



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

SANTA BARBARA FOUNDATION

December 31, 2020 with Summarized Comparative Totals
for December 31, 2019

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Report of Independent Auditors

The Audit Committee
Santa Barbara Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Santa Barbara Foundation and its supporting organizations and affiliates, which comprise the consolidated statements of financial position as of December 31, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Foundation and its supporting organizations and affiliates as of December 31, 2020, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, as of January 1, 2020, Santa Barbara Foundation and its supporting organizations and affiliates adopted Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, using the prospective approach. Our opinion is not modified with respect to this matter.

Other Matter

We have previously audited the Santa Barbara Foundation and its supporting organizations and affiliates December 31, 2019 consolidated financial statements, and our report dated September 10, 2020, expressed an unmodified audit opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Moss Adams LLP

Los Angeles, California
September 9, 2021

Santa Barbara Foundation
Consolidated Statements of Financial Position

| | ASSETS | | | |
|---|-----------------------------------|----------------------------|-----------------------|-----------------------------|
| | Without Donor Restrictions | With Donor Restrictions | 2020 Total | Summarized 2019 Total |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 40,893,593 | \$ - | \$ 40,893,593 | \$ 34,986,788 |
| Investments | 265,395,594 | 65,030,197 | 330,425,791 | 326,888,398 |
| Contributions receivable, net | 46,196,959 | 143,638 | 46,340,597 | 45,675,972 |
| Student loans receivable, net | 582,430 | - | 582,430 | 870,807 |
| Notes receivable, net | 5,084,109 | - | 5,084,109 | 5,457,985 |
| Beneficial interest in trusts | - | 82,602,045 | 82,602,045 | 79,993,199 |
| Property and equipment, net | 13,819,857 | - | 13,819,857 | 14,301,911 |
| Other assets | 161,761 | - | 161,761 | 917,592 |
| | <u>372,134,303</u> | <u>147,775,880</u> | <u>519,910,183</u> | <u>509,092,652</u> |
| Total assets | <u>\$ 372,134,303</u> | <u>\$ 147,775,880</u> | <u>\$ 519,910,183</u> | <u>\$ 509,092,652</u> |
| | LIABILITIES AND NET ASSETS | | | |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 328,339 | \$ - | \$ 328,339 | \$ 537,573 |
| Grants payable, net | 205,250 | - | 205,250 | 38,141 |
| Notes payable, net | 3,594,644 | - | 3,594,644 | 3,667,110 |
| Liabilities under split-interest agreements | - | 1,373,766 | 1,373,766 | 1,323,889 |
| Funds held on behalf of others | 24,333,196 | - | 24,333,196 | 23,305,784 |
| Other liabilities | 30,013 | - | 30,013 | 28,984 |
| | <u>28,491,442</u> | <u>1,373,766</u> | <u>29,865,208</u> | <u>28,901,481</u> |
| Total liabilities | <u>28,491,442</u> | <u>1,373,766</u> | <u>29,865,208</u> | <u>28,901,481</u> |
| NET ASSETS | <u>343,642,861</u> | <u>146,402,114</u> | <u>490,044,975</u> | <u>480,191,171</u> |
| Total liabilities and net assets | <u>\$ 372,134,303</u> | <u>\$ 147,775,880</u> | <u>\$ 519,910,183</u> | <u>\$ 509,092,652</u> |

See accompanying notes.

Santa Barbara Foundation
Consolidated Statements of Activities and Changes in Net Assets

| | Without Donor Restrictions | With Donor Restrictions | 2020 Total | Summarized 2019 Total |
|--|-------------------------------|----------------------------|----------------|-----------------------------|
| REVENUE, GAINS, AND OTHER SUPPORT | | | | |
| Contributions | \$ 36,856,546 | \$ 255,034 | \$ 37,111,580 | \$ 25,504,209 |
| Less: contributions raised on behalf of others | (3,965,858) | - | (3,965,858) | (1,876,737) |
| Total contributions and bequests | 32,890,688 | 255,034 | 33,145,722 | 23,627,472 |
| Investment income (loss), net | 1,972,926 | 6,633,210 | 8,606,136 | 37,500,841 |
| Less: investment income on behalf of others, net | (2,408,680) | - | (2,408,680) | (2,896,739) |
| Total investment income (loss), net | (435,754) | 6,633,210 | 6,197,456 | 34,604,102 |
| Change in value of split-interest agreements | - | 3,565,701 | 3,565,701 | 3,766,962 |
| Other income | 96,739 | - | 96,739 | 428,703 |
| Net assets released from restrictions | | | | |
| Available for distribution per spending policy | 2,375,905 | (2,375,905) | - | - |
| Reclassifications and other releases from restrictions | (5,350,226) | 5,350,226 | - | - |
| Total revenue, gains, and other support | 29,577,352 | 13,428,266 | 43,005,618 | 62,427,239 |
| EXPENSES | | | | |
| Program services | | | | |
| Grants, net of rescinds | 30,935,919 | - | 30,935,919 | 30,849,330 |
| Less: grants made on behalf of others | (5,347,126) | - | (5,347,126) | (728,544) |
| Total grants, net of rescinds | 25,588,793 | - | 25,588,793 | 30,120,786 |
| Grant making and direct program | 3,524,287 | - | 3,524,287 | 6,171,851 |
| Total program services | 29,113,080 | - | 29,113,080 | 36,292,637 |
| Support services | | | | |
| Administrative and fund management | 2,531,155 | - | 2,531,155 | 2,257,212 |
| Fundraising and development | 1,507,579 | - | 1,507,579 | 1,919,533 |
| Total support services | 4,038,734 | - | 4,038,734 | 4,176,745 |
| Total expenses | 33,151,814 | - | 33,151,814 | 40,469,382 |
| CHANGE IN NET ASSETS | (3,574,462) | 13,428,266 | 9,853,804 | 21,957,857 |
| NET ASSETS, beginning of year | 347,217,323 | 132,973,848 | 480,191,171 | 458,233,314 |
| NET ASSETS, end of year | \$ 343,642,861 | \$ 146,402,114 | \$ 490,044,975 | \$ 480,191,171 |

Santa Barbara Foundation
Consolidated Statements of Functional Expenses

| | Program Services | Administrative and Fund Management | Fundraising and Development | 2020 Total | Summarized 2019 Total |
|---------------------------------------|----------------------|--|--------------------------------|----------------------|--------------------------|
| EXPENSES | | | | | |
| Grants, net of rescinds | \$ 25,588,793 | \$ - | \$ - | \$ 25,588,793 | \$ 30,120,786 |
| Salaries | 1,012,890 | 1,284,028 | 798,359 | 3,095,277 | 2,681,645 |
| Consultants and professional services | 1,069,085 | 333,538 | 27,764 | 1,430,387 | 3,787,901 |
| Employee benefits | 210,037 | 260,714 | 166,024 | 636,775 | 617,983 |
| Depreciation and amortization | 180,652 | 216,533 | 130,237 | 527,422 | 463,549 |
| Community relations | 229,010 | 4,299 | 86,004 | 319,313 | 261,124 |
| Technology | 85,459 | 93,089 | 48,767 | 227,315 | 213,409 |
| Payroll taxes | 70,692 | 87,829 | 55,696 | 214,217 | 150,925 |
| Program | 158,581 | - | - | 158,581 | 116,505 |
| Advertising | 114,147 | - | 33,192 | 147,339 | 72,054 |
| Occupancy | 47,103 | 51,867 | 48,110 | 147,080 | 209,158 |
| Interest | 47,895 | 54,841 | 28,058 | 130,794 | 148,295 |
| Rent | 69,621 | 34,507 | 17,655 | 121,783 | 77,771 |
| Insurance | 61,313 | 17,515 | 4,492 | 83,320 | 481,827 |
| Dues, subscriptions, and licenses | 36,287 | 26,358 | 13,486 | 76,131 | 90,980 |
| Meetings and conferences | 24,321 | 21,691 | 11,098 | 57,110 | 674,261 |
| Telephone | 20,267 | 24,059 | 12,309 | 56,635 | 60,856 |
| Permits | 51,508 | - | - | 51,508 | 54,470 |
| Office | 15,825 | 16,439 | 11,218 | 43,482 | 104,561 |
| Publications | 12,800 | 2,404 | 14,422 | 29,626 | 73,183 |
| Scholarship awards | 5,700 | - | - | 5,700 | 4,300 |
| Equipment and maintenance | 1,094 | 1,344 | 688 | 3,126 | 3,334 |
| Unrelated business income tax | - | 100 | - | 100 | 505 |
| | <u>\$ 29,113,080</u> | <u>\$ 2,531,155</u> | <u>\$ 1,507,579</u> | <u>\$ 33,151,814</u> | |
| Total expenses, 2020 | | | | | |
| | <u>\$ 36,292,637</u> | <u>\$ 2,257,212</u> | <u>\$ 1,919,533</u> | | <u>\$ 40,469,382</u> |
| Total expenses, 2019 | | | | | |

See accompanying notes.

Santa Barbara Foundation

Consolidated Statements of Cash Flows

| | Years Ended December 31, | |
|--|--------------------------|---------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Contributions received from donors, net of amounts restricted for endowments | \$ 15,967,682 | \$ 16,475,180 |
| Cash received into funds held on behalf of others, net of distributions and fees | 1,027,412 | 4,044,933 |
| Cash received from state, county, and city contracts and grants | 326,500 | 453,121 |
| Interest and dividends received | 2,045,970 | 4,206,048 |
| Deposits refunded (paid) | 783,579 | (782,929) |
| Miscellaneous receipts | 465,466 | 521,263 |
| Interest paid | (130,794) | (148,305) |
| Unrelated business income tax paid | (100) | (505) |
| Grants and awards paid | (25,427,384) | (30,282,362) |
| Cash paid to employees and suppliers for program services | (3,473,692) | (6,121,139) |
| Cash paid to employees and suppliers for support services | (3,664,266) | (3,528,831) |
| Net cash used by operating activities | (12,079,627) | (15,163,526) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (45,368) | (736,774) |
| Purchases of investments | (108,048,145) | (42,165,758) |
| Proceeds from sales of investments | 124,086,295 | 54,782,655 |
| Student loan repayments | 345,377 | 379,808 |
| Return on capital shareholder distribution | 458,973 | 580,277 |
| Net cash provided by investing activities | 16,797,132 | 12,840,208 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Distributions received from charitable remainder trusts | 1,006,732 | 1,236,443 |
| Contributions restricted for endowments | 255,034 | 115,940 |
| Proceeds from notes payable | 602,500 | 586,303 |
| Payments on notes payable | (674,966) | (85,380) |
| Net cash provided by financing activities | 1,189,300 | 1,853,306 |
| CHANGE IN CASH AND CASH EQUIVALENTS | 5,906,805 | (470,012) |
| CASH AND CASH EQUIVALENTS, beginning of year | 34,986,788 | 35,456,800 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 40,893,593 | \$ 34,986,788 |

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

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

Supporting organizations – SBF works with entities organized as supporting organizations to SBF for the specific and primary purpose of benefiting, performing functions of, and engaging in activities consistent with SBF’s charitable purposes. SBF appoints a majority of the members of the governing boards of the supporting organizations. Each governing board may create its own investment policy and grant guidelines. In 2020 and 2019, the following supporting organizations were effectively under SBF’s control and were consolidated for financial statement purposes:

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

Affiliates – In 2020 and 2019, the following affiliates were effectively under SBF’s control and were consolidated for financial statement purposes:

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

Principles of consolidation – The accompanying consolidated financial statements as of December 31, 2020 and 2019, include the financial statements of SBF and its supporting organizations and affiliates, listed above. All material inter-organizational transactions and balances have been eliminated in the consolidation.

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

Reclassifications – Certain amounts from the December 31, 2019 financial statements have been reclassified to conform to the December 31, 2020 financial statement presentation.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

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

Recently adopted accounting pronouncements – In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which updates certain disclosures of financial instruments. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. SBF has adopted this standard as of January 1, 2020, and has concluded the adoption of this standard did not have a material effect on the consolidated financial statements.

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

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

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

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

Santa Barbara Foundation

Notes to Consolidated Financial Statements

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

Comparative amounts – The amounts shown for 2019 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2020 and are not intended to present all information necessary for a fair presentation of the 2019 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, such information should be read in conjunction with the SBF's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

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 U.S. GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. It is at least reasonably possible that the significant estimates could change in the coming year.

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

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

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

Santa Barbara Foundation

Notes to Consolidated Financial Statements

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

Donated goods and services – Donated goods and services received by SBF are recorded as contributions at fair value at the time of the donation or receipt. For the year ended December 31, 2020, numerous volunteers gave their time and expertise to SBF in a wide variety of areas including: committees, administrative activities, technical and financial advice, and office and public relations activities. These contributions, despite their considerable value to the mission of SBF, are not reflected in the consolidated financial statements. Donated or contributed services are reported at fair value in the consolidated financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets, or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation.

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

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

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, 2020, SBF and its supporting organizations and affiliates have no uncertain tax positions requiring accrual.

Student loans receivable – Student loans are administered by the Scholarship Foundation of Santa Barbara. Prior to 2015, SBF awarded interest-free loans on need and merit with repayments beginning six months after the student graduated or left school and forgave medical specialty loans, provided that the student continued to practice substantially full-time as a general/family practitioner or internist until 50% of the amount of the loan had been repaid, at which time the entire loan would be considered fully repaid. In 2015, SBF ended its loan program and converted its student loan funds to scholarship funds. SBF provides an allowance for doubtful accounts based on collection history. Generally, any loan past due for 90 days or more is considered doubtful.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

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

Beneficial interest in trusts and split interest agreements – SBF has a beneficial interest in various trusts and other split-interest agreements. 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 SBF. Each year, beneficiaries receive a percentage of the trust's fair value, generally limited to net income or net income with make-up provisions.

If SBF is the trustee, the fair value of the trust is recorded in the consolidated statements of financial position. A corresponding liability is recorded for the present value of the future payments as specified in the trust agreement using a discount rate of 5%. A contribution is recorded for the difference between the two amounts. The fair value of these six trusts was \$1,122,216 with a corresponding payment liability for future payments of \$709,822 at December 31, 2020.

If SBF is not the named trustee, contribution revenue and related assets are not controlled by SBF and 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, 2020, the present value of these trusts where SBF is not the trustee was \$58,382,162, including both life insurance policies.

SBF is named income beneficiary for five charitable lead trusts held by a third-party trustee. The present value of the expected annual payments over the remaining years of each trust is recorded. The expected cash flow from the trusts to SBF was \$4,173,995 at December 31, 2020.

Charitable gift annuities – Charitable gift annuity donors have contributed assets to SBF in exchange for a promise by SBF to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of the agreements, no trust exists, as the assets received are held by SBF, and the liability is an obligation of SBF. SBF records new gifts at the fair value of the assets, less the present value of the estimated future payments to the named beneficiaries. The present value of the payments is calculated using an Internal Revenue Service discount rate in effect at the time of the contract. Subsequent changes in value from the prior year are recorded using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries using a discount factor of 5%. The change in value is recorded in the consolidated statements of activities and changes in net assets under changes in value of charitable remainder trusts. The total fair value of the 42 charitable gift annuities was \$760,054 with a corresponding present value liability of \$566,478 at December 31, 2020.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

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

Pooled income funds – Pooled income fund donors have contributed assets to SBF in exchange for a net income payout for a specified period of time. Under the terms of the agreements, no trust exists, as the assets are held by SBF. The fair value of the asset is recorded in the consolidated statements of financial position and a corresponding liability is recorded for the present value of the future payments to the named beneficiaries. Subsequent changes in value from the prior year are recorded using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries using the average annual return of the past three years for each portfolio of 4% – 4.8% as the discount factor. The change in value is recorded in the consolidated statements of activities and changes in net assets under changes in value of charitable remainder trusts. The fair value of the pooled income funds at December 31, 2020, was \$507,280 with a corresponding present value liability of \$97,466.

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

Since SBF is a beneficiary of this stream of income in perpetuity, SBF's share of the fair value of the trusts' investments is recorded as an asset, with a fair value of \$17,656,337 at December 31, 2020. Any change in subsequent years in the fair value of SBF's share of the trust investments is recorded in the consolidated statements of activities and changes in net assets as a change in value of interests in perpetual trusts.

Beneficial interests where SBF is the trustee totaled \$2,389,550 with a corresponding present value liability under split interest agreements of \$1,373,766 as of December 31, 2020. Beneficial interests where SBF is not the named trustee and does not control contribution revenue and related assets totaled \$80,212,495 as of December 31, 2020.

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

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

No depreciation is recorded for artwork as they are deemed to be a non-depreciable collection asset in accordance with U.S. GAAP.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

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

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

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

Subsequent events – SBF has evaluated subsequent events through September 9, 2021, the date which the consolidated financial statements were available to be issued.

Note 2 – Contributions Receivable

Unconditional promises are included in the consolidated financial statements as contributions receivable. At December 31, 2020, contributions and bequests receivable are expected to be collected as follows:

| | |
|-------------------------------|----------------------|
| In one year or less | \$ 185,000 |
| In more than one year | 46,254,059 |
| Discount to present value | <u>(98,462)</u> |
| Contributions receivable, net | <u>\$ 46,340,597</u> |

Note 3 – Student Loans Receivable

Student loans receivable are comprised of the following as of December 31, 2020:

| | |
|--------------------------------------|-------------------|
| Total student loan balances | \$ 1,061,681 |
| Allowance for amounts to be forgiven | (249,251) |
| Allowance for uncollectible loans | (79,000) |
| Discount to present value | <u>(151,000)</u> |
| Net student loans receivable | <u>\$ 582,430</u> |

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 3 – Student Loans Receivable (continued)

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

| | | |
|-----------------------------------|----|-----------------------|
| Receivable in less than one year | \$ | 100,000 |
| Receivable in one to ten years | | 561,430 |
| Allowance for uncollectible loans | | <u>(79,000)</u> |
| Net student loans receivable | \$ | <u><u>582,430</u></u> |

Note 4 – Notes Receivable

SBF has unsecured loans from a donor-advised fund and from a board-designated fund to a nonprofit charitable organization. The loans are presented in the consolidated financial statements as notes receivable and are comprised of the following as of December 31, 2020:

| | | |
|----------------------------------|----|-------------------------|
| Receivable in less than one year | \$ | 1,500,000 |
| Receivable in two to six years | | <u>4,500,000</u> |
| Total notes receivable | | 6,000,000 |
| Discount to present value | | <u>(915,891)</u> |
| Notes receivable, net | \$ | <u><u>5,084,109</u></u> |

The notes receivable in less than one year bear interest ranging from 0.61% to 0.64%. Interest and principal are due December 31, 2021.

The notes receivable due in two to six years bear interest at a variable rate of 1-month LIBOR, .015% at December 31, 2020, plus 1%. Interest is payable in semi-annual installments. A temporary deferral was granted during 2020 with interest payments to resume October 15, 2021. Payments of 5% of the outstanding principal balance are due annually, commencing October 15, 2022, with the remaining principal balance due October 15, 2026.

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 5 – Investments

The following summarizes the investment return in the consolidated statement of activities and changes in net assets for the year ended December 31, 2020:

| | |
|--|----------------------------|
| Interest and dividends | \$ 2,794,435 |
| Less: interest and dividends on behalf of others | <u>(202,543)</u> |
| Total interest and dividends | <u>2,591,892</u> |
| Realized gain on investments | 8,884,750 |
| Unrealized loss on investments | (2,229,849) |
| Less: realized and unrealized gain on behalf of others | <u>(2,503,415)</u> |
| Total realized and unrealized gain on investments | <u>4,151,486</u> |
| Less: investment fees | (843,200) |
| Add back: investment fees on behalf of others | <u>297,278</u> |
| Total investment fees | <u>(545,922)</u> |
| Investment income, net | <u><u>\$ 6,197,456</u></u> |

Note 6 – Fair Value Measurement

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

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

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

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

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

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 6 – Fair Value Measurement (continued)

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

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

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

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

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

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 6 – Fair Value Measurement (continued)

The following table presents assets recognized in the consolidated 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, 2020:

| Description | Level 1 | Level 2 | Level 3 | NAV or Equivalent | Total |
|--|--------------------|------------------|--------------------|----------------------|--------------------|
| Investments | | | | | |
| Global equities | \$ 56,458,681 | \$ - | \$ - | \$ 32,398,044 | \$ 88,856,725 |
| Domestic equities | 9,323,476 | - | - | - | 9,323,476 |
| International equities | 1,188,497 | - | - | - | 1,188,497 |
| Domestic fixed income | 2,055,997 | - | - | - | 2,055,997 |
| Global fixed income | 26,986,101 | 6,441,770 | - | 49,473,358 | 82,901,229 |
| Fixed income (illiquid) | - | - | 48,146,754 | - | 48,146,754 |
| Closely held stock | - | - | - | 50,684,120 | 50,684,120 |
| Real estate/natural resources | 9,911,097 | - | - | 11,303,543 | 21,214,640 |
| Infrastructure | 1,313,442 | - | - | 4,039,369 | 5,352,811 |
| Private equity | - | - | - | 13,542,232 | 13,542,232 |
| Partnerships | - | - | 3,146,000 | - | 3,146,000 |
| Hedge funds | - | - | - | 4,013,310 | 4,013,310 |
| Total investments | 107,237,291 | 6,441,770 | 51,292,754 | 165,453,976 | 330,425,791 |
| Assets held under charitable trust agreements | | | | | |
| Charitable trusts, life policy | - | - | 62,556,158 | - | 62,556,158 |
| Charitable remainder trusts | 1,122,216 | - | - | - | 1,122,216 |
| Charitable gift annuities | 760,054 | - | - | - | 760,054 |
| Pooled income funds | 507,280 | - | - | - | 507,280 |
| Total assets held under charitable trust agreements | 2,389,550 | - | 62,556,158 | - | 64,945,708 |
| Perpetual income interest | - | - | 17,656,337 | - | 17,656,337 |
| Beneficial interest in trusts | 2,389,550 | - | 80,212,495 | - | 82,602,045 |
| Total assets measured at fair value | 109,626,841 | 6,441,770 | 131,505,249 | 165,453,976 | 413,027,836 |
| Liabilities under split-interest agreements | \$ - | \$ - | \$ 1,373,766 | \$ - | \$ 1,373,766 |

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

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

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

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Notes to Consolidated Financial Statements

Note 6 – Fair Value Measurement (continued)

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

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

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

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

Real estate/natural resources – includes 12 limited partnerships that invest in a diverse group of private real estate investment funds or similar entities that focus on the acquisition, redevelopment, operation, and management of real estate properties or natural resources: timber, precious metals, commodities, mining, energy, etc. All of the partnerships are illiquid and cannot be redeemed.

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

Private equity – includes 18 broadly diversified private equity partnerships with varying allocations to buyouts, distressed opportunities, venture capital, special situations, and secondary funds. Holdings are invested in diversified portfolios of investment partnerships, each of which has a defined term, typically ten to fifteen years, with no right to withdraw prior to termination of the investment partnership. Funds are called as needed by managers and distributions are received through the liquidation of the underlying assets of the fund.

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

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

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 6 – 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, 2020:

| Description | January 1, 2020 | Net Gains and (Losses) | Purchases and Issuances | Transfers In and Out | Sales and Settlements | December 31, 2020 |
|-------------------------------|-----------------------|------------------------|-------------------------|----------------------|-----------------------|-----------------------|
| Fixed income (illiquid) | \$ 67,247,737 | \$ (19,100,983) | \$ - | \$ - | \$ - | \$ 48,146,754 |
| Partnerships | 3,396,000 | (250,000) | - | - | - | 3,146,000 |
| Beneficial interest in trusts | 77,613,843 | 3,597,643 | - | - | (998,991) | 80,212,495 |
| Total | <u>\$ 148,257,580</u> | <u>\$ (15,753,340)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (998,991)</u> | <u>\$ 131,505,249</u> |

The following table represents the Level 3 financial instruments as of December 31, 2020, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

| Investment | Total Fair Value | Valuation Technique | Unobservable Inputs | Range |
|--|-----------------------|---|---|----------------------|
| Fixed income (illiquid) | \$ 48,146,754 | Fair Value with Qualitative Discounting Model | Lack of Control Discount and Lack of Marketability Discount | 8% – 9.8% |
| Partnerships | 3,146,000 | Market Comparables | Listing Prices and General Partner Estimates | - |
| Beneficial interest in remainder trusts | 62,556,158 | Discounted Cash Flow | Discounted Rate, Life Expectancies, and Remaining | 5%, 2 to 65 years |
| Beneficial income interest in perpetual trusts | <u>17,656,337</u> | Fair value | Remaining payments | - |
| Total assets measured at fair value – Level 3 | <u>\$ 131,505,249</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 to these funds totaled \$27,634,456 as of December 31, 2020.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 6 – Fair Value Measurement (continued)

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

| Investment | Total Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-------------------------------|---------------------|-------------------------|-------------------------|-----------------------------|
| Global equities | \$ 32,398,044 | \$ - | Monthly | 3 to 5 days |
| Global fixed income | 49,473,358 | - | Monthly | 3 to 14 days |
| Closely held stock | 50,684,120 | - | Non-redeemable | - |
| Real estate/natural resources | 11,303,543 | 8,708,680 | Non-redeemable | - |
| Infrastructure | 4,039,369 | 2,448,924 | Non-redeemable | - |
| Private equity | 13,542,232 | 16,476,852 | Non-redeemable | - |
| Hedge funds | | | | |
| RD Legal | 370 | - | In redemption | 90 days |
| AG Super Fund, LP | 3,685 | - | In redemption | 90 days |
| TSE Capital | 73,810 | - | In redemption | 90 days |
| 36 South | 2,051,147 | - | Monthly | 30 days |
| BHDG Systematic | 1,884,298 | - | Daily | 1 business day |
| Total | \$ 165,453,976 | \$ 27,634,456 | | |

Note 7 – Property and Equipment

Property and equipment at December 31, 2020, consist of the following:

| | |
|---|---------------|
| Building and leasehold improvements | \$ 14,299,033 |
| Land | 3,265,379 |
| Office equipment | 318,321 |
| Furniture | 366,310 |
| Donated artwork | 17,500 |
| Total property and equipment | 18,266,543 |
| Less: accumulated depreciation and amortization | (4,446,686) |
| Property and equipment, net | \$ 13,819,857 |

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 8 – Notes 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 due on October 20, 2021. In January 2021, the mortgage was refinanced to reduce the interest rate to 3% and to extend the maturity date to January 20, 2031. Additionally, during 2020, SBF obtained an unsecured forgivable Small Business Administration (SBA) Payroll Protection Program (PPP) loan through Montecito Bank & Trust at an interest rate of 1%. Principal and interest payments of \$33,907 are due monthly beginning August 1, 2021, unless SBF submits a loan forgiveness application by August 1, 2021, in which case payments will be deferred until the date the SBA remits payment and/or provides notice to the lender of the approved loan forgiveness amount. In June 2021, SBF received notification that the SBA has authorized full forgiveness of the PPP loan of \$602,500.

Future maturities of principal obligations are as follows as of December 31, 2020:

| | |
|-------|---------------------|
| 2021 | \$ 3,159,651 |
| 2022 | 404,307 |
| 2023 | <u>30,686</u> |
| Total | <u>\$ 3,594,644</u> |

Note 9 – Grants

Grants payable as of December 31, 2020, of \$205,250 are due within one year.

Grant expense is comprised of the following for the year ended December 31, 2020:

| | |
|-------------------------------|----------------------|
| Donor advised | \$ 13,862,387 |
| Field of interest | 5,788,483 |
| Competitive | 3,584,985 |
| Donor designated | 1,386,066 |
| Supporting organizations | 842,685 |
| Fiscal sponsorships | 85,901 |
| Pass-through | <u>38,286</u> |
| Total grants, net of rescinds | <u>\$ 25,588,793</u> |

Note 10 – Concentrations and Risks

Credit risk – SBF maintains cash balances at several banks insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC only insures the first \$250,000 of funds on deposit at any one institution. SBF had uninsured cash of approximately \$23,400,000 deposited with three different banks. In addition, SBF maintains significant cash balances in money market funds. Such balances are not fully insured.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 10 – 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.

Concentrated investments – As of the year ended December 31, 2020, approximately 30% of the fair value of investments and a significant portion of the unrealized gains and losses are attributable to the two supporting organizations, HSBF and EK SCT. The fair value of HSBF's illiquid fixed income and EK SCT's closely held stock position are based upon annual independent third-party valuations using the same techniques and variables as in prior years.

Supporting organization assets – As of the year ended December 31, 2020, approximately 18% of total assets were in the two supporting organizations, HSBF and EK SCT.

Note 11 – 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 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.

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Notes to Consolidated Financial Statements

Note 11 – Endowment Funds (continued)

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

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

SBF uses a total investment return methodology for determining its spending policy each year. The portfolio's total returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The spending policy calculates the amount of money annually distributed from SBF's various discretionary funds and other endowed funds for grant making, student aid, and administrative support. The spending policy for the year ended December 31, 2020, 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. In November 2020, the Board of Trustees adopted a spending policy for discretionary funds of 4.5% for the year beginning January 1, 2021.

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 11 – Endowment Funds (continued)

Endowment funds with deficiencies – From time to time, the fair value of the assets associated with individual donor-restricted funds may fall below the level that current law requires SBF to retain for a fund of perpetual duration. In accordance with U.S. GAAP, 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. SBF has adopted a policy to spend from underwater endowments with certain limitations. As of December 31, 2020 and 2019, SBF held 5 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>2020</u> | <u>2019</u> |
|--|---------------------|-----------------------|
| Fair value of underwater endowments | \$ 11,135,911 | \$ 10,615,986 |
| Original endowment gift amount | <u>11,729,192</u> | <u>11,729,191</u> |
| Deficiencies of underwater endowment funds | <u>\$ (593,281)</u> | <u>\$ (1,113,205)</u> |

Endowment net assets with donor restrictions totaled \$65,030,197 consisting of total original gift endowment contributions of \$55,841,400 and accumulated earnings of \$9,188,797 as of December 31, 2020. Changes in the endowment net assets with donor restrictions for the year ended December 31, 2020, are as follows:

| | <u>With Donor Restrictions</u> |
|--|------------------------------------|
| Endowment net assets, beginning of year | \$ 54,112,049 |
| Net investment return | 6,633,210 |
| Contributions | 255,034 |
| Appropriation of endowment net assets for expenditure | (2,375,905) |
| Reclassifications and other releases from restrictions | <u>6,405,809</u> |
| Endowment net assets, end of year | <u>\$ 65,030,197</u> |

There were no endowment net assets without donor restrictions or assets classified as board-restricted endowment funds as of December 31, 2020.

Note 12 – 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.

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 13 – Leases

SBF leases office equipment and office space under non-cancellable operating leases through September 2025. Minimum rental payments under the terms of these leases are as follows for the year ended December 31, 2020:

| | |
|-------|-------------------|
| 2021 | \$ 83,839 |
| 2022 | 83,541 |
| 2023 | 84,461 |
| 2024 | 8,140 |
| 2025 | <u>3,655</u> |
| Total | <u>\$ 263,636</u> |

Lease expense for the year ended December 31, 2020, totaled \$80,249.

Note 14 – 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%. SBF employer contributions for the year ended December 31, 2020, totaled \$247,260.

In addition, SBF has a non-qualified deferred compensation plan. There were no SBF employer contributions for the year ended December 31, 2020.

Note 15 – Liquidity

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

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

Santa Barbara Foundation

Notes to Consolidated Financial Statements

Note 15 – Liquidity (continued)

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Cash and cash equivalents | \$ 40,893,593 | \$ 34,986,788 |
| Contributions and bequests receivable, current portion | 185,000 | 471,524 |
| Student loans receivable, current portion | 100,000 | 200,000 |
| Notes receivable, current portion | 1,500,000 | 1,500,000 |
| Other assets | <u>161,761</u> | <u>917,592</u> |
| | <u>42,840,354</u> | <u>38,075,904</u> |
| Investments | 330,425,791 | 326,888,398 |
| Less: investments not available for general expenditures within one year | | |
| Illiquid, not convertible to cash beyond one year | (101,976,873) | (118,029,830) |
| Endowments and other funds subject to spending policy appropriations beyond one year | | |
| Without donor restrictions | (100,218,460) | (105,466,993) |
| With donor restrictions | (65,030,197) | (54,112,049) |
| Funds held on behalf of others | <u>(24,333,196)</u> | <u>(23,305,784)</u> |
| Investments available for general expenditures within one year | <u>38,867,065</u> | <u>25,973,742</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 81,707,419</u> | <u>\$ 64,049,646</u> |

Santa Barbara Foundation
Notes to Consolidated Financial Statements

Note 16 – Net Assets

As of December 31, 2020, net assets consist of the following:

Net assets without donor restrictions

| | |
|---|----------------------------------|
| Donor-advised funds | \$ 99,649,393 |
| Supporting organizations | 98,950,856 |
| Undesignated funds | 91,741,181 |
| Field of interest funds | 42,757,075 |
| Donor-designated funds | 6,662,439 |
| Board-designated funds | 2,280,386 |
| Fiscal sponsorship | <u>1,601,531</u> |
| Total net assets without donor restrictions | <u><u>\$ 343,642,861</u></u> |

Net assets with donor restrictions

| | |
|--|----------------------------------|
| Contributions receivable | \$ 143,638 |
| Donor-restricted endowment funds | 65,030,197 |
| Beneficial interest in remainder trusts | 63,571,942 |
| Beneficial income interest in perpetual trusts | <u>17,656,337</u> |
| Total net assets with donor restrictions | <u><u>\$ 146,402,114</u></u> |