

MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2023

MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2023

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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, 2023, 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, 2023, 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, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 15, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Green Hasson & Janks LLP

September 11, 2024
Los Angeles, California

MUSIC ACADEMY OF THE WEST

STATEMENT OF FINANCIAL POSITION
December 31, 2023
With Summarized Totals at December 31, 2022

ASSETS	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Cash	\$ 1,078,468	\$ 383,576	\$ 1,462,044	\$ 2,975,025
Investments	57,879,811	3,678,738	61,558,549	56,881,568
Distribution from Investment Receivable	190,300	-	190,300	163,100
Contributions Receivable (Net)	424,258	2,351,666	2,775,924	2,766,700
Bequests Receivable (Net)	-	5,759,196	5,759,196	6,441,910
Prepaid Expenses and Deposits	174,948	-	174,948	200,729
Beneficial Interest in Trusts	-	4,228,753	4,228,753	4,001,565
Property and Equipment (Net)	35,839,924	-	35,839,924	36,351,121
TOTAL ASSETS	\$ 95,587,709	\$ 16,401,929	\$ 111,989,638	\$ 109,781,718
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable and Accrued Expenses	\$ 1,012,019	\$ -	\$ 1,012,019	\$ 1,165,790
Deferred Revenue	-	-	-	25,945
Note Payable (Net)	9,523,137	-	9,523,137	10,096,302
TOTAL LIABILITIES	10,535,156	-	10,535,156	11,288,037
NET ASSETS:				
Without Donor Restrictions:				
Undesignated	27,039,600	-	27,039,600	27,003,997
Board Designated	58,012,953	-	58,012,953	53,919,848
With Donor Restrictions	-	16,401,929	16,401,929	17,569,836
TOTAL NET ASSETS	85,052,553	16,401,929	101,454,482	98,493,681
TOTAL LIABILITIES AND NET ASSETS	\$ 95,587,709	\$ 16,401,929	\$ 111,989,638	\$ 109,781,718

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF ACTIVITIES Year Ended December 31, 2023 With Summarized Totals for the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
REVENUES, SUPPORT AND OTHER INCOME (LOSS):				
Contributions - Individuals, Corporations, Foundations	\$ 2,495,844	\$ 3,453,738	\$ 5,949,582	\$ 9,273,845
Performance Revenue	589,761	-	589,761	606,964
Special Events (Net of Direct Donor Benefit Expenses of \$103,689)	748,288	-	748,288	619,842
Contributions - Government	424,258	-	424,258	225,000
Rental Income	319,373	-	319,373	235,213
Application Fees	87,525	-	87,525	84,433
Other Income	36,347	-	36,347	160,675
Net Gain on Sale of Assets (Real Estate)	-	-	-	120,771
Investment Return (Net)	7,061,831	439,717	7,501,548	(7,121,631)
Change in Value of Beneficial Interest in Trusts	-	227,188	227,188	(649,325)
Net Assets Released from Donor Restrictions	5,288,550	(5,288,550)	-	-
TOTAL REVENUE AND SUPPORT AND OTHER INCOME	17,051,777	(1,167,907)	15,883,870	3,555,787
EXPENSES:				
Program Services	9,091,488	-	9,091,488	10,151,484
Management and General	1,663,849	-	1,663,849	1,460,027
Fundraising	2,167,732	-	2,167,732	2,171,311
TOTAL EXPENSES	12,923,069	-	12,923,069	13,782,822
CHANGE IN NET ASSETS	4,128,708	(1,167,907)	2,960,801	(10,227,035)
Net Assets - Beginning of Year	80,923,845	17,569,836	98,493,681	108,720,716
NET ASSETS - END OF YEAR	<u>\$ 85,052,553</u>	<u>\$ 16,401,929</u>	<u>\$ 101,454,482</u>	<u>\$ 98,493,681</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, 2023

With Summarized Totals for the Year Ended December 31, 2022

	Program Services		Total Program Services	Support Services		2023 Total	2022 Total
	Summer Festival	Other		Management and General	Fundraising		
Salaries	\$ 1,621,181	\$ 723,963	\$ 2,345,144	\$ 437,121	\$ 1,048,613	\$ 3,830,878	\$ 3,570,944
Artistic and Educational	1,999,631	321,140	2,320,771	-	11,774	2,332,545	3,411,591
Travel and Housing	1,188,301	158,280	1,346,581	1,117	21,614	1,369,312	1,974,347
Depreciation and Amortization	799,458	222,402	1,021,860	125,995	26,636	1,174,491	1,153,928
Occupancy	538,125	174,191	712,316	252,811	56,751	1,021,878	788,611
Other Expense	90,742	52,354	143,096	243,938	350,771	737,805	543,230
Other Employee Benefits	151,509	65,483	216,992	75,144	99,101	391,237	324,744
Marketing and Communications	214,915	71,306	286,221	-	83,941	370,162	336,251
Interest	97,936	27,109	125,045	148,207	92,155	365,407	382,285
Payroll Taxes	122,444	55,550	177,994	28,059	75,253	281,306	228,720
Information Technology	104,222	18,442	122,664	64,238	72,106	259,008	237,498
Accounting and Legal	21,767	6,025	27,792	172,318	20,482	220,592	147,029
Other Professional Fees	5,512	3,826	9,338	38,755	122,070	170,163	204,141
Awards and Stipends	28,550	89,900	118,450	-	1,700	120,150	182,489
Retirement Contributions	39,971	20,756	60,727	14,612	35,499	110,838	108,866
Insurance	28,773	8,067	36,840	43,543	26,855	107,238	101,688
Office Expense	13,175	6,482	19,657	17,991	22,411	60,059	86,460
TOTAL 2023 FUNCTIONAL EXPENSES	<u>\$ 7,066,212</u>	<u>\$ 2,025,276</u>	<u>\$ 9,091,488</u>	<u>\$ 1,663,849</u>	<u>\$ 2,167,732</u>	<u>\$ 12,923,069</u>	
TOTAL 2022 FUNCTIONAL EXPENSES	<u>\$ 6,456,069</u>	<u>\$ 3,695,415</u>	<u>\$ 10,151,484</u>	<u>\$ 1,460,027</u>	<u>\$ 2,171,311</u>		<u>\$ 13,782,822</u>

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF CASH FLOWS Year Ended December 31, 2023

With Summarized Totals for the Year Ended December 31, 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 2,960,801	\$ (10,227,035)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Used in Operating Activities		
Depreciation	1,162,047	1,141,484
Amortization of Debt Issuance Costs	12,444	12,444
Change in Present Value Discount of Contributions Receivable	(16,399)	59,992
Change in Present Value Discount of Bequests Receivable	847,119	177,392
Change in Provision for Uncollectible Contributions Receivable	-	5,500
Net Realized and Unrealized (Gain) Loss on Investments	(6,551,548)	8,475,261
Gain on Sale of Assets (Real Estate) (Net)	-	(120,771)
Change in Value of Beneficial Interest in Trusts	(227,188)	649,325
(Increase) Decrease in:		
Contributions Receivable	7,175	(1,257,693)
Bequests Receivable	(164,405)	(328,256)
Prepaid Expenses and Deposits	25,781	(8,655)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(153,771)	244,854
Deferred Revenue	(25,945)	(436,945)
NET CASH USED IN OPERATING ACTIVITIES	(2,123,889)	(1,613,103)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	(1,397,360)	(4,476,758)
Proceeds from Sale of Investments	3,244,727	1,458,300
Purchase of Property and Equipment	(650,850)	(1,171,246)
Proceeds on Sale of Assets (Real Estate)	-	5,272,514
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,196,517	1,082,810
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Note Payable	(585,609)	(562,521)
NET CASH USED IN FINANCING ACTIVITIES	(585,609)	(562,521)
NET DECREASE IN CASH	(1,512,981)	(1,092,814)
Cash - Beginning of Year	2,975,025	4,067,839
CASH - END OF YEAR	\$ 1,462,044	\$ 2,975,025
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 365,407	\$ 382,285

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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, \$47,855,679 as an endowment for future operations and \$10,157,274 as a reserve for campus maintenance and loan repayment.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

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 \$16,401,929 of net assets with donor restrictions at December 31, 2023.

(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, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) CONTRIBUTIONS AND GRANTS REVENUE RECOGNITION AND RECEIVABLES

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, 2023 there were no conditional contributions.

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 \$82,467 at December 31, 2023. At December 31, 2023, the Academy evaluated the collectability of pledges receivable and determined that an allowance of \$66,006 for uncollectible pledges receivable was prudent.

During the year ended December 31, 2023, the Academy qualified for the Employee Retention Credit (ERC), a refundable payroll tax credit program enacted by the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020. The Academy has accounted for the ERC as a conditional government grant and considers that it substantially met the various conditions prescribed in the ERC program for the full year of 2020 as well as the period of January through September 2021 and accordingly, has recognized ERC income totaling \$424,258 in the accompanying statement of activities. The entire amount of the ERC was outstanding at year-end and is included in contributions receivable in the statement of financial position.

(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 \$773,471 at December 31, 2023. At December 31, 2023, 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, 2023

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, 2023.

(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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2023, 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.

(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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2022, from which the summarized information was derived.

(q) NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Academy implemented this ASU during the year ended December 31, 2023, however it had no material impact on the financial statements.

(r) SUBSEQUENT EVENTS

The Academy has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2023 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through September 11, 2024, 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.

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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2023

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

The following table presents information about the Academy's assets that are measured at fair value on a recurring basis at December 31, 2023 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, 2023	Fair Value Measurement Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value Per Share or its Equivalent (NAV)
Cash and Cash Equivalents	\$ 593,497	\$ 593,497	\$ -	\$ -	\$ -
Fixed Income	13,924,452	4,496,414	9,428,038	-	-
U.S. Equities	21,598,510	21,598,510	-	-	-
Non-U.S. Equities	8,106,987	8,106,987	-	-	-
Asset Allocation Funds	2,483,707	2,483,707	-	-	-
Hedge Funds	8,772,558	-	-	-	8,772,558
Private Equity Partnerships	4,352,887	-	-	-	4,352,887
Other	1,725,951	-	-	-	1,725,951
TOTAL INVESTMENTS	61,558,549	37,279,115	9,428,038	-	14,851,396
Beneficial Interest in Trusts	4,228,753	-	-	4,228,753	-
TOTAL ASSETS	\$ 65,787,302	\$ 37,279,115	\$ 9,428,038	\$ 4,228,753	\$ 14,851,396

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, 2023.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2023

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

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, 2023:

	Fair Value	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 8,772,558	Illiquid	N/A
Private Equity Partnerships	4,352,887	Illiquid	N/A
Other	1,725,951	Illiquid	N/A
TOTAL OTHER	\$ 14,851,396		

Unfunded commitments at December 31, 2023 amounted to \$5,824,841.

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, 2023.

	Beneficial Interest in Trusts
Beginning Balance	\$ 4,001,565
Change in Value	227,188
Contributions/Additions	-
Distributions/Liquidations	-
ENDING BALANCE	\$ 4,228,753

NOTE 4 - CONTRIBUTIONS RECEIVABLE

At December 31, 2023, pledges receivable are due to be collected as follows:

Within One Year	\$ 1,110,411
In Two to Five Years	1,289,728
After Five Years	100,000
TOTAL	2,500,139
Less: Present Value Discount	(82,467)
Less: Allowance for Doubtful Pledges	(66,006)
PLEDGES RECEIVABLE (NET)	\$ 2,351,666

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2023

NOTE 5 - BEQUESTS RECEIVABLE

At December 31, 2023, bequests receivable are due to be collected as follows:

Within One Year	\$ 1,723,417
Estate Pledges (No Definitive Due Date)	<u>4,809,250</u>
TOTAL	6,532,667
Less: Present Value Discount	<u>(773,471)</u>
BEQUESTS RECEIVABLE (NET)	<u>\$ 5,759,196</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2023 consists of the following:

Land	\$ 724,914
Buildings and Building Improvements	44,117,055
Office and Computer Equipment	2,200,271
Musical Instruments	3,166,406
Library Texts and Music	26,727
Vehicles	63,212
Construction in Progress	<u>14,688</u>
TOTAL	50,313,273
Less: Accumulated Depreciation	<u>(14,473,349)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 35,839,924</u>

Depreciation expense amounted to \$1,162,047 for the year ended December 31, 2023.

Construction in progress consists of various projects related to campus updates. At December 31, 2023, the estimated cost to complete these projects amounted to approximately \$100,000 with the last project to be completed by September 2024.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS December 31, 2023

NOTE 7 - NOTE PAYABLE

Note payable at December 31, 2023 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	\$ 9,681,283
Less: Unamortized Debt Issuance Costs	<u>(158,146)</u>
TOTAL NOTES PAYABLE (NET)	<u>\$ 9,523,137</u>

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

Future maturities of the note payable as of December 31, 2023 are as follows:

Years Ending December 31	
2024	\$ 606,532
2025	630,029
2026	653,413
2027	677,666
2028	702,100
Thereafter	<u>6,411,543</u>
TOTAL	<u>\$ 9,681,283</u>

During the year ended December 31, 2023, the amortization of debt issuance costs amounted to \$12,444 and interest expense amounted to \$365,407.

NOTE 8 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of undesignated and Board designated amounts for the following purposes at December 31, 2023:

Undesignated Net Assets	\$ 27,039,600
Board Designated Net Assets:	
Future Operations (Endowment)	47,855,679
Campus Maintenance	3,019,891
Loan Repayment	<u>7,137,383</u>
TOTAL BOARD DESIGNATED NET ASSETS	<u>58,012,953</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 85,052,553</u>

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 9 - 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	\$ 4,228,753
Contributions and Bequests Receivable (Net)	<u>8,110,862</u>
TOTAL SUBJECT TO THE PASSAGE OF TIME	12,339,615
Subject to Expenditure for Specified Purpose:	
Building Maintenance	2,116,000
Other Programs	731,186
Marilyn Horne LVI Endowed Chair	211,495
Hahn Hall Technology and Lighting Upgrade	106,162
Sing!	<u>10,000</u>
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE	<u>3,174,843</u>
Subject to Endowment Spending Policy and Appropriation:	
Endowment Corpus	530,000
Unspent Endowment Earnings	<u>357,471</u>
TOTAL SUBJECT TO ENDOWMENT SPENDING POLICY AND APPROPRIATION	<u>887,471</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 16,401,929</u>

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, 2023:

Expiration of Time Restrictions	\$ 3,933,811
Satisfaction of Purpose Restrictions:	
Hahn Hall Technology and Lighting Upgrade	722,883
Building Maintenance	229,745
Other Programs	205,094
Sing!	157,200
Building Construction	<u>39,817</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 5,288,550</u>

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 10 - 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.

Endowment Net Asset Composition by Type of Fund at December 31, 2023

Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
\$ 47,855,679	\$ 887,471	\$ 48,743,150

Changes in Endowment Net Assets for the Year Ended December 31, 2023

Endowment Net Assets - Beginning of Year	\$ 45,704,826	\$ 782,573	\$ 46,487,399
Additions	359,208	-	359,208
Endowment Assets Appropriated for Expenditure	(4,206,962)	-	(4,206,962)
Investment Return (Net)	5,998,607	104,898	6,103,505

ENDOWMENT NET ASSETS - END OF YEAR

\$ 47,855,679	\$ 887,471	\$ 48,743,150
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MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

NOTE 11 - 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, 2023 were \$110,902.

NOTE 12 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Academy at December 31, 2023 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, 2023:	
Cash	\$ 1,078,468
Investments	57,879,811
Distribution from Investment Receivable	<u>190,300</u>
TOTAL FINANCIAL ASSETS AT DECEMBER 31, 2023	59,148,579
Less Amounts Not Available to Be Used within One Year, Due to Board Designations:	
Board Designated Endowment	(47,855,679)
Board Designated Reserves	<u>(10,157,274)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,135,626</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.