



MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

December 31, 2019



INDEPENDENT AUDITORS' REPORT

To Board of Directors
Music Academy of the West
Santa Barbara, California

We have audited the accompanying financial statements of Music Academy of the West (a California nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

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

Report on Summarized Comparative Information

We have previously audited the Music Academy of the West's financial statements, and our report dated September 27, 2019, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Music Academy of the West as of December 31, 2019, 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.

Stoltey & Associates

August 25, 2020
Los Olivos, California

Music Academy of the West

STATEMENT OF FINANCIAL POSITION December 31, 2019 (With Comparative Totals for December 31, 2018)

ASSETS					
	Without Donor Restrictions	With Donor Restrictions	2019	2018	
CURRENT ASSETS					
Cash and equivalents	\$ 3,262,394	\$ -	\$ 3,262,394	\$ 5,249,914	
Contributions receivable (Note 2)	-	1,817,500	1,817,500	2,465,743	
Bequests receivable (Note 2)	-	5,145,159	5,145,159	4,475,159	
Accounts receivable	19,990	-	19,990	25,435	
Other receivables	72,469	-	72,469	11,694	
Prepaid expenses and other current assets	172,213	-	172,213	223,695	
Total Current Assets	3,527,066	6,962,659	10,489,725	12,451,640	
 Property and equipment, net (Note 5)	 37,614,220	 -	 37,614,220	 38,536,688	
OTHER ASSETS					
Investments (Note 3)	43,064,969	3,741,675	46,806,644	38,982,827	
Contributions receivable (Note 2)	-	862,414	862,414	1,780,064	
Bequests receivable (Note 2)	-	1,735,333	1,735,333	2,666,476	
Other investment (Note 6)	427,598	-	427,598	427,598	
Contributions in trust (Notes 3 and 7)	-	4,115,334	4,115,334	3,814,259	
Total Other Assets	43,492,567	10,454,756	53,947,323	47,671,224	
 TOTAL ASSETS	 \$ 84,633,853	 \$ 17,417,415	 \$ 102,051,268	 \$98,659,552	

MUSIC ACADEMY OF THE WEST

STATEMENT OF FINANCIAL POSITION

December 31, 2019

(With Comparative Totals for December 31, 2018)

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	2019	2018
CURRENT LIABILITIES				
Accounts payable	\$ 109,460	\$ -	\$ 109,460	\$ 103,581
Accrued expenses	386,163	-	386,163	251,087
Deposits	170	-	170	4,070
Deferred revenue	63,645	-	63,645	74,487
Current portion of long-term debt (Note 8)	523,936	-	523,936	506,355
Total Current Liabilities	1,083,374	-	1,083,374	939,580
LONG-TERM LIABILITIES				
Notes payable, net of current portion (Note 8)	11,167,136	-	11,167,136	11,679,855
Total Long-Term Liabilities	11,167,136	-	11,167,136	11,679,855
Total Liabilities	12,250,510	-	12,250,510	12,619,435
NET ASSETS (Note 9)				
Without donor restriction - undesignated	28,090,780	-	28,090,780	29,965,868
Without donor restriction - designated	44,292,563	-	44,292,563	37,056,690
With donor restriction - temporary in nature	-	16,887,415	16,887,415	18,507,559
With donor restriction - permanent in nature	-	530,000	530,000	510,000
Total Net Assets	72,383,343	17,417,415	89,800,758	86,040,117
TOTAL LIABILITIES AND NET ASSETS	\$ 84,633,853	\$ 17,417,415	\$ 102,051,268	\$ 98,659,552

MUSIC ACADEMY OF THE WEST

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

(With Comparative Totals for December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019	2018
PUBLIC SUPPORT				
Contributions (note 1)	\$ 4,403,042	\$ 913,825	\$ 5,316,867	\$ 12,347,243
Concert program advertising	46,925	-	46,925	42,808
Other support	-	-	-	-
TOTAL PUBLIC SUPPORT	4,449,967	913,825	5,363,792	12,390,051
REVENUE CENTERS				
Rack and Treasure House sales	425,441	-	425,441	355,228
Rack and Treasure House expenses	(239,828)	-	(239,828)	(213,775)
TOTAL REVENUE CENTERS	185,613	-	185,613	141,453
SPECIAL EVENTS				
Gross revenue	816,053	-	816,053	875,515
Direct costs	(193,900)	-	(193,900)	(241,243)
SPECIAL EVENTS, NET	622,153	-	622,153	634,272
REVENUE				
Concerts, recitals and master classes	775,155	-	775,155	877,603
Fees	212,711	-	212,711	198,178
Rentals	284,446	-	284,446	185,200
Gain (loss) on disposal of assets	(4,170)	-	(4,170)	(72,603)
Other revenue	14,126	-	14,126	57,349
Investment income (note 5)	7,036,417	418,357	7,454,774	(759,124)
Total Revenue	8,318,685	418,357	8,737,042	486,603
TOTAL PUBLIC SUPPORT AND REVENUE	13,576,418	1,332,182	14,908,600	13,652,379
Assets Released From Restriction	2,932,326	(2,932,326)	-	-
FUNCTIONAL EXPENSES				
Program Expenses	8,716,857	-	8,716,857	8,210,463
Supporting Services				
Management and general	852,137	-	852,137	784,945
Fundraising	1,578,965	-	1,578,965	1,106,798
Total Functional Expenses	11,147,959	-	11,147,959	10,102,206
CHANGES IN NET ASSETS	\$ 5,360,785	\$ (1,600,144)	\$ 3,760,641	\$ 3,550,173

MUSIC ACADEMY OF THE WEST

STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended December 31, 2019

(With Comparative Totals for 2018)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019</u>	<u>2018</u>
Beginning Balance	\$ 67,022,558	\$ 19,017,559	\$ 86,040,117	\$ 82,489,944
Changes in Net Assets	<u>5,360,785</u>	<u>(1,600,144)</u>	<u>3,760,641</u>	<u>3,550,173</u>
Ending Balance	<u>\$ 72,383,343</u>	<u>\$ 17,417,415</u>	<u>\$ 89,800,758</u>	<u>\$ 86,040,117</u>

MUSIC ACADEMY OF THE WEST

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

(with comparative Totals for 2018)

	Program Summer Festival	Program - Year- Round	Program Expenses	Management and General	Fundraising	2019 Total	2018 Total
Salaries	\$ 1,055,844	\$ 370,864	\$ 1,426,708	\$ 520,976	\$ 824,806	\$ 2,772,490	\$ 2,417,427
Pension plan contributions	38,315	9,761	48,076	5,792	32,521	86,389	82,206
Other employee benefits	116,061	36,844	152,905	16,850	52,465	222,220	205,881
Payroll taxes	89,897	32,170	122,067	16,778	56,088	194,933	174,177
Production expenses	1,855,076	893,707	2,748,783	538	40,165	2,789,486	2,148,486
Accounting and legal	4,810	1,696	6,506	29,119	3,627	39,252	51,979
Other expenses	270,328	81,327	351,655	34,412	230,095	616,162	588,374
Advertising and promotion	150,228	38,921	189,149	9,428	37,811	236,388	286,477
Office expenses	29,381	9,976	39,357	9,194	20,367	68,918	88,586
Information technology	109,131	14,496	123,627	18,460	30,776	172,863	140,958
Occupancy	1,426,170	397,118	1,823,288	54,277	53,711	1,931,276	1,946,057
Travel	255,011	105,202	360,213	12,851	10,146	383,210	298,947
Interest	173,094	61,026	234,120	78,206	130,507	442,833	460,982
Depreciation	961,184	81,662	1,042,846	29,370	29,370	1,101,586	1,129,169
Insurance	35,161	12,396	47,557	15,886	26,510	89,953	82,500
	<u>\$ 6,569,691</u>	<u>\$ 2,147,166</u>	<u>\$ 8,716,857</u>	<u>\$ 852,137</u>	<u>\$ 1,578,965</u>	<u>\$ 11,147,959</u>	<u>\$ 10,102,206</u>
Total Expenses							

The accompanying notes are an integral part of these financial statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019
(with comparative Totals for 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,760,641	\$ 3,550,173
Adjustments to reconcile change in net assets to net cash provided in operating activities:		
Depreciation	1,101,586	1,129,169
Amortization of loan issuance costs	12,444	12,444
Loss (gain) on value of securities	(3,931,769)	1,596,538
Loss (gain) on sale of securities	(76,081)	(148,765)
Loss (gain) on disposal of fixed assets	4,170	72,603
Loss (gain) on value of charitable trusts	(301,075)	359,386
(Increase) decrease in operating assets:		
Contributions receivable	1,827,036	(844,960)
Accounts and other receivables	(55,330)	46,449
Prepaid expenses	51,482	(96,144)
Increase (decrease) in operating liabilities:		
Accounts payable	5,879	42,172
Accrued expenses	135,076	98,749
Deposits	(3,900)	3,365
Deferred revenue	(10,842)	(6,424)
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,519,317	5,814,755
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of long-term investments	(10,820,973)	(9,712,581)
Proceeds from maturity and sale of long-term investments	7,005,006	5,715,859
Payments for property and equipment	(183,288)	(486,159)
NET CASH FROM INVESTING ACTIVITIES	(3,999,255)	(4,482,881)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payables	(507,582)	(485,689)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(507,582)	(485,689)
NET CHANGE IN CASH	(1,987,520)	846,185
CASH - Beginning of year	5,249,914	4,403,729
End of year	\$ 3,262,394	\$ 5,249,914
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 430,389	\$ 448,538

Music Academy of the West

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

This summary of significant accounting policies of Music Academy of the West (The Academy) is presented to assist in understanding the Academy financial statements. The financial statements and notes are representations of the Academy's management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Activities

The Music Academy of the West makes a unique and enduring contribution to the world of classical music by:

- advancing the development of the next generation of great classically trained musicians;
- cultivating discerning, appreciative, and adventurous audiences.

Founded in 1947, located in Santa Barbara, California, the Music Academy of the West presents an annual eight-week summer school and festival and offers year-round activities on and off its 10-acre oceanside campus. The facility (incorporating 10 buildings with three performance venues) is in use year-round by the administration, local educators, non-profit institutions, and alumni.

The Academy provides training for exceptionally talented musicians from more than 20 countries and presents distinguished faculty and visiting artists in public masterclasses and performances. The summer festival offers more than 160 public events on campus and in venues in downtown Santa Barbara.

The Academy provides up to 140 musicians (fellows) full scholarship including tuition, room, and board to participate in the summer festival. Fellows are selected in a rigorous audition process from 2,000 worldwide applicants to study with faculty and visiting guest artists. Fellows participate in one of five programs: instrumental (strings, woodwinds, brass, and percussion), solo piano, collaborative piano, vocal piano, and voice. The Vocal Institute has been featured in a fully staged opera production presented for the community each year since 1997. The current production was presented twice in a 1,500-seat venue.

In 2018, the Music Academy launched a four-year partnership with the London Symphony Orchestra (LSO) in a strategic move to expand the Academy's programs internationally. LSO musicians teach and perform in Santa Barbara during the summer festival. In 2019, the entire London Symphony Orchestra spent six days in residence in the community, culminating with a side-by-side performance with the Academy Festival Orchestra at the Santa Barbara Bowl, an outdoor 4,500-seat venue. The majority of the tickets were \$10, and all young people under the age of 18 were admitted free of charge. From 2014-2018, the Music Academy of the West partnered with the New York Philharmonic in its first partnership with a major orchestra.

Music Academy of the West

Notes to Financial Statements

Music Academy of the West alumni are currently members of major symphony orchestra, chamber ensembles, opera companies, and university and conservatory faculties worldwide. More than 65 alumni participate in careers with the Metropolitan Opera, LA Opera, and San Francisco Opera. The New York Philharmonic, Los Angeles Philharmonic, Chicago Symphony Orchestra, and San Francisco Symphony have a total of more than 60 Academy alumni on their current rosters. Legendary and esteemed artists including Burt Bacharach, Thomas Hampson, Marilyn Horne, Donald McInnes, Orin O'Brien, Cynthia Phelps, Paul Schenly, David Shifrin, and Donald Weilerstein attended the Academy and have received its highest honor, the distinguished alumni award.

The Music Academy offers additional programming year-round. 12 alumni participate in a 10-day orchestral exchange program annually in London with the LSO. The community children's choral program, *Sing!*, in coordination with the Santa Barbara County Education Office, is expanding from its current base of six elementary school sites. The Alumni Enterprise Awards provide financial support and a week of training in residence to Academy alumni leading innovative projects that further the organization's mission. The Music Academy presents competition winning alumni in public concerts on campus and has presented them in New York, Chicago, Dallas, Houston, and Los Angeles, broadcast on radio stations WQXR, WFMT, and KUSC. The Metropolitan Opera's *The Met: Live in HD* series is presented 10 times per year at the Academy, often featuring alumni artists. Academy performance venues are utilized as rehearsal and performance spaces by community music non-profits from September-May.

Prior-Year Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with The Academy's financial statements for the year ended December 31, 2018 from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, and cash in money market funds.

Contributions and Bequests Receivable

The Academy initially records and subsequently carries unconditional contributions and bequests receivable at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

Fixed Assets

The Academy records fixed asset additions over \$2,500 at cost, or if donated, at fair value on the date of donation. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, or in the

Music Academy of the West

Notes to Financial Statements

case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. Management has estimated the useful lives of depreciable assets as follows:

• Buildings	50 years
• Building Improvements	5-15 years
• Land Improvements	10-15 years
• Art	25 years
• Furniture and Equipment	5-15 years
• Library Texts	25 years
• Musical Instruments	25 years
• Vehicles	5 years

The Academy reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. Management has determined there were no indicators of asset impairment during the year ended December 31, 2019.

Investments

The Academy records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment management expenses.

Net Assets

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

Net Assets without Donor Restrictions

Net assets available for use in general operations and not subject to donor restrictions are reported as net assets without donor restriction. The governing Board has designated, from net assets without donor restrictions, net assets for future loan repayment and as a quasi-endowment.

Net Assets with Donor 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.

The Academy reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose

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Notes to Financial Statements

restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition

Exchange Transactions

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred.

Contributions

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteerism and contributed services are critical to the Academy. During the year ended December 31, 2019, numerous volunteers donated their time and services. The donated services were not recognized in the financial statements because they do not meet the criteria for recognition under generally accepted accounting principles.

The Academy reports donated noncash contributions at the estimated fair value at the date of the contribution. The Academy reports gifts of furniture and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used at the estimated fair market value on the date gift is received.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$236,388 during the year ended December 31, 2019.

Functional Expenses

The cost of providing The Academy programs and other activities is summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Expenses that are attributed to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. The expenses allocated are as follows:

Information Technology	Time and effort
Insurance – Property	Square footage
Insurance – Workers Compensation	Time and effort
Occupancy	Square footage
Office Expenses	Time and effort

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Notes to Financial Statements

Payroll Taxes	Time and effort
Personnel Compensation	Time and effort
Depreciation	Time and effort
Interest expense	Time and effort

Tax Exempt Status

The Academy is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under Internal Revenue Code (IRC) as an organization described in IRC Section 501(c)(3) and qualifies for the charitable contribution deduction under IRC and has been determined not to be a private foundation under IRC. The Academy is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, The Academy is subject to tax on income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Academy is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Academy tax filings are subject to examination by the IRS, generally for three years after they are filed. The Academy is not aware of any activities that would jeopardize its tax-exempt status.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, The Academy's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Academy management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates. Significant estimates used in the preparation of these financial statements include:

- Allocation of functional expenses
- Fair value of contributions and bequests receivable
- Fair value of nonmarketable securities

Reclassifications

Certain items in the 2018 financial statements were reclassified in order to conform to the 2019 presentation.

Subsequent Events

Management has evaluated subsequent events through August 25, 2020, the date that the financial statements were available to be issued. Management has determined that no event, with exception of the following discussion regarding the COVID-19 pandemic and the extension of the line of credit, requiring disclosure or significantly impacting disclosure has occurred.

Music Academy of the West

Notes to Financial Statements

COVID-19 Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 19, 2020, California Governor Gavin Newsom ordered the closure of the physical location of every “non-life sustaining” [“non-essential”] business for what may be an extended period of time.

The Music Academy of the West has been directly impacted by the closure of its campus. All employees worked remotely except for essential job functions. The organization pivoted from an eight-week, in-person Summer Festival to a six-week training and performance curriculum presented online for 134 fellows spanning 23 countries and 22 states. Rental activity has also been temporarily suspended and retail operations have been limited. Future potential impacts may include continued disruptions or restrictions on our employees’ ability to work and impairment of our ability to obtain contributions and volunteers. The future effects of these issues are unknown.

Subsequent to year end, the Organization applied for and was approved a \$240,000 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

Line of Credit Extension

As noted in Note 13 the Academy has available a bank line of credit for any amount up to \$1,500,000 which expired in January 2020. The term of bank line of credit was extended to September 29, 2020. No other terms, as described in note 13, of the line of credit were changed.

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Notes to Financial Statements

Note 2: Contributions and Bequests Receivable

Contributions Receivable

The Academy anticipates contributions receivable to be collected in the following years:

Year ending December 31:

2020	\$ 1,817,500
2021-2025	825,000
2026-2029	<u>130,000</u>
	2,772,500
Less Fair Value Adjustments:	
Reserve for Doubtful Accounts	(10,206)
Present Value Discount	<u>(82,380)</u>
	<u><u>\$ 2,679,914</u></u>

Bequests Receivable

The Academy anticipates bequests receivable to be collected in the following years:

Year ending December 31:

2020	\$ 5,145,159
2021-2025	1,695,000
2026-2029	300,000
Thereafter	<u>155,000</u>
	7,295,159
Less Fair Value Adjustment:	
Present Value Discount	<u>(414,667)</u>
	<u><u>\$ 6,880,492</u></u>

Contributions Receivable – Conditional and Revocable

The Academy has been named as a beneficiary of the Estate of Sima Mannick. In accordance with the last will and testament of Mrs. Mannick, the Academy will receive annually an amount equivalent to the Academy's cost of two students' attendance. The funds to pay the tuition will be paid from the income of an endowment trust set up at the University of Southern California. The value of the pledge can be revoked and as such has not been recorded in the accompanying financial statements.

On September 1, 1990, the Ridley - Tree Foundation set up a scholarship fund of \$50,000 in the name of the Academy. The Ridley - Tree Foundation has subsequently added an additional \$275,000 to the original contribution amount. The earnings of the fund are paid to the Academy semiannually. Due to the revocable nature of the arrangement the principal amount held by

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Paine Webber has not been recorded as an asset of the Academy, nor has the principal been recorded as a contribution to the Academy.

Note 3: Fair Value Measurements and Disclosures

The Academy reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that The Academy can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, The Academy develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to management's assessment of the quality, risk, or liquidity profile of the asset or liability.

Investments

Valuation Methodology

To the extent available, the Academy's investments are recorded at fair value based on quoted prices in active markets on a trade-date basis. The Academy's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market

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quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. For alternative investments, which are principally private equity and hedge funds, the value is primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV reported is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through the end of the fiscal year. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

The Academy exercises due diligence in assessing the policies, procedures, and controls implemented by its external investment managers and believes the Academy's proportionate share of the carrying amount of these alternative investments is a reasonable estimate of fair value. Such due diligence procedures include, but are not limited to, ongoing communication and review of information from the external investment managers as well as review of performance. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, such as market conditions, redemption terms and restrictions, and risks inherent in the inputs of the external investment managers' valuation.

For alternative investments which are direct investments in closed ended funds, the Academy considers various factors to estimate fair value, such as, but not limited to, the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate valuation technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the Academy may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

Derivative Activity

The Academy has approved the use of derivatives by outside investment managers, based on investment guidelines negotiated at the time of a manager's appointment. The derivatives are used to adjust fixed income durations and rates, to create "synthetic exposures" to certain types of investments, and to hedge inflation fluctuations. The Academy records the fair value of a derivative instrument within the applicable portfolio. The change in the fair value of a derivative instrument held for investment is included in investment return in the statement of activities.

Investment Related Commitments

The Academy is obligated under certain alternative investment agreements to advance additional funding up to specified levels over a period of several years. At December 31, 2019 the Academy is obligated to advance an additional \$991,555 under such agreements.

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Contributions and Bequests Receivable

Valuation Methodology

Contributions and bequests receivable fair value are estimated using present valuation techniques based on a discount rate of 2.5% as well as an estimated reserve for uncollectible contributions receivable.

Valuation Hierarchy

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using net asset value per share as a practical expedient as identified in the following, at December 31, 2019:

	Level 1	Level 2	Level 3	NAV
<i>Investments</i>				
Mutual funds –				
fixed income	\$ 3,568,341	\$ -	\$ -	\$ -
equity	22,578,557	-	-	-
Overlay funds	-	-	-	2,419,007
Closed ended funds	-	-	-	5,823,900
Hedge funds	-	-	-	2,075,821
Private equity funds	-	-	-	668,898
Corporate bonds	3,661,758	-	-	-
U.S. federal agencies				
debt instruments	5,365,457	-	-	-
Foreign currencies				
British Pounds	<u>644,905</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	35,819,018	-	-	10,987,626
Contributions and				
bequests receivable	-	-	9,560,406	-
Contributions in trust	<u>-</u>	<u>-</u>	<u>4,115,334</u>	<u>-</u>
Totals	<u>\$ 35,819,018</u>	<u>\$ -</u>	<u>\$ 13,675,740</u>	<u>\$ 10,987,626</u>

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The table below presents information about fair value measurements that use significant unobservable inputs (level 3):

Contributions and Bequests Receivable

Balance at beginning of year	\$ 11,387,740
Additions	3,498,477
Collections	(5,433,517)
Fair value adjustments	<u>107,706</u>
Balance at end of year	<u><u>\$ 9,560,406</u></u>

Contributions in Trust

Balance at beginning of year	\$ 3,814,259
Additions	-
Fair value adjustments	<u>301,075</u>
Balance at end of year	<u><u>\$ 4,115,334</u></u>

Note 4: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

Operating cash and cash Equivalents without donor restrictions	\$ 3,262,394
Contributions and bequests receivable to be collected in 2020	6,962,659
Endowment spending-rate distributions and appropriations	<u>1,432,238</u>
Total	<u><u>\$ 11,657,291</u></u>

The Academy Endowment funds consist of Board Designated and donor restricted endowments which are subject to an annual spending policy as described in Note 10.

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Note 5: Fixed Assets

Fixed Assets at December 31, 2019 are summarized by major classifications as follows:

Land and improvements	\$ 532,936
Buildings	43,297,700
Furniture, fixtures and equipment	1,558,365
Construction in process	56,141
Library text and music	18,612
Instruments	2,617,940
Vehicles	<u>43,153</u>
	48,124,847
Less Accumulated Depreciation	<u>(10,510,627)</u>
Fixed Assets, Net	<u>\$ 37,614,220</u>

Depreciation expense for the year ended December 31, 2019 and 2018 was \$1,101,586 and \$1,129,169, respectively.

Note 6: Other Investment

The Academy is the beneficiary of a second trust deed, of \$427,598 secured by real property located in Santa Barbara, California. As stated in the second trust deed, there is no interest charged on the principal and the Academy will share in the appreciation of the real property upon sale in the future.

Note 7: Contributions in Trust

During the year ended September 30, 1991, a pooled income trust fund was established. The present value of the trust as of the date of the contribution was \$4,444. At December 31, 2019, the fair market value of the Academy's share of trust assets was \$55,380. These assets are recorded as net assets with donor restrictions.

During the year ended December 31, 2005, the Academy was named as a 20% beneficiary of the Maximus Fund to be held by the Santa Barbara Foundation. The Academy is to receive an annual payment equal to 5% of the fund's fair market value as determined on January 1 of each year. The estimated fair market value of the gift has been determined to equal the underlying assets at the time of the gift. The Academy has recorded the gift as an increase to net assets with donor restrictions. The Academy's share of the net assets of the fund at December 31, 2019 was \$2,581,857.

During the year ended December 31, 2012, the Academy was named as a 20% beneficiary of the Thomas E & Elenor H. Hugunin Endowment Fund to be held by the Santa Barbara Foundation. The Academy is to receive an annual payment equal to 5% of the fund's fair market value as determined on January 1 of each year. The estimated fair market value of the gift has been determined to equal the underlying assets at the time of the gift. The Academy has

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recorded the gift as an increase to net assets with donor restrictions. The Academy's share of the net assets of the fund at December 31, 2019 was \$1,478,097.

For the year ended December 31, 2019, the Academy reported an increase in value in the value of contributions in trust of \$301,075 as part of contributions.

Note 8: Note Payable

In September 2012, the Academy entered into a note payable agreement with First Republic Bank. Under the agreement the Academy borrowed \$15,200,000. The note payable bears interest at 3.65% per annum, is to be repaid with monthly principal and interest payments of \$79,221 and matures in September 2036. The proceeds of the note were used to retire \$14,884,925 of certificates of participation. In connection with the note payable, the Academy incurred \$298,661 of issuance costs which are being amortized over the life of the note. At December 31, 2019 the Academy reported unamortized loan issuance costs of \$207,923. The note payable is secured by a lien on all of the Academy's assets other than its real property and permanently restricted assets. The note requires the Academy to maintain liquidity of \$14,000,000.

Minimum maturities of the note payable are as follows:

2020	\$	523,936
2021		544,597
2022		564,810
2023		585,774
2024		606,532
Thereafter		<u>9,073,346</u>
Total minimum maturities		11,898,995
Less unamortized debt issuance costs		<u>(207,923)</u>
Note payable, net		<u>\$ 11,691,072</u>

The Academy reported \$12,444 of amortization of the debt issuance costs as interest expense

Note 9: Designations and Restrictions of Net Assets

Board Designated Net Assets

The Board of Directors have designated net without donor restrictions for the following purposes:

Future loan repayments	\$	4,465,923
Campus maintenance		2,427,601
Future operations – Endowment subject to endowment spending policy		<u>37,399,039</u>
Total board designated funds		<u>\$ 44,292,563</u>

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Net Assets with Donor Restrictions

Net assets with donor restrictions temporary in nature are restricted for the following purpose or periods:

Purpose Restrictions:	
Building construction	\$ 54,136
AVF Program	1,724,178
London Symphony Orchestra Partnership	2,617,086
Various programs	432,298
Other restrictions	<u>195,587</u>
	5,023,285
Time Restricted for Future Period:	
Contributions and bequest receivable without donor purpose Restrictions	5,582,482
Contributions in trust	4,059,954
Endowments:	
Subject to Endowment Policy and Appropriation:	
Building and maintenance	2,082,463
Scholarship	<u>139,231</u>
Total donor restricted net assets – temporary in nature	<u>\$ 16,887,415</u>

Net assets with donor restrictions permanent in nature, the income from which are restricted for scholarships, totaled \$530,000 at December 31, 2019.

Note 10: Endowment Funds

The Academy's Endowment (the Endowment) consists of board designated funds and funds with donor restrictions. The endowment was established for the specific purpose of long-term stability and insuring the continuance of the mission of The Academy. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Academy has interpreted the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the Donor-Restricted Endowment Funds absent explicit donor stipulations to the contrary. At December 31, 2019, there were no such donor stipulations. As a result of this interpretation, The Academy retains in perpetuity (a) the original value of initial and subsequent gift amount (including contributions receivable at fair value donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by The Academy

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in a manner consistent with the standard of prudence prescribed by UPMIFA. The Academy considers the following factors in making a determination to appropriate or accumulate Donor-Restricted Endowment Funds:

- The duration and preservation of the fund
- The purposes of The Academy and the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Academy
- The investment policies of Academy

Funds with Deficiencies

From time to time, certain Donor-Restricted Endowment Funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). Academy has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2019, there were no endowment funds underwater.

Changes in Endowment Assets

Changes in Endowment Net Assets for the year ended December 31, 2019 are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>
Endowment Net Assets, Beginning of Year	\$ 31,203,161	\$ 2,313,337
Contributions	1,579,840	20,000
Investment income	5,973,160	418,357
Draw per Spending Policy	<u>(1,357,122)</u>	<u>-</u>
Endowment Net Assets, End of Year	<u>\$ 37,399,039</u>	<u>\$ 2,751,694</u>

Investment and Spending Policies

Endowment funds may be appropriated for expenditure in amounts not to exceed, on an annual basis, four percent of the endowment's total average value for the preceding calendar year. The Board of Directors may, at its own discretion, appropriate for expenditure an amount that exceeds the four percent threshold.

Note 11: Employee Benefits

In 2001, the Academy adopted The Music Academy of the West Tax-Deferred Annuity Plan under section 403(b) of the Internal Revenue Code. Eligible employees are at minimum twenty-one years of age, have completed one year of service, and work full time. The Academy matches employee contributions 100% for the first 5% of deferred salary. Retirement plan contributions and operating expenses for the year ended December 31, 2019 was \$86,389.

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Note 12: Customer and Credit Risk Concentrations

Academy manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, Academy has not experienced losses in any of these accounts. Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by Academy and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of Academy.

Academy maintains bank account at various local financial institutions. The deposits at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. From time to time cash held during the year exceeded the insured thresholds. At December 31, 2019 Academy held \$1,547,206 of cash deposits in excess of FDIC insurance limits.

Note 13: Commitments

Operating Leases

The Academy leases a private residence located in Santa Barbara, California in which the Academy's President and CEO is required to reside under his employment contract. The lease is a month to month lease and requires monthly payments of \$3,500. The Academy considers the lease to be an operating lease.

Line of Credit

The Academy has available a bank line of credit for any amount up to \$1,500,000 at December 31, 2019. The line of credit is secured by a lien on all of the Academy's assets other than its real property and permanently restricted assets. Draws on the line of credit bear interest at 4.5%. The Academy did not draw on the line during the year ended December 31, 2019. The line of credit expires January 2020. Subsequent to December 31, 2019 the Academy renewed the line of credit extending the term of the line of credit to September 29, 2020.