Ling&Bouman, LLP
certified public accountants

VILLA MUSICA

Financial Statements and Independent Auditor's Report

for the Year Ended June 30, 2025

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VILLA MUSICA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Villa Musica | San Diego's Community Music Center

Opinion

We have audited the accompanying financial statements of Villa Musica (a nonprofit organization), which comprise the statement of financial position as of June 30, 2025, and the related statement of activities, statement of 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 Villa Musica as of June 30, 2025, 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Villa Musica 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 Villa Musica's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Villa Musica'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 Villa Musica'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.

Ling & Bowman, LLP

San Diego, California
December 1, 2025

VILLA MUSICA
STATEMENT OF FINANCIAL POSITION
June 30, 2025

	2025
ASSETS	
Current assets:	
Cash & Cash Equivalents	$ 593,532
Accounts receivable	17,063
Grants receivable (Note 5)	10,000
Pledges receivable (Note 4)	20,000
Related party receivable	432
Inventory	3,158
Total current assets	644,185
Property and equipment - net (Note 6)	113,012
Right of Use Asset	417,608
Other Assets	49,772
Deposits	9,726
Total assets	$ 1,234,303
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	$ 8,587
Accrued expenses	68,876
Lease liability - short term	65,023
Total current liabilities	142,486
Lease Liability - Long Term Portion	353,048
Total liabilities	495,534
Net assets:	
Without donor restrictions	512,868
With donor restrictions (Note 9)	225,901
Total net assets	738,769
Total liabilities and net assets	$ 1,234,303

See accompanying notes to financial statements

VILLA MUSICA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Program revenue	$ 1,167,726	$ -	$ 1,167,726
Contributions	177,304	130,920	308,224
Government grants and assistance	126,899	-	126,899
Special events (Net of Expenses)	(8,867)	-	(8,867)
In-kind contributed services	178,443	-	178,443
Retail sales (Net of Expenses)	22,865	-	22,865
Interest and dividends, net	18,163	-	18,163
Unrealized gain and loss on investments, net	403	-	403
Other income(expense)	(440)	-	(440)
Total	1,682,496	130,920	1,813,416
Net Assets Released From Restrictions	239,843	(239,843)	-
Total Revenue and Support	1,922,339	(108,923)	1,813,416
Expenses			
Program services	1,414,283	-	1,414,283
Supporting services:			
Management and General	372,975	-	372,975
Fundraising	136,489	-	136,489
Total expenses	1,923,747	-	1,923,747
Changes in Net Assets	(1,408)	(108,923)	(110,331)
Net Assets at Beginning of Year	514,276	334,824	849,100
NET ASSETS AT END OF YEAR	$ 512,868	$ 225,901	$ 738,769

VILLA MUSICA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2025

	Program Services	Supporting Services: Management & General	Supporting Services: Fundraising	Total
Salaries and Related Expenses				
Salaries and wages	$ 970,693	$ 196,500	$ 66,610	$ 1,233,803
Payroll taxes	77,483	23,810	3,540	104,833
Employee benefits	19,655	21,169	1,427	42,251
Total Salaries and Related Expenses	1,067,831	241,479	71,577	1,380,887
Other Expenses				
Professional fees	43,948	17,574	64,000	125,522
Occupancy	104,962	18,523	-	123,485
In-kind professional services	82,328	73,318	-	155,646
Office expenses	35,170	14,656	636	50,462
Instruments and program materials	37,328	-	-	37,328
Depreciation	18,705	-	-	18,705
Advertising and promotion	5,940	1,086	27	7,053
Insurance	9,891	1,980	-	11,871
Conferences and meetings	499	2,631	249	3,379
Instructional services	4,200	-	-	4,200
Travel	3,243	23	-	3,266
Information technology	238	1,705	-	1,943
Total Other Expenses	346,452	131,496	64,912	542,860
Total Program and Supporting Services Expenses	$ 1,414,283	$ 372,975	$ 136,489	$ 1,923,747

VILLA MUSICA
Statement of Cash Flows
For the Year Ended June 30, 2025

OPERATING ACTIVITIES:	
Change in net assets	$ (110,331)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	18,705
Loss on Sale	440
Deferred Rent Expense	(5,338)
Decrease (increase) in operating assets:	
Accounts receivable	8,342
Grants receivable	(4,947)
Pledges receivable	(19,900)
Related party receivable	(432)
Deposits	(3,699)
Inventory	574
Decrease in operating liabilities:	
Accounts payable	397
Accrued expenses	23,814
Net Cash Used In Operating Activities	(92,375)
INVESTING ACTIVITIES:	
Proceeds from sale of assets	5,060
Purchase of property and equipment	(23,950)
Net Cash Used In Investing Activities	$ (18,890)
Net Decrease in Cash	(111,265)
Cash Beginning of Year	704,797
Cash End of Year	$ 593,532
SUPPLEMENTAL DISCLOSURES:	
Cash paid during the nine months for:	
Interest	$ -
Income taxes	$ -

See accompanying notes to financial statements

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

Villa Musica (the "Organization") is a California nonprofit organization incorporated in the State of California on November 15, 2005. The Organization's mission is to make music accessible through education, performance, and community engagement. The Organization carries out its purpose by providing music instruction and by providing the students with musical instruments through its community partnership programs.

Financial Statement Presentation and Basis of Accounting

The financial statements are prepared in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide for Not for Profit Organizations. Financial statement preparation follows the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 *Financial Statements of Not-for-Profit Organizations.* Under ASC 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The accompanying financial statements have been prepared on the accrual basis in conformity with generally accepted accounting principles. Accordingly, the financial statements reflect all significant receivables, payables, and other liabilities.

Date of Management's Review

Subsequent events were evaluated through December 1, 2025, which is the date the financial statements were available to be issued.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing services and interest earned. Non-operating activities are limited to resources that generate return from other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments as of June 30, 2025.

Right of Use Asset and Lease Liability

The Company's right of use ("ROU") asset and lease liability are related to a single lease on the company's main building. As a non-public entity the Company has elected to use the risk-free rate in lieu of determining an incremental borrowing rate when determining the present value of the lease payments for the purposes of calculating the ROU asset and lease liability.

Accounts Receivable

The accounts receivable arise in the normal course of business. It is the policy of management to review the outstanding accounts receivable at period end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. The opening balance of accounts receivable was $25,405 as of June 30, 2024.

Bad debts are recognized on the allowance method based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. No allowance was considered necessary as of June 30, 2025, respectively.

Unconditional Promises to Give

Unconditional promises to give consist of written pledges and grants to the Organization in the future are recorded as pledges or grants receivable and revenue in the year promised at the present value of expected cash flows. Unconditional promises to give extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. In addition, pledges are recorded net of an allowance. The allowance for uncollectible pledges is determined by management. There were no multi-year pledges or allowances for uncollectible pledges for the years ended June 30, 2025.

Inventory

Inventory is valued at the lower of cost or net realizable value.

Property and Equipment

The Organization capitalizes expenditures for property and equipment at cost. Donations of property and equipment are recorded at their estimated fair values. Such donations are reported as without donor restriction unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as with donor restriction. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restriction to net assets without donor restriction at that time.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to fifteen years. Maintenance, repairs, and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credited or charged to earnings.

Revenue Recognition

Revenue from Contracts with Customers

The Organization adopted FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606) effective July 1, 2020. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

The Organization generally measures revenue based on the amount of consideration the Organization expects to be entitled for the transfer of goods to a customer, then recognizes this revenue when the Organization satisfies its performance obligations. The Organization evaluates its revenue contracts with customers based on the five-step model under Topic 606: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognize revenue when (or as) each performance obligation is satisfied.

Tuition

The Organization records tuition as program service revenue in the period in which it is earned.

Contributions and Support

Contributed revenue is reported as increases in net assets without donor restriction unless the use of the related asset is limited by donor-imposed restrictions. Expirations of restrictions on net assets due to either the Organization fulfilling donor-imposed restrictions or the passage of time, are reported as net assets released from restrictions.

Contributed revenue may include gifts of cash or promises to give. Contributions, grants and government support, including unconditional promises to give, are recognized as revenues in the period received and recorded in the appropriate net asset category in accordance with donor-imposed restrictions. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions are substantially met. When considered material, contributions and grants to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Multi-year commitments are recorded during the year of the initial promise.

In accordance with Topic 958, Revenue Recognition, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

Donated Services

Volunteer Services

The Organization utilizes the services of volunteers throughout the year. For donated services to be reported in financial statements, such services (i) must require specialized skills, (ii) must be provided by individuals possessing those skills, and (iii) would typically need to be purchased if not provided by donation. Any services donated to the Organization would be recorded at their estimated fair values at the dates of donation and would be subsequently reported as unrestricted support in the statements of activities. The donated services provided by volunteers for the year ended June 30, 2025 did not meet the requirements above; therefore, no amounts were recognized in the financial statements.

Donated Professional Services

For the year ended June 30, 2025, the Organization received pro bono legal services of $155,646, which is reported as revenue in the statement of activities and expense in the statement of functional expenses.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Costs are directly applied to the related program or supporting service function when identifiable and possible. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes which are allocated based on estimates of time and effort, as well as occupancy, which is allocated on a square-footage basis.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. The Organization did not have any unrelated business income for the year ended June 30, 2025.

The Organization follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Organization believes that it has taken no significant uncertain tax positions for the year ended

June 30, 2025. Management believes the Organization is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to June 30, 2021.

Advertising

The Organization expenses the cost of advertising as incurred. Advertising expense for the year ended June 30, 2025 was $7,053.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") codifies the various sources of GAAP into the Accounting Standards Codification ("ASC"). Any updates to the ASC are communicated through Accounting Standards Updates ("ASU"). In 2024, 2025 and up to the date of the independent auditor's report, the FASB has issued various ASUs for which the majority are not pertinent to the operations of the Company. Those ASUs that are pertinent have been adopted or will be adopted in future years in accordance with the update provisions and are not expected to have any impact on the financial condition, results of operations or cash flows of the Company.

Note 2 – Availability and Liquidity

The following represents the Organization's financial assets as of June 30, 2025:

Financial assets at year-end:	
Cash	$ 593,532
Accounts receivable	17,063
Pledges receivable	20,000
Grants receivable	10,000
Related party receivable	432
Total financial assets	$641,027
Less amounts not available to be used within one year:	
Restricted by donor with purpose restrictions	$225,901

Financial assets available to meet general expenditures within one year before board designations:	415,126
Less Board designated reserves for operations	275,131
Financial assets available to meet cash needs for general expenditures within one year	$ 139,995

The Organization frequently monitors liquidity and has a goal to establish and maintain financial assets, which consist of cash and cash equivalents, of at least 90 days of normal operating expenses, which were, on average approximately $155,000 a month for the year ended June 30, 2025. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To ensure this target is met, the Organization reports its financial position on a monthly basis to its governing board and communicates reported and projected revenue or expenditure variances at the same frequency. The Organization maintains no non-liquid financial assets. A balanced budget is approved by the Organization's Board on an annual basis. The Organization focuses on attracting diverse earned revenue streams (tuition, studio rental, fee-for-service contracts with outside organizations) and seeks contributed revenue that supports programmatic and administrative functions.

Occasionally, the board designates a portion of any operating surplus to its operating reserves, which totaled $275,131 as of June 30, 2025. The sub-total "Financial assets available to meet cash needs for general expenditures within one year before board designations" represents another liquidity total, as board-designated reserves can be reversed and made available for immediate use in the event of an urgent liquidity need.

Note 3 – Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash. The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor. As of June 30, 2025, the Organization had deposits of approximately $108,000 in excess of the FDIC limit.

Note 4 – Pledges Receivable

Pledges receivable consisted of $20,000 and $100 as of June 30, 2025 and 2024.

Note 5 – Grants Receivable

Grants receivable consist of the following as of June 30, 2025:

Grants and contracts receivable	
The Prebys Foundation	$ 10,000
Total grants receivable	$ 10,000

The balance of grants receivable was $5,053 as of June 30, 2024.

Note 6 – Property and Equipment

Property and equipment consist of the following as of June 30, 2025:

Computers and office equipment	$ 22,222
Furniture and fixtures	7,940
Musical instruments	170,670
Leasehold improvements	66,658
Vehicles	38,721
	306,211
Less accumulated depreciation	(193,199)
Total property and equipment, net	$ 113,012

Depreciation expense for the year ended June 30, 2025 was $18,705.

Note 7 – Student Financial Assistance

Scholarships of $56,077, representing the value of reductions in tuition costs, were given as financial assistance to students attending the Organization for the year ended June 30, 2025 and is included in program revenue in the statement of activities.

Note 8 – Operating Leases

The Company leases office space under a five year operating lease agreement expiring July 31, 2025 that was extended an additional 5 years through 2030. Base monthly rental payments were $6,774 as of June 30, 2025. Rent expense under this operating lease totaled $75,733 for the year ended June

30, 2025. Because we generally do not have access to the rate implicit in the lease, we utilize the risk free rate of 3.68% as the discount rate.

As of June 30, 2025 the maturities of the Company's operating lease liabilities were as follows for the years ending:

June 30, 2026	77,876
June 30, 2027	87,196
June 30, 2028	89,821
June 30, 2029	92,516
June 30, 2030	95,291
Thereafter	15,920
Less:	
Present Value Discount	(40,549)
Lease Liability	$ 418,071

Note 9 – Restrictions on Net Assets

Net assets with donor restrictions consist of the following as of June 30, 2025:

Conrad Prebys Foundation - Operating Facility	$ 172,323
Conrad Prebys Foundation – Musical Biographies	41,408
Other	12,170
	$ 225,901

Assets received from the Conrad Prebys Foundation were granted to help the organization expand their operating facility and they are currently working to determine the specifics of the project.

Net assets released from net assets with donor restrictions consist of the following as of June 30, 2025:

Satisfaction of program purpose restriction	$ 239,843

Note 10 – Related Party Transactions

The Organization received contributions from members of its Board of Directors. For the year ended June 30, 2025, members of the Board of the Directors contributed $29,860.