

**MUSIC ACADEMY
OF THE WEST**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

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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

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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 24, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

October 20, 2022
Los Angeles, California

MUSIC ACADEMY OF THE WEST

STATEMENT OF FINANCIAL POSITION
December 31, 2021
With Summarized Totals at December 31, 2020

ASSETS	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Cash	\$ 2,561,800	\$ 1,506,039	\$ 4,067,839	\$ 3,170,325
Investments	58,380,910	4,342,804	62,723,714	53,525,867
Distribution from Investment Receivable	429,500	-	429,500	-
Contributions Receivable (Net)	-	1,574,499	1,574,499	1,624,839
Bequests Receivable (Net)	-	6,291,046	6,291,046	8,321,496
Prepaid Expenses and Deposits	192,074	-	192,074	121,241
Other Assets	4,500,000	-	4,500,000	-
Beneficial Interest in Trusts	-	4,650,890	4,650,890	4,345,911
Property and Equipment (Net)	36,321,359	-	36,321,359	36,938,961
TOTAL ASSETS	\$ 102,385,643	\$ 18,365,278	\$ 120,750,921	\$ 108,048,640
 LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable and Accrued Expenses	\$ 920,936	\$ -	\$ 920,936	\$ 678,145
Deferred Revenue	462,890	-	462,890	501,192
Note Payable (Net)	10,646,379	-	10,646,379	11,178,467
TOTAL LIABILITIES	12,030,205	-	12,030,205	12,357,804
NET ASSETS:				
Without Donor Restrictions:				
Undesignated	28,350,240	-	28,350,240	27,849,724
Board Designated	62,005,198	-	62,005,198	49,762,086
With Donor Restrictions	-	18,365,278	18,365,278	18,079,026
TOTAL NET ASSETS	90,355,438	18,365,278	108,720,716	95,690,836
TOTAL LIABILITIES AND NET ASSETS	\$ 102,385,643	\$ 18,365,278	\$ 120,750,921	\$ 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, 2021
 With Summarized Totals for the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
REVENUES, SUPPORT AND OTHER INCOME (LOSS):				
Contributions - Individuals, Corporations, Foundations	\$ 8,410,393	\$ 3,646,745	\$ 12,057,138	\$ 7,927,763
Investment Return (Net)	8,940,107	573,422	9,513,529	5,212,205
Special Events (Net of Direct Donor Benefit Expenses of \$87,802)	723,331	-	723,331	171,492
Contribution - Government (Paycheck Protection Program)	482,150	-	482,150	240,000
Change in Value of Beneficial Interest in Trusts	-	304,979	304,979	230,577
Performance Revenue	255,939	-	255,939	-
Rental Income	145,071	-	145,071	131,207
Other Income	79,542	-	79,542	68,563
Application Fees	32,070	-	32,070	134,619
Loss on Disposal of Property and Equipment	-	-	-	(43,605)
Net Assets Released from Donor Restrictions	4,238,894	(4,238,894)	-	-
TOTAL REVENUE AND SUPPORT AND OTHER INCOME (LOSS)	23,307,497	286,252	23,593,749	14,072,821
EXPENSES:				
Program Services	6,856,703	-	6,856,703	5,113,830
Management and General	1,532,428	-	1,532,428	1,461,249
Fundraising	2,174,738	-	2,174,738	1,607,664
TOTAL EXPENSES	10,563,869	-	10,563,869	8,182,743
CHANGE IN NET ASSETS	12,743,628	286,252	13,029,880	5,890,078
Net Assets - Beginning of Year	77,611,810	18,079,026	95,690,836	89,800,758
NET ASSETS - END OF YEAR	\$ 90,355,438	\$ 18,365,278	\$ 108,720,716	\$ 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, 2021

With Summarized Totals for the Year Ended December 31, 2020

	Program Services			Support Services		2021 Total	2020 Total
	Summer Festival	Other	Total Program Services	Management and General	Fundraising		
Salaries	\$ 1,098,376	\$ 457,803	\$ 1,556,179	\$ 474,429	\$ 1,033,218	\$ 3,063,826	\$ 2,813,346
Artistic and Educational	1,806,519	244,915	2,051,434	-	26,612	2,078,046	1,305,152
Depreciation and Amortization	816,814	182,676	999,490	116,136	20,738	1,136,364	1,119,950
Travel and Housing	769,768	34,576	804,344	2,066	11,461	817,871	118,453
Occupancy	376,610	92,574	469,184	174,773	54,856	698,813	565,607
Other Expense	33,516	34,013	67,529	235,786	331,137	634,452	348,130
Interest	105,848	23,653	129,501	181,653	97,986	409,140	428,002
Other Professional Fees	17,679	5,519	23,198	60,546	217,309	301,053	107,539
Other Employee Benefits	121,745	39,541	161,286	56,602	66,187	284,075	260,302
Information Technology	124,602	17,921	142,523	64,955	62,322	269,800	253,426
Payroll Taxes	76,488	32,535	109,023	26,933	68,971	204,927	189,082
Awards and Stipends	35,400	109,000	144,400	-	17,700	162,100	227,000
Marketing and Communications	88,365	11,045	99,410	-	55,305	154,715	165,406
Insurance	24,538	5,483	30,021	41,021	34,230	105,272	97,483
Retirement Contributions	38,197	8,206	46,403	12,867	38,509	97,779	87,837
Accounting and Legal	6,685	1,494	8,179	69,780	6,847	84,806	40,855
Office Expense	9,768	4,831	14,599	14,881	31,350	60,830	55,173
TOTAL 2021 FUNCTIONAL EXPENSES	\$ 5,550,918	\$ 1,305,785	\$ 6,856,703	\$ 1,532,428	\$ 2,174,738	\$ 10,563,869	
TOTAL 2020 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, 2021

With Summarized Totals for the Year Ended December 31, 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 13,029,880	\$ 5,890,078
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Contributed Property	(4,500,000)	-
Depreciation	1,123,920	1,107,506
Amortization of Debt Issuance Costs	12,444	12,444
Change in Present Value Discount of Contributions Receivable	(24,326)	(18,780)
Change in Present Value Discount of Bequests Receivable	(497,806)	1,526,337
Change in Provision for Uncollectible Contributions Receivable	(640)	145,432
Net Realized and Unrealized Gain on Investments	(8,046,428)	(4,675,560)
Change in Value of Beneficial Interest in Trusts	(304,979)	(230,577)
Loss on Disposal of Property and Equipment	-	43,605
(Increase) Decrease in:		
Contributions Receivable	75,306	928,423
Bequests Receivable	2,528,256	(2,967,341)
Prepaid Expenses and Deposits	(70,833)	143,431
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	242,791	182,352
Deferred Revenue	(38,302)	437,547
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 3,529,283	 2,524,897
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	(2,125,958)	(1,774,385)
Proceeds from Sale of Investments	545,039	806,534
Purchase of Property and Equipment	(506,318)	(475,852)
 NET CASH USED IN INVESTING ACTIVITIES	 (2,087,237)	 (1,443,703)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Note Payable	(544,532)	(525,049)
 NET CASH USED IN FINANCING ACTIVITIES	 (544,532)	 (525,049)
 NET INCREASE IN CASH	 897,514	 556,145
Cash - Beginning of Year	3,170,325	2,614,180
 CASH - END OF YEAR	 \$ 4,067,839	 \$ 3,170,325
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 404,438	\$ 425,168

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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, \$51,963,567 as an endowment for future operations and \$10,041,631 as a reserve for campus maintenance and loan repayment.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2021

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 \$18,365,278 of net assets with donor restrictions at December 31, 2021.

(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.

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, 2021

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, 2021 such conditional contributions amounted to \$390,000 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 \$39,274 at December 31, 2021. At December 31, 2021, the Academy evaluated the collectability of pledges receivable and determined that an allowance of \$155,000 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 \$1,443,198 at December 31, 2021. At December 31, 2021, 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, 2021

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, 2021.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) PAYCHECK PROTECTION PROGRAM FORGIVABLE LOANS

The Academy has elected to account for the forgivable loans 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.

(k) 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 consolidated statement of financial position.

(l) 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 on receipt.

(m) 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. Rental activity continued to be impacted due to the COVID-19 pandemic.

(n) 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, 2021, 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, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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, 2021, the Academy incurred higher program expenses compared to the year ended December 31, 2020, due to the return to an in-person, 6-week Summer Festival following the COVID-19 pandemic.

(p) 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.

(q) RECLASSIFICATION

For comparability, certain December 31, 2020 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at December 31, 2021.

(r) 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, 2020, from which the summarized information was derived.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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 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.

(t) SUBSEQUENT EVENTS

The Academy has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2021 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 20, 2022, 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), 6, 8 and 9.

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, 2021

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, 2021 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, 2021	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	\$ 1,845,517	\$ 1,845,517	\$ -	\$ -	\$ -
Fixed Income	13,977,083	4,262,309	9,714,774	-	-
U.S. Equities	20,180,383	20,180,383	-	-	-
Non-U.S. Equities	8,332,291	8,332,291	-	-	-
Asset Allocation Funds	2,425,473	2,425,473	-	-	-
Hedge Funds	11,594,296	-	-	-	11,594,296
Private Equity Partnerships	3,010,379	-	-	-	3,010,379
Other	706,549	-	-	-	706,549
Real Estate	651,743	-	-	651,743	-
TOTAL INVESTMENTS	62,723,714	37,045,973	9,714,774	651,743	15,311,224
Beneficial Interest in Trusts	4,650,890	-	-	4,650,890	-
TOTAL ASSETS	\$ 67,374,604	\$ 37,045,973	\$ 9,714,774	\$ 5,302,633	\$ 15,311,224

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, 2021

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, 2021.

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, 2021:

	Fair Value	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 11,594,296	Illiquid	N/A
Private Equity Partnerships	3,010,379	Illiquid	N/A
Other	706,549	Illiquid	N/A
TOTAL OTHER	\$ 15,311,224		

Unfunded commitments at December 31, 2021 amounted to approximately \$2,350,517.

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, 2021.

	Real Estate	Beneficial Interest in Trusts	Total
Beginning Balance	\$ 651,743	\$ 4,345,911	\$ 4,997,654
Change in Value	-	304,979	304,979
Contributions/Additions	-	-	-
Distributions/Liquidations	-	-	-
ENDING BALANCE	\$ 651,743	\$ 4,650,890	\$ 5,302,633

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 4 - CONTRIBUTIONS RECEIVABLE

At December 31, 2021, pledges receivable are due to be collected as follows:

Within One Year	\$ 1,197,951
In Two to Five Years	565,822
After Five Years	<u>5,000</u>
TOTAL	1,768,773
Less: Present Value Discount	(39,274)
Less: Allowance for Doubtful Pledges	<u>(155,000)</u>
PLEDGES RECEIVABLE (NET)	<u>\$ 1,574,499</u>

NOTE 5 - BEQUESTS RECEIVABLE

At December 31, 2021, bequests receivable are due to be collected as follows:

Within One Year	\$ 821,744
Estate Pledges (No Definitive Due Date)	<u>6,912,500</u>
TOTAL	7,734,244
Less: Present Value Discount	<u>(1,443,198)</u>
BEQUESTS RECEIVABLE (NET)	<u>\$ 6,291,046</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. Subsequent to year-end, in January 2022, this property was sold for \$4,520,000.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 consists of the following:

Land	\$ 548,106
Buildings and Building Improvements	43,578,222
Office and Computer Equipment	1,567,630
Musical Instruments	2,912,428
Library Texts and Music	26,727
Vehicles	43,153
Construction in Progress	<u>184,726</u>
TOTAL	48,860,992
Less: Accumulated Depreciation	<u>(12,539,633)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 36,321,359</u>

Depreciation expense amounted to \$1,123,920 for the year ended December 31, 2021.

Construction in progress consists of various projects related to campus updates. At December 31, 2021, the estimated cost to complete these projects amounted to approximately \$1,700,000 with the last project to be completed by February 2023.

NOTE 8 - NOTE PAYABLE

Note payable at December 31, 2021 consists 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	\$ 10,829,414
Less: Unamortized Debt Issuance Costs	<u>(183,035)</u>
TOTAL NOTES PAYABLE (NET)	<u>\$ 10,646,379</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, 2021

NOTE 8 - NOTE PAYABLE (continued)

Future maturities of the note payable as of December 31, 2021 are as follows:

Years Ending December 31	
2022	\$ 564,810
2023	585,774
2024	606,532
2025	630,029
2026	653,413
Thereafter	<u>7,788,856</u>
TOTAL	<u>\$ 10,829,414</u>

During the year ended December 31, 2021, the amortization of debt issuance costs amounted to \$12,444 and interest expense amounted to \$404,438.

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 expired on September 30, 2022. The Academy is currently in communication to extend the line of credit. There were no draws on the line of credit at December 31, 2021.

NOTE 9 - PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

In March 2021 the Academy received a second draw PPP loan in the amount of \$482,150.

The second draw PPP loan, administered by the Small Business Administration (SBA), bears interest at a fixed rate of 1.0% per annum, has a term of five 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, 2021, 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 statement of activities.

In March 2022, subsequent to year-end, the Academy received full forgiveness of its PPP loan, including interest, from the SBA.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 10 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of undesignated and Board designated amounts for the following purposes at December 31, 2021:

Undesignated Net Assets	\$ 28,350,240
Board Designated Net Assets:	
Future Operations (Endowment)	51,963,567
Campus Maintenance	3,297,188
Loan Repayment	6,744,443
	<hr/>
TOTAL BOARD DESIGNATED NET ASSETS	62,005,198
	<hr/>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 90,355,438

NOTE 11 - 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	\$ 4,650,890
Contributions and Bequests Receivable (Net)	7,615,545
	<hr/>
TOTAL SUBJECT TO THE PASSAGE OF TIME	12,266,435
Subject to Expenditure for Specified Purpose:	
Building Maintenance	2,383,753
Hahn Hall Technology and Lighting Upgrade	1,596,402
Other Programs	560,856
London Symphony Orchestra Partnership	649,816
Building Construction	39,817
	<hr/>
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE	5,230,644
Subject to Endowment Spending Policy and Appropriation:	
Endowment Corpus	530,000
Unspent Endowment Earnings	338,199
	<hr/>
TOTAL SUBJECT TO ENDOWMENT SPENDING POLICY AND APPROPRIATION	868,199
	<hr/>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ 18,365,278

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS (continued)

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, 2021:

Expiration of Time Restrictions	\$ 3,349,256
Satisfaction of Purpose Restrictions:	
Artistic Initiative Fund	385,655
London Symphony Orchestra Partnership	151,396
Hahn Hall Technology and Lighting Upgrade	58,339
Other Programs	156,229
Building Maintenance	<u>138,019</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 4,238,894</u>

NOTE 12 - 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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 12 - ENDOWMENT (continued)

Endowment Net Asset Composition by Type of Fund at December 31, 2021	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Board Designated	\$ 51,963,567	\$ 868,199	\$ 52,831,766
Changes in Endowment Net Assets for the Year Ended December 31, 2021			
Endowment Net Assets -			
Beginning of Year (Reclassified)	\$ 40,724,951	\$ 741,473	\$ 41,466,424
Additions	6,522,644	-	6,522,644
Endowment Assets Appropriated for Expenditure	(2,291,553)	-	(2,291,553)
Investment Return (Net)	7,007,525	126,726	7,134,251
ENDOWMENT NET ASSETS - END OF YEAR	\$ 51,963,567	\$ 868,199	\$ 52,831,766

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, 2021 were \$97,780.

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 2023. At December 31, 2021, the future minimum lease commitments under this lease are:

Year Ending December 31

2022	\$ 42,000
2023	21,000
TOTAL	\$ 63,000

Rent expense for the year ended December 31, 2021 totaled \$42,000.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2021

NOTE 15 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Academy at December 31, 2021 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, 2021:	
Cash	\$ 2,561,800
Investments	58,380,910
Distribution from Investment Receivable	429,500
Other Assets (Note 6)	<u>4,500,000</u>
TOTAL FINANCIAL ASSETS AT DECEMBER 31, 2021	65,872,210
Less Amounts Not Available to Be Used within One Year, Due to Board Designations:	
Board Designated Endowment	(51,963,567)
Board Designated Reserves	<u>(10,041,631)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u><u>\$ 3,867,012</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. 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.