

**SANTA BARBARA FOUNDATION**  
**CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**SANTA BARBARA FOUNDATION**

DECEMBER 31, 2017

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Santa Barbara Foundation  
Santa Barbara, California

We have audited the accompanying consolidated financial statements of the Santa Barbara Foundation (a non-profit organization) and its supporting organizations and affiliates which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the 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.

## **Emphasis-of-matter**

As referenced in Notes 1, 6, and 7 to the consolidated financial statements, the consolidated statement of financial position includes investments valued at \$135,789,413 (26% of net assets) as of December 31, 2017, 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.

As discussed in Note 1 to the consolidated financial statements, as of December 31, 2017, the Foundation adopted Accounting Standards Update ("ASU") 2016-14, Presenting Financial Statements for Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara Foundation and its supporting organizations and affiliates as of December 31, 2017, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Santa Barbara Foundation and its supporting organizations and affiliates' 2016 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated September 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Santa Barbara, California

August 22, 2018

**SANTA BARBARA FOUNDATION**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

December 31, 2017

(With Comparative Totals for December 31, 2016)

	<b>ASSETS</b>			(Memo)
	Without Donor Restrictions	With Donor Restrictions	2017 Total	2016 Total
<b>Current Assets</b>				
Cash and cash equivalents	\$ 33,950,347	\$ -	\$ 33,950,347	\$ 25,972,528
Accounts receivable	15,960	-	15,960	6,242
Contributions and bequests receivable, current portion	370,000	400	370,400	220,000
Student loans receivable, current portion	400,000	-	400,000	500,000
Notes receivable, current portion	1,500,000	-	1,500,000	1,500,000
Mission related investments, current portion	53,000	-	53,000	-
Other current assets	112,570	-	112,570	109,743
Total Current Assets	<u>36,401,877</u>	<u>400</u>	<u>36,402,277</u>	<u>28,308,513</u>
Investments	278,111,181	48,728,257	326,839,438	282,058,266
Property and equipment, net	14,305,033	-	14,305,033	14,720,497
<b>Other Assets</b>				
Contributions and bequests receivable, net of current portion	74,275,491	174,593	74,450,084	167,079
Student loans receivable, net of current portion	1,191,121	-	1,191,121	1,458,530
Notes receivable, net of current portion	3,339,301	-	3,339,301	3,021,101
Mission related investments, net of current portion	417,413	-	417,413	373,597
Assets held under charitable trust agreements	-	65,240,296	65,240,296	15,876,926
Perpetual income interest	-	15,645,617	15,645,617	14,154,961
Total Other Assets	<u>79,223,326</u>	<u>81,060,506</u>	<u>160,283,832</u>	<u>35,052,194</u>
<b>Total Assets</b>	<b><u>\$ 408,041,417</u></b>	<b><u>\$ 129,789,163</u></b>	<b><u>\$ 537,830,580</u></b>	<b><u>\$ 360,139,470</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 541,987	\$ -	\$ 541,987	\$ 593,680
Grants payable, current portion	520,000	-	520,000	350,000
Note payable, current portion	81,922	-	81,922	78,580
Total Current Liabilities	<u>1,143,909</u>	<u>-</u>	<u>1,143,909</u>	<u>1,022,260</u>
<b>Other Liabilities</b>				
Grants payable, net of current portion	151,871	-	151,871	200,000
Note payable, net of current portion	3,166,153	-	3,166,153	3,248,036
Liabilities under charitable trust agreements	-	1,548,881	1,548,881	1,557,600
Funds held on behalf of others	18,545,986	-	18,545,986	15,586,846
Other non-current liabilities	72,414	-	72,414	78,297
Total Other liabilities	<u>21,936,424</u>	<u>1,548,881</u>	<u>23,485,305</u>	<u>20,670,779</u>
Total Liabilities	23,080,333	1,548,881	24,629,214	21,693,039
Net Assets	<u>384,961,084</u>	<u>128,240,282</u>	<u>513,201,366</u>	<u>338,446,431</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 408,041,417</u></b>	<b><u>\$ 129,789,163</u></b>	<b><u>\$ 537,830,580</u></b>	<b><u>\$ 360,139,470</u></b>

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

**SANTA BARBARA FOUNDATION**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the Year Ended December 31, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

	Without Donor Restrictions	With Donor Restrictions	2017 Total	(Memo) 2016 Total
<b>Revenue, Gains, and Other Support</b>				
Contributions and bequests	\$ 119,083,264	\$ 326,104	\$ 119,409,368	\$ 34,687,476
Less: Contributions raised on behalf of others	<u>(1,825,940)</u>	<u>-</u>	<u>(1,825,940)</u>	<u>(2,023,751)</u>
Total Contributions and bequests	117,257,324	326,104	117,583,428	32,663,725
Investment income	35,333,839	4,097,961	39,431,800	39,266,098
Less: Investment income on behalf of others	<u>(2,110,992)</u>	<u>-</u>	<u>(2,110,992)</u>	<u>(833,422)</u>
Total Investment income	33,222,847	4,097,961	37,320,808	38,432,676
Change in value of interests in perpetual trusts	-	1,493,934	1,493,934	846,518
Change in value of charitable remainder trusts	-	1,271,657	1,271,657	274,794
Charitable remainder trust contributions	-	49,907,500	49,907,500	4,678,081
Rental (net of expenses of \$604,866 and \$606,259)	(68,830)	-	(68,830)	(24,412)
Other income	797,667	-	797,667	224,367
Net assets released from restrictions:				
Available for distribution per spending policy	2,104,452	(2,104,452)	-	-
Reclassification and other releases from restrictions	<u>1,659,397</u>	<u>(1,659,397)</u>	<u>-</u>	<u>-</u>
<b>Total Revenue, Gains and Other Support</b>	<u>154,972,857</u>	<u>53,333,307</u>	<u>208,306,164</u>	<u>77,095,749</u>
<b>Expenses</b>				
Program services:				
Grants, net of rescinds	26,618,404	-	26,618,404	22,703,904
Less: Grants made on behalf of others	<u>(568,546)</u>	<u>-</u>	<u>(568,546)</u>	<u>(1,031,534)</u>
Total Grants, net of rescinds	26,049,858	-	26,049,858	21,672,370
Activities:				
Grant making	1,725,991	-	1,725,991	1,641,887
Direct program	<u>880,143</u>	<u>-</u>	<u>880,143</u>	<u>426,854</u>
Total Program Services	28,655,992	-	28,655,992	23,741,111
Support services:				
Administrative and fund management	3,163,822	-	3,163,822	3,136,018
Fundraising and development	<u>1,731,415</u>	<u>-</u>	<u>1,731,415</u>	<u>1,426,335</u>
Total Support Services	4,895,237	-	4,895,237	4,562,353
<b>Total Expenses</b>	<u>33,551,229</u>	<u>-</u>	<u>33,551,229</u>	<u>28,303,464</u>
<b>Change in Net Assets</b>	<b>121,421,628</b>	<b>53,333,307</b>	<b>174,754,935</b>	<b>48,792,285</b>
Net Assets, January 1	<u>263,539,456</u>	<u>74,906,975</u>	<u>338,446,431</u>	<u>289,654,146</u>
<b>Net Assets, December 31</b>	<b><u>\$ 384,961,084</u></b>	<b><u>\$ 128,240,282</u></b>	<b><u>\$ 513,201,366</u></b>	<b><u>\$ 338,446,431</u></b>

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

**SANTA BARBARA FOUNDATION**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended December 31, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

Expenses	<u>Program Services</u>	<u>Administrative and Fund Management</u>	<u>Fundraising and Development</u>	<u>Total 2017</u>	(Memo) <u>Total 2016</u>
Grants, net of rescinds	\$ 26,049,858	\$ -	\$ -	\$ 26,049,858	\$ 21,672,370
Salaries	913,627	970,428	806,163	2,690,218	2,118,173
Unrelated business income tax	-	1,229,107	-	1,229,107	521,995
Direct program activities	880,135	-	-	880,135	426,854
Professional services	170,567	331,071	222,384	724,022	457,836
Employee benefits	200,119	211,785	177,387	589,291	435,362
Payroll taxes	67,878	71,870	59,892	199,640	157,709
Community relations	32,562	4,456	157,510	194,528	212,439
Meetings and conferences	66,769	70,480	48,223	185,472	178,554
Computer services	61,119	63,704	45,577	170,400	271,749
Occupancy costs	52,003	53,321	54,831	160,155	178,365
Depreciation	43,240	44,357	45,378	132,975	124,676
Rent	30,754	26,537	18,157	75,448	108,346
Office supplies	18,610	18,771	16,073	53,454	53,748
Publications	14,382	4,794	28,762	47,938	42,090
Dues, subscriptions and licenses	16,302	17,208	11,774	45,284	27,372
Telephone	15,600	16,466	11,266	43,332	24,272
Advertising	13,654	-	20,481	34,135	32,776
Insurance	7,479	18,005	6,599	32,083	32,287
Contribution expense	-	10,062	-	10,062	980,735
Equipment and maintenance	1,334	1,400	958	3,692	3,930
Provision for bad debts	-	-	-	-	241,826
<b>Total Expenses, December 31, 2017</b>	<b><u>\$ 28,655,992</u></b>	<b><u>\$ 3,163,822</u></b>	<b><u>\$ 1,731,415</u></b>	<b><u>\$ 33,551,229</u></b>	
Total Expenses, December 31, 2016 (Memo)	<u>\$ 23,741,111</u>	<u>\$ 3,671,792</u>	<u>\$ 1,426,335</u>		<u>\$ 28,303,464</u>

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

**SANTA BARBARA FOUNDATION**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2017

(With Comparative Totals for the Year Ended December 31, 2016)

	2017	(Memo) 2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 174,754,935	\$ 48,792,285
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	416,842	408,596
Loss on disposal of property and equipment	10,343	4,322
Realized and unrealized gain on sale of securities	(32,355,582)	(33,408,378)
Provision for bad debts	(16,501)	241,826
Contribution expense	-	980,735
Present value discount	(499,201)	7,992
Contributions restricted for long-term investment	(326,104)	(80)
Non-cash contributions of stock	(22,282,169)	(17,468,896)
(Increase) decrease in:		
Accounts receivable	(9,718)	36,031
Contributions and bequests receivable	(74,433,405)	1,536,508
Other current and non-current assets	(2,827)	(39,501)
Assets held under charitable trust agreements	(49,363,370)	(3,849,958)
Perpetual income interest	(1,493,934)	(846,518)
Increase (decrease) in:		
Accounts payable and accrued expenses	(51,694)	124,525
Grants payable	121,871	(115,150)
Liabilities under charitable trust agreements	(8,719)	(211,914)
Funds held on behalf of others	2,959,140	1,644,753
Other non-current liabilities	(5,883)	27,565
Net Cash Used by Operating Activities	(2,585,976)	(2,135,257)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(11,721)	(68,430)
Purchase of available-for-sale securities	(229,536,695)	(84,706,916)
Proceeds from sale of securities	237,604,755	89,839,706
Student loan repayments	455,911	507,089
Notes receivable disbursements	-	(5,500,000)
Return on capital shareholder distribution	1,791,982	-
Mission related investment loan repayments (disbursements)	12,000	(565,000)
Net Cash Provided (Used) by Investing Activities	10,316,232	(493,551)
Cash Flows from Financing Activities:		
Contributions restricted for long-term investment	326,104	80
Payments on long-term debt	(78,541)	(74,960)
Net Cash Provided (Used) by Financing Activities	247,563	(74,880)
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>7,977,819</b>	<b>(2,703,688)</b>
Cash and Cash Equivalents - January 1	25,972,528	28,676,216
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 33,950,347</b>	<b>\$ 25,972,528</b>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ 137,659	\$ 141,241
Cash paid during the year for unrelated business income tax	\$ 1,227,107	\$ 521,995

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

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - 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 2017, 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 2017, 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

SBF Properties, LLC, whose purpose is to receive gifts of real property

#### Principles of Consolidation

The accompanying financial statements as of December 31, 2017, 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.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### New Accounting Pronouncements

The December 31, 2017 consolidated financial statements reflect adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 defines management's responsibility to evaluate whether there is a substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. SBF adopted this ASU and concluded there was not substantial doubt of its continued operations.

During 2017, SBF adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet (statement of financial position) date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

Due to the adoption of ASU 2016-14 as of December 31, 2017, net assets have been reclassified as of December 31, 2016 as follows:

Net Asset Classification 12/31/16	ASU 2016-14 Classifications		Total Net Assets
	Without Donor Restrictions	With Donor Restrictions	
Unrestricted	\$ 261,948,539	\$ -	\$ 261,948,539
Temporarily Restricted	-	17,899,406	17,899,406
Permanently Restricted	-	<u>58,598,486</u>	<u>58,598,486</u>
Net Assets as previously presented	261,948,539	76,497,892	338,446,431
Reclassification			
Underwater endowments	<u>1,590,917</u>	<u>( 1,590,917)</u>	<u>-</u>
Net assets as reported after adoption of ASU 2016-14	<u>\$ 263,539,456</u>	<u>\$ 74,906,975</u>	<u>\$ 338,446,431</u>

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 determine 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.

#### 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 Statement of Activities 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 Statement of Activities. The change in value of the underlying assets is recorded as an unrealized gain or loss in net assets with donor restrictions on the Statement of Activities. 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, computer services, occupancy costs, depreciation, rent, and office expense and supplies 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.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Comparative Amounts

The amounts shown for 2016 in the accompanying financial statements are included to provide a basis for comparison with 2017 and are not intended to present all information necessary for a fair presentation of the 2016 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 financial statements include:

- Allocation of certain expenses by function
- 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 market value of assets held by charitable trusts
- Fair market value of certain investments
- Depreciable lives of property and equipment

#### Contributions and Bequests

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 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.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Donated Services

Donated goods and services received by SBF are recorded at fair market value at the time of the donation. For the year ended December 31, 2017, 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 financial statements.

#### Discount to Present Value

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

#### Donated Property and Investments

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

#### Investments in Securities

SBF 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. 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.

#### 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, 2017, SBF and its supporting organizations and affiliates have no uncertain tax positions requiring accrual.

SBF and its supporting organizations and affiliates file tax returns in California and U.S. federal jurisdictions. SBF is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2014 and 2013, respectively.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property and Equipment

Property and equipment is stated at cost, or fair market 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:

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

#### 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 accompanying consolidated statement 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.

#### Student Loans

##### Policy

SBF 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. Prior to 2015, SBF awarded interest-free loans on need and merit with repayments beginning six months after the student graduated or left school. In 2015, SBF converted its student loan funds to scholarship funds for all awards made in 2015 going forward.

##### Allowances for Amounts to Be Forgiven

Prior to 2010, SBF 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, SBF terminated its loan forgiveness policy, with the exception of medical specialty loans, provided that the student continues to practice substantially full-time as a general/family practitioner or internist until 50% of the amount of the loan has been repaid, at which time the entire loan will be considered having been fully repaid. All other students with loans awarded in 2010 going forward will be expected to repay the full amount.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Student Loans (continued)

##### Allowances for Uncollectible Loans

SBF 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.

##### Subsequent Events

SBF has evaluated subsequent events through August 22, 2018, the date which the financial statements were available to be issued.

### 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. At December 31, 2017, contributions and bequests receivable are expected to be collected as follows:

In one year or less	\$ 370,400
In more than one year	74,517,591
Discount to present value	(67,507)
Contributions and bequests receivable, net	<u>\$ 74,820,484</u>

### Note 3 - STUDENT LOANS RECEIVABLE

Student loans receivable are comprised of the following as of December 31, 2017:

Total student loan balances	\$ 2,668,123
Allowance for amounts to be forgiven	( 653,002)
Allowance for uncollectible loans	( 119,000)
Discount to present value	<u>( 305,000)</u>
Net student loans receivable	<u>\$ 1,591,121</u>

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

Receivable in less than one year	\$ 400,000
Receivable in one to ten years	1,310,121
Allowance for uncollectible loans	<u>(119,000)</u>
Net student loans receivable	<u>\$ 1,591,121</u>

The student loans are administered by the Scholarship Foundation of Santa Barbara.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 financial statements as notes receivable and are comprised of the following as of December 31, 2017:

Receivable in less than one year	\$ 1,500,000
Receivable in five to nine years	<u>4,000,000</u>
Total donor advised loans receivable	5,500,000
Discount to present value	<u>(660,699)</u>
Net notes receivable	<u>\$ 4,839,301</u>

The notes receivable within one year bear interest ranging from 0.61% to 0.64% and are due December 31, 2018.

The note receivable in five to nine years bears interest at a variable rate of 1-month LIBOR, 1.56% at December 31, 2017, 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 on October 15, 2026.

### Note 5 - MISSION RELATED INVESTMENTS

Mission related investments consist of loans from board designated funds to NPOs to support charitable activities consistent with SBF's tax exempt purpose. As of December 31, 2017, the total outstanding loan balance of \$553,000 is discounted by \$82,587 to reflect the present value of \$470,413.

### Note 6 - 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 SBF 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, 2017, investments consisted of the following:

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Global equities	\$ 92,686,397	\$ 99,612,935	\$ 6,926,538
Domestic equities	4,158,798	5,355,278	1,196,480
International equities	2,229,191	2,649,191	420,000
Domestic fixed income	75,266,612	75,566,585	299,973
Global fixed income	5,786,617	5,779,356	(7,261)
Fixed income (illiquid)	25,376,523	78,000,000	52,623,477
Closely held stock	31,503,795	36,925,094	5,421,299
Real assets/real estate	6,226,575	6,344,892	118,317
Private equity	8,128,948	11,666,318	3,537,370
Partnerships	4,415,042	3,426,646	(988,396)
Hedge funds	<u>1,713,290</u>	<u>1,513,143</u>	<u>(200,147)</u>
Total	<u>\$ 257,491,788</u>	<u>\$ 326,839,438</u>	<u>\$ 69,347,650</u>

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 6 - INVESTMENTS (CONTINUED)

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

	<u>Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Balance at end of the year	\$ 257,491,788	\$ 326,839,438	\$ 69,347,650
Balance at beginning of the year	\$ 224,328,623	\$ 282,058,266	\$ 57,729,643
Change in unrealized gain (loss)			<u>\$ 11,618,007</u>

The following summarizes the investment return in the statement of activities for the year ended December 31, 2017:

Interest and dividend income	\$ 5,792,594
Realized gain on value of securities	22,235,354
Unrealized gain on value of securities	11,618,007
Less: investment return allocated to others	(1,906,370)
Less: investment fees	<u>(418,777)</u>
Net Investment Return	<u>\$ 37,320,808</u>

For the year ended December 31, 2017, approximately 34% of the fair market value of investments and a significant portion of the current year unrealized investment gains were attributable to HSBF's illiquid fixed income position and EKST's closely held stock position. The amounts are based upon annual independent third-party valuations using the same techniques and variables as in prior years.

### Note 7 - 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 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 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 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.

# 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 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.

Accounting Standards Update (ASU) No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent) requires specific investments that have fair value reported at NAV per share to no longer be classified in the fair value hierarchy. Financial instruments are considered valued at NAV when the investment (hedge funds, private equity 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.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 7 - 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, 2017:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Investments					
Global equities	\$ 99,612,935	\$ -	\$ -	\$ -	\$ 99,612,935
Domestic equities	5,355,278	-	-	-	5,355,278
International equities	2,649,191	-	-	-	2,649,191
Domestic fixed income	75,566,585	-	-	-	75,566,585
Global fixed income	5,779,356	-	-	-	5,779,356
Fixed income (illiquid)	-	-	78,000,000	-	78,000,000
Closely held stock	-	-	-	36,925,094	36,925,094
Real assets/real estate	921,021	-	-	5,423,871	6,344,892
Private equity	-	-	-	11,666,318	11,666,318
Partnerships	-	-	3,426,646	-	3,426,646
Hedge funds	<u>1,165,659</u>	<u>-</u>	<u>-</u>	<u>347,484</u>	<u>1,513,143</u>
Total Investments	<u>191,050,025</u>	<u>-</u>	<u>81,426,646</u>	<u>54,362,767</u>	<u>326,839,438</u>
Assets held under charitable trust agreements:					
Charitable trusts, life policy	-	-	62,592,990	-	62,592,990
Charitable remainder trusts	1,077,008	-	-	-	1,077,008
Charitable gift annuities	888,463	-	-	-	888,463
Pooled income funds	<u>681,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>681,834</u>
Total Assets held under charitable trust agreements	<u>2,647,305</u>	<u>-</u>	<u>62,592,990</u>	<u>-</u>	<u>65,240,295</u>
Perpetual income interest	<u>15,645,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,645,617</u>
Total Assets measured at fair value	<u>\$ 209,342,947</u>	<u>\$ -</u>	<u>\$ 144,019,636</u>	<u>\$ 54,362,767</u>	<u>\$ 407,725,350</u>
Charitable trust liabilities measured at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,548,881</u>	<u>\$ -</u>	<u>\$ 1,548,881</u>

The following is a description of the 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.

*Domestic and international equities* – includes investment in either domestic or international equities of varying market capitalizations and 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 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.) 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 as 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 Foundation Inc.

*Closely held stocks (illiquid)* – includes shares of an S-Corporation held by EKSCT. The shares are illiquid. Also included are shares of a closely held diversified equity real estate investment trust (REIT) that are separate from the supporting organization and held in a donor advised fund.

*Real assets/real estate* – includes four limited partnerships that 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; several real asset mutual funds and four real asset fund of funds partnerships invested in partnerships focused on natural resources: timber, precious metals, commodities, mining, energy, etc. All of the real asset partnerships are illiquid and cannot be redeemed. Unfunded commitments in the real asset category total \$1,823,616.

*Private equity* – includes thirteen 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 fourteen 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 \$7,758,296. All of these private equity interests are illiquid and not 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 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 real estate holdings. This partnership interest was extended in early 2018 and will now terminate in June 2062. All of these partnership interests are illiquid and not redeemable.

*Hedge funds* – includes three separate funds, which are all in the latter stages of full redemption.

## 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, 2017:

Description	Beginning Balance	Net Gains and (Losses)	Purchases and Issuances	Sales and Settlements	Ending Balance
Fixed income (illiquid)	\$ 71,200,000	\$ 6,800,000	\$ -	\$ -	\$ 78,000,000
Partnerships	3,317,420	109,226	-	-	3,426,646
Charitable trusts/other	<u>13,242,035</u>	<u>1,316,042</u>	<u>49,907,500</u>	<u>(1,872,587)</u>	<u>62,592,990</u>
Total	<u>\$ 87,759,455</u>	<u>\$ 8,225,268</u>	<u>\$ 49,907,500</u>	<u>\$ (1,872,587)</u>	<u>\$ 144,019,636</u>

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 totaled \$9,581,912 as of December 31, 2017. Hedge funds were valued at a total of \$347,484 at December 31, 2017. The remaining illiquid assets valued at \$135,441,929 were invested in real assets which included 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 and NAV:

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed income (illiquid)	\$ 78,000,000	\$ -	Non-redeemable	-
Closely held stock	36,925,094		Non-redeemable	-
Real assets/real estate	5,423,871	1,823,616	Non-redeemable	-
Private equity	11,666,318	7,758,296	Non-redeemable	-
Partnerships	3,426,646	-	Non-redeemable	-
Hedge funds:				
AG Super Fund, LP	26,615	-	In Redemption	-
Silvercreek	301,839	-	In Redemption	-
RD Legal	<u>19,030</u>	<u>-</u>	In Redemption	-
Total	<u>\$ 135,789,413</u>	<u>\$ 9,581,912</u>		

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

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 8 - SPLIT-INTEREST AGREEMENTS AND DEFERRED FUNDS (CONTINUED)

#### Charitable Remainder Trusts (continued)

If SBF is the trustee, the fair market value of the trust is recorded in SBF'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 six trusts was \$1,077,008 with a corresponding payment liability for future payments of \$661,199 at December 31, 2017.

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. In 2017, SBF recognized one additional remainder trust value. At December 31, 2017, the present value of these trusts where SBF is not the trustee was \$57,555,186, including both life insurance policies.

SBF is named income beneficiary for five charitable lead trusts. The present value of the expected annual payments over the remaining years of each trust is recorded. The expected cash flow from the trusts at December 31, 2017, to SBF was \$5,037,804.

#### 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 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 43 charitable gift annuities was \$888,463 with a corresponding present value liability of \$718,334 at December 31, 2017.

#### 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 market value of the asset is recorded in SBF'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, 2017, was \$681,834 with a corresponding present value liability of \$169,348.

# 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 market value of the trusts' investments is recorded as an asset, with a fair market value of \$15,645,617 at December 31, 2017. Any change in subsequent years in the fair market value of SBF's share of the trust investments is recorded in the Statement of Activities as a change in value of interests in perpetual trusts.

### Note 9 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017, consists of the following:

Building and leasehold improvements	\$ 13,578,491
Land	3,265,379
Office equipment	247,209
Donated artwork	17,500
Furniture	<u>276,128</u>
Total property and equipment	17,384,707
Less accumulated depreciation and amortization	<u>( 3,079,674)</u>
Property and equipment, net	<u>\$ 14,305,033</u>

### Note 10 - NOTE PAYABLE

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 of \$2,922,823 due on October 20, 2021. Future maturities of principal obligations are as follows as of December 31, 2017:

2018	\$ 81,922
2019	85,415
2020	88,694
2021	<u>2,992,044</u>
Total	<u>\$ 3,248,075</u>

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 11 - GRANTS

Future minimum grants payable are as follows as of December 31, 2017:

2018	\$ 520,000
2019	120,000
2020	20,000
2021	<u>20,000</u>
Subtotal	680,000
Less current portion	<u>(8,129)</u>
Grants Payable	671,871
Less current portion	<u>(520,000)</u>
Long-term portion	<u>\$ 151,871</u>

Grant expense is comprised of the following for the year ended December 31, 2017:

Donor advised	\$15,525,814
Competitive	6,164,923
Field of interest	2,306,624
Donor designated	1,659,143
Supporting organizations	30,000
Fiscal sponsorships	171,944
Pass-through	<u>191,410</u>
Total Grants, net of rescinds	<u>\$ 26,049,858</u>

### Note 12 - CONCENTRATIONS AND RISKS

#### Credit Risk

SBF maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC). The Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit at any one institution. SBF had uninsured cash of approximately \$17,800,000 deposited with six different banks. In addition, SBF maintains significant cash balances in money market funds. Such balances are not fully insured.

#### Concentrations

For the year ended December 31, 2017, approximately 34% of the fair market value of investments were attributed to the two supporting organizations, HSBF and EKSCT. A significant portion of the current year unrealized investment gains were attributable to the HSBF's illiquid fixed income position and EKSCT's closely held stock position.

For the year ended December 31, 2017, approximately 60% of the contribution and bequest revenue was from a single bequest receivable and 100% of the charitable remainder trust contributions were from a single trust, both related to the same individual donor. In addition, a majority of donors to SBF are from Santa Barbara County.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 12 - CONCENTRATIONS AND RISKS (CONTINUED)

#### 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.

### 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 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 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.
- (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.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 13 - ENDOWMENT FUNDS (CONTINUED)

#### Endowment Investment and Spending Policies (continued)

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, 2017, 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.

#### 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. As of December 31, 2017 and 2016, respectively, the Foundation held six and nine 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>2017</u>	<u>2016</u>
Fair value of underwater endowments	\$ 10,931,839	\$ 17,761,052
Original endowment gift amount	<u>11,856,160</u>	<u>19,351,969</u>
Deficiencies of underwater endowment funds	<u>\$ (924,321)</u>	<u>\$ (1,590,917)</u>

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 13 - ENDOWMENT FUNDS (CONTINUED)

Endowment net assets with donor restrictions totaled \$48,728,257, consisting of total original gift endowment contributions of \$44,635,877 and accumulated earnings of \$4,092,380 as of December 31, 2017.

There were no endowment net assets without donor restrictions or assets classified as board-restricted endowment funds as of December 31, 2017.

### 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, 2017:

2018	\$	71,148
2019		71,148
2020		66,845
2021		62,030
2022		61,968
Thereafter		<u>46,476</u>
Total	\$	<u>379,615</u>

Lease expense for the year ended December 31, 2017 totaled \$75,448.

### 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, 2017 totaled \$209,687.

In addition, SBF has a non-qualified deferred compensation plan. SBF employer contributions for the year ended December 31, 2017 totaled \$42,000.

### Note 17 - COMMITMENTS

SBF 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, 2017 was \$48,000.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 18 - LIQUIDITY

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.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2017:

Current assets	
Cash and cash equivalents	\$ 33,950,347
Accounts receivable	15,960
Contributions and bequests receivable, current portion	370,400
Student loans receivable, current portion	400,000
Notes receivable, current portion	1,500,000
Mission related investments, current portion	53,000
Other current assets	<u>112,570</u>
Total Current Assets	<u>36,402,277</u>
Investments	326,839,438
Less investments unavailable for general expenditures within one year:	
Illiquid, not convertible to cash within one year	(137,876,093)
Endowments and other funds subject to spending policy appropriations beyond one year:	
Without donor restrictions	(100,809,588)
With donor restrictions	(46,633,716)
Funds held on behalf of others	<u>(18,545,986)</u>
Investments available for general expenditures within one year	<u>22,974,055</u>
Current liabilities	<u>(1,143,909)</u>
Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2017	<u>\$ 58,232,423</u>

### Note 19 - 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, 2017, net assets released from restriction totaled \$3,763,849.

# SANTA BARBARA FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 20 - RECLASSIFICATION

Certain amounts from the December 31, 2016 financial statements have been reclassified to conform to the December 31, 2017 financial statement presentation.

### Note 21 - NET ASSETS

As of December 31, 2017, net assets consist of the following:

#### Net Assets Without Donor Restrictions

Donor-advised funds	\$ 123,813,774
Supporting organizations	113,523,288
Undesignated funds	108,666,888
Field of interest funds	30,259,273
Donor designated funds	4,182,444
Board designated funds	3,970,359
Fiscal sponsorship	<u>545,058</u>
Total net assets without donor restrictions	<u>\$ 384,961,084</u>

#### Net Assets With Donor Restrictions

Pledges and bequests receivable	\$ 174,993
Split-interest agreements	63,524,784
Life insurance gift	166,631
Perpetual income trust interest	15,645,617
Donor restricted endowment funds	<u>48,728,257</u>
Total net assets with donor restrictions	<u>\$ 128,240,282</u>