

**MUSIC ACADEMY OF THE WEST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

**MUSIC ACADEMY OF THE WEST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

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THE GLOBAL ADVISORY  
AND ACCOUNTING NETWORK

**AUDIT  
AND  
ASSURANCE**

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Music Academy of the West

### **Opinion**

We have audited the financial statements of Music Academy of the West (the Academy), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Academy as of December 31, 2022, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for one year after the date that the financial statements are issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors  
Music Academy of the West

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Report on Summarized Comparative Information**

We have previously audited the Academy's December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Green Hasson & Janks LLP*

September 15, 2023  
Los Angeles, California

**MUSIC ACADEMY OF THE WEST**

STATEMENT OF FINANCIAL POSITION  
December 31, 2022  
With Summarized Totals at December 31, 2021

<b>ASSETS</b>	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Cash	\$ 1,814,859	\$ 1,160,166	\$ 2,975,025	\$ 4,067,839
Investments	53,682,073	3,199,495	56,881,568	62,723,714
Distribution from Investment Receivable	163,100	-	163,100	429,500
Contributions Receivable (Net)	-	2,766,700	2,766,700	1,574,499
Bequests Receivable (Net)	-	6,441,910	6,441,910	6,291,046
Prepaid Expenses and Deposits	200,729	-	200,729	192,074
Other Assets	-	-	-	4,500,000
Beneficial Interest in Trusts	-	4,001,565	4,001,565	4,650,890
Property and Equipment (Net)	36,351,121	-	36,351,121	36,321,359
<b>TOTAL ASSETS</b>	<b>\$ 92,211,882</b>	<b>\$ 17,569,836</b>	<b>\$ 109,781,718</b>	<b>\$ 120,750,921</b>
 <b>LIABILITIES AND NET ASSETS</b>				
<b>LIABILITIES:</b>				
Accounts Payable and Accrued Expenses	\$ 1,165,790	\$ -	\$ 1,165,790	\$ 920,936
Deferred Revenue	25,945	-	25,945	462,890
Note Payable (Net)	10,096,302	-	10,096,302	10,646,379
<b>TOTAL LIABILITIES</b>	<b>11,288,037</b>	<b>-</b>	<b>11,288,037</b>	<b>12,030,205</b>
<b>NET ASSETS:</b>				
<b>Without Donor Restrictions:</b>				
Undesignated	27,003,997	-	27,003,997	28,350,240
Board Designated	53,919,848	-	53,919,848	62,005,198
<b>With Donor Restrictions</b>	<b>-</b>	<b>17,569,836</b>	<b>17,569,836</b>	<b>18,365,278</b>
<b>TOTAL NET ASSETS</b>	<b>80,923,845</b>	<b>17,569,836</b>	<b>98,493,681</b>	<b>108,720,716</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 92,211,882</b>	<b>\$ 17,569,836</b>	<b>\$ 109,781,718</b>	<b>\$ 120,750,921</b>

The Accompanying Notes are an Integral Part of These Financial Statements

**MUSIC ACADEMY OF THE WEST**

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2022  
With Summarized Totals for the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
<b>REVENUES, SUPPORT AND OTHER INCOME (LOSS):</b>				
Contributions - Individuals, Corporations, Foundations	\$ 4,928,154	\$ 4,345,691	\$ 9,273,845	\$ 12,057,138
Performance Revenue	606,964	-	606,964	255,939
Special Events (Net of Direct Donor Benefit Expenses of \$75,024)	619,842	-	619,842	723,331
Contributions - Government	225,000	-	225,000	482,150
Rental Income	235,213	-	235,213	145,071
Other Income	160,675	-	160,675	79,542
Net Gain on Sale of Assets (Real Estate)	120,771	-	120,771	-
Application Fees	84,433	-	84,433	32,070
Investment Return (Net)	(6,750,277)	(371,354)	(7,121,631)	9,513,529
Change in Value of Beneficial Interest in Trusts	-	(649,325)	(649,325)	304,979
Net Assets Released from Donor Restrictions	4,120,454	(4,120,454)	-	-
<b>TOTAL REVENUE AND SUPPORT AND OTHER INCOME (LOSS)</b>	4,351,229	(795,442)	3,555,787	23,593,749
<b>EXPENSES:</b>				
Program Services	10,151,484	-	10,151,484	6,856,703
Management and General	1,460,027	-	1,460,027	1,532,428
Fundraising	2,171,311	-	2,171,311	2,174,738
<b>TOTAL EXPENSES</b>	13,782,822	-	13,782,822	10,563,869
<b>CHANGE IN NET ASSETS</b>	(9,431,593)	(795,442)	(10,227,035)	13,029,880
Net Assets - Beginning of Year	90,355,438	18,365,278	108,720,716	95,690,836
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 80,923,845</u>	<u>\$ 17,569,836</u>	<u>\$ 98,493,681</u>	<u>\$ 108,720,716</u>

The Accompanying Notes are an Integral Part of These Financial Statements

## MUSIC ACADEMY OF THE WEST

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

With Summarized Totals for the Year Ended December 31, 2021

	Program Services			Support Services		2022 Total	2021 Total
	Summer Festival	Other	Total Program Services	Management and General	Fundraising		
Salaries	\$ 1,267,066	\$ 768,825	\$ 2,035,891	\$ 466,805	\$ 1,068,248	\$ 3,570,944	\$ 3,063,826
Artistic and Educational	2,331,158	1,061,083	3,392,241	-	19,350	3,411,591	2,078,046
Travel and Housing	1,161,782	772,843	1,934,625	5,921	33,801	1,974,347	817,871
Depreciation and Amortization	642,778	369,763	1,012,541	118,849	22,538	1,153,928	1,136,364
Occupancy	333,399	210,276	543,675	194,753	50,183	788,611	698,813
Other Expense	46,678	16,345	63,023	179,094	301,113	543,230	634,452
Other Professional Fees	3,157	2,617	5,774	27,461	170,906	204,141	301,053
Interest	83,636	48,118	131,754	154,350	96,181	382,285	409,140
Marketing and Communications	183,317	74,144	257,461	-	78,790	336,251	154,715
Other Employee Benefits	122,131	79,210	201,341	50,270	73,133	324,744	284,075
Information Technology	80,003	32,728	112,731	61,268	63,499	237,498	269,800
Payroll Taxes	88,318	53,734	142,052	22,223	64,445	228,720	204,927
Awards and Stipends	27,200	154,939	182,139	-	350	182,489	162,100
Accounting and Legal	15,639	8,998	24,637	104,407	17,985	147,029	84,806
Retirement Contributions	36,328	20,626	56,954	14,387	37,525	108,866	97,779
Insurance	21,975	12,643	34,618	40,554	26,516	101,688	105,272
Office Expense	11,504	8,523	20,027	19,685	46,748	86,460	60,830
<b>TOTAL 2022 FUNCTIONAL EXPENSES</b>	<b>\$ 6,456,069</b>	<b>\$ 3,695,415</b>	<b>\$ 10,151,484</b>	<b>\$ 1,460,027</b>	<b>\$ 2,171,311</b>	<b>\$ 13,782,822</b>	
<b>TOTAL 2021 FUNCTIONAL EXPENSES</b>	<b>\$ 5,550,918</b>	<b>\$ 1,305,785</b>	<b>\$ 6,856,703</b>	<b>\$ 1,532,428</b>	<b>\$ 2,174,738</b>		<b>\$ 10,563,869</b>

The Accompanying Notes are an Integral Part of These Financial Statements

## MUSIC ACADEMY OF THE WEST

### STATEMENT OF CASH FLOWS Year Ended December 31, 2022

With Summarized Totals for the Year Ended December 31, 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ (10,227,035)	\$ 13,029,880
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Contributed Property	-	(4,500,000)
Depreciation	1,141,484	1,123,920
Amortization of Debt Issuance Costs	12,444	12,444
Change in Present Value Discount of Contributions Receivable	59,992	(24,326)
Change in Present Value Discount of Bequests Receivable	177,392	(497,806)
Change in Provision for Uncollectible Contributions Receivable	5,500	(640)
Net Realized and Unrealized Loss (Gain) on Investments	8,475,261	(8,046,428)
Gain on Sale of Assets (Real Estate) (Net)	(120,771)	-
Change in Value of Beneficial Interest in Trusts	649,325	(304,979)
(Increase) Decrease in:		
Contributions Receivable	(1,257,693)	75,306
Bequests Receivable	(328,256)	2,528,256
Prepaid Expenses and Deposits	(8,655)	(70,833)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	244,854	242,791
Deferred Revenue	(436,945)	(38,302)
	<b>(1,613,103)</b>	<b>3,529,283</b>
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Investments	(4,476,758)	(2,125,958)
Proceeds from Sale of Investments	1,458,300	545,039
Purchase of Property and Equipment	(1,171,246)	(506,318)
Proceeds on Sale of Assets (Real Estate)	5,272,514	-
	<b>1,082,810</b>	<b>(2,087,237)</b>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on Note Payable	(562,521)	(544,532)
	<b>(562,521)</b>	<b>(544,532)</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(1,092,814)</b>	<b>897,514</b>
Cash - Beginning of Year	4,067,839	3,170,325
	<b>\$ 2,975,025</b>	<b>\$ 4,067,839</b>
<b>CASH - END OF YEAR</b>		
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year for Interest	<b>\$ 382,285</b>	<b>\$ 404,438</b>

The Accompanying Notes are an Integral Part of These Financial Statements



# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 1 - ORGANIZATION

Music Academy of the West (the Academy) makes a unique and enduring contribution to the world of music by advancing the development of the next generation of classically trained musicians and cultivating discerning, appreciative, and adventurous audiences. The Academy welcomes everyone from across all generations, cultures, and backgrounds to experience the transformative power of music.

The Academy is a performance-based training center and incubator that empowers musicians to positively impact society. The Academy presents the preeminent full-scholarship Summer School and Festival for 135 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, which are substantial grants given annually for a wide range of creative projects. Sing!, a free, after-school choral program for local elementary students, inspires personal growth and expression to develop the next generation of musicians and audiences.

### 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, \$45,704,826 as an endowment for future operations and \$8,215,022 as a reserve for campus maintenance and loan repayment.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### 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 \$17,569,836 of net assets with donor restrictions at December 31, 2022.

#### (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 securities and fixed income instruments with readily determinable market values are reported at fair value. Investments in real estate are valued at appraised 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 recorded on the trade date, which results in receivables and payables on trades that have not yet settled at the financial statement date. 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 investment return in the statement of activities and represent the change in 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.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **(d) INVESTMENTS** (continued)

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.

#### **(e) CONTRIBUTIONS AND GRANTS REVENUE RECOGNITION AND 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, 2022 such conditional contributions amounted to \$20,000 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 \$98,865 at December 31, 2022. At December 31, 2022, the Academy evaluated the collectability of pledges receivable and determined that an allowance of \$160,500 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% was used to calculate the present value of bequests receivable. The discount amounted to \$1,620,590 at December 31, 2022. At December 31, 2022, the Academy evaluated the collectability of bequests receivable and determined that an allowance for uncollectible bequests receivable was not necessary.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

### 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. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$2,500, and the useful life is greater than one year.

The estimated useful lives are 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, 2022.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) DEBT ISSUANCE COSTS

Debt issuance costs are amortized by use of the straight-line method over the anticipated life of the related debt. Debt issuance costs are netted against the long-term portion of the corresponding liability as reflected in the statement of financial position.

#### (k) REVENUE FROM CONTRACTS WITH CUSTOMERS

The Academy's revenues from contracts with customers are generated from performances and application fees. For performances, the Academy recognizes revenue at the time performances are held. Application fees, which are non-refundable, are recognized upon receipt.

#### (l) RENTAL INCOME

The Academy's rental income is generated from short-term studio, rehearsal, performance, and meeting rentals, as well as two residential units on the property. The Academy recognizes revenue from these arrangements over the agreed-upon rental periods.

#### (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, 2022, 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, 2022

### **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.

#### **(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) COMPARATIVE TOTALS**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Academy's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

#### **(q) RECLASSIFICATION**

For comparability, certain December 31, 2021 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at December 31, 2022.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard requires 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 requires 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. The Academy considered the impact of the ASU, and determined that it has no material impact on the financial statements for the year ended December 31, 2022.

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss impairment methodology previously used for certain financial instruments with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates in their measurement. The guidance has subsequently been amended through a series of targeted ASUs. For the Academy, the ASU and the subsequent amendments will be effective for the year ending December 31, 2023, and is expected to be adopted using the modified-retrospective approach.

#### (s) SUBSEQUENT EVENTS

The Academy has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2022 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through September 15, 2023, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

### 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.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

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, 2022 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, 2022	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	\$ 1,033,599	\$ 1,033,599	\$ -	\$ -	\$ -
Fixed Income	12,792,180	3,915,576	8,876,604	-	-
U.S. Equities	18,848,870	18,848,870	-	-	-
Non-U.S. Equities	7,703,897	7,703,897	-	-	-
Asset Allocation Funds	2,178,574	2,178,574	-	-	-
Hedge Funds	9,644,021	-	-	-	9,644,021
Private Equity Partnerships	3,588,706	-	-	-	3,588,706
Other	1,091,721	-	-	-	1,091,721
<b>TOTAL INVESTMENTS</b>	<b>56,881,568</b>	<b>33,680,516</b>	<b>8,876,604</b>	<b>-</b>	<b>14,324,448</b>
Beneficial Interest in Trusts	4,001,565	-	-	4,001,565	-
<b>TOTAL ASSETS</b>	<b>\$ 60,883,133</b>	<b>\$ 33,680,516</b>	<b>\$ 8,876,604</b>	<b>\$ 4,001,565</b>	<b>\$ 14,324,448</b>

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.



# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

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, 2022.

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, 2022:

	Fair Value	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 9,644,021	Illiquid	N/A
Private Equity Partnerships	3,588,706	Illiquid	N/A
Other	<u>1,091,721</u>	Illiquid	N/A
<b>TOTAL OTHER</b>	<u>\$ 14,324,448</u>		

Unfunded commitments at December 31, 2022 amounted to approximately \$6,924,379.

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, 2022.

	Real Estate	Beneficial Interest in Trusts	Total
Beginning Balance	\$ 651,743	\$ 4,650,890	\$ 5,302,633
Change in Value	-	(649,325)	(649,325)
Contributions/Additions	-	-	-
Distributions/Liquidations	<u>(651,743)</u>	<u>-</u>	<u>(651,743)</u>
<b>ENDING BALANCE</b>	<u>\$ -</u>	<u>\$ 4,001,565</u>	<u>\$ 4,001,565</u>

Real estate in the amount of \$651,743 was sold in September 2022. The Academy received net proceeds of \$1,048,421 (net of closing costs) and recognized a gain on sale of \$396,678, which is included in net gain on sale of assets (real estate) in the statement of activities.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 4 - CONTRIBUTIONS RECEIVABLE

At December 31, 2022, pledges receivable are due to be collected as follows:

Within One Year	\$ 1,641,063
In Two to Five Years	1,270,000
After Five Years	<u>115,002</u>
<b>TOTAL</b>	3,026,065
Less: Present Value Discount	(98,865)
Less: Allowance for Doubtful Pledges	<u>(160,500)</u>
<b>PLEDGES RECEIVABLE (NET)</b>	<u>\$ 2,766,700</u>

### NOTE 5 - BEQUESTS RECEIVABLE

At December 31, 2022, bequests receivable are due to be collected as follows:

Within One Year	\$ 100,000
Estate Pledges (No Definitive Due Date)	<u>7,962,500</u>
<b>TOTAL</b>	8,062,500
Less: Present Value Discount	<u>(1,620,590)</u>
<b>BEQUESTS RECEIVABLE (NET)</b>	<u>\$ 6,441,910</u>

### NOTE 6 - OTHER ASSETS

During December 2021, the Academy received a contribution of a property that was recorded at an appraised value of \$4,500,000. The property was sold in January 2022 for net proceeds of \$4,224,093 and recognized a loss on sale of \$275,907, which is included in net gain on sale of assets (real estate) in the statement of activities.

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2022 consists of the following:

Land	\$ 724,914
Buildings and Building Improvements	43,697,627
Office and Computer Equipment	1,562,963
Musical Instruments	3,162,917
Library Texts and Music	26,727
Vehicles	43,153
Construction in Progress	<u>746,647</u>
<b>TOTAL</b>	49,964,948
Less: Accumulated Depreciation	<u>(13,613,827)</u>
<b>PROPERTY AND EQUIPMENT (NET)</b>	<u>\$ 36,351,121</u>

Depreciation expense amounted to \$1,141,484 for the year ended December 31, 2022.

Construction in progress consists of various projects related to campus updates. At December 31, 2022, the estimated cost to complete these projects amounted to approximately \$1,600,000 with the last project to be completed by September 2023.

### NOTE 8 - NOTE PAYABLE

Note payable at December 31, 2022 consists of the following:

Note Payable to a Bank to, 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	\$ 10,266,892
Less: Unamortized Debt Issuance Costs	<u>(170,590)</u>
<b>TOTAL NOTES PAYABLE (NET)</b>	<u>\$ 10,096,302</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, 2022

### NOTE 8 - NOTE PAYABLE (continued)

Future maturities of the note payable as of December 31, 2022 are as follows:

<b>Years Ending December 31</b>	
2023	\$ 585,774
2024	606,532
2025	630,029
2026	653,413
2027	677,666
Thereafter	<u>7,113,478</u>
<b>TOTAL</b>	<u><u>\$ 10,266,892</u></u>

During the year ended December 31, 2022, the amortization of debt issuance costs amounted to \$12,444 and interest expense amounted to \$382,285.

In addition, the Academy has access to a \$1,500,000 line of credit facility with First Republic Bank. The line of credit bears an interest rate of not less than 3% and extended to September 30, 2023. There were no draws on the line of credit at December 31, 2022.

### 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, 2022:

Undesignated Net Assets	\$ 27,003,997
Board Designated Net Assets:	
Future Operations (Endowment)	45,704,826
Campus Maintenance	2,343,327
Loan Repayment	<u>5,871,695</u>
<b>TOTAL BOARD DESIGNATED NET ASSETS</b>	<u>53,919,848</u>
<b>TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u><u>\$ 80,923,845</u></u>

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### 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	\$ 4,001,565
Contributions and Bequests Receivable (Net)	9,208,610
<b>TOTAL SUBJECT TO THE PASSAGE OF TIME</b>	<b>13,210,175</b>
Subject to Expenditure for Specified Purpose:	
Building Maintenance	2,078,259
Hahn Hall Technology and Lighting Upgrade	829,046
Other Programs	609,967
Building Construction	39,816
Sing!	20,000
<b>TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE</b>	<b>3,577,088</b>
Subject to Endowment Spending Policy and Appropriation:	
Endowment Corpus	530,000
Unspent Endowment Earnings	252,573
<b>TOTAL SUBJECT TO ENDOWMENT SPENDING POLICY AND APPROPRIATION</b>	<b>782,573</b>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>\$ 17,569,836</b>

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, 2022:

Expiration of Time Restrictions	\$ 2,007,401
Satisfaction of Purpose Restrictions:	
Hahn Hall Technology and Lighting Upgrade	767,356
London Symphony Orchestra Partnership	734,022
Artistic Initiative Fund	395,225
Other Programs	146,772
Building Maintenance	69,678
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b>\$ 4,120,454</b>

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 11 - ENDOWMENTS

The Academy's endowments 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.

<b>Endowment Net Asset Composition by Type of Fund at December 31, 2022</b>	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Board Designated	\$ 45,704,826	\$ 782,573	\$ 46,487,399
<b>Changes in Endowment Net Assets for the Year Ended December 31, 2022</b>			
Endowment Net Assets - Beginning of Year	\$ 51,963,567	\$ 868,199	\$ 52,831,766
Additions	2,233,091	-	2,233,091
Endowment Assets Appropriated for Expenditure	(2,685,476)	-	(2,685,476)
Investment Return (Net)	(5,806,356)	(85,626)	(5,891,982)
<b>ENDOWMENT NET ASSETS - END OF YEAR</b>	<b>\$ 45,704,826</b>	<b>\$ 782,573</b>	<b>\$ 46,487,399</b>

# MUSIC ACADEMY OF THE WEST

## NOTES TO FINANCIAL STATEMENTS December 31, 2022

### NOTE 12 - 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, 2022 were \$108,688.

### NOTE 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Academy at December 31, 2022 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, 2022:	
Cash	\$ 1,814,859
Investments	53,682,073
Distribution from Investment Receivable	<u>163,100</u>
<b>TOTAL FINANCIAL ASSETS AT DECEMBER 31, 2022</b>	55,660,032
Less Amounts Not Available to Be Used within One Year, Due to Board Designations:	
Board Designated Endowment	(45,704,826)
Board Designated Reserves	<u>(8,215,022)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<u>\$ 1,740,184</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. 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.