

MANHATTAN SCHOOL OF MUSIC

FINANCIAL STATEMENTS

June 30, 2021 and 2020

MANHATTAN SCHOOL OF MUSIC
New York, New York

FINANCIAL STATEMENTS
June 30, 2021 and 2020

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES.....	4
STATEMENTS OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS	7

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Manhattan School of Music
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Manhattan School of Music (the School), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manhattan School of Music as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the School has adopted Accounting Standards Updates 2014-09, Revenue from Contracts with Customers (Topic 606). Our opinion is not modified with respect to this matter.

Crowe LLP

Crowe LLP

New York, New York
January 28, 2022

MANHATTAN SCHOOL OF MUSIC
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 6,614,333	\$ 5,927,382
Contributions receivable, net (note 3)	3,177,886	3,867,946
Prepaid expenses and other assets	1,029,054	980,392
Student loans receivable (note 4)	552,814	584,831
Investments (note 2)	34,288,441	27,553,929
Property, plant, and equipment, net (note 5)	<u>65,071,585</u>	<u>66,471,798</u>
Total assets	<u>\$ 110,734,113</u>	<u>\$ 105,386,278</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,815,100	\$ 1,900,126
Unearned tuition and fees	471,440	1,384,991
Note payable (note 8)	3,880,917	4,853,772
Equipment financing obligation (note 7)	449,197	666,754
U.S. government grants refundable	159,699	202,185
Bonds payable (note 6)	25,689,691	26,677,661
Asset retirement obligation	<u>157,652</u>	<u>160,252</u>
Total liabilities	<u>32,623,696</u>	<u>35,845,741</u>
Net Assets (note 9)		
Without donor restrictions	33,893,145	35,429,029
With donor restrictions	<u>44,217,272</u>	<u>34,111,508</u>
Total net assets	<u>78,110,417</u>	<u>69,540,537</u>
Total liabilities and net assets	<u>\$ 110,734,113</u>	<u>\$ 105,386,278</u>

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENT OF ACTIVITIES
Year ended June 30, 2021 (with comparative totals for 2020)

	2021		Total	2020
	Without Donor Restrictions	With Donor Restrictions		
Operating activities				
Student tuition and fees, net (note 13)	\$ 30,733,822	\$ -	\$ 30,733,822	\$ 34,514,219
Auxiliary services	3,893,551	-	3,893,551	5,998,521
Contributions and private grants	971,293	6,293,322	7,264,615	5,076,702
Government grants	940,101	-	940,101	711,604
Investment return appropriated for operations	1,398,316	-	1,398,316	1,364,917
Other revenue	262,250	-	262,250	524,203
Net assets released from restrictions related to operating activities	825,366	(825,366)	-	-
Total operating revenue	39,024,699	5,467,956	44,492,655	48,190,166
Expenses				
Program services				
Instruction	14,600,090	-	14,600,090	19,673,388
Academic support	4,352,244	-	4,352,244	4,898,396
Student services	2,688,393	-	2,688,393	3,525,164
Auxiliary services	7,226,937	-	7,226,937	3,712,095
Total program services	28,867,664	-	28,867,664	31,809,043
Supporting services				
Management and general	6,444,447	-	6,444,447	6,563,385
Fundraising	825,260	-	825,260	936,044
Total supporting services	7,269,707	-	7,269,707	7,499,429
Total expenses	36,137,371	-	36,137,371	39,308,472
Excess of operating revenue over expenses	2,887,328	5,467,956	8,355,284	8,881,694
Nonoperating activities				
Investment gain (loss) in excess of amount appropriated for operations	(1,001,727)	4,902,839	3,901,112	(2,744,977)
Depreciation and amortization expense	(3,207,707)	-	(3,207,707)	(3,117,144)
Other	(478,809)	-	(478,809)	(454,531)
	(4,688,243)	4,902,839	214,596	(6,316,652)
Net assets released from restrictions for capital expenditures	265,031	(265,031)	-	-
Change in net assets	(1,535,884)	10,105,764	8,569,880	2,565,042
Net assets, beginning of year	35,429,029	34,111,508	69,540,537	66,975,495
Net assets, end of year	\$ 33,893,145	\$ 44,217,272	\$ 78,110,417	\$ 69,540,537

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Operating activities			
Student tuition and fees, net (note 13)	\$ 34,514,219	\$ -	\$ 34,514,219
Auxiliary services	5,998,521	-	5,998,521
Contributions and private grants	1,114,115	3,962,587	5,076,702
Government grants	711,604	-	711,604
Investment return appropriated for operations	1,364,917	-	1,364,917
Other revenue	524,203	-	524,203
Net assets released from restrictions related to operating activities	<u>1,442,581</u>	<u>(1,442,581)</u>	<u>-</u>
Total operating revenue	<u>45,670,160</u>	<u>2,520,006</u>	<u>48,190,166</u>
Expenses			
Program services			
Instruction	17,331,482	-	17,331,482
Academic support	4,581,923	-	4,581,923
Student services	3,082,100	-	3,082,100
Auxiliary services	6,876,833	-	6,876,833
Total program services	<u>31,872,338</u>	<u>-</u>	<u>31,872,338</u>
Supporting services			
Management and general	6,500,090	-	6,500,090
Fundraising	936,044	-	936,044
Total supporting services	<u>7,436,134</u>	<u>-</u>	<u>7,436,134</u>
Total expenses	<u>39,308,472</u>	<u>-</u>	<u>39,308,472</u>
Excess of operating revenue over expenses	6,361,688	2,520,006	8,881,694
Nonoperating activities			
Investment (loss) gain in excess of amount appropriated for operations	(1,364,917)	(1,380,060)	(2,744,977)
Depreciation and amortization expense	(3,117,144)	-	(3,117,144)
Other	(454,531)	-	(454,531)
	<u>(4,936,592)</u>	<u>(1,380,060)</u>	<u>(6,316,652)</u>
Net assets released from restrictions for capital expenditures	<u>5,657,375</u>	<u>(5,657,375)</u>	<u>-</u>
Change in net assets	7,082,471	(4,517,429)	2,565,042
Net assets, beginning of year	<u>28,346,558</u>	<u>38,628,937</u>	<u>66,975,495</u>
Net assets, end of year	<u>\$ 35,429,029</u>	<u>\$ 34,111,508</u>	<u>\$ 69,540,537</u>

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENTS OF CASH FLOWS
Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flow from Operating Activities		
Change in Net Assets	\$ 8,569,880	\$ 2,565,042
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributions restricted for endowment and capital	(5,050,155)	(3,045,901)
Depreciation and amortization expense	3,207,707	3,117,144
Net change in fair value of investments	(4,163,420)	2,776,371
Changes in operating assets and liabilities		
Contributions receivable, net	191,577	(197,449)
Prepaid expense and other assets	(48,662)	(300,133)
Accounts payable and accrued expense	(85,026)	(788,892)
Unearned tuition and fees	(913,551)	129,595
Decrease in U.S. government grants refundable	(42,486)	(184,757)
Asset retirement obligation	(2,600)	(3,250)
Net cash provided by operating activities	<u>1,663,264</u>	<u>4,067,770</u>
Cash Flow from Investing Activities		
Purchase of property, plant, and equipment	(1,632,465)	(2,954,436)
Purchase of investments	(10,029,730)	(11,627,152)
Proceeds from sales of investments	<u>7,458,639</u>	<u>10,963,909</u>
Net cash used in investing activities	(4,203,556)	(3,617,679)
Cash Flow from Financing Activities		
Contributions restricted for endowment and capital	5,050,155	3,045,901
Change in contributions receivable related to endowment and capital	353,483	2,835,396
Student loans repaid	32,017	41,461
Payment of bonds payable	(1,018,000)	(1,920,000)
Payment of equipment financing option	(217,557)	(341,394)
Payments on note payable	<u>(972,855)</u>	<u>(3,972,143)</u>
Net cash provided by (used in) financing activities	<u>3,227,243</u>	<u>(310,779)</u>
Net change in cash and cash equivalents	686,951	139,312
Cash and cash equivalents, beginning of year	<u>5,927,382</u>	<u>5,788,070</u>
Cash and cash equivalents, end of year	<u>\$ 6,614,333</u>	<u>\$ 5,927,382</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 1,045,793	\$ 1,090,323
Construction in Progress in accounts payable	225,640	-

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Manhattan School of Music (the School) is a preeminent international conservatory of music granting Bachelor of Music, Master of Music, Doctor of Musical Arts degrees, and postgraduate degree certificates. The School, which was founded in 1918, currently serves 897 college students (both undergraduate and graduate) from 37 countries. The School currently serves 470 students in the age group of 5 - 18 from 8 different countries in the precollege division. The School also provides a summer music program by audition to 187 students in the age group of 8 - 17 from 10 different countries. The School employs approximately 250 College and Precollege faculty who are professional performers/scholars.

Financial Statement Presentation: The School prepares its financial statements on the accrual basis of accounting. Net assets and revenues, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions – Net assets subject to donor imposed restrictions that will be met by either actions of the School and/or the passage of time. Also, net assets subject to donor imposed restrictions that stipulate that they be maintained in perpetuity by the School. Generally, the donors of these assets permit the School to use all or a part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expiration of restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) except for those restrictions met in the same fiscal year as received, which are reported as revenues of the net assets without donor restrictions category, are reported as net assets released from restrictions.

The statement of activities distinguishes between operating and nonoperating activities. Nonoperating activities include depreciation and amortization expense, amounts released from restrictions for capital, nonrecurring items, real estate taxes, and the difference between total investment return and the amount appropriated for operations.

Tax Status: The School is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The School recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the School's exempt purpose is subject to tax under Internal Revenue Code Section 511. The School recognized unrelated business income tax liability of \$0 for disallowed fringe benefits in 2021 and 2020, which are included in accounts payable and accrued expenses on the statements of financial position.

Use of Estimates: The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of the financial statements include the fair value of alternative investments, the net realizable value of contributions receivable, the useful lives of property and equipment, the functional allocation of expenses, and the estimate of the asset retirement obligation. Actual results could differ from those estimates.

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NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements: Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 820, Fair Value Measurement, also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

At June 30, 2021 and 2020, the carrying values of the School's cash equivalents, receivables, prepaid expenses and other assets, and accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturities of these financial instruments.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand and temporary investments purchased with original maturities of three months or less. The School maintains cash balances at several financial institutions in excess of the insurance limits provided by the Federal Deposit Insurance Corporation.

Contributions: Contributions, which include unconditional promises to give, are recognized as revenue when received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received.

The School recognizes in kind donations of property, equipment and other valuables at their estimated fair value determined using the market approach. The School's policy is to liquidate donated stock gifts upon receipt.

Investments: The School's investments in fixed income funds, equity funds, and equity securities are carried at fair value based on quoted market prices. Alternative investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. The School's investments in alternative investments are stated, as a practical expedient, at the net asset value as provided by the investment managers and evaluated for reasonableness by the School's management.

The School invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and could affect the amounts reported in the statement of financial position.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment: Property, plant, and equipment are recorded at cost or, if donated, at fair value on the date of contribution. Depreciation of assets is computed on the straight line method over the estimated useful lives of 3 to 40 years. The statement of activities does not present depreciation and amortization expense by function. Depreciation and amortization expense is incurred primarily in support of auxiliary services.

Unearned Tuition and Fees: Tuition revenue is recognized on a pro rata basis over the length of the program, based on the percentage of time completed. The School records unearned tuition and fees related to prepayments of future tuition as liabilities. See Note 13 for additional disclosure about unearned tuition and fees.

U.S. Government Grants Refundable: The School participates in the Perkins Loan Program (the Program) sponsored by the U.S. Department of Education. These funds are ultimately refundable to the U.S. government and are presented in the accompanying statement of financial position as U.S. government grants refundable. The Perkins Title IV federal loan program has been discontinued by the federal government and therefore, there are no new Perkins loans being made as of June 30, 2021 and 2020.

Asset Retirement Obligation: Management has identified asbestos abatement as a conditional asset retirement obligation and has recorded a liability in the accompanying statement of financial position for such obligation. The School incurred remediation costs of \$2,600 and \$3,250 in 2021 and 2020, respectively.

Auxiliary Services: Auxiliary services represent services provided to the students that are not part of the basic instructional curriculum. These services include residential housing and food service.

Expense Classification: Functional expenses have been classified as program services (instruction, academic support, student services, and auxiliary services), management and general, and fundraising according to actual direct expenditures and cost allocations based upon estimates of time spent by School personnel. Facilities and maintenance expense is allocated based upon square footage of occupancy.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets or total net assets.

Recently Adopted Accounting Guidance: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The School implemented this guidance for the year ended June 30, 2021 using a retrospective method of application to contracts. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2014-19. As a result, no cumulative effect adjustment was recorded upon adoption.

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 – INVESTMENTS

The following tables present the School's fair value hierarchy for investments, which are the only financial instruments measured at fair value as of June 30, 2021 and 2020 and investments reported at net asset value:

<u>June 30, 2021</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed Income Funds	\$ 14,668,534	\$ 14,668,534	\$ -	\$ -
Real Estate	5,079,371	5,079,371	-	-
Domestic	10,638,934	10,638,934	-	-
International	<u>3,724,937</u>	<u>3,724,937</u>	-	-
	34,111,776	<u>\$ 34,111,776</u>	<u>\$ -</u>	<u>\$ -</u>
Investments reported at net asset value:				
Private Equity	<u>176,665</u>			
	<u>\$ 34,288,441</u>			

<u>June 30, 2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed Income Funds	\$ 16,995,981	\$ 16,995,981	\$ -	\$ -
Real Estate	3,918,260	3,918,260	-	-
Domestic	4,500,721	4,500,721	-	-
International	<u>1,882,830</u>	<u>1,882,830</u>	-	-
	27,297,792	<u>\$ 27,297,792</u>	<u>\$ -</u>	<u>\$ -</u>
Investments reported at net asset value:				
Private Equity	<u>256,137</u>			
	<u>\$ 27,553,929</u>			

Information with respect to the strategies and redemption provisions of those investment funds that are reported at estimated fair value based upon net asset value per share (or its equivalent) is as follows:

Private equity fund – The objective is to achieve capital growth through direct equity investments in private companies. These investments are not readily redeemable and distributions normally are received through the liquidation of the underlying assets in the fund. The School had unfunded commitments of \$263,283 and \$269,730 with respect to its private equity fund as of June 30, 2021 and 2020, respectively. The fund is subject to lock up through 2022 - 2027.

(Continued)

MANHATTAN SCHOOL OF MUSIC
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2021 and 2020

NOTE 2 – INVESTMENTS (Continued)

The School reports as operating revenue the amount of investment return appropriated by the Board of Trustees for spending. This amount includes return on investments held as part of a long term investment strategy as well as return on cash and cash equivalents. The difference between the actual return and the authorized spending level is reported as nonoperating activity. Investment return, net for the years ended June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 1,248,810	\$ 1,507,340
Net appreciation/(depreciation) in fair value of investments	4,163,420	(2,776,371)
Investment advisory fees	<u>(112,802)</u>	<u>(111,029)</u>
Total investment gain(loss)	5,299,428	(1,380,060)
Amount appropriated for operations	<u>(1,398,316)</u>	<u>(1,364,917)</u>
Investment gain(loss) in excess of amount appropriated for operations	<u>\$ 3,901,112</u>	<u>\$ (2,744,977)</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are scheduled to be collected as follows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 1,004,086	\$ 874,772
One to five years	1,972,039	2,788,080
Five or more years	300,000	305,000
Discount to present value	<u>(98,239)</u>	<u>(99,906)</u>
Contributions receivable, net	<u>\$ 3,177,886</u>	<u>\$ 3,867,946</u>

Contributions to be received after one year are discounted at discount rates ranging from 1% to 2% for the years ended June 30, 2021 and 2020. Approximately 65% and 68% of the contributions receivable at June 30, 2021 and 2020, respectively are from two donors.

NOTE 4 - STUDENT LOANS RECEIVABLE

Student loans receivable consist of amounts due from students under the School's federally-sponsored Perkins student loan program. A reasonable estimate of the fair value of loans receivable from students under government loan programs could not be made because the notes cannot be sold and can only be assigned to the U.S. government or its designees. The fair value of notes receivable from students under the School's other student loan programs approximates carrying value. Student loans receivable is \$552,814 and \$584,831 as of June 30, 2021 and 2020, respectively.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,240,000	\$ 1,240,000
Buildings	100,120,543	99,318,562
Furniture and equipment	9,361,897	8,932,178
Musical instruments and audio equipment	4,909,036	4,909,036
Library books, music, and art work	1,199,953	1,199,953
Construction in progress	720,054	204,500
	<u>117,551,483</u>	<u>115,804,229</u>
Accumulated depreciation	<u>(52,479,898)</u>	<u>(49,332,431)</u>
	<u>\$ 65,071,585</u>	<u>\$ 66,471,798</u>

In Fiscal 2020, the City of New York funded \$2,765,000 relating to the Neidorff-Karpati Hall (formerly Borden Auditorium) renovation project. The City's investment of capital funding obligated the recipient organization (the School) to operate the facility and/or maintain equipment for the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City of New York for cultural, educational or artistic uses and/or related purposes approved by the City.

Construction in progress at June 30, 2021 is related to Security Cameras, Fire Safety System, Student Union, and Andersen Technology. Construction in progress at June 30, 2020 is related to roof and elevator replacement. Construction in progress as of June 30, 2021 is substantially complete, except for the Student Union project. Approximately \$600,000 remained on the project to be paid during 2022.

Depreciation expense was \$3,147,465 and \$3,087,110 for the years ended June 30, 2021 and 2020, respectively.

NOTE 6 - INDEBTEDNESS

The School has financed the construction of a mixed use building primarily for a dormitory for the School's students through long term debt. In May 2009, the Trust for Cultural Resources of the City of New York (the Trust) issued Revenue Bonds, Series 2009A Bonds (Series 2009A Bonds) in the amount of \$42,300,000 on behalf of the School.

In December 2010, the School converted the bonds from a variable rate to a fixed rate and entered into a Continuing Covenant Agreement with Wells Fargo whereby Wells Fargo purchased all of the bonds. The initial credit facility with Wells Fargo was terminated, and all obligations of the Reimbursement Agreement, with the exception of Surviving Obligations as described in the Reimbursement Agreement, were terminated. The bonds are subject to sinking fund redemption on the schedule outlined in the Reimbursement Agreement. Instead of the bonds being subject to a weekly adjustable interest rate, the post conversion rate was set at a fixed rate of 3.05% for the four years ended December 14, 2014.

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 6 – INDEBTEDNESS (Continued)

On October 30, 2014, the Israel Discount Bank of New York (the Bank) purchased the outstanding principal balance of the Series 2009A Bonds totaling \$35,670,000. In October 2014, the School entered into an Amended and Restated Continuing Covenant Agreement with the Bank. The interest rate is set at a fixed rate of 2.92% for a 15 year term through October 2029. The maturity schedule does not change under the new agreement. The Amended and Restated Continuing Covenant Agreement requires that the School maintain specific financial ratios, as well as other financial and operational standards.

During 2021, the School deferred one half of the scheduled annual principal payment in the amount of \$1,017,000 in response to the COVID-19 pandemic. At the time, it was uncertain if the operation and business results of the School would be adversely affected in the future. The repayment of the principal will be paid equally over a four-year period in the amount of \$254,250 beginning October 2022.

At June 30, 2021, the School was in compliance with the minimum liquidity covenant which requires the School to maintain liquidity of not less than \$7,000,000 at the close of each fiscal year.

In connection with the refinancing, issuance costs of \$450,486 were capitalized and are being amortized over the life of the bond. Bond issuance costs are presented net of bonds payable on the statements of financial position. Interest expense on bonds outstanding during 2021 and 2020 was \$818,024 and \$833,566, respectively.

The maturities of the bonds payable are as follows:

<u>Year ending June 30,</u>	
2022	\$ 2,160,000
2023	2,544,250
2024	2,684,250
2025	2,829,250
2026	2,989,250
Thereafter	<u>12,700,000</u>
	25,907,000
Less unamortized bond issuance costs	<u>(217,309)</u>
	<u>\$ 25,689,691</u>

NOTE 7 – EQUIPMENT FINANCING OBLIGATION

On April 21, 2016, the School entered into an equipment lease obligation with First American Equipment Finance, A City National Bank Company, for the sole purpose of financing the purchase and installation of various HVAC equipment in the amount of \$2,000,000. Installments of \$30,500 are due monthly, and the payment schedule of principal and interest is calculated at an annualized interest rate of 3.21%, including a final payment of \$360,000 due to be paid during the year ended June 30, 2022. The outstanding balance of the equipment financing obligation is \$449,197 and \$666,754 as of June 30, 2021 and 2020, respectively. The balance due is expected to be paid in total during 2022.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 8 – NOTE PAYABLE

On November 9, 2017, the School established a \$10,000,000 revolving line of credit arrangement with First American Commercial Bancorp, Inc., A City National Bank Company, for the sole purpose of obtaining bridge financing for the renovation of Neidorff-Karpati Hall. The line of credit bore interest at the prime rate minus 1.00% per annum and converted to a term note at a fixed rate of 4.66% per annum at December 31, 2018 with a maturity date of December 2024. The outstanding balance on the note payable was \$3,880,917 and \$4,853,772, respectively, for the years ended June 30, 2021 and 2020.

Interest expense on the note payable during 2021 and 2020 was \$265,606 and \$265,757, respectively.

NOTE 9 - NET ASSETS AND ENDOWMENT

Net assets with donor restrictions are available for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
With donor restrictions of a temporary nature		
Scholarships	\$ 7,541,862	\$ 3,204,041
Capital Purchases	4,098,191	2,879,548
Educational programs	754,894	372,347
General operations of the School	416,811	386,314
	<u>12,811,758</u>	<u>6,842,250</u>
With donor restrictions to be kept in perpetuity		
Scholarships	25,180,722	22,016,259
Educational programs	3,027,340	2,471,226
General operations of the School	3,197,452	2,781,773
	<u>31,405,514</u>	<u>27,269,258</u>
Total net assets with donor restrictions	<u>\$ 44,217,272</u>	<u>\$ 34,111,508</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2021</u>	<u>2020</u>
Scholarships	\$ 668,062	\$ 649,963
Capital Purchases	265,031	5,657,375
Educational programs	112,304	772,780
General operations of the School	45,000	19,838
	<u>\$ 1,090,397</u>	<u>\$ 7,099,956</u>

Such amounts restricted for capital are released from restriction when the asset is placed into service.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 9 - NET ASSETS AND ENDOWMENT (Continued)

The School follows the provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA) in managing its donor restricted endowment. The School has interpreted NYPMIFA as allowing it to appropriate for expenditure or accumulate so much of the donor restricted endowment fund as is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument absent explicit donor stipulations to the contrary. The School has no board designated endowment funds.

Accounting guidance requires the portion of a donor-restricted endowment fund that is not classified as with donor restrictions to be classified as net assets with donor restrictions until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA. If the fair value of assets associated with individual donor-restricted endowment funds have fallen below the fund's historic dollar value, deficiencies of this nature are reported in net assets without donor restrictions.

The following table presents the changes in donor-restricted endowment funds for the years ended June 30, 2021 and 2020. These balances include contributions receivable restricted for the endowment of \$657,240 and \$646,841 at June 30, 2021 and 2020. The School does not have any endowment funds without donor restrictions.

	<u>With Donor Restrictions</u>
Endowment net assets, June 30, 2019	\$ 30,478,603
Investment loss	(1,380,061)
Contributions	257,792
Appropriation per spending policy	<u>(1,364,917)</u>
Endowment net assets, June 30, 2020	27,991,417
Investment gain	4,902,839
Contributions	4,029,855
Appropriation per spending policy	<u>(1,398,316)</u>
Endowment net assets, June 30, 2021	<u>\$ 35,525,795</u>

The School's investment objective is to provide that future growth of the portfolio is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment fund. In order to achieve this goal, the School's investment policy guidelines are structured for long-term growth while incurring only a prudent level of risk. The School has a spending policy of appropriating for distribution each year 5.0% of the endowment fund's 12 quarter average balance, depending on performance of the investment portfolio as well as considering the factors included in NYPMIFA.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 10 - BENEFIT PLANS

The School sponsors a defined contribution plan established under the provisions of Section 403(b) of the Internal Revenue Code, which includes a qualified deferred arrangement, for the benefit of eligible employees of the School. The plan also provides for tax deferred elective contributions for eligible employees. The School's policy is to fund, on a current basis, pension costs accrued under this plan. Total annual costs under this plan for the years ended June 30, 2021 and 2020 amounted to \$587,850 and \$1,048,300, respectively.

The School participates in a multiemployer union pension plan, Building Service 32BJ Pension Fund. The Employer Identification Number is 13 1879376, and the three digit Pension Plan number is 001. The most recent Pension Protection Act (PPA) zone status is red at July 1, 2018, which is for the plan year ended June 30, 2019. The zone status is based on information that the School received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The plan's sponsor has indicated that a rehabilitation plan has been implemented, as required by the PPA. The expiration date of the collective bargaining agreement requiring contributions to the plan is December 31, 2023. The contributions by the School to the union pension fund were \$55,855 and \$63,179 for the years ended June 30, 2021 and 2020. These contributions represent 100% fulfillment of the School's contractual obligations to the union pension fund for each of the respective years. Under the terms of the plan if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. At the date the financial statements were issued, Form 5500 was not available for the plan for the years ended June 30, 2021 and 2020.

The School also participates in a multiemployer union health fund, Building Service 32BJ Health Fund. The Employer Identification Number is 13 2928869, and the three digit Pension Plan number is 501. The contributions by the School to the union health fund were \$185,426 and \$188,344 for the years ended June 30, 2021 and 2020. At the date the financial statements were issued, Form 5500 was not available for the plan years ended June 30, 2021 and 2020.

The School further participates in three other multiemployer plans and a plan established under the provisions of Section 457 of the Internal Revenue Code for certain administrative employees, the amounts of which are insignificant to the financial statements.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 11 – FUNCTIONAL EXPENSES BY NATURAL CLASSIFICATION

The allocations of certain categories of expenses attributable to more than one program or supporting function is described in Note 1. The tables below present these functional expenses by their natural classification for the year ended June 30, 2021 and 2020.

	June 30, 2021							
	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Auxiliary Services</u>	<u>Total Program Service Expense</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 11,715,099	\$ 2,932,848	\$ 1,893,998	\$ 1,584,829	\$ 18,126,774	\$ 3,021,370	\$ 518,725	\$ 21,666,869
Benefits	2,770,822	860,298	465,484	462,868	4,559,472	1,141,647	113,354	5,814,473
Services	73,991	44,946	176,803	123,292	419,032	1,689,077	134,890	2,242,999
Supplies	23,662	325,456	129,551	957,874	1,436,543	421,957	51,049	1,909,549
Occupancy and utilities	16,516	188,696	22,557	4,098,074	4,325,843	170,396	7,242	4,503,481
Operating expenses	14,600,090	4,352,244	2,688,393	7,226,937	28,867,664	6,444,447	825,260	36,137,371
Depreciation & amortization	1,186,035	121,275	166,519	1,673,617	3,147,446	51,940	8,321	3,207,707
Other	82,167	1,008	3,594	382,793	469,562	7,344	1,903	478,809
Total expenses	<u><u>\$ 15,868,292</u></u>	<u><u>\$ 4,474,527</u></u>	<u><u>\$ 2,858,506</u></u>	<u><u>\$ 9,283,347</u></u>	<u><u>\$ 32,484,672</u></u>	<u><u>\$ 6,503,731</u></u>	<u><u>\$ 835,484</u></u>	<u><u>\$ 39,823,887</u></u>

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 11 – FUNCTIONAL EXPENSES BY NATURAL CLASSIFICATION (Continued)

	June 30, 2020							
	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Auxiliary Services</u>	<u>Total Program Service Expense</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 13,766,774	\$ 3,171,299	\$ 2,150,576	\$ 2,160,486	\$ 21,249,135	\$ 3,062,443	\$ 666,077	\$ 24,977,656
Benefits	3,152,027	854,801	581,911	477,328	5,066,067	1,147,382	122,370	6,335,818
Services	352,210	79,572	273,781	176,995	882,558	1,706,844	96,309	2,685,711
Supplies	47,823	245,424	47,171	517,431	857,849	394,947	37,277	1,290,073
Occupancy and utilities	<u>12,648</u>	<u>230,827</u>	<u>28,661</u>	<u>3,544,593</u>	<u>3,816,729</u>	<u>188,474</u>	<u>14,011</u>	<u>4,019,214</u>
Operating expenses	17,331,482	4,581,923	3,082,100	6,876,833	31,872,338	6,500,090	936,044	39,308,472
Depreciation & amortization	1,128,937	113,596	156,525	1,659,464	3,058,522	50,372	8,251	3,117,144
Other	<u>78,000</u>	<u>957</u>	<u>3,412</u>	<u>363,382</u>	<u>445,751</u>	<u>6,972</u>	<u>1,807</u>	<u>454,531</u>
 Total expenses	 <u>\$ 18,538,419</u>	 <u>\$ 4,696,476</u>	 <u>\$ 3,242,037</u>	 <u>\$ 8,899,679</u>	 <u>\$ 35,376,611</u>	 <u>\$ 6,557,434</u>	 <u>\$ 946,102</u>	 <u>\$ 42,880,147</u>

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 12 - LIQUIDITY AND AVAILABILITY

The School's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and Cash Equivalents	\$ 6,614,333	\$ 5,927,382
Contributions receivable, net	3,177,886	3,867,946
Student Loans receivable	552,814	584,831
Investments	<u>34,288,441</u>	<u>27,553,929</u>
Total financial assets	<u>44,633,474</u>	<u>37,934,088</u>
Less amounts not available for general expenditure within one year:		
Contributions receivable restricted for endowment	563,430	646,841
Contributions receivable, net due greater than one year	2,173,800	2,401,173
Student loans receivable due greater than one year	552,814	584,831
Donor restricted endowment funds net of next year's estimated draw	<u>34,071,002</u>	<u>26,593,101</u>
Financial assets not available to be used within one year	<u>37,361,046</u>	<u>30,225,946</u>
	<u>\$ 7,272,428</u>	<u>\$ 7,708,142</u>

The School's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amount available for general use and subject to the School's spending policy. Donor-restricted endowment funds are not available for general expenditure. The Board of Trustees approved a budgeted endowment draw of \$1,454,793 for fiscal year 2022 which is considered available for general expenditure within one year in the table above.

As part of the School's liquidity management, the School invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 13 – REVENUE RECOGNITION

Revenue Recognition: Net tuition revenues consisted primarily of tuition, net of grants and scholarships, and fees derived from courses taught by the School, as well as from related educational resources that the School provided to its students, such as access to online materials. For the years ended June 30, 2021 and 2020, the School's revenue was reduced by \$18,798,954 and \$18,945,468, respectively, as a result of scholarships that the School offered to the students. Revenue recognition occurs over the applicable academic term. The School had no costs that were capitalized to obtain or to fulfill a contract with a customer for the period ended June 30, 2021 and 2020.

Auxiliary services revenues primarily include student housing. The School recognizes revenue for housing proportionately over the applicable academic term.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 13 – REVENUE RECOGNITION (Continued)

The following table presents a disaggregation of the School's revenue from contracts by the nature of transfer of services for the year ended June 30, 2021 and June 30, 2020.

	<u>2021</u>	<u>2020</u>
Student tuition and fees	\$ 49,532,776	\$ 53,459,687
Less: scholarships	<u>(18,798,954)</u>	<u>(18,945,468)</u>
Net tuition and fees	30,733,822	34,514,219
Auxiliary services - Residence Hall	3,160,298	5,266,395
Auxiliary services - third party	<u>733,253</u>	<u>732,126</u>
Auxiliary services	3,893,551	5,998,521
Other Income - Bookstore, Box Office	<u>88,389</u>	<u>242,799</u>
Total revenues from contract with customers	<u><u>\$ 34,715,762</u></u>	<u><u>\$ 40,755,539</u></u>

In any period that the School receives excess tuition, fees and other student payments over amounts recognized as revenue on the statements of activities, a liability is recorded on the statements of financial position. The School does not present information about outstanding performance obligations as of year-end, because its contracts with students all had original terms of less than one year.

Deferred revenue represents student payments received in advance for summer programs that have not taken place as of the fiscal year end June 30, 2021 and June 30, 2020.

	<u>2021</u>	<u>2020</u>
Residence Hall Rooms refunds due	\$ -	\$ 619,943
Tuition refunds due	-	326,000
Precollege Reservation Fees Unearned	227,500	30,500
MSM Summer Tuition & Fees	184,440	346,298
SES Program Deposits Unearned	37,000	53,000
Percussion Summit Program	<u>22,500</u>	<u>9,250</u>
	<u><u>\$ 471,440</u></u>	<u><u>\$ 1,384,991</u></u>

NOTE 14 – COVID-19 IMPACT ON THE SCHOOL

In December 2019, a novel strain of coronavirus surfaced and spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In response to the pandemic and in compliance with various state and local ordinances, the School moved to online instruction on March 12, 2020 through the end of the 2019-2020 academic year. In addition, summer programs normally held in person at the School were held through remote learning. In August 2020, the School re-opened in a hybrid-flexible course model of instruction for the 2020-2021 academic year.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 14 – COVID-19 IMPACT ON THE SCHOOL (Continued)

In response to the COVID-19 pandemic, Congress created the Coronavirus Aid, Relief, and Economic Security Act (CARES) in March 2020, which established and funded the Higher Education Emergency Relief Fund (HEERF). The HEERF grant program provides financial aid to students and higher education institutions to help with new expenses and revenue losses associated with the COVID-19 pandemic.

The School was originally awarded \$441,481 under the CARES Act during the year ended June 30, 2020. Section 18004(c) of the CARES Act requires institutions to use no less than 50 percent of the funds received from Section 18004(a)(1) of the CARES Act to provide emergency financial aid grants to students. Under section 18004(a)(3) the School issued \$220,741 in emergency financial aid grants to its students and applied \$215,631 of the \$220,740 institutional portion to housing refunds during the year and the remaining \$5,109 to additional emergency Financial Aid Grants. An additional \$58,519 of institutional funds received under section 18004(a)(3) of the CARES Act was also applied to housing refunds during the year ended June 30, 2020.

The School received \$220,741 in student emergency grant funding and \$434,880 in Institutional funding under the second phase of HEERF, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) in January 2021. The entire student portion was allocated to emergency financial aid grants for students, and the entire institutional portion was allocated to the replacement of lost revenue.

To continue its pandemic relief efforts, Congress continued the Higher Education Emergency Relief Fund (HEERF) program. As part of this program the School received funding from the American Rescue Plan (ARP) in May 2021. The College was awarded \$1,194,831 under ARP during the year ended June 30, 2021. The HEERF grant program provides financial aid to students and higher education institutions to help with new expenses and revenue losses associated with the COVID-19 pandemic.

NOTE 15 - SUBSEQUENT EVENTS

The School evaluated events subsequent to January 28, 2022, the date on which the financial statements were available to be issued, and concluded that no additional disclosures are required.