

MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2024

MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2024

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WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
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**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, 2024, 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, 2024, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the December 31, 2023 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 available to be issued.

To the Board of Directors
Music Academy of the West

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.

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, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 11, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2023, is consistent, in all material respects, with the financial statements from which it has been derived, except as outlined in Note 13 to these financial statements.

Green Hasson & Janks LLP

September 16, 2025
Los Angeles, California

MUSIC ACADEMY OF THE WEST

STATEMENT OF FINANCIAL POSITION December 31, 2024 With Summarized Totals at December 31, 2023

ASSETS	Without Donor Restrictions	With Donor Restrictions	2024 Total	2023 Total (As Restated)
Cash	\$ 706,610	\$ 213,912	\$ 920,522	\$ 1,462,044
Investments	63,649,869	4,129,829	67,779,698	61,558,549
Distribution from Investment Receivable	53,100	-	53,100	190,300
Contributions Receivable (Net)	-	1,447,151	1,447,151	2,775,924
Bequests Receivable (Net)	-	6,196,741	6,196,741	6,759,196
Prepaid Expenses and Deposits	479,230	-	479,230	174,948
Beneficial Interest in Trusts	-	4,344,144	4,344,144	4,228,753
Property and Equipment (Net)	34,633,236	-	34,633,236	35,839,924
TOTAL ASSETS	\$ 99,522,045	\$ 16,331,777	\$ 115,853,822	\$ 112,989,638
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable and Accrued Expenses	\$ 1,101,633	\$ -	\$ 1,101,633	\$ 1,012,019
Deferred Revenue	1,839,435	-	1,839,435	-
Note Payable (Net)	8,929,198	-	8,929,198	9,523,137
TOTAL LIABILITIES	11,870,266	-	11,870,266	10,535,156
NET ASSETS:				
Without Donor Restrictions:				
Undesignated	26,461,055	-	26,461,055	27,039,600
Board Designated	61,190,724	-	61,190,724	58,012,953
With Donor Restrictions	-	16,331,777	16,331,777	17,401,929
TOTAL NET ASSETS	87,651,779	16,331,777	103,983,556	102,454,482
TOTAL LIABILITIES AND NET ASSETS	\$ 99,522,045	\$ 16,331,777	\$ 115,853,822	\$ 112,989,638

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF ACTIVITIES Year Ended December 31, 2024 With Summarized Totals for Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	2024 Total	2023 Total (As Restated)
REVENUES, SUPPORT AND OTHER INCOME (LOSS):				
Contributions - Individuals, Corporations, Foundations	\$ 3,145,248	\$ 2,193,786	\$ 5,339,034	\$ 5,949,582
Performance Revenue	559,154	-	559,154	589,761
Special Events (Net of Direct Donor Benefit Expenses of \$76,147)	208,238	-	208,238	748,288
Contributions - Government	-	-	-	424,258
Rental Income	333,737	-	333,737	319,373
Application Fees	90,275	-	90,275	87,525
Other Income	68,005	-	68,005	36,347
Investment Return (Net)	6,982,450	452,928	7,435,378	7,501,548
Change in Value of Beneficial Interest in Trusts	-	115,391	115,391	227,188
Net Assets Released from Donor Restrictions	3,832,257	(3,832,257)	-	-
TOTAL REVENUE AND SUPPORT AND OTHER INCOME	15,219,364	(1,070,152)	14,149,212	15,883,870
EXPENSES:				
Program Services	8,565,336	-	8,565,336	9,091,488
Management and General	2,134,406	-	2,134,406	1,663,849
Fundraising	1,920,396	-	1,920,396	2,167,732
TOTAL EXPENSES	12,620,138	-	12,620,138	12,923,069
CHANGE IN NET ASSETS	2,599,226	(1,070,152)	1,529,074	2,960,801
Net Assets - Beginning of Year	85,052,553	17,401,929	102,454,482	99,493,681
NET ASSETS - END OF YEAR	<u>\$ 87,651,779</u>	<u>\$ 16,331,777</u>	<u>\$ 103,983,556</u>	<u>\$ 102,454,482</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, 2024

With Summarized Totals for Year Ended December 31, 2023

	Program Services			Support Services			
	Summer Festival	Other	Total Program Services	Management and General	Fundraising	2024 Total	2023 Total
Salaries	\$ 1,881,476	\$ 424,026	\$ 2,305,502	\$ 439,890	\$ 1,019,941	\$ 3,765,333	\$ 3,830,878
Artistic and Educational	2,030,615	105,482	2,136,097	550	6,750	2,143,397	2,332,545
Depreciation and Amortization	833,077	111,263	944,340	310,707	59,652	1,314,699	1,174,491
Travel and Housing	1,267,472	34,958	1,302,430	1,155	7,287	1,310,872	1,369,312
Occupancy	542,129	94,385	636,514	228,266	49,933	914,713	1,021,878
Other Expense	77,411	16,700	94,111	382,831	214,879	691,821	737,805
Other Employee Benefits	184,772	38,430	223,202	65,922	110,779	399,903	391,237
Interest	105,623	14,107	119,730	141,334	83,261	344,325	365,407
Accounting and Legal	27,144	5,287	32,431	286,310	21,397	340,138	220,592
Information Technology	131,016	9,581	140,597	75,945	81,155	297,697	259,008
Marketing and Communications	212,899	19,048	231,947	-	48,750	280,697	370,162
Payroll Taxes	140,266	33,460	173,726	27,763	70,423	271,912	281,306
Other Professional Fees	2,047	49,994	52,041	96,323	62,884	211,248	170,163
Insurance	35,703	4,768	40,471	47,774	28,144	116,389	107,238
Retirement Contributions	37,362	7,669	45,031	11,721	38,398	95,150	110,838
Awards and Stipends	31,750	35,054	66,804	-	-	66,804	120,150
Office Expense	15,391	4,971	20,362	17,915	16,763	55,040	60,059
TOTAL 2024 FUNCTIONAL EXPENSES	<u>\$ 7,556,153</u>	<u>\$ 1,009,183</u>	<u>\$ 8,565,336</u>	<u>\$ 2,134,406</u>	<u>\$ 1,920,396</u>	<u>\$ 12,620,138</u>	
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>

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF CASH FLOWS Year Ended December 31, 2024 With Summarized Totals for the Year Ended December 31, 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,529,074	\$ 2,960,801
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used in) Operating Activities:		
Depreciation	1,302,255	1,162,047
Amortization of Debt Issuance Costs	12,444	12,444
Change in Present Value Discount of Contributions Receivable	(56,090)	(16,399)
Change in Present Value Discount of Bequests Receivable	169,038	847,119
Change in Provision for Uncollectible Contributions Receivable	22,398	-
Net Realized and Unrealized Gain on Investments	(6,005,362)	(6,551,548)
Change in Value of Beneficial Interest in Trusts	(115,391)	(227,188)
Gain on Disposal of Property and Equipment	(3,488)	-
(Increase) Decrease in:		
Contributions Receivable	1,362,465	7,175
Bequests Receivable	393,417	(164,405)
Prepaid Expenses and Deposits	(304,282)	25,781
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	89,614	(153,771)
Deferred Revenue	1,839,435	(25,945)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	235,527	(2,123,889)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments	(5,661,582)	(1,397,360)
Proceeds from Sale of Investments	5,582,995	3,244,727
Proceeds from Sale of Property and Equipment	5,000	-
Purchase of Property and Equipment	(97,079)	(650,850)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(170,666)	1,196,517
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Note Payable	(606,383)	(585,609)
NET CASH USED IN FINANCING ACTIVITIES	(606,383)	(585,609)
NET DECREASE IN CASH	(541,522)	(1,512,981)
Cash - Beginning of Year	1,462,044	2,975,025
CASH - END OF YEAR	<u>\$ 920,522</u>	<u>\$ 1,462,044</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	<u>\$ 344,324</u>	<u>\$ 365,407</u>

The Accompanying Notes are an Integral Part of These Financial Statements

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 1 - ORGANIZATION

Since 1947, Music Academy of the West (the Academy) has flourished on its Miraflores campus in Montecito. Programs include its internationally renowned eight-week Summer Music Festival & School which trains up to 150 fellows ages 18-34 from across the globe, presenting more than 120 performances and events, competitions, and a fully staged opera. During the year, the Academy provides free music education to students grades 1-8 through its *Sing!* Program, a children's choir that performs with local, national, and international partners; and produces the year-round Mariposa Concert Series featuring performances by Academy-affiliated artists.

Our Vision

The Academy believes that music is an essential expression of the human spirit, through which we experience our shared humanity. The Academy envisions a world in which its classically trained musicians will span the globe, continually making it a richer and more beautiful place, bringing people together for meaningful musical experiences.

Our Mission

The mission of the Academy is to provide classically trained musicians and diverse audiences with transformative educational and performance experiences. The Academy supports musicians to expand their talents, inspire each other, and pursue artistic innovation.

Teaching Philosophy

The Academy's teaching philosophy is rooted in the belief that every fellow is a unique artist on a profound musical journey. The Academy strives to nurture and inspire the next generation of musicians through a holistic and supportive approach that emphasizes personal growth, artistic integrity, collaboration, and a lifelong love for music.

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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) NET ASSETS (continued)

- **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, \$49,645,977 as an endowment for future operations and \$11,544,747 as a reserve for campus maintenance and loan repayment.
- **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 \$16,331,777 of net assets with donor restrictions at December 31, 2024.

(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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) INVESTMENTS (continued)

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.

(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, 2024 the Academy had \$20,000,000 of conditional contributions, of which \$1,800,000 was received during the year and recorded as deferred revenue at December 31, 2024.

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 \$26,377 at December 31, 2024. At December 31, 2024, the Academy evaluated the collectability of pledges receivable and recorded an allowance of \$88,404 for uncollectible pledges receivable.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 \$942,509 at December 31, 2024. At December 31, 2024, the Academy evaluated the collectability of bequests receivable and determined that an allowance for uncollectible bequests receivable was not necessary.

(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 \$5,000, 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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, 2024.

(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, 2024, 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, 2024

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, 2023, from which the summarized information was derived.

(q) SUBSEQUENT EVENTS

The Academy has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2024 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through September 16, 2025, the date these financial statements were available to be issued. Subsequent to year-end, in June 2025 the Academy announced the purchase of a property in downtown Santa Barbara for the purchase price of \$10,000,000, funded by the conditional contribution referenced in Note 2(e). The new Music Education Center will serve as a creative anchor complementing the Academy's storied Montecito campus, creating a year-round destination for concerts, educational programs, and community gatherings while catalyzing the revitalization of the Santa Barbara Arts District. No other such material events or transactions were noted to have occurred.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

The following table presents information about the Academy's assets that are measured at fair value on a recurring basis at December 31, 2024 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, 2024	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	\$ 2,280,086	\$ 2,280,086	\$ -	\$ -	\$ -
Fixed Income	15,609,156	4,859,820	10,749,336	-	-
U.S. Equities	22,942,069	22,942,069	-	-	-
Non-U.S. Equities	8,360,910	8,360,910	-	-	-
Asset Allocation Funds	2,734,823	2,734,823	-	-	-
Hedge Funds	3,000,990	-	-	-	3,000,990
Private Equity					
Partnerships	10,250,858	-	-	-	10,250,858
Other	2,600,806	-	-	-	2,600,806
TOTAL					
INVESTMENTS	67,779,698	41,177,708	10,749,336	-	15,852,654
Beneficial Interest in Trusts	4,344,144	-	-	4,344,144	-
TOTAL ASSETS	\$ 72,123,842	\$ 41,177,708	\$ 10,749,336	\$ 4,344,144	\$ 15,852,654

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.

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

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, 2024.

Assets within Level 3 include beneficial interest in trusts, which are valued as described in Note 2(g).

The following table summarizes the redemption frequency and notice period for the Foundation's investments using NAV as practical expedient as of December 31, 2024:

	Fair Value	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 3,000,990	Illiquid	N/A
Private Equity Partnerships	10,250,858	Illiquid	N/A
Other	2,600,806	Illiquid	N/A
TOTAL OTHER	\$ 15,852,654		

Unfunded commitments at December 31, 2024 amounted to \$9,460,862.

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, 2024.

	Beneficial Interest in Trusts
Beginning Balance	\$ 4,228,753
Change in Value	115,391
Contributions/Additions	-
Distributions/Liquidations	-
ENDING BALANCE	\$ 4,344,144

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 4 - CONTRIBUTIONS RECEIVABLE

At December 31, 2024, pledges receivable are due to be collected as follows:

Within One Year	\$ 1,047,765
In Two to Five Years	<u>514,167</u>
TOTAL	1,561,932
Less: Present Value Discount	(26,377)
Less: Allowance for Doubtful Pledges	<u>(88,404)</u>
PLEDGES RECEIVABLE (NET)	<u><u>\$ 1,447,151</u></u>

NOTE 5 - BEQUESTS RECEIVABLE

At December 31, 2024, bequests receivable are due to be collected as follows:

Within One Year	\$ 1,190,000
Estate Pledges (No Definitive Due Date)	<u>5,949,250</u>
TOTAL	7,139,250
Less: Present Value Discount	<u>(942,509)</u>
BEQUESTS RECEIVABLE (NET)	<u><u>\$ 6,196,741</u></u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2024 consists of the following:

Land	\$ 724,914
Buildings and Building Improvements	44,127,334
Office and Computer Equipment	2,195,094
Musical Instruments	3,173,426
Library Texts and Music	26,727
Vehicles	79,162
Construction in Progress	<u>15,678</u>
TOTAL	50,342,335
Less: Accumulated Depreciation	<u>(15,709,099)</u>
PROPERTY AND EQUIPMENT (NET)	<u><u>\$ 34,633,236</u></u>

Depreciation expense amounted to \$1,302,255 for the year ended December 31, 2024.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 6 - PROPERTY AND EQUIPMENT (continued)

Construction in progress consists of various projects related to campus updates. At December 31, 2024, the estimated cost to complete these projects amounted to approximately \$1,270,000 with the last project estimated to be complete in February 2026.

NOTE 7 - NOTE PAYABLE

Note payable at December 31, 2024 consists of the following:

Note Payable to a 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	\$ 9,074,899
Less: Unamortized Debt Issuance Costs	<u>(145,701)</u>
TOTAL NOTES PAYABLE (NET)	<u>\$ 8,929,198</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, 2024 are as follows:

Years Ending December 31	
2025	\$ 630,029
2026	653,413
2027	677,666
2028	702,100
2029	728,879
Thereafter	<u>5,682,812</u>
TOTAL	<u>\$ 9,074,899</u>

During the year ended December 31, 2024, the amortization of debt issuance costs amounted to \$12,444 and interest expense amounted to \$344,324.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2024

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, 2024:

Undesignated Net Assets	\$ 26,461,055
Board Designated Net Assets:	
Future Operations (Endowment)	49,645,977
Campus Maintenance	3,239,076
Loan Repayment	<u>8,305,671</u>
TOTAL BOARD DESIGNATED NET ASSETS	<u>61,190,724</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 87,651,779</u>

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	\$ 4,344,144
Contributions and Bequests Receivable (Net)	<u>7,643,892</u>
TOTAL SUBJECT TO THE PASSAGE OF TIME	11,988,036
Subject to Expenditure for Specified Purpose:	
Building Maintenance	2,283,753
Other Programs	748,578
Marilyn Horne LVI Endowed Chair	289,094
Hahn Hall Technology and Lighting Upgrade	29,595
Sing!	<u>11,943</u>
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE	<u>3,362,963</u>
Subject to Endowment Spending Policy and Appropriation:	
Endowment Corpus	530,000
Unspent Endowment Earnings	<u>450,778</u>
TOTAL SUBJECT TO ENDOWMENT SPENDING POLICY AND APPROPRIATION	<u>980,778</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 16,331,777</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 9 - 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, 2024:

Expiration of Time Restrictions	\$ 3,281,624
Satisfaction of Purpose Restrictions:	
Other Programs	326,931
Building Maintenance	87,134
Hahn Hall Technology and Lighting Upgrade	76,568
Sing!	60,000
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 3,832,257</u>

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 5% 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.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 10 - ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund at December 31, 2024	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
	<u>\$ 49,645,977</u>	<u>\$ 980,778</u>	<u>\$ 50,626,755</u>
Changes in Endowment Net Assets for the Year Ended December 31, 2024			
Endowment Net Assets -			
Beginning of Year	\$ 47,855,679	\$ 887,471	\$ 48,743,150
Additions	1,607,630	-	1,607,630
Endowment Assets Appropriated for Expenditure	(5,604,110)	(14,714)	(5,618,824)
Investment Return (Net)	<u>5,786,778</u>	<u>108,021</u>	<u>5,894,799</u>
ENDOWMENT NET ASSETS - END OF YEAR	<u>\$ 49,645,977</u>	<u>\$ 980,778</u>	<u>\$ 50,626,755</u>

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, 2024 were \$95,150.

NOTE 12 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The total financial assets held by the Academy at December 31, 2024 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, 2024:	
Cash	\$ 706,610
Investments	63,649,869
Distribution from Investment Receivable	<u>53,100</u>
TOTAL FINANCIAL ASSETS AT DECEMBER 31, 2024	64,409,579
Less Amounts Not Available to Be Used within One Year, Due to Board Designations:	
Board Designated Endowment	(49,645,977)
Board Designated Reserves	<u>(11,544,747)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 3,218,855</u>

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

December 31, 2024

NOTE 12 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES (continued)

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.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2024, a bequest receivable was identified related to the year ended December 31, 2022, and which had not been included in the 2022 financial statements. Accordingly, the summarized prior year totals presented with the financial statements have been adjusted retrospectively to reflect the correction of this misstatement. The following table summarized the effects of the correction on the financial statements as of and for the year ended December 31, 2023:

	Balance as Previously Reported	Adjustment	Balance as Restated
Statement of Financial Position			
Bequests Receivable (Net)	\$ 5,759,196	\$ 1,000,000	\$ 6,759,196
Net Assets with Donor Restrictions, End of Year	16,401,929	1,000,000	17,401,929
Net Assets, End of Year	101,454,482	1,000,000	102,454,482
Statement of Activities			
Net Assets, Beginning of Year	\$ 98,493,681	\$ 1,000,000	\$ 99,493,681