

MANHATTAN SCHOOL OF MUSIC

FINANCIAL STATEMENTS

June 30, 2024 and 2023

MANHATTAN SCHOOL OF MUSIC
New York, New York

FINANCIAL STATEMENTS
June 30, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Manhattan School of Music (the School), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Manhattan School of Music as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Manhattan School of Music and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Manhattan School of Music's ability to continue as a going concern for one year from the date the financial statements are issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Manhattan School of Music'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 Manhattan School of Music'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.


Crowe LLP

New York, New York
December 9, 2024

MANHATTAN SCHOOL OF MUSIC
STATEMENTS OF FINANCIAL POSITION
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 8,610,623	\$ 8,405,824
Restricted cash	805,561	-
Contributions receivable, net	4,997,100	3,316,458
Prepaid and other assets	876,666	1,803,882
Student loans receivable	130,914	92,077
Investments	35,903,746	32,933,580
Property, plant and equipment, net	<u>62,340,103</u>	<u>62,601,894</u>
 Total assets	 <u>\$ 113,664,713</u>	 <u>\$ 109,153,715</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 3,988,044	\$ 5,353,207
Unearned tuition and fees	2,009,564	882,117
U.S. government grants refundable	-	16,671
Asset retirement obligation	103,152	103,152
Bond payable	18,391,783	21,045,751
Total liabilities	<u>24,492,543</u>	<u>27,400,898</u>
Net assets		
Without donor restriction	47,514,182	45,686,836
With donor restriction	41,657,988	36,065,981
Total net assets	<u>89,172,170</u>	<u>81,752,817</u>
 Total liabilities and net assets	 <u>\$ 113,664,713</u>	 <u>\$ 109,153,715</u>

See notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENT OF ACTIVITIES
Year ended June 30, 2024 (with comparative totals for 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating activities				
Student tuition and fees, net	\$ 40,366,055	\$ -	\$ 40,366,055	\$ 39,836,851
Auxiliary services	7,095,116	-	7,095,116	6,887,477
Contributions and private grants	1,923,073	5,837,426	7,760,499	4,636,508
Government grants	336,874	-	336,874	-
Investment return appropriated for operations	1,506,000	-	1,506,000	2,956,000
Other revenue	1,049,813	-	1,049,813	1,049,670
Net assets released from restrictions related to operating activities	3,191,712	(3,191,712)	-	-
Total operating revenue	<u>55,468,643</u>	<u>2,645,714</u>	<u>58,114,357</u>	<u>55,366,506</u>
Expenses				
Program services				
Instruction	18,113,391	-	18,113,391	17,701,808
Academic support	7,745,719	-	7,745,719	6,681,591
Student services	4,135,768	-	4,135,768	4,045,764
Auxiliary services	7,834,103	-	7,834,103	7,745,590
Total program services	<u>37,828,981</u>	<u>-</u>	<u>37,828,981</u>	<u>36,174,753</u>
Supporting services				
Management and general	9,818,303	-	9,818,303	9,629,224
Fundraising	1,509,468	-	1,509,468	1,276,753
Total supporting services	<u>11,327,771</u>	<u>-</u>	<u>11,327,771</u>	<u>10,905,977</u>
Total expenses	<u>49,156,752</u>	<u>-</u>	<u>49,156,752</u>	<u>47,080,730</u>
Excess of operating revenue over expenses	6,311,891	2,645,714	8,957,605	8,285,776
Nonoperating activities				
Investment (loss) gain in excess of amount appropriated for operations	(991,421)	2,946,293	1,954,872	(1,278,781)
Depreciation and amortization expense	(3,493,124)	-	(3,493,124)	(3,347,728)
	<u>(4,484,545)</u>	<u>2,946,293</u>	<u>(1,538,252)</u>	<u>(4,626,509)</u>
Change in net assets	1,827,346	5,592,007	7,419,353	3,659,267
Net assets, beginning of year	<u>45,686,836</u>	<u>36,065,981</u>	<u>81,752,817</u>	<u>78,093,550</u>
Net assets, end of year	<u>\$ 47,514,182</u>	<u>\$ 41,657,988</u>	<u>\$ 89,172,170</u>	<u>\$ 81,752,817</u>

See notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENT OF ACTIVITIES
Year ended June 30, 2023

	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating activities			
Student tuition and fees, net	\$ 39,836,851	\$ -	\$ 39,836,851
Auxiliary services	6,887,477	-	6,887,477
Contributions and private grants	1,572,984	3,063,524	4,636,508
Government grants	-	-	-
Investment return appropriated for operations	2,956,000	-	2,956,000
Other revenue	1,049,670	-	1,049,670
Net assets released from restrictions related to operating activities	<u>12,523,585</u>	<u>(12,523,585)</u>	<u>-</u>
Total operating revenue	<u>64,826,567</u>	<u>(9,460,061)</u>	<u>55,366,506</u>
Expenses			
Program services			
Instruction	17,701,808	-	17,701,808
Academic support	6,681,591	-	6,681,591
Student services	4,045,764	-	4,045,764
Auxiliary services	<u>7,745,590</u>	<u>-</u>	<u>7,745,590</u>
Total program services	<u>36,174,753</u>	<u>-</u>	<u>36,174,753</u>
Supporting services			
Management and general	9,629,224	-	9,629,224
Fundraising	<u>1,276,753</u>	<u>-</u>	<u>1,276,753</u>
Total supporting services	<u>10,905,977</u>	<u>-</u>	<u>10,905,977</u>
Total expenses	<u>47,080,730</u>	<u>-</u>	<u>47,080,730</u>
Excess of operating revenue over expenses	17,745,837	(9,460,061)	8,285,776
Nonoperating activities			
Investment (loss) gain in excess of amount appropriated for operations	(3,141,861)	1,863,080	(1,278,781)
Depreciation and amortization expense	<u>(3,347,728)</u>	<u>-</u>	<u>(3,347,728)</u>
	<u>(6,489,589)</u>	<u>1,863,080</u>	<u>(4,626,509)</u>
Change in net assets	11,256,248	(7,596,981)	3,659,267
Net assets, beginning of year	<u>34,430,588</u>	<u>43,662,962</u>	<u>78,093,550</u>
Net assets, end of year	<u>\$ 45,686,836</u>	<u>\$ 36,065,981</u>	<u>\$ 81,752,817</u>

See notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENTS OF CASH FLOWS
Years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flow from Operating Activities		
Change in net assets	\$ 7,419,353	\$ 3,659,267
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributions restricted for endowment and capital	(4,941,871)	(2,221,096)
Depreciation and amortization expense	3,493,124	3,347,728
Contributed nonfinancial assets	(214,550)	-
Credit loss expenses	611,684	966,242
Net change in fair value of investments	(1,786,592)	(581,601)
Changes in operating assets and liabilities		
Contributions receivable, net	624,656	261,057
Prepaid and other assets	315,532	(1,377,083)
Accounts payable and accrued expenses	(1,365,163)	2,977,414
Unearned tuition and fees	1,127,447	(466,236)
U.S. government grants refundable	(16,671)	2,247
Asset retirement obligation	-	(54,500)
Net cash provided by operating activities	5,266,949	6,513,439
Cash Flow from Investing Activities		
Purchase of property, plant and equipment	(2,986,751)	(2,914,831)
Purchase of investments	(3,595,143)	(4,722,035)
Proceeds from sales of investments	2,411,569	2,306,665
Net cash used in investing activities	(4,170,325)	(5,330,201)
Cash Flow from Financing Activities		
Contributions restricted for endowment and capital	4,941,871	2,221,096
Change in contributions receivable related to endowment and capital	(2,305,298)	(509,629)
Proceeds from additional student loans	81,107	518,787
Student loans repaid	(119,944)	(166,865)
Payment of bonds payable	(2,684,000)	(2,544,000)
Net cash used in financing activities	(86,264)	(480,611)
Net change in cash, cash equivalents and restricted cash	1,010,360	702,627
Cash, cash equivalents and restricted cash, beginning of year	8,405,824	7,703,197
Cash, cash equivalents and restricted cash, end of year	\$ 9,416,184	\$ 8,405,824
Cash, cash equivalents and restricted cash Consist of:		
Cash and cash equivalents	\$ 8,610,623	\$ 8,405,824
Restricted cash - assets limited as to use	805,561	-
	\$ 9,416,184	\$ 8,405,824
Supplemental disclosure of cash flow information		
Interest paid	\$ 579,941	\$ 656,270
Construction in progress in accounts payable	130,820	483,357

See notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

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, serves approximately 1,020 college students (both undergraduate and graduate) from many states and multiple countries. The School serves approximately 515 students in the age group of 5 - 18 in the precollege division. The School also provides a summer music program by audition to approximately 130 students in the age group of 8 – 17 from various countries. The School employs approximately 400 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, certain net assets are 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 or appreciation on related investments for specific or general purposes.

Revenues are reported as increases in net assets without donor restrictions unless usage 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, 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.

U.S. GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if the tax position is considered more-likely-than-not to be sustained in a tax examination, with a tax examination being presumed to occur.

For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management believes the School does not have any tax benefits or liabilities to be recognized at June 30, 2024 and 2023.

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.

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

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. The most significant estimates made in the preparation of the financial statements include valuation of 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.

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, 2024 and 2023, 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 on hand, temporary investments purchased with original maturities of three months or less, uninvested cash and cash equivalents included in investment accounts, including endowment accounts and assets limited as to use, are considered to be cash and cash equivalents. Amounts on deposit in any one financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The School periodically has bank deposit balances at several financial institutions in excess of the insurance limits.

Restricted Cash: Restricted cash is a cash amount that is not freely available for the School for immediate or general business use as it is held for a specific purpose and thus not available to the company.

Contributions: Conditional promises, with or without restriction, depend on the School overcoming a donor-imposed barrier to be entitled to the funds. Conditional promises are not recognized until the gift becomes unconditional, i.e., the donor-imposed barrier is met. 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.

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

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

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. During the years ended June 30, 2024 and 2023, the School received \$233,073 and \$206,087, respectively, of in-kind donations of property, equipment and other valuables and is included in the contributions and private grants in the accompanying statement of activities.

Student Accounts Receivable: Student accounts receivable consist of tuition and fee charges and are recorded net of estimated uncollectible amounts. The School calculates the allowance for credit losses by evaluating account balances that are considered to be specifically reserved as well as estimating the amount deemed to be uncollectible based on historical collection history for the School. No interest is charged on outstanding student accounts receivable balances. The student accounts receivable is included within the prepaid and other assets in the statement of financial position.

For the fiscal years ended June 30, 2024, and 2023, \$822,645 and \$502,290, respectively were reserved for credit losses.

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.

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 instruction and 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 11 for additional disclosure about unearned tuition and fees.

U.S. Government Grants Refundable: The School participates in the Perkins Loan 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 were no new Perkins loans made for the fiscal year ended June 30, 2024 and 2023.

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 \$0 and \$54,500 in 2024 and 2023, 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.

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

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

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 expenses.

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 Standard: On July 1, 2023, the School adopted Accounting Standards Update (“ASU”) 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Accounting Standard Codification 326) using the modified retrospective approach. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of financial assets using historical experience, current conditions, and reasonable supportable forecasts. The new standard did not have a significant impact on the Schools’s financial statements.

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 and investments reported at net asset value:

	June 30, 2024			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income funds	\$ 15,285,774	\$ 15,285,774	\$ -	\$ -
Real estate	5,254,859	5,254,859	-	-
Domestic	11,322,027	11,322,027	-	-
International	3,956,126	3,956,126	-	-
	<u>35,818,786</u>	<u>\$ 35,818,786</u>	<u>\$ -</u>	<u>\$ -</u>
Investments reported at net asset value:				
Private equity	<u>84,960</u>			
	<u>\$ 35,903,746</u>			

	June 30, 2023			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income funds	\$ 14,100,429	\$ 14,100,429	\$ -	\$ -
Real estate	4,899,782	4,899,782	-	-
Domestic	10,239,637	10,239,637	-	-
International	3,580,611	3,580,611	-	-
	<u>32,820,459</u>	<u>\$ 32,820,459</u>	<u>\$ -</u>	<u>\$ -</u>
Investments reported at net asset value:				
Private equity	<u>113,121</u>			
	<u>\$ 32,933,580</u>			

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 2 – INVESTMENTS (Continued)

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 \$247,935 and \$258,971 with respect to its private equity fund as of June 30, 2024 and 2023, respectively. The fund is subject to lock up until 2027.

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, 2024 and 2023 consists of the following:

	<u>2024</u>	<u>2023</u>
Interest and dividends	\$ 1,813,297	\$ 1,217,901
Realized gains on investments	170,018	139,691
Unrealized gains on investments	1,616,574	441,910
Net appreciation in fair value of investments	<u>1,786,592</u>	<u>581,601</u>
Investment advisory fees	(139,017)	(122,283)
Total investment gain (loss)	<u>3,460,872</u>	<u>1,677,219</u>
Amount appropriated for operations	<u>(1,506,000)</u>	<u>(2,956,000)</u>
 Investment gain (loss) in excess of amount appropriated for operations	 <u>\$ 1,954,872</u>	 <u>\$ (1,278,781)</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are scheduled to be collected as follows at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Within one year	\$ 1,673,106	\$ 864,234
One to five years	1,023,166	665,119
Five or more years	3,430,000	2,055,000
Discount to present value	<u>(1,129,172)</u>	<u>(267,895)</u>
 Contributions receivable, net	 <u>\$ 4,997,100</u>	 <u>\$ 3,316,458</u>

Contributions to be received after one year are discounted at discount rates ranging from 2% to 5% for the years ended June 30, 2024 and 2023. Approximately 53% and 73% of the contributions receivable at June 30, 2024 and 2023, respectively, are from three donors.

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 4 - STUDENT LOANS RECEIVABLE

Student loans receivable consist of amounts due from students. 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 \$130,914 and \$92,077 as of June 30, 2024 and 2023, respectively and all are collectible within a year.

During the fiscal year ended June 30, 2024 and 2023, the School remitted an amount of \$85,990 and \$198,971, respectively, to the Department of Education and the remaining Perkins cash amount of approximately \$28,500 will be disbursed to the Department upon liquidation. During fiscal year ended June 30, 2023, \$264,769 of the Perkins loans amount was deemed uncollectible and written off.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2024</u>	<u>2023</u>
Land	\$ 1,240,000	\$ 1,240,000
Buildings	104,584,216	103,332,001
Furniture and equipment	11,586,424	9,903,726
Musical instruments and audio equipment	5,586,295	5,103,036
Library books, music and art work	1,208,953	1,199,953
Construction in progress	759,150	985,021
	<u>124,965,038</u>	<u>121,763,737</u>
Accumulated depreciation	<u>(62,624,935)</u>	<u>(59,161,843)</u>
	<u>\$ 62,340,103</u>	<u>\$ 62,601,894</u>

Construction in progress at June 30, 2024 and 2023 is primarily related to in process repairs for both the main building and Andersen Hall and information technology improvements. In addition, estimated commitments to complete additional capital projects that have not begun as of June 30, 2024 approximate \$225,000.

Depreciation expense was \$3,463,092 and \$3,317,698 for the years ended June 30, 2024 and 2023, respectively.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 6 - INDEBTEDNESS

The School 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.

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 is being paid equally over a four-year period in the amount of \$254,250, concluding with the October 2025 debt payment.

As of and for the fiscal years ended June 30, 2024 and 2023, the School complied with the debt covenant minimum liquidity and debt service coverage ratios, and it limited its annual internally resourced capital expenditures to less than \$3 million.

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 2024 and 2023 was \$626,381 and \$703,524, respectively.

The maturities of the bonds payable are as follows:

<u>Year ending June 30,</u>	
2025	\$ 2,829,000
2026	2,990,000
2027	2,900,000
2028	3,075,000
2029	3,265,000
Thereafter	<u>3,460,000</u>
	18,519,000
Less unamortized bond issuance costs	<u>(127,217)</u>
	<u>\$ 18,391,783</u>

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 7 - NET ASSETS AND ENDOWMENT

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

	<u>2024</u>	<u>2023</u>
With donor restrictions of a temporary nature		
Scholarships	\$ 439,815	\$ 1,057,504
Capital Purchases	5,045	165,074
General operations of the School	7,500	-
	<u>452,360</u>	<u>1,222,578</u>
With donor restrictions to be kept in perpetuity, including accumulated unspent earnings		
Scholarships	32,590,331	28,198,977
Educational programs	4,330,226	3,204,407
General operations of the School	4,285,071	3,440,019
	<u>41,205,628</u>	<u>34,843,403</u>
 Total net assets with donor restrictions	 <u>\$ 41,657,988</u>	 <u>\$ 36,065,981</u>

The composition of assets supporting these donor restrictions include cash and cash equivalents, contributions receivable, student loans receivable and investments totaling \$50,447,944 and \$44,747,939 as of June 30, 2024 and 2023, respectively, as described in Note 10.

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

	<u>2024</u>	<u>2023</u>
Scholarships	\$ 2,432,226	\$ 6,665,965
Capital purchases	179,943	5,447,467
Educational programs	401,311	386,365
General operations of the School	178,232	23,788
	<u>\$ 3,191,712</u>	<u>\$ 12,523,585</u>

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

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.

Fund with Deficiencies: Due to market fluctuations, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires the School to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related with donor restrictions amounts are reported as an offset to net assets without donor restrictions. There are no such deficiencies at June 30, 2024 and 2023.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 7 - NET ASSETS AND ENDOWMENT (Continued)

The following table presents the changes in donor-restricted endowment funds for the years ended June 30, 2024 and 2023. These balances include contributions receivable restricted for the endowment of \$4,521,349 and \$2,040,218 at June 30, 2024 and 2023. The School does not have any quasi or board designated endowment funds.

	<u>With Donor Restrictions</u>
Endowment net assets, June 30, 2022	\$ 33,795,655
Investment loss	1,863,080
Contributions	2,140,668
Appropriation per spending policy	<u>(2,956,000)</u>
Endowment net assets, June 30, 2023	34,843,403
Investment gain	2,946,293
Contributions	4,921,932
Appropriation per spending policy	<u>(1,506,000)</u>
Endowment net assets, June 30, 2024	<u>\$ 41,205,628</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.

NOTE 8 - 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 plans also provide for tax deferred elective contributions for eligible employees. The School's policy is to fund, on a current basis, pension expenses accrued under this plan. The School's contribution expenses were \$1,143,258 and \$1,004,887 for the fiscal year ended June 30, 2024 and 2023, respectively.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 8 - BENEFIT PLANS (Continued)

The School participates in a multiemployer union pension plan, Building Service 32BJ Pension Fund. 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, 2027. The contributions by the School to the union 32BJ Pension Fund were \$60,279 and \$52,464 for the years ended June 30, 2024 and 2023. Additionally, the School participates in the multiemployer union pension and annuities plans through Union Local One, I.A.T.S.E. The contributions by the School to the Union Local One pension fund were \$171,740 and \$151,993 for the years ended June 30, 2024 and 2023. 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.

The School also participates in a multiemployer union health fund, Building Service 32BJ Health Fund. The contributions by the School to the 32BJ union health fund were \$167,877 and \$208,656 for the years ended June 30, 2024 and 2023. Additionally, the School contributes to the multiemployer welfare plan through Union Local One, I.A.T.S.E. The contributions by the School to the Union Local One welfare fund were \$201,608 and \$154,445 for the years ended June 30, 2024 and 2023.

The School further participates in a plan established under the provisions of Section 457 of the IRC for certain administrative employees, the amounts of which are insignificant to the financial statements.

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 9 – 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 years ended:

	June 30, 2024							
	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Svc 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	\$ 13,724,905	\$ 4,939,899	\$ 2,741,205	\$ 1,493,226	\$ 22,899,235	\$ 3,759,870	\$ 765,999	\$ 27,425,104
Benefits	3,260,386	1,403,213	665,447	554,205	5,883,251	1,261,091	263,722	7,408,064
Services	996,418	256,559	591,512	1,633,021	3,477,510	2,984,614	431,815	6,893,939
Supplies	94,617	494,673	122,354	570,646	1,282,290	451,661	42,071	1,776,022
Occupancy and utilities	37,065	651,375	15,250	3,583,005	4,286,695	1,361,067	5,861	5,653,623
Operating expenses	18,113,391	7,745,719	4,135,768	7,834,103	37,828,981	9,818,303	1,509,468	49,156,752
Depreciation and amortization expense	1,281,344	131,597	180,080	1,834,305	3,427,326	55,409	10,389	3,493,124
	<u>\$ 19,394,735</u>	<u>\$ 7,877,316</u>	<u>\$ 4,315,848</u>	<u>\$ 9,668,408</u>	<u>\$ 41,256,307</u>	<u>\$ 9,873,712</u>	<u>\$ 1,519,857</u>	<u>\$ 52,649,876</u>
	June 30, 2023							
	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Svc 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	\$ 14,364,483	\$ 4,467,192	\$ 2,773,186	\$ 2,558,630	\$ 24,163,491	\$ 3,805,938	\$ 715,086	\$ 28,684,515
Benefits	3,229,090	1,307,033	522,121	528,017	5,586,261	986,250	204,869	6,777,380
Services	23,714	112,551	661,845	337,740	1,135,850	3,200,307	287,770	4,623,927
Supplies	65,953	467,292	72,574	674,021	1,279,840	482,598	65,010	1,827,448
Occupancy and utilities	18,568	327,523	16,038	3,647,182	4,009,311	1,154,131	4,018	5,167,460
Operating expenses	17,701,808	6,681,591	4,045,764	7,745,590	36,174,753	9,629,224	1,276,753	47,080,730
Depreciation and amortization expense	1,238,659	127,213	174,082	1,744,168	3,284,122	53,563	10,043	3,347,728
	<u>\$ 18,940,467</u>	<u>\$ 6,808,804</u>	<u>\$ 4,219,846</u>	<u>\$ 9,489,758</u>	<u>\$ 39,458,875</u>	<u>\$ 9,682,787</u>	<u>\$ 1,286,796</u>	<u>\$ 50,428,458</u>

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 10 - 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>2024</u>	<u>2023</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 8,610,623	\$ 8,405,824
Restricted cash	805,561	-
Contributions receivable, net	4,997,100	3,316,458
Student loans receivable	130,914	92,077
Investments	<u>35,903,746</u>	<u>32,933,580</u>
Total financial assets	<u>50,447,944</u>	<u>44,747,939</u>
Less amounts not available for general expenditure within one year:		
Restricted cash	805,561	-
Contributions receivable restricted for endowment and capital	3,287,053	2,221,096
Contributions receivable, net due greater than one year	36,941	1,041,700
Donor restricted endowment funds, net of next year's estimated draw	<u>35,134,279</u>	<u>31,297,185</u>
Financial assets not available to be used within one year	<u>39,263,834</u>	<u>34,559,981</u>
	<u>\$ 11,184,110</u>	<u>\$ 10,187,958</u>

The School's endowment funds consist of donor-restricted endowments. Income and appreciation 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 \$1,550,000 for fiscal year 2025 which is considered available for general expenditure within one year in the table above. Additionally, several items within net assets with donor restrictions will be available for expenditure for fiscal year 2025 as the restrictions will be met.

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 11 – REVENUE RECOGNITION

Revenue Recognition: Net tuition revenues consisted primarily of tuition, net of grants and scholarships, and fees derived from courses delivered 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, 2024 and 2023, the School's revenue was reduced by \$23,558,512 and \$21,774,496, 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, 2024 and 2023.

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

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 11 – 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.

	<u>2024</u>	<u>2023</u>
Student tuition and fees	\$ 63,924,567	\$ 61,611,347
Less: scholarships	(23,558,512)	(21,774,496)
Net tuition and fees	<u>40,366,055</u>	<u>39,836,851</u>
Auxiliary services - Residence hall	6,776,273	6,556,462
Auxiliary services - third party	318,843	331,015
Auxiliary services	<u>7,095,116</u>	<u>6,887,477</u>
Other income - with customers	<u>359,511</u>	<u>383,579</u>
Total revenues from contract with customers	<u>\$ 47,820,682</u>	<u>\$ 47,107,907</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.

	<u>2024</u>	<u>2023</u>
Precollege reservation & application fees unearned	\$ 385,331	\$ 40,743
MSM Summer tuition & fees	508,621	386,200
SES Program deposits unearned	473,173	11,700
College application fees and other unearned	610,915	412,899
Summer Residence hall room revenue unearned	<u>31,524</u>	<u>30,575</u>
	<u>\$ 2,009,564</u>	<u>\$ 882,117</u>

NOTE 12 - SUBSEQUENT EVENTS

The School has performed an analysis of the activities and transactions subsequent to June 30, 2024 to determine the need for any adjustments to or disclosures within the financial statements. Management performed their analysis through December 9, 2024, the date the financial statements were available to be issued.