

**MUSIC ACADEMY
OF THE WEST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

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WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

AUDIT
AND
ASSURANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Music Academy of the West

Report on the Financial Statements

We have audited the accompanying financial statements of Music Academy of the West, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Music Academy of the West

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Music Academy of the West as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Green Hasson & Janks LLP

August 24, 2021
Los Angeles, California

MUSIC ACADEMY OF THE WEST

STATEMENT OF FINANCIAL POSITION
December 31, 2020

ASSETS	Without Donor Restrictions	With Donor Restrictions	Total
Cash	\$ 3,170,325	\$ -	\$ 3,170,325
Investments	49,739,087	3,786,780	53,525,867
Contributions Receivable (Net)	-	1,733,589	1,733,589
Bequests Receivable (Net)	-	8,212,746	8,212,746
Prepaid Expenses, Deposits and Other Assets	121,241	-	121,241
Beneficial Interest in Trusts	-	4,345,911	4,345,911
Property and Equipment (Net)	36,938,961	-	36,938,961
TOTAL ASSETS	\$ 89,969,614	\$ 18,079,026	\$ 108,048,640
LIABILITIES AND NET ASSETS			
LIABILITIES:			
Accounts Payable and Accrued Expenses	\$ 678,145	\$ -	\$ 678,145
Deferred Revenue	501,192	-	501,192
Note Payable	11,178,467	-	11,178,467
TOTAL LIABILITIES	12,357,804	-	12,357,804
NET ASSETS:			
Without Donor Restrictions:			
Undesignated	27,849,724	-	27,849,724
Board Designated	49,762,086	-	49,762,086
With Donor Restrictions	-	18,079,026	18,079,026
TOTAL NET ASSETS	77,611,810	18,079,026	95,690,836
TOTAL LIABILITIES AND NET ASSETS	\$ 89,969,614	\$ 18,079,026	\$ 108,048,640

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF ACTIVITIES Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, SUPPORT AND OTHER INCOME (LOSS):			
Contributions - Individuals, Corporations, Foundations	\$ 1,792,613	\$ 6,207,630	\$ 8,000,243
Investment Return (Net)	4,782,660	429,545	5,212,205
Contribution - Government (Paycheck Protection Program)	240,000	-	240,000
Change in Value of Beneficial Interest in Trusts	-	230,577	230,577
Special Events (Net)	99,012	-	99,012
Store Sales (Net)	11,107	-	11,107
Application Fees	134,619	-	134,619
Rental Income	131,207	-	131,207
Other Income	57,456	-	57,456
Loss on Disposal of Property and Equipment	(43,605)	-	(43,605)
Net Assets Released from Donor Restrictions	6,206,141	(6,206,141)	-
TOTAL REVENUE AND SUPPORT AND OTHER INCOME (LOSS)	13,411,210	661,611	14,072,821
EXPENSES:			
Program Services	5,113,830	-	5,113,830
Management and General	1,461,249	-	1,461,249
Fundraising	1,607,664	-	1,607,664
TOTAL EXPENSES	8,182,743	-	8,182,743
CHANGE IN NET ASSETS	5,228,467	661,611	5,890,078
Net Assets - Beginning of Year	72,383,343	17,417,415	89,800,758
NET ASSETS - END OF YEAR	\$ 77,611,810	\$ 18,079,026	\$ 95,690,836

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF FUNCTIONAL EXPENSES Year Ended December 31, 2020

	Program Services			Support Services		Total
	Summer Festival	Other	Total Program Services	Management and General	Fundraising	
Salaries	\$ 954,377	\$ 427,466	\$ 1,381,843	514,196	917,307	\$ 2,813,346
Artistic and Educational	1,143,168	161,984	1,305,152	-	-	1,305,152
Depreciation and Amortization	741,107	248,286	989,393	110,871	19,686	1,119,950
Occupancy	283,468	104,241	387,709	146,281	31,617	565,607
Interest	87,398	29,133	116,531	200,768	110,703	428,002
Other Expense	15,579	21,966	37,545	192,442	118,143	348,130
Other Employee Benefits	108,160	55,267	163,427	44,560	52,315	260,302
Information Technology	95,671	14,463	110,134	79,066	64,226	253,426
Awards and Stipends	129,250	88,000	217,250	-	9,750	227,000
Payroll Taxes	64,362	33,895	98,257	30,710	60,115	189,082
Marketing and Communications	99,719	34,470	134,189	4,415	26,802	165,406
Travel and Housing	59,405	25,252	84,657	20,129	13,667	118,453
Other Professional Fees	5,919	1,973	7,892	7,413	92,234	107,539
Insurance	19,183	6,394	25,577	43,445	28,461	97,483
Retirement Contributions	30,850	9,981	40,831	14,678	32,328	87,837
Office Expense	7,883	2,628	10,511	17,852	26,810	55,173
Accounting and Legal	2,199	733	2,932	34,423	3,500	40,855
TOTAL FUNCTIONAL EXPENSES	\$ 3,847,698	\$ 1,266,132	\$ 5,113,830	\$ 1,461,249	\$ 1,607,664	\$ 8,182,743

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF CASH FLOWS Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ 5,890,078
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	1,107,506
Amortization of Debt Issuance Costs	12,444
Change in Present Value Discount of Contributions Receivable	(18,780)
Change in Present Value Discount of Bequests Receivable	1,526,337
Change in Provision for Uncollectible Contributions Receivable	36,682
Change in Provision for Uncollectible Bequests Receivable	108,750
Net Realized and Unrealized Gain on Investments	(4,675,560)
Change in Value of Beneficial Interest in Trusts	(230,577)
Loss on Disposal of Property and Equipment	43,605
(Increase) Decrease in:	
Contributions Receivable	928,423
Bequests Receivable	(2,967,341)
Prepaid Expenses, Deposits and Other Assets	143,431
Increase in:	
Accounts Payable and Accrued Expenses	182,352
Deferred Revenue	437,547

NET CASH PROVIDED BY OPERATING ACTIVITIES

2,524,897

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of Investments	(1,774,385)
Proceeds from Sale of Investments	806,534
Purchase of Property and Equipment	(475,852)

NET CASH USED IN INVESTING ACTIVITIES

(1,443,703)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on Note Payable	(525,049)
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NET INCREASE IN CASH

556,145

Cash - Beginning of Year

2,614,180

CASH - END OF YEAR

\$ 3,170,325

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid During the Year for Interest	<u>\$ 425,168</u>
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The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 1 - ORGANIZATION

Music Academy of the West (the Academy) is a performance-based training center and incubator that empowers musicians to positively impact society. The Academy welcomes everyone from across all generations, cultures, and backgrounds to experience the transformative power of music. Based in Santa Barbara, California, the Academy presents the preeminent full-scholarship Summer School and Festival for classically trained fellows ages 18 to 34. They study and perform with more than 50 exceptional faculty and teaching artists, while forging close connections with the community. The Academy's commitment to long-term collaborations and exchanges with leading orchestras and opera companies results in unparalleled mentorship and career-advancing prospects. The Innovation Institute spearheads entrepreneurial training and ventures through seminars, residencies, and the Alumni Enterprise Awards, substantial grants given annually for a wide range of creative projects. Launched in 2018, Sing!, a free, after-school choral program for local elementary students inspires personal growth and expression. For more information, visit musicacademy.org.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

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

(b) NET ASSETS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions - Undesignated.** Net assets available for use in general operations and not subject to Board-imposed or donor-imposed restrictions.
- **Net Assets Without Donor Restrictions - Board Designated.** Net assets available for use in general operations and not subject to donor-imposed restrictions. The Board of Directors (the Board) has designated, from net assets without donor restrictions, \$40,724,951 as an endowment and \$9,037,135 as a reserve for campus maintenance and loan repayment.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) NET ASSETS (continued)

- **Net Assets With Donor Restrictions.** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Academy has \$18,079,026 of net assets with donor restrictions at December 31, 2020.

(c) CASH

The Academy maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Academy has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

(d) INVESTMENTS

Investments in equity and debt securities with readily determinable market values are reported at fair value. Investments in hedge funds, private equity, and other alternatives are valued using the net asset value (NAV) per share of units held by the Academy or its equivalent. Investment purchases and sales are accounted for on a trade-date basis. Interest income is recorded as earned on an accrual basis, and dividend income is recorded based upon the ex-dividend date. Realized gains and losses are calculated based upon the underlying cost of the securities traded. Unrealized gains and losses are included in the statement of activities and represent the difference between the cost and fair value of investments held at the end of the fiscal year.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Investments are made according to the investment policies, guidelines, and objectives adopted by the Academy's Board of Directors. These guidelines provide for investments in equities, fixed income, and other securities with performance measured against appropriate indices. The investments are generally managed and reviewed by outside investment managers contracted by the Academy.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) CONTRIBUTIONS RECEIVABLE

Unconditional contributions are recognized as revenues in the period received. The Academy reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not included as revenue until the conditions on which they depend have been met. Contributions collected in advance of conditions being met are deferred and recognized as income in the period in which the conditions are met. At December 31, 2020 such conditional contributions amounted to \$500,000 and are included in deferred revenue.

Contributions receivable expected to be collected within one year are recorded at their net realizable value. Contributions receivable expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at an appropriate market interest rate at the time of the contribution. A discount rate of 2.5% been used to calculate the present value of contributions receivable. The discount amounted to \$63,630 at December 31, 2020. At December 31, 2020, the Academy evaluated the collectability of pledges receivable and determined that an allowance of \$46,890 for uncollectible pledges receivable was prudent.

(f) LEGACIES AND BEQUESTS

The Academy has been named beneficiary in a number of bequests. Certain of these gifts have not been recorded in the accompanying financial statements because the donors' wills have not yet been declared valid by the probate court and/or the value of the amounts to be received is not yet determinable. The Academy reports all gifts when declared valid and the amount is determinable. Bequests receivable expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at an appropriate market interest rate at the time of the bequest. A discount rate of 2.5% been used to calculate the present value of bequests receivable. The discount amounted to \$1,941,004 at December 31, 2020. At December 31, 2020, the Academy evaluated the collectability of bequests receivable and determined that an allowance of \$108,750 for uncollectible bequests receivable was prudent.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) BENEFICIAL INTEREST IN TRUSTS

Donors have established and funded trusts, which are administered by organizations other than the Academy. Under the terms of the trusts, the Academy has the irrevocable right to receive a percentage of the income earned on the trust assets either in perpetuity or for the life of the trusts. The Academy does not control the assets held by the outside trusts. Annual distributions from the trusts are reported as revenue on the statement of activities. Adjustments to the beneficial interest to reflect changes in the fair value are reflected in the statement of activities as a change in value of beneficial interest in trusts.

(h) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Buildings and Building Improvements	5-50 Years
Office and Computer Equipment	5 Years
Musical Instruments	25 Years
Library Texts and Music	25 Years
Vehicles	5 Years

Expenditures for repairs and maintenance are charged to operations when incurred while renewals and betterments are capitalized.

(i) LONG-LIVED ASSETS

The Academy reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2020.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

The Academy has elected to account for the forgivable loan received under the Paycheck Protection Program (PPP) provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act as a conditional government grant. Management has concluded that the PPP loan represents, in substance, a grant that is expected to be recognized as income when the associated conditions are met. Under this approach, the timing of recognition of the contribution revenue depends on when the various conditions of the PPP are substantially met or explicitly waived. In June 2021, the Academy received full forgiveness of its PPP loan from the Small Business Administration.

(k) REVENUE FROM CONTRACTS WITH CUSTOMERS

The Academy's revenues from contracts with customers are generated from store sales and application fees. For store sales, the Academy recognizes revenue at the point of sale, when performance obligations are satisfied. Application fees, which are non-refundable, are recognized on receipt. Retail activity was temporarily suspended in 2020 due to the COVID-19 pandemic.

(l) RENTAL INCOME

The Academy's rental income is generated from short-term studio rentals. The Academy recognizes revenue over the rental period. Rental activity was temporarily suspended in 2020 due to the COVID-19 pandemic.

(m) INCOME TAXES

The Academy is a California nonprofit corporation and is exempt from federal taxation under Internal Revenue Code Section 501(c)(3) and the corresponding state provisions.

In accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic No. 740, *Uncertainty in Income Taxes*, the Academy recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. During the year ended December 31, 2020, the Academy performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an effect on its tax-exempt status.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Academy's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. Time and effort is the basis for the majority of such allocations, with occupancy and related expenses being based on square footage. During the year ended December 31, 2020, the Academy incurred significantly fewer program expenses due to the restrictions imposed by the COVID-19 pandemic. This impacted the allocations for the fiscal year and increased general and administrative expenses proportionally.

(o) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of U.S. GAAP and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASUs between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on principal versus agent considerations, licensing implementation guidance, scope exceptions, and various other narrow aspects, as identified and addressed in such updates. The Academy implemented the ASU and subsequent amendments during the year ended December 31, 2020. There was no significant impact on the financial statements as a result of the implementation of this ASU.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) NEW ACCOUNTING PRONOUNCEMENTS (continued)

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance. The Academy implemented this ASU during the year ended December 31, 2020. There was no significant impact on the financial statements as a result of the implementation of this ASU.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and provide additional information about the amounts recorded in the financial statements. For the Academy, the ASU will be effective for the year ending December 31, 2022.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU is intended to improve transparency in the reporting of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit organizations, including transparency on how those assets are used and how they are valued. For the Academy, the ASU will be effective for the year ending December 31, 2022.

(q) SUBSEQUENT EVENTS

The Academy has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2020 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through August 24, 2021, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred, except as noted in Notes 2(j) and 8.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 3 - FAIR VALUE MEASUREMENTS

The Academy has implemented the accounting standard that defines fair value for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

The following table presents information about the Academy's assets that are measured at fair value on a recurring basis at December 31, 2020 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value: The fair value of investments within Level 1 was obtained based on quoted market prices at the closing of the last business day of the fiscal year.

	Total at December 31, 2020	Fair Value Measurement Using			Net Asset Value Per Share or its Equivalent (NAV)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and Cash Equivalents	\$ 700,299	\$ 700,299	\$ -	\$ -	\$ -
Fixed Income	14,050,048	3,958,889	10,091,159	-	-
U.S. Equities	16,303,273	16,303,273	-	-	-
Non-U.S. Equities	9,696,305	9,696,305	-	-	-
Asset Allocation Funds	2,610,362	2,610,362	-	-	-
Hedge Funds	8,278,475	-	-	-	8,278,475
Private Equity Partnerships	1,142,257	-	-	-	1,142,257
Other	93,105	-	-	-	93,105
Real Estate	651,743	-	-	651,743	-
TOTAL INVESTMENTS	53,525,867	33,269,128	10,091,159	651,743	9,513,837
Beneficial Interest in Trusts	4,345,911	-	-	4,345,911	-
TOTAL ASSETS	\$ 57,871,778	\$ 33,269,128	\$ 10,091,159	\$ 4,997,654	\$ 9,513,837

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

The fair values of the marketable securities and funds within Level 1 were obtained based on quoted market prices at the closing of the last business day of the fiscal year.

Fixed income investments within Level 2 include municipal/provincial bonds and corporate bonds. Their fair value is determined using recently executed transactions or market price quotations where observable. When observable price quotations are not available, fair value is determined based on market price quotations that are not observable or market price quotations for securities with similar characteristics.

Private equity, hedge fund and other investments classified as NAV are comprised of various partnerships that invest in U.S. and international companies in various industries. The fair value of the investments is based on the NAV of the Academy's ownership interest in the partners' capital. The funds provide distributions only upon liquidation of the underlying assets. The fund managers estimate the underlying assets of the funds will be liquidated over one to ten years. It is probable that the investments will be sold at an amount different from their fair value at December 31, 2020.

Assets within Level 3 include beneficial interest in trusts, which are valued as described in Note 2(g), and a real estate investment that is valued based on an appraisal and with reference to online real estate marketplace listings.

The following table summarizes the redemption frequency and notice period for the Foundation's investments using NAV as practical expedient as of December 31, 2020:

	Fair Value	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 8,278,475	Illiquid	N/A
Private Equity Partnerships	1,142,257	Illiquid	N/A
Other	93,105	Illiquid	N/A
TOTAL OTHER	\$ 9,513,837		

Unfunded commitments at December 31, 2020 amounted to approximately \$3,480,000.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

The table below sets forth a summary of the changes in the fair value of the Academy's Level 3 assets for the year ended December 31, 2020.

	Real Estate	Beneficial Interest in Trusts	Total
Beginning Balance	\$ 427,598	\$ 4,115,334	\$ 4,542,932
Change in Value	224,145	230,577	454,722
Contributions/Additions	-	-	-
Distributions/Liquidations	-	-	-
ENDING BALANCE	\$ 651,743	\$ 4,345,911	\$ 4,997,654

NOTE 4 - CONTRIBUTIONS RECEIVABLE

At December 31, 2020, pledges receivable are due to be collected as follows:

Within One Year	\$ 1,451,995
In Two to Five Years	262,084
After Five Years	<u>130,000</u>
TOTAL	1,844,079
Less: Present Value Discount	(20,839)
Less: Allowance for Doubtful Pledges	<u>(89,651)</u>
PLEDGES RECEIVABLE (NET)	<u>\$ 1,733,589</u>

NOTE 5 - BEQUESTS RECEIVABLE

At December 31, 2020, bequests receivable are due to be collected as follows:

Within One Year	\$ 2,500,000
Estate Pledges (No Definitive Due Date)	<u>7,762,500</u>
TOTAL	10,262,500
Less: Present Value Discount	(1,941,004)
Less: Allowance for Doubtful Pledges	<u>(108,750)</u>
PLEDGES RECEIVABLE (NET)	<u>\$ 8,212,746</u>

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 6 - PROPERTY AND EQUIPMENT

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

Land	\$ 542,027
Buildings and Building Improvements	43,405,015
Office and Computer Equipment	1,485,233
Musical Instruments	2,912,428
Library Texts and Music	26,727
Vehicles	43,153
Construction in Progress	<u>19,566</u>
TOTAL	48,434,149
Less: Accumulated Depreciation	<u>(11,495,188)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 36,938,961</u>

Depreciation expense amounted to \$1,107,506 for the year ended December 31, 2020.

NOTE 7 - NOTE PAYABLE

Note payable at December 31, 2020 consist of the following:

Note Payable to First Republic Bank, Secured by Cash, Investments and Receivables Without Donor Restrictions, Payable in Monthly Payments of Principal and Interest of \$79,221, Bearing Interest at 3.65%, Due September 2036	\$ 11,373,946
Less: Unamortized Debt Issuance Costs	<u>(195,479)</u>
TOTAL NOTES PAYABLE	<u>\$ 11,178,467</u>

The note payable contains various covenants and restrictions including, among others, maintenance of a certain level of liquidity.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 7 - NOTE PAYABLE (continued)

Future maturities of the note payable as of December 31, 2020 are as follows:

Years Ending June 30

2021	\$	544,597
2022		564,810
2023		585,774
2024		606,532
2025		630,029
Thereafter		<u>8,442,204</u>
TOTAL		<u>\$ 11,373,946</u>

During the year ended December 31, 2020, the amortization of debt issuance costs amounted to \$12,444 and interest expense amounted to \$425,168.

In addition, the Academy has access to a \$1,500,000 line of credit facility with First Republic Bank. The line of credit expires on September 30, 2021 and bears an interest rate of not less than 3%. There were no draws on the line of credit at December 31, 2020.

NOTE 8 - PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

In April 2020 the Academy received a Paycheck Protection Program (PPP) loan in the amount of \$240,000.

The PPP loan, administered by the Small Business Administration (SBA), bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the SBA. Interest accrues on the loan beginning with the initial disbursement; however, payments of principal and interest are deferred until the lender's determination of the amount of forgiveness applied for by the borrower is approved by the SBA.

On the date the PPP loan was received by the Academy, it was recorded as a refundable advance, in accordance with the Academy's determination of the PPP loan as a conditional government grant. During the year ended December 31, 2020, the Academy used the entire proceeds of the PPP loan for purposes consistent with the PPP, resulting in recognition of the entire amount of the PPP loan as contribution revenue in the accompanying financial statements.

In June 2021, the Academy received full forgiveness of its PPP loan, including accrued interest of \$2,834, from the SBA.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 9 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of undesignated and Board designated amounts for the following purposes at December 31, 2020:

Undesignated Net Assets	\$ 27,849,724
Board Designated Net Assets:	
Future Operations	40,724,951
Campus Maintenance	3,878,294
Loan Repayment	<u>5,158,841</u>
TOTAL BOARD DESIGNATED NET ASSETS	<u>49,762,086</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 77,611,810</u>

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

Subject to the Passage of Time:	
Beneficial Interest in Trusts	\$ 4,345,911
Contributions and Bequests Receivable	<u>9,555,725</u>
TOTAL SUBJECT TO THE PASSAGE OF TIME	13,901,636
Subject to Expenditure for Specified Purpose:	
Artistic Initiative Fund	134,656
London Symphony Orchestra Partnership	539,523
Other Programs	565,838
Building Construction	39,817
Building Maintenance	2,156,083
Scholarships	<u>211,473</u>
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE	<u>3,647,390</u>
Subject to Endowment Spending Policy and Appropriation:	
Endowment Corpus	<u>530,000</u>
TOTAL SUBJECT TO ENDOWMENT SPENDING POLICY AND APPROPRIATION	<u>530,000</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 18,079,026</u>

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 11 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2020:

Expiration of Time Restrictions	\$ 5,598,519
Satisfaction of Purpose Restrictions:	
Artistic Initiative Fund	383,816
London Symphony Orchestra Partnership	112,454
Other Programs	2,500
Building Construction	14,319
Building Maintenance	94,533
	<hr/>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 6,206,141

NOTE 12 - ENDOWMENT

The Academy's endowment consist of donor-restricted gifts required to be maintained in perpetuity as well as a Board designated endowment. The intention of the endowments is that the principal be preserved and inflation protected, to provide for a continuous flow of annual distributions to support the operations of the Academy.

The Academy's management understands California State law as (1) requiring the preservation of the fair market value of the original gifts as of the gift date of the donor restricted endowment funds, and (2) allowing the spending of income and gains on endowments required to be maintained in perpetuity, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for this endowment is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation and costs of portfolio management. The endowment is managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk.

The spending policy has been designed to distribute a specific payout rate of the endowment base to support the Academy's programs. Such a policy allows for a greater predictability of spendable income for budgeting purposes and for gradual steady growth for the support of operations by the endowment. In addition, this policy minimizes the probability of invading the principal over the long term. The spending rate is 4.75% of the average value of the endowment over the previous 20 quarters. The Board of the Academy may, at its discretion, appropriate for expenditure an amount that exceeds the threshold.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 12 - ENDOWMENT (continued)

Endowment Net Asset Composition by Type of Fund at December 31, 2020	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Board Designated	\$ 40,724,951	\$ 530,000	\$ 41,254,951
Changes in Endowment Net Assets for the Year Ended December 31, 2020			
Endowment Net Assets - Beginning of Year	\$ 37,399,039	\$ 530,000	\$ 37,929,039
Additions	1,550,220	-	1,550,220
Endowment Assets Appropriated for Expenditure	(1,432,238)	-	(1,432,238)
Investment Return (Net)	3,207,930	-	3,207,930
ENDOWMENT NET ASSETS - END OF YEAR	\$ 40,724,951	\$ 530,000	\$ 41,254,951

NOTE 13 - DEFINED CONTRIBUTION PLAN

The Academy has a tax-deferred annuity plan under section 403(b) of the Internal Revenue Code covering all employees who satisfy the age and service requirements specified by the Plan. The Academy's matching contribution equals 100% of the employee contributions, up to 5% percent of the employee's deferred compensation. Total matching contributions for the year ended December 31, 2020 were \$90,145.

NOTE 14 - LEASE COMMITMENT

The Academy leases a single family residence for the benefit of the Academy's President under a lease agreement with a term through June 2022. At December 31, 2020, the future minimum lease commitments under this lease are:

Year Ending December 31	
2021	\$ 42,000
2022	21,000
TOTAL	\$ 63,000

Rent expense for the year ended December 31, 2020 totaled \$42,000.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2020

NOTE 15 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Academy at December 31, 2020 and the amounts of those financial assets that could be made available for general expenditures within one year of the date of the statement of financial position are summarized in the following table:

Financial Assets at December 31, 2020	
Cash	\$ 3,170,325
Investments	<u>49,839,087</u>
TOTAL FINANCIAL ASSETS AT DECEMBER 31, 2020	53,009,412
Less Amounts Not Available to Be Used within One Year, Due to:	
Board Designations:	
Board Designated Endowment	(40,724,951)
Board Designated Reserve	<u>(9,037,135)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u><u>\$ 3,247,326</u></u>

The Academy regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of the Academy's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Academy has various sources of liquidity at its disposal, including cash and investments and a line of credit facility of \$1,500,000. Additionally, the Academy has Board designated net assets without donor restrictions that, while the Academy does not intend to spend these for purposes other than those identified, could be made available for current operations, if necessary.