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Montalvo Arts Center

Financial Statements
September 30, 2024
(With summarized comparative totals for September 30, 2023)

Together with
Independent Auditors' Report

MONTALVO ASSOCIATION

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September 30, 2024

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Montalvo Association
Saratoga, California

Opinion

We have audited the accompanying financial statements of Montalvo Association (the "Organization"), a California public benefit corporation, which comprise the statement of financial position as of September 30, 2024, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 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 Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
Montalvo Association
Saratoga, California

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Organization'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 Organization'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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Board of Directors of
Montalvo Association
Saratoga, California

Report on Summarized Comparative Information

We have previously audited the Organization's September 30, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Robert Lee & Associates, LLP

San Jose, California
January 27, 2025

MONTALVO ASSOCIATION

Statements of Financial Position

September 30, 2024

(With summarized comparative totals for September 30, 2023)

	September 30,	
	2024	2023 <i>(Comparative)</i>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 3,448,089	\$ 3,447,049
Accounts receivable	82,950	92,730
Pledges receivable, current portion	312,990	367,990
Grants receivable	50,000	-
Investments	8,660,490	7,993,882
Prepaid expenses and other assets	119,508	107,063
Total current assets	12,674,027	12,008,714
Non-current assets:		
Property and equipment, net	6,305,591	6,726,044
Investments held for endowment	28,437,175	24,574,604
Pledges receivable, non-current portion	253,721	434,213
Operating lease right-of-use asset	2,197	5,020
Financing lease right-of-use asset	7,600	16,766
Total assets	\$ 47,680,311	\$ 43,765,361
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 122,467	\$ 126,959
Accrued expenses	528,846	452,481
Deferred revenue	1,251,088	1,423,456
Operating lease liabilities, current portion	2,197	2,197
Financing lease liabilities, current portion	7,122	9,195
Total current liabilities	1,911,720	2,014,288
Non-current liabilities:		
Operating lease liabilities, non-current portion	-	2,823
Financing lease liabilities, non-current portion	803	7,925
Total liabilities	1,912,523	2,025,036
Net assets:		
Without donor restrictions	9,199,475	9,093,179
Without donor restrictions - board designated	352,500	512,500
Total net assets without donor restrictions	9,551,975	9,605,679
With donor restrictions	36,215,813	32,134,646
Total net assets	45,767,788	41,740,325
Total liabilities and net assets	\$ 47,680,311	\$ 43,765,361

The accompanying notes are an integral part of these financial statements

MONTALVO ASSOCIATION
Statements of Activities and Changes in Net Assets
For the Year Ended September 30, 2024
(With summarized comparative totals for September 30, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total <i>(Comparative)</i>
Revenue and support:				
Individual contributions	\$ 1,519,469	\$ 1,296,858	\$ 2,816,327	\$ 2,930,189
Grants and contributions	12,281	216,467	228,748	426,255
In-kind contributions	213,818	-	213,818	142,887
Facility rentals	1,652,420	-	1,652,420	1,639,068
Art programs	888,722	-	888,722	923,453
Investment income, net	454,871	4,724,574	5,179,445	3,192,497
Concession and merchandise, net	28,789	-	28,789	7,051
Total revenue and support	<u>4,770,370</u>	<u>6,237,899</u>	<u>11,008,269</u>	<u>9,261,400</u>
Special event revenue:				
Earned revenues	793,543	-	793,543	934,372
Less: cost of direct benefit to donors	<u>(83,622)</u>	<u>-</u>	<u>(83,622)</u>	<u>(217,345)</u>
Total special event revenue, net	<u>709,921</u>	<u>-</u>	<u>709,921</u>	<u>717,027</u>
Net assets released from restriction	<u>2,156,732</u>	<u>(2,156,732)</u>	<u>-</u>	<u>-</u>
Total revenue and support, net	<u>7,637,023</u>	<u>4,081,167</u>	<u>11,718,190</u>	<u>9,978,427</u>
Functional expenses:				
Program services	<u>5,344,037</u>	<u>-</u>	<u>5,344,037</u>	<u>5,072,928</u>
Supporting services:				
General and administrative	1,331,113	-	1,331,113	1,224,000
Marketing and promotion	182,756	-	182,756	175,618
Fundraising	832,821	-	832,821	785,535
Total supporting services	<u>2,346,690</u>	<u>-</u>	<u>2,346,690</u>	<u>2,185,153</u>
Total functional expenses	<u>7,690,727</u>	<u>-</u>	<u>7,690,727</u>	<u>7,258,081</u>
Change in net assets	(53,704)	4,081,167	4,027,463	2,720,346
Net assets, beginning of year	<u>9,605,679</u>	<u>32,134,646</u>	<u>41,740,325</u>	<u>39,019,979</u>
Net assets, end of year	<u>\$ 9,551,975</u>	<u>\$ 36,215,813</u>	<u>\$ 45,767,788</u>	<u>\$ 41,740,325</u>

The accompanying notes are an integral part of these financial statements

MONTALVO ASSOCIATION
Statements of Functional Expenses
For the Year Ended September 30, 2024
(With summarized comparative totals for September 30, 2023)

	2024						2023	
	Supporting Services				Total Support Services	Cost of Direct Benefit to Donors		Total <i>(Comparative)</i>
	Program Services	General and Administrative	Marketing and Promotion	Fundraising		Total	Total	
Salaries and related expenses:								
Salaries and wages	\$ 2,133,798	\$ 745,897	\$ 47,500	\$ 407,061	\$ 1,200,458	\$ -	\$ 3,334,256	\$ 3,224,286
Payroll taxes and benefits	484,115	169,229	10,777	92,354	272,360	-	756,475	727,928
Total salaries and related expenses	2,617,913	915,126	58,277	499,415	1,472,818	-	4,090,731	3,952,214
Depreciation	700,101	33,021	-	33,021	66,042	-	766,143	769,439
Artist fees and hospitality	661,816	300	-	4,450	4,750	-	666,566	761,062
Maintenance and repairs	483,771	23,206	-	19,938	43,144	5,182	532,097	471,625
Professional fees	120,116	247,914	1,205	6,996	256,115	-	376,231	178,169
Utilities	202,961	18,709	4,029	13,275	36,013	-	238,974	216,914
Donated goods and services	-	-	39,162	174,656	213,818	-	213,818	142,887
Insurance	104,990	4,952	-	4,952	9,904	-	114,894	113,205
Catering and hospitality	29,853	37,382	-	24,365	61,747	19,260	110,860	89,091
Production	91,355	5,250	-	350	5,600	11,938	108,893	121,141
Bank fees	81,937	4,326	-	17,635	21,961	-	103,898	130,274
Advertising and marketing	22,000	-	59,809	9,979	69,788	-	91,788	93,300
Software	78,135	3,775	-	3,685	7,460	-	85,595	73,478
Supplies	57,937	3,429	-	7,960	11,389	-	69,326	58,464
Concession and merchandise cost of goods sold	18,293	-	-	-	-	47,019	65,312	169,288
Printing and publication	35,384	2,825	20,274	4,758	27,857	-	63,241	73,174
Conferences, meetings, dues, and subscriptions	22,906	10,884	-	1,025	11,909	-	34,815	31,421
Property taxes	17,542	827	-	827	1,654	-	19,196	19,227
Travel	10,123	1,422	-	5,315	6,737	-	16,860	12,089
Other expenses	(2,000)	16,930	-	-	16,930	-	14,930	19,689
Postage and shipping	7,197	835	-	219	1,054	223	8,474	42,576
Total expenses	<u>5,362,330</u>	<u>1,331,113</u>	<u>182,756</u>	<u>832,821</u>	<u>2,346,690</u>	<u>83,622</u>	<u>7,792,642</u>	<u>7,538,727</u>
Less: expenses included with revenues on the statement of activities								
Sale of merchandise cost of goods sold	(18,293)	-	-	-	-	-	(18,293)	(43,936)
Cost of direct benefits to donors	-	-	-	-	-	(83,622)	(83,622)	(217,345)
Total expenses included in the functional expense section on the statement of activities	<u>\$ 5,344,037</u>	<u>\$ 1,331,113</u>	<u>\$ 182,756</u>	<u>\$ 832,821</u>	<u>\$ 2,346,690</u>	<u>\$ -</u>	<u>\$ 7,690,727</u>	<u>\$ 7,277,446</u>

The accompanying notes are an integral part of these financial statements

MONTALVO ASSOCIATION

Statements of Cash Flows

For the Year Ended September 30, 2024

(With summarized comparative totals for September 30, 2023)

	September 30,	
	2024	2023 <i>(Comparative)</i>
Cash flows from operating activities:		
Change in net assets	\$ 4,027,463	\$ 2,720,346
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	766,143	769,439
Realized and unrealized gains on investments	(3,690,894)	(2,494,655)
Proceeds from restricted contributions	(45,000)	(145,000)
Discount on pledges receivable	(7,016)	(7,108)
Reduction in carrying amount of right-of-use assets - operating lease	2,823	2,705
Reduction in carrying amount of right-of-use assets - finance lease	9,166	9,166
Changes in operating assets and liabilities:		
Accounts receivable	9,780	(27,420)
Pledges receivable	242,508	114,819
Grants receivable	(50,000)	47,000
Prepaid expenses and other assets	(12,445)	68,314
Accounts payable	(4,492)	52,064
Accrued expenses	76,365	28,007
Deferred revenue	(172,368)	200,755
Operating lease liabilities	(2,823)	(2,705)
Finance lease liabilities	(9,195)	(8,812)
Net cash provided by operating activities	<u>1,140,015</u>	<u>1,326,915</u>
Cash flows from investing activities:		
Purchases of property and equipment	(345,690)	(460,029)
Purchases of investments	(2,941,302)	(3,292,997)
Proceeds from sales of investments	2,103,017	2,399,405
Net cash used by investing activities	<u>(1,183,975)</u>	<u>(1,353,621)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	45,000	145,000
Net cash provided by financing activities	<u>45,000</u>	<u>145,000</u>
Increase in cash and cash equivalents	1,040	118,294
Cash and cash equivalents, beginning of year	3,447,049	3,328,755
Cash and cash equivalents, end of year	<u>\$ 3,448,089</u>	<u>\$ 3,447,049</u>

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 548	\$ 662
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating lease	\$ -	\$ 2,971
Operating cash flows from finance lease	\$ -	\$ 6,910
Right-of-use assets obtained in exchange for new lease obligations:		
Operating lease	\$ -	\$ 7,725
Finance lease	\$ -	\$ 20,466

The accompanying notes are an integral part of these financial statements

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 1 - Organization and operations:

The Montalvo Association, (also known as “Villa Montalvo”, “Montalvo Arts Center”, “Montalvo”, or the “Organization”), is located in the Saratoga hills of Northern California on a 175-acre estate built in 1912 by James Duval Phelan (1861-1930). A passionate Californian, Phelan was a three-term mayor of San Francisco and California’s first popularly-elected U.S. Senator. Montalvo was his favorite home and a center of artistic, political, and social life in Northern California; a cultural haven where he invited leading writers and artists to work on artistic projects in an environment rich in dialogue and fellowship. Upon his death, Senator Phelan bequeathed Montalvo to the people of California as a site for the advancement of art, music, literature, and architecture - a legacy that continues to this day. In 1952 Montalvo was incorporated as a public benefit nonprofit corporation with a mission of engaging the community in the creative process.

As a contemporary arts center, Montalvo fosters creativity, nurtures new talent, and inspires active engagement with the arts through commissions of new work, presentation of acclaimed emerging artists, and the implementation of innovative educational initiatives. Through the distinguished Sally and Don Lucas Artists Residency program, performing arts series, visual arts exhibitions and related public programming, and education, and outreach programs, Montalvo connects Silicon Valley with exemplary, diverse national, and international artistic opportunities. In all its programmatic endeavors, Montalvo is guided by the belief that relevance and equality of access to the arts are of paramount importance.

Sally and Don Lucas Artists Residency Program - The internationally recognized Sally and Don Lucas Artists Residency Program ("LAP" or "Lucas Arts Program") enhances Montalvo's ability to contribute to the field through the creation of new work by accomplished artists and creative thinkers while serving as the driving force behind its community-based outreach programs. Every year, the LAP offers 100+ artists private housing, a professional staff supportive of the creative process, and an environment conducive to individual practice, community engagement, and the energetic exchange of ideas among international and culturally diverse Fellows. The LAP celebrated the 20th anniversary of the Lucas Residency program in 2024 with the release of the book "Hello Goodbye Hello" detailing the comprehensive history of Montalvo's contribution to the field.

Performing Arts Series - This vibrant interdisciplinary program consists of more than 40 concerts and theatre events per year, presented in the intimate 300-seat Carriage House Theatre, the Main Hall of the historic Villa, and outdoors on Montalvo's scenic grounds.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 1 - Organization and operations (continued):

Exhibitions and Visual Arts Public Programming - Montalvo's visual arts program encompasses Open Access, a showcase of current work by artists affiliated with the LAP; and Marcus Artist Festival, which includes both existing and commissioned works of art installed throughout the property. The 2024 Marcus Festival included the new exhibition "A Path Forward" honoring the Indigenous Ohlone with a permanent land acknowledgment, and Future Dreaming, where artists provided sculptural responses to A Path Forward and native roots. Montalvo teamed with the ICA San Jose to bring the exhibit "PLACE: Reckonings by Asian American Artists" featuring LAP artist fellows.

Education and outreach - Montalvo's onsite education programs consists of a broad range of arts-related programs, classes, and events. Education programming includes the Performing Arts Series for Students ("PASS"), field trips led by local artists and educators, professional development for teachers including the annual Art in Your Classroom conference, and visual and performing arts camps for youth. Montalvo offered outreach programs in concert with our Art on the Grounds and community partners throughout the year. Events included "ArtSplash"; a free community events, and the 2nd annual "LowRider Festival" where visitors of all ages can participate in art and music activities.

Gardens and Grounds - The formal Italianate garden, historic Cactus Garden, the Oval Garden, the Love Temple, and several miles of hiking trails comprise the estate's 175-acre grounds. Open for free to the public 363 days a year, they serve nearly a quarter million visitors annually.

Montalvo Service Group - The Montalvo Service Group (the "MSG") was established in 1954. Its primary purpose is to provide financial assistance to Montalvo. The MSG is an internal part of Montalvo, but operates under separate bylaws as a committee of Montalvo.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and accordingly reflect all significant receivables, payables, and other liabilities.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Basis of presentation - The Organization presents its financial statements in accordance with Generally Accepted Accounting Principles in the United States of America (“GAAP”), which requires the Organization to report information regarding its financial position and activities according to two classes of net assets:

- *Without donor restrictions* - net assets which are available to support all activities of the Organization without restrictions and include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation.
- *With donor restrictions* - represent contributions where use is limited to donor-imposed stipulations that expire through the passage of time or other restrictions and for which the applicable restriction was not met as of the end of the current fiscal period. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity.

Comparative totals - The statements of activities and changes in net assets and functional expenses include certain prior year summarized comparative information in total but not by net asset class, as presented for the current year. 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 Organization’s financial statements for the fiscal year ended September 30, 2023, from which the summarized information was derived.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market accounts. The Organization considers all highly liquid investments with a maturity date of three months or less at the date of purchase to be cash equivalents. The carrying amount in the statements of financial position approximates fair value.

Accounts receivable and allowance for credit losses - Accounts receivable consists primarily of amounts due to the Organization in conjunction with the Organization’s program operations and totaled approximately \$83,000, \$93,000, and \$65,000 as of September 30, 2024, 2023, and 2022, respectively. An allowance reserve for uncollectible accounts receivables, if any, is determined based on management’s best estimate of expected losses as of the report date. In determining the allowance for credit losses, management evaluates various factors including, but not limited to: historical loss, age of receivable, current economic conditions, and expected future economic conditions. Management has determined the outstanding accounts receivable to be fully collectible for the years ended September 30, 2024 and 2023, respectively.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Grants and pledges receivable - Grants and pledges receivable are either unconditional or conditional. Unconditional grants or pledges receivable are receivables that depend only on the passage of time or the demand by the donor for performance. A conditional grant or pledge receivable is a receivable that depends on the occurrence of a specified future and uncertain event to bind the donor. There were no conditional grants or pledges for the years ended September 30, 2024 and 2023. Contributions that are promised in one year, but are expected to be received after the end of that year (or over several years) are considered grants or pledges depending on the agreement from the donor.

Pledges receivable due in more than one year are recorded at their present value, determined using a discount rate that reflects the time value of money and the credit risk associated with the pledges. The discount rate applied is based on the estimated risk-free rate at the time the pledge is received. Discount rates for current outstanding pledges as of September 30, 2024, were 1.68% - 5.47%. An allowance reserve for uncollectible pledges and grants is determined based on management's evaluation of each outstanding receivable for collectability. Management believes all amounts to be fully collectible and therefore, no allowance has been recorded for the years ended September 30, 2024 and 2023.

Investments - All investments are valued in accordance with GAAP, including Fair Value Measurements.

Publicly traded - The Organization invests in marketable securities and corporate bonds. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Organization's fiscal year. The Organization's Investment Committee has established an investment policy and has engaged the services of an outside investment advisor to assist in such matters. Contributions of investments are recorded at estimated fair value at the date of donation and are sold as soon as reasonably possible, unless otherwise directed by the Organization's financial advisors or the Investment Committee of the Board of Directors. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains and losses resulting from the sales or maturities is the difference between the investments' cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned.

Private equity funds - To the extent that these funds invest in publicly traded investments, they are carried at quoted market prices as described above. The remaining investments are carried at estimated fair values as determined by the investment manager of these securities after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at the Organization's percentage interest owned in these investment companies. Because of the inherent uncertainty of valuations, these estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Real estate investments - These primarily represent commercial real estate investments in limited partnership holdings. The investments are carried at estimated fair values as determined by the investment manager of these funds after giving consideration to operating results plus an estimate of any unrealized appreciation or depreciation, recent purchases, offers on investments deemed likely to close in the near future, as well as many other factors including, but not limited to the operating cash flows and the financial performance of the properties. These investments are valued at the Organization's percentage interest owned in these investment companies. Because of the inherent uncertainty of valuations, however, these estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material.

Private equity funds and real estate are not classified in the fair value hierarchy; however, as a practical expedient, the fair value is measured at Net Asset Value ("NAV") per share of the underlying assets as traded in an exchange or active market. The Investment Committee determines the Organization's valuation policies. See Note 5 for discussion of fair value measurements.

Fair value of financial instruments - Unless otherwise indicated, the fair values of all reported assets and liabilities approximate the carrying values of such amounts.

Prepaid expenses and other assets - Prepaid expenses include payments for travel, artist fees, software, and other program related activities.

Property, equipment, depreciation, and amortization - Purchased property and equipment used in the Organization's operations are stated at cost. Significant donated property and equipment are recorded at their estimated fair value on the date of receipt. In accordance with this policy, the property and building with which the Organization's main operations are conducted, are valued at cost based on the date the property was gifted to the Organization. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to forty years. Building improvements are amortized using the straight-line method over the asset's estimated useful life. The Organization capitalizes property and equipment with a value over \$5,000. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Right-of-use (ROU) assets are amortized on a straight-line basis over the lease term. Amortization expense for ROU assets is included in the statement of income under depreciation and amortization expense.

Construction-in-progress - Construction-in-progress represents assets acquired and not yet placed into service. In the event applicable interest costs associated with the construction of new facilities are material, the Organization will capitalize the respective interest.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Long-lived assets - The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any assets may not be recoverable. No such impairments have been identified to date.

Collections - The Organization holds collections of art objects held for educational and artistic purposes. Each item is cataloged, preserved, cared for, and activities assessing their condition are performed periodically. Purchases of art are recorded in the year acquired as non-operating decreases in net assets without donor restrictions. If any collections are sold, the proceeds from the sale will be used to acquire other items for collections. Certain items are on loan from individuals and other entities for use by the Organization in its permanent collection or for special exhibition. The Organization does not recognize collections in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958.

Deferred revenue - Deferred revenue represents funds received for services scheduled to take place in future periods. The Organization will recognize these revenues when the service occurs, and revenue has been earned. The Organization’s deferred revenue predominantly represents box office and rentals.

Leases - The Organization leases certain equipment for operations under operating and financing leases. The determination of whether an arrangement is a lease is made at the lease’s inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract have changed. The operating lease is included as operating lease right-of-use (“ROU”) asset and operating lease liabilities in the statements of financial position. Finance leases are included as financing lease ROU assets and finance lease liabilities in the statements of financial position.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Operating and financing lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise the option.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Contribution revenue - The Organization recognizes contributions received including unconditional pledges as revenue at their fair value in the period the contribution or pledge is received. Contributed support that is restricted by the donor is reported as an increase in net assets with donor restrictions and released from restrictions if the restriction expires in the reporting period in which the support is recognized. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and the reported amounts released from restriction. All other contributed support is recognized as revenue without restrictions when received or unconditionally promised.

In-kind contributions - Significant donated non-financial assets are recorded based on estimates of fair market value that would be received within their respective principal markets, considering the condition and utility for use at the time they are contributed by the donor. Donated non-financial assets, unless otherwise restricted by donor, may be monetized for the purposes of furthering the Organization's mission. Donations of financial assets are recorded at fair market value on the date of receipt. Contributed services, which require a specialized skill and which the Organization would have paid for if not contributed, is recorded at their estimated fair market value. In addition, a substantial number of volunteers have contributed significant amounts of time to the Organization's fundraising and other activities. The value of contributed volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not require specialized skills.

Revenue from exchange transactions - In accordance with ASC 606 the Organization recognizes revenue upon the transfer of goods or services to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. The principles in ASC 606 are applied using the following five steps: (i) identify the contract with the customer; (ii) identify the performance obligation(s) in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation(s) in the contract; and (v) recognize revenue when (or as) the Organization satisfies its performance obligation(s). The Organization recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects consideration. The Organization records the following exchange transaction revenues in its statements of activities and changes in net assets for the years ended September 30, 2024 and September 30, 2023.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Revenue from exchange transactions (continued) - *Exchange revenue: Facility rentals* - The Organization rents its facilities for wedding ceremonies, dinners, anniversaries, and other events. The Organization establishes the transaction price in the rental agreement. As each venue is individually priced, no allocation of the transaction price is necessary. No right of return exists for the rental agreements. Facility rental deposits are collected by the Organization in advance and are initially recognized as deferred revenue and subsequently recognized as revenue on the statements of activities and changes in net assets after the use of the facilities have been provided.

The Organization entered into a lease with Santa Clara County beginning August 1997 for a term of fifty years, in which the Organization leases approximately 170 acres to Santa Clara County to use for their county parks system. The lease was amended August 15, 2022. In accordance with the amended lease agreement annual rent due to the Organization from Santa Clara County in advance of \$160,000 to be adjusted each year by a percentage equal to the percentage change in the Consumer Price Index ("CPI") statistics published by the United States Bureau of Labor, using the index for all Urban Consumers San Francisco-Oakland-San-Jose metropolitan area. The Organization recognizes revenue on a monthly basis. Rental income recognized for the lease totaled approximately \$165,000 and \$161,000 for the years ended September 30, 2024 and 2023, respectively.

Exchange revenue: Art Programs - The Organization holds various workshops and education programs throughout the year. Fees for these programs include educational content, supplies, staffing, and facility costs. These items are not separately priced and are therefore considered to be one performance obligation and are recognized in the period in which the conditions are met, or the service is provided. Fees collected in advance are initially recognized as deferred revenue and are only recognized in the statements of activities and changes in net assets after delivery of the program has occurred.

Exchange revenue: Concessions and merchandise - The Organization operates a small, in person gift shop, which sells handmade items on a retail basis to customers. The performance obligation is the delivery of the good to the customer. The transaction price is established by the Organization. As each item is individually priced, no allocation of the transaction price is necessary. The Organization recognizes revenue as the customer pays and takes possession of the merchandise. Liabilities for customer returns were considered immaterial as of September 30, 2024.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Revenue from exchange transactions (continued) - *Exchange revenue: Special events* - The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The performance obligation is delivery of the event. The event fee is set by the Organization. The Organization establishes the transaction price, often at a discount, based on quoted prices in active markets, with a discount, for identical events. FASB ASC 606 requires allocation of the transaction price to the performance obligation(s). Accordingly, the Organization separately presents the exchange and contribution components of the gross proceeds from special events. For special event fees received before year-end for an event to occur after year-end, the Organization follows American Institute of Certified Public Accountants (“AICPA”) guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component. Special event fees collected by the Organization in an advance period of its delivery are initially recognized as deferred revenue and recognized as special event revenue after delivery of the event.

Functional expense allocations - The cost of providing various program and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Certain costs are allocated between programmatic and support services based on headcount, square footage, or other factors. Salaries and fringe benefits are allocated on a percentage basis between functional categories based on job description or time estimates. Head count and square footage percentages are also used to allocate certain indirect costs, including but not limited to utilities, maintenance, insurance, office supplies, and depreciation.

Concentration of credit risk - Financial instruments that potentially subject the Organization to credit risk consist primarily of uninsured cash and cash equivalents, investments, and accounts receivable. The Organization maintains cash and cash equivalents with commercial banks and other major financial institutions.

Cash equivalents include overnight investments, and money market funds. These accounts are insured up to \$250,000 per depositor by an agency of the federal government. At times, such amounts may exceed Federal Deposit Insurance Corporation (“FDIC”) limits. The Organization’s investments have been placed with high quality financial institutions. The Organization monitors these investments and has not experienced significant credit losses.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Contribution revenue and receivable concentrations - The Organization received significant contributions from one donor. These contributions are restricted for a specific capital project and are not being utilized for general operating expenditures. Contribution revenue concentrations for the years ended September 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Donor A	45%	33%

Receivable concentrations for the years ended September 30, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
Donor A	28%	41%
Donor B	14%	16%
Donor C	16%	11%
Donor D	14%	Less than 10%

Advertising - Advertising costs are expensed as incurred. Advertising and marketing expense for the years ended September 30, 2024 and 2023, were approximately \$92,000 and \$93,000, respectively.

Endowment accounting and interpretation of relevant law - Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”), the provisions of which apply to its endowment funds. As required by UPMIFA and 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.

Tax-exempt status - The Organization has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d). The Organization’s support and revenues are primarily from contributions and investment returns. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 2 - Summary of significant accounting policies (continued):

Accounting for uncertainty in income taxes - The Organization evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of September 30, 2024 and 2023, management did not identify any uncertain tax positions.

Sales taxes - The State of California imposes sales tax on all of the Organization's concession sales. The Organization collects sales tax from customers and remits the entire amount to the State, The Organization's accounting policy is to exclude the tax collected and remitted to the State from revenues and concession costs.

Recently adopted accounting guidance - In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13 "Measurement of Credit Losses on Financial Instruments" to improve financial reporting related to anticipated credit losses. ASU 2016-13 involves several aspects of the accounting for credit losses related to certain financial instruments including assets measured at amortized cost, trade and other receivables, loans, and certain off-balance sheet commitments. ASU 2016-16, and subsequent updates, broadens the information that an entity must consider in developing its estimated credit losses expected to occur over the remaining life of assets measured either collectively or individually to include historical experience, current conditions and reasonable and supportable forecasts, replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses model. The Organization elected to adopt this ASU effective October 1, 2023. The change in methodology did not have an impact to the financial statements, therefore no cumulative adjustment was recorded.

Subsequent events - Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued and it has been determined that no material subsequent events require an estimate to be recorded as of September 30, 2024.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 3 - Liquidity and availability of financial assets:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position as of September 30, are as follows:

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 3,448,089	\$ 3,447,049
Accounts receivable	82,950	92,730
Pledges receivable	566,711	802,203
Grants receivable	50,000	-
Investments	<u>37,097,665</u>	<u>32,568,486</u>
Total financial assets	41,245,415	36,910,468
Less: amounts unavailable for general expenditures within one year, due to:		
Board designations for future growth	(352,500)	(512,500)
Donor restrictions for when a specified event occurs	(1,555,263)	(1,828,089)
Donor restrictions for purpose	(5,582,151)	(4,859,395)
Donor restrictions for time	(367,500)	(607,500)
Donor restrictions to maintain as an endowment	<u>(23,223,057)</u>	<u>(23,176,395)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 10,164,944</u>	<u>\$ 5,926,589</u>

The Organization is substantially supported by contributions. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations as they become due. Amounts not available for general operating use due to Board designations could be drawn upon with Board approval if needed.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 4 - Pledges receivable:

Pledges receivable at September 30, 2024, are expected to be received as follows:

Year Ending September 30,		
2025	\$	312,990
2026		100,000
2027		85,000
2028		35,000
2029		15,000
Thereafter		<u>30,000</u>
Total pledges receivable		577,990
Less: current pledges receivable		(312,990)
Less: discount		<u>(11,279)</u>
Non-current pledges receivable, net	\$	<u><u>253,721</u></u>

Note 5 - Investments:

The Organization follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB ASC. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 5 - Investments (continued):

The following are major categories of investments measured at fair value on a recurring basis:

- Level 1: Quoted prices in active markets for identical assets
- Level 2: Significant other observable inputs
- Level 3: Significant unobservable inputs

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no securities classified as level 2 or 3.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. Management evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the years ended September 30, 2024 and September 30, 2023, there were no significant transfers in or out of levels, 1, 2, or 3.

The following are descriptions of the valuation methodologies used for assets measured at fair value:

- **Marketable securities:** This category includes money market funds, mutual funds, fixed income exchange traded funds. All marketable securities are carried at quoted market prices as of the last trading date of the Organization's fiscal year (Level 1 inputs).
- **Equity securities:** All equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year (Level 1 inputs).
- **Domestic bond funds:** All domestic bond funds are classified as Level 1 in the fair value hierarchy. These investments are measured at fair value using quoted prices in active markets for identical assets, providing the most reliable and observable inputs for valuation.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 5 - Investments (continued):

- Real estate funds: This category includes several real estate funds that invest primarily in commercial real estate. The fair values of the investments in this category have been estimated using the net asset value of the Foundation's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years.
- Private equities: This category includes global investments in private companies, diversified across strategies/industrial sectors. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated the underlying assets of the fund would be liquidated over 7 to 10 years. The fair values of the private equities have been estimated using the NAV practical expedient.

The methods described above may produce a calculation of value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies of assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level with fair value hierarchy as of September 30, 2024 and 2023:

	Year Ended September 30, 2024		
	Level 1	NAV ^(a)	Total
Investment cash and			
cash equivalents	\$ 6,436,704	\$ -	\$ 6,436,704
Exchange traded funds	5,640,791	-	5,640,791
Domestic bond funds	8,032,294	-	8,032,294
Equity funds	13,034,526	-	13,034,526
Real estate funds	-	2,445,765	2,445,765
Private equity funds	-	1,507,585	1,507,585
	<u>\$ 33,144,315</u>	<u>\$ 3,953,350</u>	<u>\$ 37,097,665</u>

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 5 - Investments (continued):

	Year Ended September 30, 2023		
	Level 1	NAV ^(a)	Total
Investment cash and cash equivalents	\$ 6,706,152	\$ -	\$ 6,706,152
Exchange traded funds	5,859,052	-	5,859,052
Domestic bond funds	7,367,541	-	7,367,541
Equity funds	8,817,177	-	8,817,177
Real estate funds	-	2,343,682	2,343,682
Private equity funds	-	1,474,882	1,474,882
	<u>\$ 28,749,922</u>	<u>\$ 3,818,564</u>	<u>\$ 32,568,486</u>

(a) The fair value amounts presented in these tables are intended to permit reconciliations of the fair value hierarchy to the line items presented in the statements of financial position.

The following tables present information related to investments measured at fair value on a recurring basis using Net Asset Value (“NAV”) as the practical expedient by major category for the years ended:

	September 30, 2024			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate fund ^(a)	\$ 2,445,765	\$ -	N/A	N/A
Private equity fund ^(b)	<u>1,507,585</u>	<u>-</u>	N/A	N/A
	<u>\$ 3,953,350</u>	<u>\$ -</u>		

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 5 - Investments (continued):

	September 30, 2023			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Real estate fund ^(a)	\$ 2,343,682	\$ -	N/A	N/A
Private equity fund ^(b)	1,474,882	-	N/A	N/A
	<u>\$ 3,818,564</u>	<u>\$ -</u>		

(a) This category includes a real estate equity fund that focuses on acquiring, developing, improving, and disposing of real estate related equity or debt investments. In particular, the fund seeks to achieve its objective by investing through different parts of the capital structure, including but not limited to real estate fee, joint venture, preferred equity, mezzanine loans, and subordinate debt. Subject to limited exceptions, a limited partner may not sell, assign, or transfer any interest in the fund without the prior written consent of the general partner, which may be given or withheld in the general partner's sole and absolute discretion. Further, a limited partner may not withdraw any amount from the fund. The fund's financial statements are audited annually as of December 31 of each year. The fair values of these investments have been estimated using capital statements as of September 30, 2024.

(b) This category includes a private equity fund that generally seeks attractive long-term capital appreciation by investing in a diversified private equity portfolio. This investment is not redeemable. Instead, the nature of the investments in this category are distributions that are received through the liquidation of the underlying assets in the fund. The fund's financial statements are audited annually as of March 31 of each year. The fair values of these investments have been estimated using capital statements as of September 30, 2024.

The following schedule summarizes total net realized and unrealized gains and losses on investments for the years ended September 30:

	<u>2024</u>	<u>2023</u>
Realized gains (losses)	\$ 428,932	\$ (40,021)
Unrealized gains	3,261,962	2,534,676
Dividends and interest	1,628,057	828,639
Management fees and trust expenses	<u>(139,506)</u>	<u>(130,797)</u>
Total investment income, net	<u>\$ 5,179,445</u>	<u>\$ 3,192,497</u>

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 6 - Property and equipment:

Property and equipment consisted of the following as of September 30:

	<u>2024</u>	<u>2023</u>
Equipment	\$ 494,283	\$ 463,724
Furniture and fixtures	675,460	589,850
Building	17,473,603	17,473,603
Land improvements	<u>3,022,232</u>	<u>3,022,232</u>
Total property and equipment	21,665,578	21,549,409
Less: accumulated depreciation	(15,833,382)	(15,067,239)
Land	53,000	53,000
Construction in progress	<u>420,395</u>	<u>190,874</u>
Property and equipment, net	<u>\$ 6,305,591</u>	<u>\$ 6,726,044</u>

Depreciation expense on property and equipment for the years ended September 30, 2024 and 2023 were approximately \$766,000 and \$769,000, respectively.

Note 7 - Line of credit:

The Organization had a line of credit agreement, which expired June 30, 2023. A new line of credit agreement was entered into with similar terms on September 05, 2023. Under the terms of the new agreement, the Organization can borrow up to \$800,000, borrowings are secured by substantially all assets of the Organization and bears interest at the bank's prime rate plus 0.25% (8.25% at September 30, 2024). During the year ended September 30, 2024 and 2023, the Organization had not drawn on the balance and has no outstanding balance at year end.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 8 - Deferred revenue:

The activity and balances for deferred revenue from contracts with customers are shown in the following table for the year ended September 30, 2024:

	Beginning Balance	Payments Received For Future Obligations	Revenue Recognized	Ending Balance
Rental	\$ 884,650	\$ 1,266,075	\$ (1,487,925)	\$ 662,800
Box office	290,646	326,408	(290,646)	326,408
Parks	144,060	169,920	(165,300)	148,680
Special events	99,250	108,350	(99,250)	108,350
Education	4,850	-	-	4,850
Total deferred revenue	<u>\$ 1,423,456</u>	<u>\$ 1,870,753</u>	<u>\$ (2,043,121)</u>	<u>\$ 1,251,088</u>

The activity and balances for deferred revenue from contracts with customers are shown in the following table for the year ended September 30, 2023:

	Beginning Balance	Payments Received For Future Obligations	Revenue Recognized	Ending Balance
Rental	\$ 959,700	\$ 752,500	\$ (827,550)	\$ 884,650
Box office	206,983	290,646	(206,983)	290,646
Parks	-	304,640	(160,580)	144,060
Special events	51,168	219,825	(171,743)	99,250
Education	4,850	-	-	4,850
Total deferred revenue	<u>\$ 1,222,701</u>	<u>\$ 1,567,611</u>	<u>\$ (1,366,856)</u>	<u>\$ 1,423,456</u>

Note 9 - Operating lease arrangement:

The Organization is obligated under one non-cancelable operating lease at year-end with remaining terms through 2025. Management has not determined if additional renewal periods are reasonably certain to be exercised.

During the year ended September 30, 2024, the Organization recognized operating lease expense of approximately \$3,000, which is allocated according to its functional basis of allocation on the statements of functional expenses. At September 30, 2024, the weighted-average remaining lease term for the operating lease was less than one year. At September 30, 2024, the weighted-average discount rate associated with the operating lease was 4.25%.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 9 - Operating lease arrangement (continued):

The future payments due under the operating lease as of September 30, 2024 were as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 2,228
Total operating lease payments	2,228
Less: present value discount	(31)
Present value of operating lease liabilities	2,197
Less: current portion operating lease	(2,197)
Long-term portion operating lease	\$ <u><u>-</u></u>

Note 10 - Financing lease arrangement:

The Organization is obligated under two financing leases at year-end with remaining terms through 2026. However, management has not determined if additional renewal periods are reasonably certain to be exercised. At September 30, 2024, the weighted-average remaining lease term for the financing leases was less than one year. At September 30, 2024, the weighted-average discount rate associated with the financing leases was 4.25%.

The future payments due under the financing leases as of September 30, 2024 were as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 7,269
2026	805
Total financing lease payments	8,074
Less: present value discount	(149)
Present value of financing lease liabilities	7,925
Less: current portion financing leases	(7,122)
Long-term portion financing leases	\$ <u><u>803</u></u>

Note 11 - Board designations of net assets without donor restrictions:

For the years ended September 30, 2024 and 2023, the Organization's Board of Directors designated \$352,500 and \$512,500, respectively to support program growth and public rating agencies.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 12 - Net assets with donor restrictions:

Net assets with donor restrictions were available for the following purposes at September 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Subject to expenditure for a specific purpose:		
Support for LAP	\$ 2,747,137	\$ 2,976,713
Support for capital projects	2,555,140	1,685,691
Support for education	189,602	99,927
Support for art acquisition	84,897	89,615
Support for other purposes	<u>5,375</u>	<u>7,449</u>
Total purpose restrictions	5,582,151	4,859,395
Subject to appropriation and expenditure when a specified event occurs:		
Institutional giving	1,555,263	1,828,089
Subject to passage of time:		
Time restricted contributions	367,500	607,500
Endowment:		
Perpetual in nature	23,223,057	23,176,395
Earnings subject to endowment spending policy and appropriation	<u>5,487,842</u>	<u>1,663,267</u>
Total net assets with donor restrictions	<u>\$ 36,215,813</u>	<u>\$ 32,134,646</u>

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 13 - Net assets released from donor restrictions:

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes for the years ending September 30, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
Time restricted contributions	\$ 242,500	\$ 624,500
Support for other LAP	416,293	176,902
Support for capital projects	253,396	362,989
Support for education	20,175	25,086
Support for art acquisitions	4,718	254,000
Support for other purposes	8,074	3,175
Support for events	311,576	412,545
Appropriation of endowment earnings	<u>900,000</u>	<u>549,999</u>
Total net assets released from restrictions	<u>\$ 2,156,732</u>	<u>\$ 2,409,196</u>

Note 14 - Endowment:

The Organization's endowment consists of several individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by U.S. 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 Organization has interpreted the 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. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 14 - Endowment (continued):

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization.

The Endowment fund contains restricted net assets held in perpetuity, which represent funds received from resources in which the principal must be maintained intact in perpetuity. Interest income, dividends, and net realized and unrealized gains on the invested principal can be used in accordance with the endowment trust documents or donor restrictions. Certain costs of raising contributions and of maintaining the trust assets are to be paid out of cumulative gains on investment earnings, which are included in net assets with restrictions. If these costs exceed cumulative gains, they are absorbed by certain contributions to the restricted net assets held in perpetuity on a pro rata basis.

Endowment net assets and changes in endowment net assets consisted of the following at September 30, 2024:

	Endowment Accumulated Earnings - <u>Unappropriated</u>	Perpetual In Nature	<u>Total</u>
Endowment net assets as of September 30, 2023	\$ <u>1,663,267</u>	\$ <u>23,176,395</u>	\$ <u>24,839,662</u>
Investment return:			
Interest and dividend income, net	1,089,589	-	1,089,589
Realized and unrealized gains, net	<u>3,634,986</u>	-	<u>3,634,986</u>
Total investment return, net	<u>4,724,575</u>	-	<u>4,724,575</u>
Contributions	<u>-</u>	<u>46,662</u>	<u>46,662</u>
Appropriation of endowment	<u>(900,000)</u>	-	<u>(900,000)</u>
Endowment net assets as of September 30, 2024	\$ <u><u>5,487,842</u></u>	\$ <u><u>23,223,057</u></u>	\$ <u><u>28,710,899</u></u>

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Notes to Financial Statements

September 30, 2024

Note 14 - Endowment (continued):

Endowment net asset and changes in endowment net assets consisted of the following at September 30, 2023

	Endowment Accumulated Earnings - Unappropriated	Perpetual In Nature	Total
Endowment net assets (deficit) as of September 30, 2022	\$ (744,125)	\$ 23,028,616	\$ 22,284,491
Investment return:			
Interest and dividend income, net	626,726	-	626,726
Realized and unrealized gains, net	2,330,665	-	2,330,665
Total investment loss, net	2,957,391	-	2,957,391
Contributions	-	147,779	147,779
Appropriation of endowment	(549,999)	-	(549,999)
Endowment net assets as of September 30, 2023	\$ 1,663,267	\$ 23,176,395	\$ 24,839,662

Endowment position - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies reported in net assets with donor restrictions as of September 30, 2024 and 2023, respectively.

Although the Organization has a policy that permits spending from deficient endowment funds, unless otherwise precluded by donor intent or relevant laws and regulations, appropriations made during the previous year had occurred prior to a downturn in the market that resulted in the unfavorable valuation of certain endowment funds as of September 30, 2022. There were approximately \$205,000 in appropriations from deficient endowment funds for the fiscal year ended September 30, 2023. There were no appropriations from deficient endowment funds for the fiscal year ended September 30, 2024.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 14 - Endowment (continued):

Return objectives and risk parameters - The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Organization's Board of Directors, the endowment assets are invested in a manner that is intended to provide a moderate average annual real return in excess of inflation. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policies and how the investment objectives relate to spending policy - The Organization has an investment portfolio that is managed based on the Organization's investment policy, which attempts to maximize return while maintaining an appropriate level of risk. Exposure is limited by prudent diversification, guided by a strategic asset allocation model. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow each fiscal year. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Organization's Finance Committee may authorize disbursement each year, for general budgetary purposes of the Organization, 4% to 6% of the twelve-quarter rolling average asset value for the three-year period prior to December 31 of that fiscal year based on the Finance Committee's annual determination.

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 15 - Special events:

Special event revenues, contributions, and expenses by event for the years ended September 30 are as follows:

	2024			
	<u>Gala Event</u>	<u>Food and Wine</u>	<u>Other/MSG</u>	<u>Total</u>
Special event income				
Tickets	\$ -	\$ 38,300	\$ 62,010	\$ 100,310
Contributions	-	510,206	10,102	520,308
Fees (auction, merchandise)	<u>37,500</u>	<u>86,449</u>	<u>48,976</u>	<u>172,925</u>
Total special event income	37,500	634,955	121,088	793,543
Less: direct donor benefit expense	<u>5,754</u>	<u>(39,074)</u>	<u>(50,302)</u>	<u>(83,622)</u>
Special events, net	<u>\$ 43,254</u>	<u>\$ 595,881</u>	<u>\$ 70,786</u>	<u>\$ 709,921</u>
	2023			
	<u>Gala Event</u>	<u>Food and Wine</u>	<u>Other/MSG</u>	<u>Total</u>
Special event income				
Tickets	\$ 99,125	\$ 72,900	\$ 54,990	\$ 227,015
Contributions	193,125	269,900	10,079	473,104
Fees (auction, merchandise)	<u>85,630</u>	<u>110,497</u>	<u>38,126</u>	<u>234,253</u>
Total special event income	377,880	453,297	103,195	934,372
Less: direct donor benefit expense	<u>(154,324)</u>	<u>(25,399)</u>	<u>(37,622)</u>	<u>(217,345)</u>
Special events, net	<u>\$ 223,556</u>	<u>\$ 427,898</u>	<u>\$ 65,573</u>	<u>\$ 717,027</u>

MONTALVO ASSOCIATION

Notes to Financial Statements

September 30, 2024

Note 16 - In-kind contributions:

In-kind contributions consisted of the following for the years ended September 30, 2024 and 2023:

	2024	2023	Utilization In Program / Activities	Donor Restrictions	Valuation Technique And Inputs
Advertising	\$ 39,162	\$ 27,394	General and administrative	No associated donor restrictions	Estimated fair market value
Supplies	11,526	-	General and administrative	No associated donor restrictions	Estimated fair market value
Other	-	7,723	General and administrative	No associated donor restrictions	Estimated fair market value
Total	50,688	35,117			
Special events	163,130	107,770			
Total in-kind contributions	\$ <u>213,818</u>	\$ <u>142,887</u>			

Note 17 - Related-party transactions:

The Organization's volunteer members of the Board of Directors are active in oversight of fundraising events, activities, and in making private contributions. Contributions received from the Board of Directors were approximately \$2,245,000 and \$1,926,000, for the years ended September 30, 2024 and 2023, respectively. This included a \$1,375,000 donation from a Trustee Emeritus. Outstanding pledge receivables from the Board of Directors were approximately \$418,000 and \$568,000 as of September 30, 2024 and 2023, respectively.

Note 18 - Employee benefits:

The Organization participates in a defined contribution plan (the "Plan") under Section 401(k) of the Internal Revenue Code. Participation is available to all eligible employees who are 18 years or above and have completed three months of service. In accordance with the Plan agreement, the Organization can make discretionary matching contributions. The Organization's contributions under the Plan, which were included within staff compensation on the statements of functional expenses, was approximately \$46,000 for the years ended September 30, 2024 and 2023, respectively.