

**SANTA BARBARA FOUNDATION
AND AFFILIATES
COMBINED AND CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2012**

SANTA BARBARA FOUNDATION AND AFFILIATES

December 31, 2012

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Santa Barbara Foundation and Affiliates
Santa Barbara, California

Report on Combined and Consolidated Financial Statements

We have audited the accompanying combined and consolidated financial statements of the Santa Barbara Foundation and Affiliates (a non-profit organization) which comprise the combined and consolidated statement of financial position as of December 31, 2012, and the related combined and consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the notes to the combined and consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined and 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 combined and 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 combined and consolidated financial statements based on our audit. We did not audit the financial statement of The Orfalea Fund, a supporting organization, which statements reflect total assets of \$23,344,019 and \$27,894,406 as of December 31, 2012 and 2011, respectively, and total revenues of \$2,128,588 and \$1,091,318, respectively, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Orfalea Fund, is based solely on the report of the other auditors. 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 combined and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined and consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined and 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 combined and 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 combined and 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, based on our audit and the report of the other auditors, the combined and consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara Foundation and Affiliates as of December 31, 2012, and the change in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Santa Barbara Foundation and Affiliates' 2011 combined and consolidated financial statements, and we expressed an unmodified audit opinion on those audited combined and consolidated financial statements in our report dated May 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined and consolidated financial statements as a whole. The supplementary information listed in the table of contents and shown on pages 28 through 32 is presented for the purposes of additional analysis of the combined and consolidated financial statements rather than to present the financial position, results of operating, and cash flows of the individual organizations, and it is not a required part of the combined and consolidated financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the combined and consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the combined and consolidated financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records and other records use to prepare the combined and consolidated financial statements or to the combined and consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to The Orfalea Fund, is based upon the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the combined and consolidated financial statements as a whole.

Emphasis-of-matter

As referenced in Notes 1, 5, and 6 to the combined and consolidated financial statements, the combined and consolidated statement of financial position includes investments valued at \$86,079,021 (30% of net assets) as of December 31, 2012, whose fair market values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based upon information provided by the investment managers, third-party valuations, and appraisals, and other unobservable inputs.

McGowan Guntermann

May 16, 2013

SANTA BARBARA FOUNDATION AND AFFILIATES

COMBINED AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2012

(With Comparative Totals for December 31, 2011)

ASSETS					(Memo)
	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Current Assets					
Cash and cash equivalents	\$ 19,891,797	\$ 72,418	\$ 264,688	20,228,903	\$ 22,917,746
Accounts receivable	331,716	-	-	331,716	407,440
Contributions and bequests receivable, current portion	-	3,590,692	121,452	3,712,144	4,929,365
Student loans receivable, current portion	750,000	-	-	750,000	800,000
Other current assets	<u>183,355</u>	<u>-</u>	<u>-</u>	<u>183,355</u>	<u>148,822</u>
Total Current Assets	<u>21,156,868</u>	<u>3,663,110</u>	<u>386,140</u>	<u>25,206,118</u>	<u>29,203,373</u>
Investments	187,297,213	3,714,078	43,850,124	234,861,415	205,489,858
Property and equipment, net	13,321,999	-	-	13,321,999	13,744,533
Other assets					
Contributions and bequests receivable, net of current portion	-	393,001	-	393,001	759,541
Student loans receivable, net of current portion	2,691,874	-	-	2,691,874	2,921,648
Assets held under charitable trust agreements	-	9,081,120	-	9,081,120	9,329,594
Perpetual income interest	-	-	12,502,433	12,502,433	11,761,996
Other non-current assets	-	165,818	-	165,818	172,415
Note receivable	-	-	-	-	1,541,950
Goodwill	<u>1,250,000</u>	<u>-</u>	<u>-</u>	<u>1,250,000</u>	<u>3,592,154</u>
Total Other Assets	<u>3,941,874</u>	<u>9,639,939</u>	<u>12,502,433</u>	<u>26,084,246</u>	<u>30,079,298</u>
Total Assets	<u>\$ 225,717,954</u>	<u>\$ 17,017,127</u>	<u>\$ 56,738,697</u>	<u>\$ 299,473,778</u>	<u>\$ 278,517,062</u>
 LIABILITIES AND NET ASSETS 					
Current Liabilities					
Accounts payable and accrued expenses	\$ 475,799	\$ -	\$ -	\$ 475,799	\$ 264,773
Grants payable, current portion	2,305,737	-	-	2,305,737	1,828,055
Note payable, current portion	<u>63,233</u>	<u>-</u>	<u>-</u>	<u>63,233</u>	<u>46,682</u>
Total Current Liabilities	<u>2,844,769</u>	<u>-</u>	<u>-</u>	<u>2,844,769</u>	<u>2,139,510</u>
Other Liabilities					
Grants payable, net of current portion	1,041,676	-	-	1,041,676	296,131
Note payable, net of current portion	3,539,626	-	-	3,539,626	3,607,028
Liabilities under charitable trust agreements	-	1,623,244	-	1,623,244	1,770,016
Funds held on behalf of others	6,896,759	-	-	6,896,759	5,628,734
Other non-current liabilities	<u>29,826</u>	<u>-</u>	<u>-</u>	<u>29,826</u>	<u>29,826</u>
Total Other liabilities	<u>11,507,887</u>	<u>1,623,244</u>	<u>-</u>	<u>13,131,131</u>	<u>11,331,735</u>
Total Liabilities	14,352,656	1,623,244	-	15,975,900	13,471,245
Net Assets	<u>211,365,298</u>	<u>15,393,883</u>	<u>56,738,697</u>	<u>283,497,878</u>	<u>265,045,817</u>
Total Liabilities and Net Assets	<u>\$ 225,717,954</u>	<u>\$ 17,017,127</u>	<u>\$ 56,738,697</u>	<u>\$ 299,473,778</u>	<u>\$ 278,517,062</u>

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

SANTA BARBARA FOUNDATION AND AFFILIATES

COMBINED AND CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	(Memo) 2011 Total
Revenue, Gains, and Other Support					
Contributions	\$ 13,388,218	\$ 1,289,557	\$ 18,435	\$ 14,696,210	\$ 40,524,283
Less: Contributions raised on behalf of others	<u>(816,794)</u>	<u>-</u>	<u>-</u>	<u>(816,794)</u>	<u>(1,867,409)</u>
Total Contributions	12,571,424	1,289,557	18,435	13,879,416	38,656,874
Interest and dividends	5,216,258	406,314	-	5,622,572	4,107,347
Less: Interest and dividends on behalf of others	<u>(138,580)</u>	<u>-</u>	<u>-</u>	<u>(138,580)</u>	<u>(101,409)</u>
Total Interest and dividends	5,077,678	406,314	-	5,483,992	4,005,938
Realized gain on value of securities	3,640,860	495,927	-	4,136,787	3,687,522
Less: Realized gain on behalf of others	<u>(130,720)</u>	<u>-</u>	<u>-</u>	<u>(130,720)</u>	<u>(57,558)</u>
Total Realized gain on value of securities	3,510,140	495,927	-	4,006,067	3,629,964
Unrealized gain (loss) on value of securities	25,165,071	1,246,419	-	26,411,490	(7,781,898)
Less: Unrealized gain (loss) on behalf of others	<u>(407,549)</u>	<u>-</u>	<u>-</u>	<u>(407,549)</u>	<u>250,745</u>
Total Unrealized gain (loss) on value of securities	24,757,522	1,246,419	-	26,003,941	(7,531,153)
Distributions from trusts	378,494	-	-	378,494	380,985
Bequests	682,633	2,155,000	118,000	2,955,633	1,928,755
Change in value of interests in perpetual trusts	-	-	740,438	740,438	(312,817)
Change in value of charitable remainder trusts	-	(121,461)	-	(121,461)	(636,619)
Charitable remainder trust contributions	-	513,457	-	513,457	72,026
Broadcasting (net of expenses of \$830,449 and \$708,136)	(373,601)	-	-	(373,601)	(292,224)
Rental (net of expenses of \$694,709 and \$755,740)	(154,662)	-	-	(154,662)	(219,498)
Miscellaneous	155,034	-	-	155,034	23,791
Net assets released from restrictions	<u>5,135,966</u>	<u>(5,135,966)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>51,740,628</u>	<u>849,247</u>	<u>876,873</u>	<u>53,466,748</u>	<u>39,706,022</u>
Expenses					
Program services:					
Grants, net of rescinds	24,628,221	-	-	24,628,221	21,122,353
Less: Grants made on behalf of others	<u>(161,287)</u>	<u>-</u>	<u>-</u>	<u>(161,287)</u>	<u>(21,518)</u>
Total Grants, net of rescinds	24,466,934	-	-	24,466,934	21,100,835
Activities:					
Grant making	860,595	-	-	860,595	1,368,735
Direct program	3,523,245	-	-	3,523,245	2,632,335
Student aid	<u>121,862</u>	<u>-</u>	<u>-</u>	<u>121,862</u>	<u>227,162</u>
Total Program Services	<u>28,972,636</u>	<u>-</u>	<u>-</u>	<u>28,972,636</u>	<u>25,329,067</u>
Support services:					
Administrative	4,968,167	-	-	4,968,167	2,433,560
Fundraising	<u>1,073,884</u>	<u>-</u>	<u>-</u>	<u>1,073,884</u>	<u>1,040,517</u>
Total Support Services	<u>6,042,051</u>	<u>-</u>	<u>-</u>	<u>6,042,051</u>	<u>3,474,077</u>
Total Expenses	<u>35,014,687</u>	<u>-</u>	<u>-</u>	<u>35,014,687</u>	<u>28,803,144</u>
Change in Net Assets	16,725,941	849,247	876,873	18,452,061	10,902,878
Net Assets, January 1	<u>194,639,357</u>	<u>14,544,636</u>	<u>55,861,824</u>	<u>265,045,817</u>	<u>254,142,939</u>
Net Assets, December 31	<u>\$ 211,365,298</u>	<u>\$ 15,393,883</u>	<u>\$ 56,738,697</u>	<u>\$ 283,497,878</u>	<u>\$ 265,045,817</u>

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

SANTA BARBARA FOUNDATION AND AFFILIATES

COMBINED AND CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

Expenses	Program Services				Support Services		Total 2012	(Memo) 2011	Total
	Grants	Grant Making Activities	Direct Program Activities	Student Aid Activities	Administrative and Fund Management	Fundraising			
Grants, net of rescinds	\$ 24,466,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,466,934	\$ 21,201,057	
Salaries	-	607,855	1,355,870	9,223	1,026,832	597,172	3,596,952	3,034,527	
Employee benefits	-	132,181	391,631	2,075	246,581	129,925	902,393	699,940	
Direct program activities	-	-	870,962	-	-	-	870,962	823,710	
Professional services	-	3,500	320,775	-	269,145	29,738	623,158	883,146	
Meetings and conferences	-	33,291	351,242	-	84,790	17,671	486,994	532,794	
Investment management fees	-	-	-	-	283,455	-	283,455	239,216	
Payroll taxes	-	44,518	114,986	701	77,486	43,760	281,451	229,984	
Community relations	-	314	-	-	914	161,479	162,707	184,543	
Rent	-	6,267	24,285	-	116,324	10,654	157,530	118,439	
Depreciation	-	-	-	-	147,318	-	147,318	148,040	
Contract services	-	-	-	100,222	-	-	100,222	97,397	
Office supplies	-	526	7,342	-	77,231	8,945	94,044	104,719	
Computer services	-	-	-	-	84,210	-	84,210	90,566	
Provision for bad debts	-	-	-	75,000	-	-	75,000	100,000	
Equipment and maintenance	-	7,500	30,353	-	33,320	3,731	74,904	44,564	
Advertising	-	-	2,400	-	-	59,471	61,871	59,438	
Occupancy costs	-	784	1,463	-	50,501	1,333	54,081	49,200	
Dues, subscriptions and licenses	-	1,862	19,395	-	19,380	1,386	42,023	61,921	
Telephone	-	841	8,131	-	27,159	1,430	37,561	37,258	
Miscellaneous	-	100	10,418	-	26,511	170	37,199	16,002	
Publications	-	21,056	-	-	7,019	7,019	35,094	91,181	
Temporary help	-	-	-	-	30,232	-	30,232	18,528	
Insurance	-	-	13,992	-	15,861	-	29,853	16,756	
Loss on disposal of assets	-	-	-	-	1,744	-	1,744	2,544	
Impairment of goodwill	-	-	-	-	2,342,154	-	2,342,154	-	
Present value discount income	-	-	-	(65,359)	-	-	(65,359)	(82,326)	
Total Expenses, December 31, 2012	\$ 24,466,934	\$ 860,595	\$ 3,523,245	\$ 121,862	\$ 4,968,167	\$ 1,073,884	\$ 35,014,687		
Total Expenses, December 31, 2011 (Memo)	\$ 21,100,835	\$ 1,368,735	\$ 2,632,335	\$ 227,162	\$ 2,433,560	\$ 1,040,517		\$ 28,803,144	

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

SANTA BARBARA FOUNDATION AND AFFILIATES

COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2102

(With Comparative Totals for the Year Ended December 31, 2011)

	2012	(Memo) 2011
Cash Flows from Operating Activities:		
Change in net assets	\$ 18,452,061	\$ 10,902,878
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	440,958	454,716
Net amortization of premium on investments	545,820	188,641
Realized gain on sale of securities	(4,006,067)	(3,629,964)
Unrealized loss (gain) on value of securities	(26,003,941)	7,531,153
Realized loss on disposal of assets	1,576	2,544
Provision for bad debts	75,000	100,000
Present value discount and loan forgiveness	1,561,003	7,764
Donated stock	(2,665,091)	(31,761,819)
Contributions restricted for long-term investment	(136,435)	(116,830)
(Increase) decrease in:		
Accounts receivable	75,724	(176,229)
Contributions receivable	1,583,761	6,407,965
Goodwill	2,342,154	-
Other current and non-current assets	(27,936)	212,733
Assets held under charitable trust agreements	248,474	709,868
Perpetual income interest	(740,437)	312,816
Increase (decrease) in:		
Accounts payable and accrued expenses	211,026	(196,277)
Grants payable	1,223,227	(68,030)
Liabilities under charitable trust agreements	(146,772)	(105,667)
Funds held for others	1,268,025	1,687,051
Net Cash Used by Operating Activities	(5,697,870)	(7,536,687)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(20,000)	(301,412)
Purchase of available-for-sale securities	(68,399,570)	(64,753,707)
Proceeds from sale of securities	71,157,291	67,122,344
Student loans disbursed	(699,050)	(781,978)
Student loan repayments	884,772	934,832
Net Cash Provided by Investing Activities	2,923,443	2,220,079
Cash Flows from Financing Activities:		
Contributions restricted for long-term investment	136,435	116,830
Payments on long-term debt	(50,851)	(26,329)
Net Cash Provided by Financing Activities	85,584	90,501
Net Decrease In Cash and Cash Equivalents	(2,688,843)	(5,226,107)
Cash and Cash Equivalents - January 1	22,917,746	28,143,853
Cash and Cash Equivalents - December 31	\$ 20,228,903	\$ 22,917,746

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ 208,187	\$ 265,227
Refinance of long-term debt	\$ -	\$ 3,656,584

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

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Santa Barbara Foundation (Foundation) 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. As one of the largest private sources of funding for area nonprofits, agencies, and college bound students, the Foundation builds and facilitates philanthropy through donor partnerships; invests in nonprofits to strengthen the nonprofit sector; and identifies and strategically addresses important community needs to solve problems.

Principles of Combination

The Orfalea Fund was organized in May, 2003 as a supporting organization to the Santa Barbara Foundation for the specific and primary purpose of benefiting, performing functions of, and engaging in charitable activities which are consistent with the charitable purposes of the Santa Barbara Foundation. As a result, the accounts of the Orfalea Fund are included in these financial statements.

The Incredible Children's Art Network, Inc., also known as "ICAN", was organized in April, 2011 as a supporting organization to the Santa Barbara Foundation for the specific and primary purpose of benefiting, performing functions of, and engaging in charitable activities which are consistent with the charitable purposes of the Santa Barbara Foundation. ICAN supports art and music initiatives in Santa Barbara through partnerships with public elementary schools. As a result, the accounts of ICAN are included in these financial statements.

Subsequent to December 31, 2011, the Board of Directors of Incredible Children's Art Network voted to dissolve ICAN, terminate the supporting organization agreement with the Santa Barbara Foundation, and relinquish the use of the name "Incredible Children's Art Network". Upon termination the Board of Directors of ICAN elected to transfer its remaining assets to a donor-advised fund at the Santa Barbara Foundation.

Highland Santa Barbara Foundation, Inc. was organized in November, 2011 as a supporting organization to the Santa Barbara Foundation for the specific and primary purpose of benefiting, performing functions of, and engaging in charitable activities which are consistent with the charitable purposes of the Santa Barbara Foundation. As a result, the accounts of Highland Santa Barbara Foundation, Inc. are included in these financial statements.

The Foundation has eliminated all material inter-organizational accounts and transactions with supporting organizations.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

Pacific Broadcasting Company (KDB) is a wholly owned subsidiary of the Foundation whose primary operating asset is a radio station located in Santa Barbara, CA. As a result, the accounts of KDB are included in these financial statements. The Foundation has eliminated all material inter-company accounts and transactions.

1111 Chapala Street, LLC is a wholly owned subsidiary of the Foundation whose primary operating asset is a commercial building located in Santa Barbara, CA. As a result, the accounts of 1111 Chapala Street, LLC are included in these financial statements. The Foundation has eliminated all material inter-company accounts and transactions.

Goodwill

Goodwill reflected on the balance sheet represents the cost of purchased goodwill related to the acquisition of KDB (a wholly owned subsidiary) in November 2003. Generally accepted accounting principles require that the value of purchased goodwill be evaluated annually to determine whether the amount reflected on the balance sheet as an asset has been impaired - that is, whether KDB's fair value as a going concern exceeds the carrying value of its net assets, including recorded goodwill. Goodwill impairment expense for the year ended December 31, 2012 totaled \$2,342,154 and was based upon an independent letter of opinion obtained by management.

Comparative Amounts

The amounts shown for 2011 in the accompanying financial statements are included to provide a basis for comparison with 2012 and are not intended to present all information necessary for a fair presentation of the 2011 financial statements in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

The Foundation considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments in Securities

The Foundation records investments in debt and equity securities with readily determinable market values 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. The Foundation 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 AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting. The Foundation reports information regarding its financial position and activities in three classes of net assets - unrestricted, temporarily restricted, and permanently restricted - based on the existence or absence of donor-imposed restrictions.

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

Unrestricted Net Assets

Unrestricted net assets represent unrestricted resources available for current support of Foundation activities.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Foundation that fulfill donor stipulations. Temporarily restricted net assets generally include planned gifts and contributions receivable. Earnings on temporarily restricted net assets are reported as an increase in temporarily restricted net assets. Earnings on donor-restricted endowment funds that have not yet been appropriated are also classified as temporarily restricted net assets. When a restriction expires temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions".

Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions and other inflows of funds subject to donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. Permanently restricted net assets generally include perpetual interest trusts where the Foundation is not the trustee of the assets. All income related to these trusts are reported as unrestricted contributions when received on the Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in permanently restricted net assets on the Statement of Activities. Permanently restricted net assets also consist of those donor-restricted endowments held by the Foundation as defined under the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

The Foundation carries financial instruments at cost, which approximates fair value.

Donated Property and Investments

Donated property and investments are recorded as contributions at their fair market value at date of receipt.

Property and Equipment

Property and equipment is stated at cost, or fair market value if donated. In general, the Foundation capitalizes assets with a cost of \$1,000 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:

Building and leasehold	10 – 40 years
Office and equipment	3 – 10 years
Furniture	5 – 10 years

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 financial statements include:

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

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Exempt Status

The Foundation is a California nonprofit public benefit corporation, which is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d); therefore, no provision for income taxes is required. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Foundation 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, 2012, the Foundation and Affiliates have no uncertain tax positions requiring accrual.

The Foundation and Affiliates file tax returns in California and U.S. federal jurisdictions. The Foundation and Affiliates are no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2009 and 2008, respectively.

Donated Services

Donated goods and services received by the Foundation are recorded at fair market value at the time of the donation. During 2012, numerous volunteers gave their time and expertise to the Foundation in a wide variety of areas including grant committees; administrative activities, technical and financial advice; and office and public relations activities. These contributions, despite their considerable value to the mission of the Foundation, are not reflected in the financial statements.

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. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Bequests

The Foundation accrues bequests when all the events required for the transfer of the assets from the estate of the donor to the Foundation have occurred and/or the court has issued an order to transfer the assets.

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. The Foundation records the rescission of grants in the year the grant is cancelled.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held for Others

The Foundation receives and distributes assets under certain agency and intermediary arrangements. If a not-for-profit organization (NPO) establishes a fund at the Foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, then the Foundation 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 for Others" on the accompanying combined and consolidated statement of financial position.

Subsequent Events

The Foundation has evaluated subsequent events through May 16, 2013, the date which the financial statements were available to be issued.

Student Loans

Policy

The Foundation provides financial assistance to qualified individuals through its student loan program. Students must attend an accredited two-or four-year college, university, vocational or medical school on a full-time basis. Loans are awarded on need and merit. Loans are interest-free. Repayment begins six months after the student graduates or leaves school.

Allowances for Amounts to Be Forgiven

Prior to 2010, the Foundation forgave one-half of the majority of its student loans if the loan never became delinquent. An allowance was computed for the portion of loans outstanding that would potentially not be collected because they would be forgiven. An annual adjustment to the allowance for amounts to be forgiven reduces the prior year allowance balance by amounts forgiven during the year. In 2010, the Foundation terminated its loan forgiveness policy. Students with loans awarded in 2010 going forward will be expected to repay the full amount.

Allowances for Uncollectible Loans

The Foundation considers its collection history of student loans receivable and provides an allowance for doubtful accounts in the amount which is considered uncollectible. Generally any loan past due for 90 days or more is considered doubtful.

Discount to Present Value

The Foundation discounts the outstanding student loan balance over the estimated repayment period using a 5% rate.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Unconditional promises are included in the financial statements as contributions and bequests receivable and revenue of the appropriate net asset category. A discount factor of 5% is applied to amounts receivable in more than one year. At December 31, 2012, contributions and bequests receivable are expected to be realized in the following periods:

In one year or less	\$ 3,712,144
In more than one year	526,314
Allowance for discount	<u>(133,313)</u>
Contributions and bequests receivable, net	<u>\$ 4,105,145</u>

Note 3 - NOTE RECEIVABLE

During 2008, a donor advised fund holder of the Foundation issued an interest-free loan in the amount of \$5,000,000 to a non-profit charitable organization. The distribution of the loan is within the scope of Foundation guidelines for advised funds.

With the respect to the \$5,000,000 loan, the donor requested that the Foundation forgive \$1,876,305 in 2008, \$766,733 in 2009, \$656,962 in 2010, zero in 2011, and \$1,700,000 in 2012, considering it a grant from the advised fund. The amount forgiven was matched through a fundraising effort by the non-profit. In addition, the receivable was adjusted by \$158,050 (the imputed discount on the loan recorded as a grant) for a net balance of zero as of December 31, 2012.

Note 4 - STUDENT LOANS

Student loan balances are comprised of the following as of December 31, 2012:

Total student loan balances	\$ 7,321,351
Allowance for amounts to be forgiven	(3,085,140)
Discount to present value	(678,782)
Allowance for uncollectible loans	<u>(115,555)</u>
Net student loan balance	<u>\$ 3,441,874</u>

Management estimates the student loan repayments will be received as follows:

Receivable in less than one year	\$ 750,000
Receivable in one to eight years	2,807,429
Allowance for uncollectible loans	<u>(115,555)</u>
Net student loan balance	<u>\$ 3,441,874</u>

The student loans are administered by the Scholarship Foundation of Santa Barbara. Total fees paid to the Scholarship Foundation of Santa Barbara for the administration of the student loans for the first six months in 2012 was \$100,222. Starting in July 2012, a grant of \$85,100 was awarded in lieu of fees.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - INVESTMENTS

Investments are presented in the financial statements at fair market 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 balance sheet date. These amounts are not necessarily indicative of the amounts the Foundation could realize in a current market exchange. Realized and unrealized gains and losses on investments are reflected in the Statement of Activities. At December 31, 2012, investments consisted of the following:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Domestic equities	\$ 33,167,234	\$ 38,895,616	\$ 5,728,382
International equities	34,932,363	41,002,610	6,070,247
Domestic fixed income	46,140,340	48,354,470	2,214,130
International fixed income	8,536,399	12,433,552	3,897,153
Fixed income (illiquid)	23,800,000	39,600,000	15,800,000
Real assets	21,184,883	18,469,915	(2,714,968)
Hedge funds	14,878,514	16,424,778	1,546,264
Private equity	12,166,288	14,221,260	2,054,972
Partnerships	4,415,042	5,459,214	1,044,172
Total	<u>\$ 199,221,063</u>	<u>\$ 234,861,415</u>	<u>\$ 35,640,352</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 the year	\$ 199,221,063	\$ 234,861,415	\$ 35,640,352
Balance at beginning of the year	\$ 196,260,996	\$ 205,489,858	\$ 9,228,862
Net change in unrealized gain			<u>\$ 26,411,490</u>

The following summarizes the investment return included as unrestricted revenue and temporarily restricted revenue on donor-restricted endowment funds in the statement of activities for the year ended December 31, 2012:

Investment and dividend income	\$ 5,622,572
Realized loss on value of securities	4,136,787
Unrealized loss on value of securities	26,411,490
Less investment return allocated to others	(676,849)
Investment fees	(306,646)
Total Investment Return	<u>\$ 35,187,354</u>

For the year ended December 31, 2012, approximately 44% of the unrealized gains were attributable to the Highland Capital supporting organization's illiquid fixed income investments. The amounts are based upon an annual independent third-party valuation using the same techniques as prior years.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - FAIR VALUE MEASUREMENT

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provides the framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Foundation to sell an asset or be paid by the Foundation 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. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3) described as follows:

The standard describes three levels of inputs that may be 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 active 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; including general partner estimates and recent third-party appraisals.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement 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 market valuation 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. Level 3 securities can include hedge funds, private equity, special purpose vehicles, real assets, and partnerships.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents assets and liabilities recognized in the accompanying Statement of Financial Position measured at fair value on a recurring basis and the level in which the fair value measurements fall at December 31, 2012:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Domestic equities	\$ 38,895,616	\$ -	\$ -	\$ 38,895,616
International equities	41,002,609	-	-	41,002,609
Domestic fixed income	48,354,471	-	-	48,354,471
International fixed income	12,433,552	-	-	12,433,552
Fixed Income (illiquid)	-	-	39,600,000	39,600,000
Real assets	7,185,173	-	11,284,743	18,469,916
Hedge funds	910,973	-	15,513,804	16,424,777
Private equity	-	-	14,221,260	14,221,260
Partnerships	-	-	5,459,214	5,459,214
Total Investments	<u>148,782,394</u>	<u>-</u>	<u>86,079,021</u>	<u>234,861,415</u>
Perpetual income trusts	12,502,434	-	-	12,502,434
Pooled income funds	710,540	-	-	710,540
Charitable gift annuities	1,564,081	-	-	1,564,081
Charitable trusts, life policy	-	-	6,089,621	6,089,621
Goodwill	-	-	1,250,000	1,250,000
Assets held in trust	<u>882,697</u>	<u>-</u>	<u>-</u>	<u>882,697</u>
Total assets measured at fair value	<u>\$ 164,442,147</u>	<u>\$ -</u>	<u>\$ 93,418,642</u>	<u>\$ 257,860,789</u>
Charitable trust liabilities measured at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,623,245</u>	<u>\$ 1,623,245</u>

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

Domestic and international equities – includes investment in domestic and international equities of varying market capitalizations represents part of our investment portfolio. Equities are held as separate ownership shares of a specific company or in the form of mutual funds.

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

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, Highland Santa Barbara Inc. This partnership interest is illiquid and non-redeemable.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - FAIR VALUE MEASUREMENT (CONTINUED)

Real assets – includes one open-end value added real estate fund that invest primarily in U.S. real estate; and 7 limited partnerships which invest in a diverse group of private real estate investment trusts, or similar entities that focus on the acquisition, redevelopment, operation and management of commercial real estate properties; a real asset mutual fund and several real asset fund of funds invested in partnerships focused on natural resources: timber, mining, energy, etc. None of the real asset partnerships are liquid and cannot be redeemed. Unfunded commitments totaled \$3,876,421.

Hedge funds – includes one fund of funds rather than individually separate accounts. Redemptions are in process for two existing funds. This fund includes multiple investment strategies such as convertible arbitrage, merger arbitrage, long/short, special situations, distressed, global macro, and other strategies to diversify risks and reduce volatility. Funds are redeemable quarterly based on a 100 day notice.

Private equity– includes 11 broadly diversified private equity partnerships with varying allocations to buyouts, venture capital, special situations, and secondary funds. Holdings are invested in diversified portfolio of investment partnerships, each of which has a defined term, typically 10-14 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 \$6,512,098. All of these private equity interests are illiquid and non-redeemable.

Partnerships – includes a 24% interest in one partnership that consists of real estate holdings. Distributions from this partnership vary from year to year and are controlled by the general partner. Another partnership of which we hold a 7.7% interest is comprised of many different partnerships with both domestic and international exposure. This partnership is in the process of liquidation. A new partnership with which we hold a 48.059 interest was added in 2012 with a fair market value of \$4,060,000. The partnership has real estate holdings. This partnership interest will terminate in June 2027. All of these partnership interests are illiquid and non-redeemable.

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) during 2012:

<u>Description</u>	<u>Beginning Balance</u>	<u>Net Gains and (Losses)</u>	<u>Contributions Purchases and Issuances</u>	<u>Sales and Settlements</u>	<u>Ending Balance</u>
Fixed Income - illiquid	\$ 23,800,000	\$ 15,800,000	\$ -	\$ -	\$ 39,600,000
Real assets	9,674,870	464,071	1,270,284	(124,482)	11,284,743
Hedge funds	14,711,806	1,295,767	-	(493,771)	15,513,804
Private equity	12,407,381	506,974	2,307,284	(1,000,378)	14,221,260
Partnerships	1,399,213	-	4,060,000	-	5,459,214
Goodwill	3,592,154	(2,342,154)	-	-	1,250,000
Charitable trusts/others	6,048,440	(332,049)	373,230	-	6,089,621
Total	<u>\$ 71,633,864</u>	<u>\$ 15,392,610</u>	<u>\$ 8,010,797</u>	<u>\$ (1,618,631)</u>	<u>\$ 93,418,642</u>

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - FAIR VALUE MEASUREMENT (CONTINUED)

The Foundation 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 totaled \$10,388,519 as of December 31, 2012. As of December 31, 2012, approximately 7% of the investment portfolio valued at \$15,513,804 was subject to redemption restrictions on a quarterly basis and an additional 30% of the portfolio valued at \$70,565,217 was invested in illiquid real estate, private equity, and private limited partnership investment funds with no ability to redeem the funds except at termination.

The following table sets forth additional disclosures of the organization's investments at Level 3 whose fair market values are estimated using net asset value per share:

<u>Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fixed Income- illiquid	\$ 39,600,000	\$ -	Non-redeemable	-
Real Assets	11,284,743	3,876,421	Non-redeemable	-
Hedge Funds:				
Mercer	14,127,220	-	Quarterly	100 days
Silvercreek	1,239,151	-	In redemption	-
AG Super	147,433	-	In redemption	-
Private Equity	14,221,260	6,512,098	Non-redeemable	-
Partnerships	5,459,214	-	Non-redeemable	-
Total	<u>\$ 86,079,021</u>	<u>\$ 10,388,519</u>		

Note 7 - 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. The Foundation records such split-interest agreements held in charitable remainder trusts, charitable gift annuities, and pooled income funds as follows:

Charitable Gift Annuities and Pooled Income Funds

Charitable gift annuity donors have contributed assets to the Foundation in exchange for a promise by the Foundation 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 the Foundation, and the liability is an obligation of the Foundation. The Foundation records new gifts at the fair market 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 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. A discount rate of 5% is used to determine the change in value. The change in value is recorded in the Statement of Activities under changes in value of charitable remainder trusts. The total fair market value of the 47 charitable gift annuities was \$1,564,080 with a corresponding present value liability of \$1,005,966 at December 31, 2012.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - SPLIT-INTEREST AGREEMENTS AND DEFERRED FUNDS (CONTINUED)

Charitable Gift Annuities and Pooled Income Funds (continued)

Pooled Income Fund donors have contributed assets to the Foundation 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 the Foundation. The fair market value of the asset is recorded in the Foundation's Statement 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 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. The change in value is recorded in the Statement of Activities under changes in value of charitable remainder trusts. The fair market value of the pooled income funds at December 31, 2012, was \$710,540 with a corresponding present value liability of \$244,637.

Charitable Remainder Trusts

The Foundation 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. The Foundation 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 market value, generally limited to net income or net income with make-up provisions.

If the Foundation is the trustee, the fair market value of the trust is recorded in the Foundation's statement 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 market value of these five trusts was \$882,697 with a corresponding payment liability for future payments of \$372,641 at December 31, 2012.

If the Foundation 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, 2012 the net present value of these trusts where the Foundation is not the trustee was \$4,658,538 including both life insurance policies.

The Foundation is named income beneficiary for one charitable lead annuity trust. The trust asset is calculated based on the present value of the expected annual annuity payments over the remaining years. The present value of the trust at December 31, 2012, was \$1,431,083.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - SPLIT-INTEREST AGREEMENTS AND DEFERRED FUNDS (CONTINUED)

Perpetual Income Trust Interest

The Foundation is named as an income beneficiary of seven perpetual trusts, the corpus of which is not controlled by the management of the Foundation. Under these arrangements, the Foundation 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. The Foundation also has a future interest in the income of assets yet to be received by one of the above trusts.

Since the Foundation is a beneficiary of this stream of income in perpetuity, the Foundation's share of the fair market value of the trusts' investments is recorded as an asset, with a fair market value of \$12,502,433 at December 31, 2012. Any change in subsequent years in the fair market value of the Foundation's share of the trust investments is recorded in the Statement of Activities as a change in value of interest in trusts.

Note 8 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012, consists of the following:

Building and leasehold improvements	\$ 12,787,312
Land	1,680,000
Loan Fees	38,812
Office equipment	562,276
Donated artwork	7,500
Furniture	382,358
Broadcasting assets	276,059
Automobiles	<u>51,262</u>
Total property and equipment	15,785,578
Less accumulated depreciation and amortization	<u>(2,463,580)</u>
Property and equipment, net	<u>\$ 13,321,999</u>

Note 9 - NOTE PAYABLE

The Foundation refinanced the note payable on the 1111 Chapala Street building in 2011. The new loan, payable to Montecito Bank & Trust, is secured by the property. There are monthly principal and interest payments of \$18,492 at an interest rate of 4.375% with a final balloon payment of \$2,946,063 due on October 20, 2021. Maturities of long-term mortgage for years ended December 31 are as follows:

2013	\$ 63,233
2014	66,096
2015	69,088
2016	71,789
2017	75,465
Thereafter	<u>3,257,188</u>
Total	<u>\$ 3,602,859</u>

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - GRANTS

Future minimum grants payable are as follows for the year ended December 31:

2013	\$ 2,305,737
2014	868,553
2015	123,804
2016	73,804
2017	<u>25,454</u>
Subtotal	3,397,352
Less Discount	<u>(49,939)</u>
Grants Payable	3,347,413
Less current portion	<u>(2,305,737)</u>
Long-term portion	<u>\$ 1,041,676</u>

Grant expense is comprised of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Donor advised fund	\$ 10,771,131	\$ 6,423,025
Competitive	2,927,469	3,263,143
The Orfalea Fund	4,247,833	4,308,781
Highland Santa Barbara	331,656	100,000
Incredible Children's Art Network	-	630,417
Field of interest	3,941,306	4,507,829
Other	921,770	505,504
Donor designated	<u>1,325,769</u>	<u>1,362,136</u>
Total Grants, net of rescinds	<u>\$ 24,446,934</u>	<u>\$ 21,100,835</u>

Note 11 - RELATED PARTY TRANSACTIONS

Santa Barbara Foundation

A majority of trustees and committee members of the Foundation also serve as trustees of entities receiving grants and support from the Foundation. 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.

The Orfalea Fund

The Fund's staff members are employees of New Resources Consulting, LLC (NRC), a related party owned by two board members. The Fund reimburses NRC on a monthly basis for the cost of their staff and records such reimbursements as payroll, payroll taxes and employee benefits expense. Payroll expense for the year ended December 31, 2012 was \$1,967,295.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - RELATED PARTY TRANSACTIONS (CONTINUED)

The Orfalea Fund (continued)

The Fund shares staff and operating expenses with The Orfalea Family Foundation, a related party. Operating expenses are allocated between the two organizations based on certain agreed upon percentages. The Fund pays all operating expenses and is reimbursed by the Orfalea Family Foundation. In addition, the Fund operates in a building owned by The Orfalea Family Foundation, located at 1283 Coast Village Circle, Santa Barbara, which is provided to the Fund free of rent. The estimated fair value of this office space for the year ended December 31, 2012 was \$120,595, and has been recorded in the combined and consolidated statement of activities as contribution income and rental expense.

The Fund's investment portfolio is managed by West Coast Asset Management, Inc. (WCAM), a related party partially owned by a board member of the Fund. The Fund obtained proposals from various other investment managers, and determined that the use of WCAM was in the best interest of the Fund. The board member holding an interest in WCAM was excluded from voting on the matter. No investment fees were paid to WCAM in 2012. For the year ended December 31, 2012, the estimated fair value for investment services was approximately \$57,585 and has not been recorded in the combined and consolidated statement of activities.

During the year 2000, two of the Fund's directors made a restricted contribution to an unrelated nonprofit organization's child care center endowment fund. In 2012, when the child care center closed and the intent of the gift could no longer be fulfilled, the Fund's directors requested that the unrelated nonprofit organization redirect the contribution to the Fund. This transaction has been recorded as a current year unrestricted contribution of \$902,520 in the accompanying combined and consolidated statement of activities.

Note 12 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by the passage of time or by satisfying the restricted purposes specified by donors. For the year ended December 31, 2012, net assets released from restriction totaled \$5,135,966.

Note 13 - CONCENTRATIONS AND RISKS

Credit Risk

The Foundation maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC) under a special government guarantee program until December 31, 2012, and other bank account balances are kept within the limits insured by FDIC. As of December 31, 2012, all bank cash balances fall within this program.

Subsequent to December 31, 2012, the Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit at any one institution. The Foundation had uninsured cash of approximately \$12,200,000 deposited with four different banks.

In addition, the Foundation maintains significant cash balances in money market funds. Such balances are not fully insured.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - CONCENTRATIONS AND RISKS (CONTINUED)

Concentrations

For the year ended December 31, 2012, 44% of the unrealized gains were attributable to the Highland Santa Barbara Foundation, Inc. supporting organization's illiquid fixed income investments.

For the year ended December 31, 2011, 59% of the total revenue, gains, and other support were attributable to a single donation made to Highland Santa Barbara Foundation, Inc.

A majority of donors to the Foundation are from Santa Barbara County.

Market Risk

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

Note 14 - ENDOWMENT FUNDS

Interpretation of Relevant Law

The Board of Trustees of the Foundation, in concurrence with the advise 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, the Foundation has classified with the explicit prohibition by the donor as permanently restricted net assets (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 funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation 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 the Foundation 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.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 14 - ENDOWMENT FUNDS (CONTINUED)

Endowment Investment and Spending Policies

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 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 periods. 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.

The Foundation'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 the Foundation'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 overtime. The Foundation also provides three other investment options for donors that have a shorter time horizon and more immediate spending needs.

The Foundation 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 the Foundation's various discretionary funds and other endowed funds for grant making, student aid, and administrative support. The current spending policy in 2012 for discretionary funds was 6%, while other endowed funds was 5%. 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, the Foundation expects current spending policy to allow its endowment assets to grow.

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 the Foundation 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 unrestricted net assets. Such deficiencies may result from unfavorable market fluctuations, particularly if the funds were invested in the endowment pool shortly prior to significant market declines. As of December 31, 2012, the Foundation held nine endowment funds where the principal had fallen below the original corpus due to market conditions. The amount of the shortfall totaled \$1,353,020. In addition, the Foundation held nine other non-endowed funds where the principal had fallen below the original corpus due to market conditions. The amount of the shortfall on these funds totaled \$211,105.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 14 - ENDOWMENT FUNDS (CONTINUED)

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (2,860,946)	\$ 2,583,200	\$ 44,099,829	\$ 43,822,082
Net investment return (investment income, realized and unrealized gains and losses)	2,658,926	2,148,660	-	4,807,586
Contributions	-	-	136,435	136,435
Appropriation of endowment assets for expenditure	<u>(1,151,000)</u>	<u>(995,364)</u>	<u>-</u>	<u>(2,146,363)</u>
Endowment net assets, end of year	<u>\$ (1,353,020)</u>	<u>\$ 3,736,496</u>	<u>\$ 44,236,264</u>	<u>\$ 46,619,740</u>

The Foundation did not classify any assets as board-restricted endowment funds as of December 31, 2012.

Note 15 - COMMITMENTS

The Foundation has entered into a consulting agreement with a former Foundation executive requiring monthly payments of \$4,000 (\$48,000 per year) for a period of ten years ending December 31, 2018. The total commitment for the consulting agreement as of December 31, 2012 was \$288,000.

Note 16 - RETIREMENT PLANS

Santa Barbara Foundation

Foundation employees who work at least 20 hours per week are eligible to participate in a deferred salary savings plan under Section 403(b) of the Internal Revenue Code after one full calendar month of services. The Foundation matches at its discretion up to 2% of the eligible salary upon participation. For eligible employees with more than one year of service the Foundation at its discretion contributes up to an additional 8% of the participant's eligible salary for a total of 10%. Foundation employer contributions for the year ended December 31, 2012 totaled \$195,699.

In addition, the Foundation has a non-qualified deferred compensation plan. Foundation employer contributions for the year ended December 31, 2012 totaled \$5,667.

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 16 - RETIREMENT PLANS (CONTINUED)

The Orfalea Fund

The Fund offers a salary deferral plan as described in Section 401(k) of the Internal Revenue Code. The plan is maintained by NRC, and the Fund reimburses NRC for its share of the expenses, which is split with The Orfalea Family Foundation. All employees over the age of 21 are eligible to participate. Employer contributions to the plan are matching contributions in an amount equal to 100% of employee contributions up to the annual allowable IRC limit. Participants are immediately vested in all contributions and earnings thereon. Employer contributions for the year ended December 31, 2012 was \$184,715.

The Fund has a flexible benefit plan (Plan) that permits participants to elect to receive benefits for themselves and their eligible dependents under various component plans, which provide health, dental, vision, dependent care, adoption assistance, life insurance, and disability benefits. The plan is maintained by NRC, and the Fund reimburses NRC for its share of the expenses, which is split with The Orfalea Family Foundation. It is intended that the Plan qualify under Section 125 of the IRC as a cafeteria plan. Employees are eligible to participate in the Plan when hired. The Plan includes a flexible spending account option which allows employee contributions through compensation reduction payments. The Fund pays all administrative costs of the Plan.

Note 17 - RECLASSIFICATION

Certain amounts from the December 31, 2011 financial statements have been reclassified to conform with the December 31, 2012 financial statement presentation.

Note 18 - NET ASSETS

Unrestricted Restricted Net Assets

As of December 31, 2012, unrestricted net assets consist of the following:

Supporting organizations	\$ 59,290,888
Student aid	7,061,566
Donor-advised funds	33,668,771
Field of Interest funds	14,883,428
Donor designated funds	2,799,739
Undesignated funds	95,013,926
Donor-restricted endowment deficit	<u>(1,353,020)</u>
Total unrestricted net assets	<u>\$ 211,365,298</u>

SANTA BARBARA FOUNDATION AND AFFILIATES

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

Note 18 - NET ASSETS (CONTINUED)

Temporarily Restricted Net Assets

As of December 31, 2012, temporarily restricted net assets consist of the following:

Pledges receivable	\$ 3,983,693
Split-interest agreements	7,623,694
Donations with time restrictions	50,000
Un-appropriated earnings on endowments	<u>3,736,496</u>
Total temporarily restricted net assets	<u>\$ 15,393,883</u>

Permanently Restricted Net Assets

As of December 31, 2012, permanently restricted net assets consist of the following:

Perpetual interest trusts	\$ 12,502,433
Donor-restricted bequest receivable	121,452
Donor-restricted endowment funds	<u>44,114,812</u>
Total permanently restricted net assets	<u>\$ 56,738,697</u>

SUPPLEMENTARY INFORMATION

SANTA BARBARA FOUNDATION

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL INFORMATION EXCLUSIVE OF PACIFIC BROADCASTING COMPANY, THE ORFALEA FUND, 1111 CHAPALA STREET, LLC, AND HIGHLAND SANTA BARBARA FOUNDATION, INC.

ASSETS, LIABILITIES, AND NET ASSETS

December 31, 2012 and 2011

	2012	2011
CURRENT ASSETS		
Cash and equivalents	\$ 17,106,537	\$ 18,858,587
Other current assets (Note A)	5,140,527	6,836,658
Total Current Assets	22,247,064	25,695,245
INVESTMENTS	175,119,870	156,064,473
OTHER ASSETS (Note A)	36,167,997	41,065,819
TOTAL ASSETS	\$ 233,534,931	\$ 222,825,537
LIABILITIES		
Current liabilities	\$ 334,695	\$ 434,803
Other liabilities	8,742,433	7,439,224
Total Liabilities	9,077,128	7,874,027
NET ASSETS	224,457,803	214,951,510
TOTAL LIABILITIES AND NET ASSETS	\$ 233,534,931	\$ 222,825,537

ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2012 and 2011

	2012	2011
REVENUE, GAINS, AND OTHER SUPPORT		
Contributions (Note A)	\$ 16,961,633	\$ 15,482,946
Investment income	14,589,795	(576,113)
Other support	2,604,670	181,315
Total Revenue, Gains, and Other Support	34,156,098	15,088,148
EXPENSES		
Grants and program expenses	21,705,767	17,877,068
Other expenses	2,944,038	3,993,310
Total Expenses	24,649,805	21,870,378
CHANGE IN NET ASSETS	9,506,293	(6,782,230)
NET ASSETS, BEGINNING OF YEAR	214,951,510	221,733,740
NET ASSETS, END OF YEAR	\$ 224,457,803	\$ 214,951,510

Note A - The Orfalea Fund grants to the Santa Barbara Foundation for the year ended December 31, 2012 and 2011 totaled \$300,000 and \$1,426,000, respectively. As of December 31, 2012 and 2011, pledges receivable from the Orfalea Fund totaled \$356,000 and \$760,000, respectively. These amounts have been present valued using a discount rate of 5% and have been eliminated in combination.

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

THE ORFALEA FUND

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL INFORMATION

ASSETS, LIABILITIES, AND NET ASSETS

December 31, 2012 and 2011

	2012	2011
CURRENT ASSETS		
Cash and equivalents	\$ 2,925,067	\$ 1,892,948
Other current assets	263,984	352,641
Total Current Assets	<u>3,189,051</u>	<u>2,245,589</u>
INVESTMENTS	20,141,545	25,625,412
OTHER ASSETS	<u>13,423</u>	<u>23,405</u>
TOTAL ASSETS	<u>\$ 23,344,019</u>	<u>\$ 27,894,406</u>
LIABILITIES		
Current liabilities	\$ 2,606,663	\$ 2,409,262
Other liabilities	1,005,194	255,658
Total Liabilities (Note B)	<u>3,611,857</u>	<u>2,664,920</u>
NET ASSETS	<u>19,732,162</u>	<u>25,229,486</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,344,019</u>	<u>\$ 27,894,406</u>

ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2012 and 2011

	2012	2011
REVENUE, GAINS, AND OTHER SUPPORT		
Contributions	\$ 1,073,115	\$ 374,782
Investment income	1,015,499	676,636
Other support	39,974	39,900
Total Revenue, Gains, and Other Support	<u>2,128,588</u>	<u>1,091,318</u>
EXPENSES		
Grants and program expenses (Note B)	6,971,528	7,781,908
Other expenses	654,384	515,682
Total Expenses	<u>7,625,912</u>	<u>8,297,590</u>
CHANGE IN NET ASSETS	(5,497,324)	(7,206,272)
NET ASSETS, BEGINNING OF YEAR	<u>25,229,486</u>	<u>32,435,758</u>
NET ASSETS, END OF YEAR	<u>\$ 19,732,162</u>	<u>\$ 25,229,486</u>

Note B - The Orfalea Fund grants to the Santa Barbara Foundation for the year ended December 31, 2012 and 2011 totaled \$300,000 and \$1,426,000, respectively. As of December 31, 2012 and 2011, pledges receivable from the Orfalea Fund totaled \$356,000 and \$760,000, respectively. These amounts have been present valued using a discount rate of 5% and have been eliminated in combination.

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

PACIFIC BROADCASTING COMPANY

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL INFORMATION

ASSETS, LIABILITIES, AND EQUITY

December 31, 2012 and 2011

	2012	2011
CURRENT ASSETS		
Cash and equivalents	\$ 13,415	\$ 100,614
Other current assets	71,664	144,516
Total Current Assets	85,079	245,130
OTHER ASSETS	1,257,278	3,604,652
TOTAL ASSETS	\$ 1,342,357	\$ 3,849,782
LIABILITIES	\$ 58,171	\$ 160,201
EQUITY	1,284,186	3,689,581
TOTAL LIABILITIES AND EQUITY	\$ 1,342,357	\$ 3,849,782

REVENUE AND EXPENSE

For the Years Ended December 31, 2012 and 2011

	2012	2011
REVENUE AND OTHER INCOME		
Broadcasting income	\$ 456,530	\$ 411,177
Other income (loss)	(481)	677
Total Revenue and Other Income	456,049	411,854
EXPENSES (includes goodwill impairment of \$2,342,154)	3,171,802	708,136
NET LOSS	(2,715,753)	(296,282)
EQUITY, BEGINNING OF YEAR	3,689,581	3,780,863
CONTRIBUTIONS	310,358	205,000
EQUITY, END OF YEAR	\$ 1,284,186	\$ 3,689,581

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

1111 CHAPALA STREET, LLC

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL INFORMATION

ASSETS, LIABILITIES, AND EQUITY

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and equivalents	\$ 81,862	\$ 508,312
Other current assets	339	1,021
Total Current Assets	<u>82,201</u>	<u>509,333</u>
FIXED ASSETS (net of depreciation and amortization)	<u>11,407,170</u>	<u>11,698,772</u>
TOTAL ASSETS	<u>\$ 11,489,371</u>	<u>\$ 12,208,105</u>
LIABILITIES	\$ 3,703,452	\$ 3,874,861
EQUITY	<u>7,785,919</u>	<u>8,333,244</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 11,489,371</u>	<u>\$ 12,208,105</u>

REVENUE AND EXPENSE

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUE AND OTHER INCOME		
Rent	\$ 634,640	\$ 626,996
Common area reimbursements	160,085	219,645
Total Revenue and Other Income	<u>794,725</u>	<u>846,641</u>
EXPENSES		
Common area expenses	136,308	168,527
Interest	208,187	265,227
Other expenses	58,612	26,462
Depreciation and Amortization	291,602	295,524
Total Expenses	<u>694,709</u>	<u>755,740</u>
NET INCOME	100,016	90,901
EQUITY, BEGINNING OF YEAR	8,333,244	8,242,343
DISTRIBUTIONS	<u>(647,341)</u>	<u>-</u>
EQUITY, END OF YEAR	<u>\$ 7,785,919</u>	<u>\$ 8,333,244</u>

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

HIGHLAND SANTA BARBARA FOUNDATION, INC.

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL INFORMATION

ASSETS, LIABILITIES, AND NET ASSETS

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH AND EQUIVALENTS	\$ -	\$ 117,639
INVESTMENTS	<u>39,600,000</u>	<u>23,800,000</u>
TOTAL ASSETS	<u>\$ 39,600,000</u>	<u>\$ 23,917,639</u>
LIABILITIES	\$ 3,229	\$ -
EQUITY	<u>39,596,771</u>	<u>23,917,639</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 39,600,000</u>	<u>\$ 23,917,639</u>

ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2012 and the Period of November 22, 2011 (inception) to December 31, 2011

REVENUE AND GAINS		
Investment income	\$ 16,822,156	\$ -
Contributions	<u>-</u>	<u>24,028,333</u>
Total Revenue and Gains	<u>16,822,156</u>	<u>24,028,333</u>
EXPENSES		
Program	1,016,656	100,000
Management and general	<u>126,368</u>	<u>10,694</u>
Total Expenses	<u>1,143,024</u>	<u>110,694</u>
CHANGE IN NET ASSETS	15,679,132	23,917,639
NET ASSETS, BEGINNING OF YEAR	<u>23,917,639</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u>\$ 39,596,771</u>	<u>\$ 23,917,639</u>

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