpretation, SBF has classified with the explicit prohibition by the donor 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 perpetual endowment, and (c) accumulations to the perpetual 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 funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by SBF in a manner consistent with the standard for prudence prescribed by UPMIFA. In accordance with California UPMIFA, the organization considers the following factors in making a determination to appropriate or invest donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of SBF and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.

Note 13 – Endowment Funds (continued)

- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of SBF.
- (7) The investment policies of SBF.

Endowment investment and spending policies – SBF 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 long-term purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity for donor-specified purposes. The endowment assets are invested in a manner that is intended to produce results that provide a reasonable balance between the quest for growth and the need to protect principal. The investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk.

SBF's long-term endowment is invested in a diversified portfolio of domestic equities, international equities, fixed income, and also includes a broad array of alternative investments. The portfolio employs both passive index funds and actively managed funds. The portfolio's objective is to achieve a total return equivalent to or greater than SBF's financial requirements over the long-term time horizon. Long-term investment strategies are used to manage risk with the goal to grow charitable dollars over time. SBF also provides four other investment options for donors that have a shorter time horizon and more immediate spending needs, including a socially responsible investment option.

SBF uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy calculates the amount of money annually distributed from SBF's various discretionary funds and other endowed funds for grant making, student aid, and administrative support. The current spending policy for the year ended December 31, 2019, for discretionary funds was 5%, while other endowed funds were 4%. These percentages are calculated based on a rolling average of the market value for the previous twelve quarters.

The spending policy is reviewed annually in light of changing market assumptions, investment returns, and the rate of inflation. Accordingly, over the long term, SBF expects current spending policy to allow its endowment assets to grow.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 13 – Endowment Funds (continued)

Endowment funds with deficiencies – From time to time, the fair value of the assets associated with individual donor-restricted funds may fall below the level that current law requires SBF to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as a reduction in net assets with donor restrictions. Such deficiencies may result from unfavorable market fluctuations, particularly if the funds were invested in the endowment pool shortly prior to significant market declines. The Foundation has adopted a policy to spend from underwater endowments with certain limitations. As of December 31, 2019 and 2018, respectively, the Foundation held 5 and 14 endowment funds where the principal had fallen below the original corpus due to market conditions. The total fair values, original gift amounts and deficiencies related to these funds as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Fair value of underwater endowments	\$ 10,615,986	\$ 27,822,189
Original endowment gift amount	<u>11,729,191</u>	<u>30,431,254</u>
Deficiencies of underwater endowment funds	<u>\$ (1,113,205)</u>	<u>\$ (2,609,065)</u>

Endowment net assets with donor restrictions totaled \$54,112,049 consisting of total original gift endowment contributions of \$48,758,883 and accumulated earnings of \$5,353,166 as of December 31, 2019. Changes in the endowment net assets with donor restrictions for the year ended December 31, 2019 are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 45,624,059
Net investment return	6,513,234
Contributions	115,940
Appropriation of endowment net assets for expenditure	(2,078,032)
Reclassifications and other releases from restrictions	<u>3,936,848</u>
Endowment net assets, end of year	<u>\$ 54,112,049</u>

There were no endowment net assets without donor restrictions or assets classified as board-restricted endowment funds as of December 31, 2019.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 14 – Related-Party Transactions

A majority of trustees and committee members of SBF also serve as trustees of entities receiving grants and support from SBF. Each trustee and committee member has to complete a conflict of interest declaration form annually. Those trustees and committee members who have conflicts abstain from voting on grants if the beneficiary is one of these entities.

Note 15 – Leases

SBF leases office equipment and office space under non-cancellable operating leases through September 2023. Minimum rental payments under the terms of these leases are as follows for the year ended December 31, 2019:

2020	\$	77,245
2021		75,922
2022		75,401
2023		<u>57,138</u>
Total	\$	<u>285,706</u>

Lease expense for the year ended December 31, 2019 totaled \$77,771.

Note 16 – Retirement Plans

SBF employees who work at least 1,000 hours per year are eligible to participate in a deferred salary savings plan under Section 401(k) of the Internal Revenue Code after one full calendar month of services. SBF matches at its discretion up to 4% of the eligible salary upon participation. For eligible employees with more than one year of service SBF, at its discretion, contributes up to an additional 6% of the participant's eligible salary for a total of 10%. Foundation employer contributions for the year ended December 31, 2019, totaled \$215,288.

In addition, SBF has a non-qualified deferred compensation plan. There were no SBF employer contributions for the year ended December 31, 2019.

Note 17 – Liquidity

SBF structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. SBF invests cash in excess of daily requirements in short-term investments and money market funds.

Financial assets available to meet cash needs for general expenditure for the following year are comprised of current assets and investments, adjusted for amounts unavailable due to illiquidity, endowments and other funds spending policy appropriations beyond one year, and current liabilities payable to vendors, financial institutions, and nonprofit organizations.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 17 – Liquidity (continued)

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019:

Current assets	
Cash and cash equivalents	\$ 34,986,788
Contributions and bequests receivable, current portion	471,524
Student loans receivable, current portion	200,000
Notes receivable, current portion	1,500,000
Other current assets	<u>917,592</u>
Total current assets	<u>38,075,904</u>
Investments	326,888,398
Less: investments not available for general expenditures within one year	
Illiquid, not convertible to cash beyond one year	(118,029,830)
Endowments and other funds subject to spending policy appropriations beyond one year	
Without donor restrictions	(105,466,993)
With donor restrictions	(54,112,049)
Funds held on behalf of others	<u>(23,305,784)</u>
Investments available for general expenditures within one year	<u>25,973,742</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019	<u><u>\$ 64,049,646</u></u>

Note 18 – Net Assets

As of December 31, 2019, net assets consist of the following:

Net assets without donor restrictions –

Supporting organizations	\$ 116,427,055
Donor-advised funds	94,470,539
Undesignated funds	87,267,162
Field of interest funds	41,062,912
Donor-designated funds	4,275,209
Board-designated funds	2,265,642
Fiscal sponsorship	<u>1,448,804</u>
Total net assets without donor restrictions	<u><u>\$ 347,217,323</u></u>

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 18 – Net Assets (continued)

Net assets with donor restrictions –

Contributions receivable	\$ 192,489
Charitable trusts	62,438,356
Perpetual income trust interest	16,230,954
Donor-restricted endowment funds	<u>54,112,049</u>
 Total net assets with donor restrictions	 <u><u>\$ 132,973,848</u></u>