

**Return of Organization Exempt From Income Tax**

**2004**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

**Open to Public Inspection**

Department of the Treasury  
Internal Revenue Service

The organization may have to use a copy of this return to satisfy state reporting requirements.

**A For the 2004 calendar year, or tax year beginning July 1, 2004, and ending June 30, 2005**

<b>B</b> Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	Please use IRS label or print or type. See Specific Instructions	<b>C Name of organization</b> Manhattan School of Music		<b>D Employer identification number</b> 13 : 1656667
		Number and street (or P O box if mail is not delivered to street address) Room/suite 120 Claremont Ave. 115	<b>E Telephone number</b> ( 917 ) 493-4563	
		City or town, state or country, and ZIP + 4 New York, N.Y. 10027-4698		<b>F Accounting method:</b> <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other (specify) ▶

**G Website:** ▶ msmnyc.edu

**J Organization type** (check only one) ▶  501(c) ( 3 ) ◀ (insert no.)  4947(a)(1) or  527

**K Check here** ▶  if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS, but if the organization received a Form 990 Package in the mail, it should file a return without financial data. **Some states require a complete return.**

**L Gross receipts:** Add lines 6b, 8b, 9b, and 10b to line 12 ▶ **28,770,211**

**H and I are not applicable to section 527 organizations**

**H(a)** Is this a group return for affiliates?  Yes  No

**H(b)** If "Yes," enter number of affiliates ▶

**H(c)** Are all affiliates included?  Yes  No (If "No," attach a list. See instructions.)

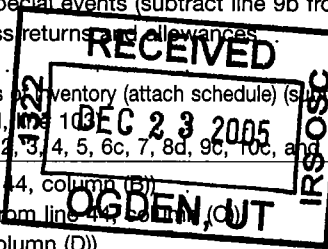
**H(d)** Is this a separate return filed by an organization covered by a group ruling?  Yes  No

**I Group Exemption Number** ▶

**M Check** ▶  if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

**Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances** (See page 18 of the instructions.)

Revenue	<b>1</b> Contributions, gifts, grants, and similar amounts received:				
	<b>a</b> Direct public support	<b>1a</b>		2,894,727	
	<b>b</b> Indirect public support	<b>1b</b>			
	<b>c</b> Government contributions (grants)	<b>1c</b>		350,984	
	<b>d Total</b> (add lines 1a through 1c) (cash \$ 3,245,711 noncash \$ )	<b>1d</b>			3,245,711
	<b>2</b> Program service revenue including government fees and contracts (from Part VII, line 93)	<b>2</b>			18,849,692
	<b>3</b> Membership dues and assessments	<b>3</b>			
	<b>4</b> Interest on savings and temporary cash investments	<b>4</b>			41,931
	<b>5</b> Dividends and interest from securities	<b>5</b>			378,053
	<b>6a</b> Gross rents	<b>6a</b>			
	<b>b</b> Less: rental expenses	<b>6b</b>			
	<b>c</b> Net rental income or (loss) (subtract line 6b from line 6a)	<b>6c</b>			
<b>7</b> Other investment income (describe )	<b>7</b>				
<b>8a</b> Gross amount from sales of assets other than inventory	(A) Securities		(B) Other		
		<b>8a</b>			
		<b>8b</b>			
		<b>8c</b>			
<b>d</b> Net gain or (loss) (combine line 8c, columns (A) and (B))	<b>8d</b>			411,762	
<b>9</b> Special events and activities (attach schedule). If any amount is from gaming, check here ▶ <input type="checkbox"/>					
<b>a</b> Gross revenue (not including \$ of contributions reported on line 1a)	<b>9a</b>		222,250		
<b>b</b> Less: direct expenses other than fundraising expenses	<b>9b</b>		64,524		
<b>c</b> Net income or (loss) from special events (subtract line 9b from line 9a)	<b>9c</b>			157,726	
<b>10a</b> Gross sales of inventory, less returns and allowances	<b>10a</b>		157,147		
	<b>b</b> Less: cost of goods sold	<b>10b</b>		146,493	
	<b>c</b> Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)	<b>10c</b>			10,654
<b>11</b> Other revenue (from Part VII, line 10b, column (B))	<b>11</b>			5,528,189	
<b>12 Total revenue</b> (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)	<b>12</b>			28,623,718	
Expenses	<b>13</b> Program services (from line 44, column (B))	<b>13</b>		22,811,303	
	<b>14</b> Management and general (from line 44, column (C))	<b>14</b>		3,188,581	
	<b>15</b> Fundraising (from line 44, column (D))	<b>15</b>		952,742	
	<b>16</b> Payments to affiliates (attach schedule)	<b>16</b>			
	<b>17 Total expenses</b> (add lines 16 and 44, column (A))	<b>17</b>			26,952,626
Net Assets	<b>18</b> Excess or (deficit) for the year (subtract line 17 from line 12)	<b>18</b>		1,671,092	
	<b>19</b> Net assets or fund balances at beginning of year (from line 73, column (A))	<b>19</b>		35,323,690	
	<b>20</b> Other changes in net assets or fund balances (attach explanation)	<b>20</b>		93,409	
	<b>21</b> Net assets or fund balances at end of year (combine lines 18, 19, and 20)	<b>21</b>			37,088,191



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**Part II Statement of Functional Expenses**

All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See page 22 of the instructions)

<i>Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.</i>		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
<b>22</b>	Grants and allocations (attach schedule) (cash \$ <u>253,695</u> noncash \$ _____)	<b>22</b> 253,695	<b>22</b> 253,695		
<b>23</b>	Specific assistance to individuals (attach schedule)	<b>23</b>			
<b>24</b>	Benefits paid to or for members (attach schedule)	<b>24</b>			
<b>25</b>	Compensation of officers, directors, etc.	<b>25</b> 1,050,683	<b>25</b> 375,605	<b>25</b> 523,578	<b>25</b> 151,500
<b>26</b>	Other salaries and wages	<b>26</b> 12,446,902	<b>26</b> 10,765,311	<b>26</b> 1,302,250	<b>26</b> 379,341
<b>27</b>	Pension plan contributions	<b>27</b> 600,981	<b>27</b> 465,592	<b>27</b> 103,708	<b>27</b> 31,681
<b>28</b>	Other employee benefits	<b>28</b> 967,631	<b>28</b> 818,470	<b>28</b> 113,056	<b>28</b> 36,105
<b>29</b>	Payroll taxes	<b>29</b> 928,277	<b>29</b> 766,417	<b>29</b> 128,598	<b>29</b> 33,262
<b>30</b>	Professional fundraising fees	<b>30</b> 215,519			<b>30</b> 215,519
<b>31</b>	Accounting fees	<b>31</b> 88,100		<b>31</b> 88,100	
<b>32</b>	Legal fees	<b>32</b> 96,785		<b>32</b> 96,785	
<b>33</b>	Supplies	<b>33</b> 310,561	<b>33</b> 282,963	<b>33</b> 21,380	<b>33</b> 6,218
<b>34</b>	Telephone	<b>34</b> 161,810	<b>34</b> 161,810		
<b>35</b>	Postage and shipping	<b>35</b> 92,293	<b>35</b> 82,771	<b>35</b> 891	<b>35</b> 8,631
<b>36</b>	Occupancy	<b>36</b> 1,004,075	<b>36</b> 674,642	<b>36</b> 313,387	<b>36</b> 16,046
<b>37</b>	Equipment rental and maintenance	<b>37</b> 203,957	<b>37</b> 203,957		
<b>38</b>	Printing and publications	<b>38</b> 98,676	<b>38</b> 92,320		<b>38</b> 6,356
<b>39</b>	Travel	<b>39</b> 54,943	<b>39</b> 40,092	<b>39</b> 11,851	<b>39</b> 3,000
<b>40</b>	Conferences, conventions, and meetings	<b>40</b> 33,012	<b>40</b> 21,274	<b>40</b> 9,972	<b>40</b> 1,766
<b>41</b>	Interest	<b>41</b> 855,819	<b>41</b> 855,819		
<b>42</b>	Depreciation, depletion, etc. (attach schedule)	<b>42</b> 2,136,190	<b>42</b> 2,136,190		
<b>43</b>	Other expenses not covered above (itemize): a	<b>43a</b>			
	b <b>Dormitory, Campus store</b>	<b>43b</b> 4,519,842	<b>43b</b> 4,519,842		
	c <b>Credit card &amp; payroll fees, search firms</b>	<b>43c</b> 264,866		<b>43c</b> 264,866	
	d <b>Insurance</b>	<b>43d</b> 341,462	<b>43d</b> 294,533	<b>43d</b> 44,623	<b>43d</b> 2,306
	e <b>Entertainment, Receptions, Dues, Misc.</b>	<b>43e</b> 226,547		<b>43e</b> 165,536	<b>43e</b> 61,011
<b>44</b>	<b>Total functional expenses (add lines 22 through 43). Organizations completing columns (B)-(D), carry these totals to lines 13-15</b>	<b>44</b> 26,952,626	<b>44</b> 22,811,303	<b>44</b> 3,188,581	<b>44</b> 952,742

**Joint Costs.** Check  if you are following SOP 98-2.

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services?  Yes  No

If "Yes," enter (i) the aggregate amount of these joint costs \$ \_\_\_\_\_; (ii) the amount allocated to Program services \$ \_\_\_\_\_; (iii) the amount allocated to Management and general \$ \_\_\_\_\_, and (iv) the amount allocated to Fundraising \$ \_\_\_\_\_

**Part III Statement of Program Service Accomplishments** (See page 25 of the instructions.)

What is the organization's primary exempt purpose?  \_\_\_\_\_

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

		Program Service Expenses (Required for 501(c)(3) and (4) orgs. and 4947(a)(1) trusts, but optional for others)
<b>a</b>	<b>Manhattan School of Music is a college conservatory providing educational services to approximately 832 college students, and 420 precollege students</b>	
	(Grants and allocations \$ <b>253,695</b> )	<b>22,811,303</b>
<b>b</b>	_____	
	(Grants and allocations \$ _____)	
<b>c</b>	_____	
	(Grants and allocations \$ _____)	
<b>d</b>	_____	
	(Grants and allocations \$ _____)	
<b>e</b>	Other program services (attach schedule)	
	(Grants and allocations \$ _____)	
<b>f</b>	<b>Total of Program Service Expenses (should equal line 44, column (B), Program services)</b>	

**Part IV Balance Sheets** (See page 25 of the instructions.)

		(A) Beginning of year		(B) End of year
<b>Note:</b> Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.				
<b>Assets</b>	45 Cash—non-interest-bearing	2,797,261	45	3,984,521
	46 Savings and temporary cash investments		46	
	47a Accounts receivable			
	47b Less: allowance for doubtful accounts		47c	
	48a Pledges receivable			
	48b Less: allowance for doubtful accounts	3,212,324	48c	3,122,747
	49 Grants receivable		49	
	50 Receivables from officers, directors, trustees, and key employees (attach schedule)		50	
	51a Other notes and loans receivable (attach schedule)			
	51b Less: allowance for doubtful accounts	593,519	51c	641,477
	52 Inventories for sale or use		52	
	53 Prepaid expenses and deferred charges	206,955	53	231,884
	54 Investments—securities (attach schedule) <input type="checkbox"/> Cost <input checked="" type="checkbox"/> FMV	14,004,237	54	15,231,917
	55a Investments—land, buildings, and equipment: basis			
	55b Less: accumulated depreciation (attach schedule)		55c	
56 Investments—other (attach schedule)		56		
57a Land, buildings, and equipment: basis				
57b Less: accumulated depreciation (attach schedule)	62,051,442	57c	60,837,431	
58 Other assets (describe <input type="checkbox"/> Def. bond issue costs/Dep. with trustee )	5,738,592	58	5,937,307	
<b>59 Total assets</b> (add lines 45 through 58) (must equal line 74)	<b>88,604,330</b>	<b>59</b>	<b>89,987,284</b>	
<b>Liabilities</b>	60 Accounts payable and accrued expenses	604,338	60	1,110,249
	61 Grants payable		61	
	62 Deferred revenue	792,051	62	911,705
	63 Loans from officers, directors, trustees, and key employees (attach schedule)		63	
	64a Tax-exempt bond liabilities (attach schedule)	47,455,000	64a	46,635,000
	64b Mortgages and other notes payable (attach schedule)	3,910,997	64b	3,716,436
	65 Other liabilities (describe <input type="checkbox"/> Due Perkins loans )	518,254	65	525,703
<b>66 Total liabilities</b> (add lines 60 through 65)	<b>53,280,640</b>	<b>66</b>	<b>52,899,093</b>	
<b>Net Assets or Fund Balances</b>	<b>Organizations that follow SFAS 117, check here <input type="checkbox"/> and complete lines 67 through 69 and lines 73 and 74.</b>			
	67 Unrestricted	19,853,679	67	21,152,224
	68 Temporarily restricted	3,212,324	68	2,984,156
	69 Permanently restricted	12,257,687	69	12,951,811
	<b>Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 70 through 74.</b>			
	70 Capital stock, trust principal, or current funds		70	
	71 Paid-in or capital surplus, or land, building, and equipment fund		71	
	72 Retained earnings, endowment, accumulated income, or other funds		72	
<b>73 Total net assets or fund balances</b> (add lines 67 through 69 or lines 70 through 72; column (A) must equal line 19; column (B) must equal line 21)	<b>35,323,690</b>	<b>73</b>	<b>37,088,191</b>	
<b>74 Total liabilities and net assets / fund balances</b> (add lines 66 and 73)	<b>88,604,330</b>	<b>74</b>	<b>89,987,284</b>	

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.



**Part VI Other Information** (See page 28 of the instructions.)

		Yes	No
<b>76</b>	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity		<input checked="" type="checkbox"/>
<b>77</b>	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.		<input checked="" type="checkbox"/>
<b>78a</b>	Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return?		<input checked="" type="checkbox"/>
<b>78b</b>	If "Yes," has it filed a tax return on <b>Form 990-T</b> for this year?		<input checked="" type="checkbox"/>
<b>79</b>	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement		<input checked="" type="checkbox"/>
<b>80a</b>	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?		<input checked="" type="checkbox"/>
<b>81a</b>	Enter direct and indirect political expenditures. See line 81 instructions <b>81a</b> 0 and check whether it is <input type="checkbox"/> exempt or <input type="checkbox"/> nonexempt.		
<b>81b</b>	Did the organization file <b>Form 1120-POL</b> for this year?		<input checked="" type="checkbox"/>
<b>82a</b>	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?		<input checked="" type="checkbox"/>
<b>82b</b>	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.) <b>82b</b>		
<b>83a</b>	Did the organization comply with the public inspection requirements for returns and exemption applications?	<input checked="" type="checkbox"/>	
<b>83b</b>	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	<input checked="" type="checkbox"/>	
<b>84a</b>	Did the organization solicit any contributions or gifts that were not tax deductible?		<input checked="" type="checkbox"/>
<b>84b</b>	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		
<b>85</b>	<b>501(c)(4), (5), or (6) organizations.</b> <b>a</b> Were substantially all dues nondeductible by members?		
<b>85a</b>	<b>b</b> Did the organization make only in-house lobbying expenditures of \$2,000 or less?		
<b>85b</b>	If "Yes" was answered to either 85a or 85b, <b>do not</b> complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.		
<b>85c</b>	<b>c</b> Dues, assessments, and similar amounts from members		
<b>85d</b>	<b>d</b> Section 162(e) lobbying and political expenditures		
<b>85e</b>	<b>e</b> Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices		
<b>85f</b>	<b>f</b> Taxable amount of lobbying and political expenditures (line 85d less 85e)		
<b>85g</b>	<b>g</b> Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?		
<b>85h</b>	<b>h</b> If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?		
<b>86a</b>	<b>501(c)(7) orgs.</b> Enter: <b>a</b> Initiation fees and capital contributions included on line 12		
<b>86b</b>	<b>b</b> Gross receipts, included on line 12, for public use of club facilities		
<b>87a</b>	<b>501(c)(12) orgs.</b> Enter: <b>a</b> Gross income from members or shareholders		
<b>87b</b>	<b>b</b> Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.)		
<b>88</b>	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX		<input checked="" type="checkbox"/>
<b>89a</b>	<b>501(c)(3) organizations.</b> Enter: Amount of tax imposed on the organization during the year under: section 4911 <b>0</b> ; section 4912 <b>0</b> ; section 4955 <b>0</b>		
<b>89b</b>	<b>b 501(c)(3) and 501(c)(4) orgs.</b> Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction		<input checked="" type="checkbox"/>
<b>89c</b>	<b>c</b> Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958		
<b>89d</b>	<b>d</b> Enter: Amount of tax on line 89c, above, reimbursed by the organization		
<b>90a</b>	List the states with which a copy of this return is filed <b>New York</b>		
<b>90b</b>	<b>b</b> Number of employees employed in the pay period that includes March 12, 2004 (See instructions.)	<b>90b</b> 452	
<b>91</b>	The books are in care of <b>Manhattan School of Music</b> Telephone no. <b>( 917 ) 493-4563</b> Located at <b>120 Claremont Ave., New York, NY</b> ZIP + 4 <b>10027-4698</b>		
<b>92</b>	<b>Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041</b> —Check here <input type="checkbox"/> and enter the amount of tax-exempt interest received or accrued during the tax year <b>92</b>		

**Part VII Analysis of Income-Producing Activities** (See page 33 of the instructions.)

**Note:** Enter gross amounts unless otherwise indicated.

	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
<b>93</b> Program service revenue:					
<b>a</b> Tuition and fees					18,849,692
<b>b</b>					
<b>c</b>					
<b>d</b>					
<b>e</b>					
<b>f</b> Medicare/Medicaid payments					
<b>g</b> Fees and contracts from government agencies					
<b>94</b> Membership dues and assessments					
<b>95</b> Interest on savings and temporary cash investments			03	41,931	
<b>96</b> Dividends and interest from securities			04	378,053	
<b>97</b> Net rental income or (loss) from real estate:					
<b>a</b> debt-financed property					
<b>b</b> not debt-financed property					
<b>98</b> Net rental income or (loss) from personal property					
<b>99</b> Other investment income			18	411,762	
<b>100</b> Gain or (loss) from sales of assets other than inventory					
<b>101</b> Net income or (loss) from special events			1	157,726	
<b>102</b> Gross profit or (loss) from sales of inventory			03	10,654	
<b>103</b> Other revenue: <b>a</b> Dormitory			03	5,153,203	
<b>b</b> Library, recording, etc.			03	127,313	
<b>c</b> Investment Income			03	247,673	
<b>d</b>					
<b>e</b>					
<b>104</b> Subtotal (add columns (B), (D), and (E))				6,528,315	18,849,692
<b>105</b> Total (add line 104, columns (B), (D), and (E))					25,378,007

**Note:** Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.

**Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes** (See page 34 of the instructions.)

Line No.	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).
93A	Tuition & Fees funding for Institutional Programs

**Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities** (See page 34 of the instructions.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
	%			
	%			
	%			
	%			

**Part X Information Regarding Transfers Associated with Personal Benefit Contracts** (See page 34 of the instructions.)

- (a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?  Yes  No
- (b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?  Yes  No
- Note:** If "Yes" to (b), file Form 8870 and Form 4720 (see instructions).

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge

Please Sign

Signature of officer: *Patricia Umawan*

Date: 12/14/05

CONTROLLER

Date: \_\_\_\_\_ Check if self-employed:  Preparer's SSN or PTIN (See Gen. Inst. W)

**SCHEDULE A**  
(Form 990 or 990-EZ)

**Organization Exempt Under Section 501(c)(3)**

(Except Private Foundation) and Section 501(e), 501(f), 501(k),  
501(n), or Section 4947(a)(1) Nonexempt Charitable Trust

OMB No 1545-0047

**2004**

Department of the Treasury  
Internal Revenue Service

▶ **MUST be completed by the above organizations and attached to their Form 990 or 990-EZ**

Name of the organization <b>Manhattan School of Music</b>	Employer identification number <b>13 1656667</b>
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**Part I Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees**  
(See page 1 of the instructions. List each one. If there are none, enter "None.")

(a) Name and address of each employee paid more than \$50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
Gary Dial c/o Manhattan School of Music	Teacher-35 Hrs.	146,795	15,224	0
Patina Kopec c/o Manhattan School of Music	Teacher-35 Hrs.	109,272	12,222	0
Marc Silverman c/o Manhattan School of Music	Teacher-35 Hrs	119,165	13,013	0
Nina Svetlanova c/o Manhattan School of Music	Teacher-35 Hrs	113,508	12,561	0
Justin DiCioccio c/o Manhattan School of Music	Teacher-35 Hrs	101,915	11,633	0
Total number of other employees paid over \$50,000 ▶	63			

**Part II Compensation of the Five Highest Paid Independent Contractors for Professional Services**  
(See page 2 of the instructions. List each one (whether individuals or firms). If there are none, enter "None.")

(a) Name and address of each independent contractor paid more than \$50,000	(b) Type of service	(c) Compensation
ICR Inc. 347 5th Ave., #1304 New York, N.Y. 10016	Construction Contractors	198,400
Beyer, Blinder & Belle 41 E. 11th St. New York, NY 10003	Architects & Planners	140,500
Spencer Stuart PO Box 98991, Chicago, Ill. 60693	Fundraising consultants	90,540
Deloitte & Touche LLP Two World Financial Ctr. New York, NY 10281	Auditors	73,100
Manatt, Phelps & Phillips LLP 7 Times Square, New York, NY 10036	Lawyers	71,400
Total number of others receiving over \$50,000 for professional services ▶	0	

**Part III** Statements About Activities (See page 2 of the instructions.)

Yes No

**1** During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities ► \$ \_\_\_\_\_ (Must equal amounts on line 38, Part VI-A, or line i of Part VI-B.)

Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes" must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities

**2** During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? (If the answer to any question is "Yes," attach a detailed statement explaining the transactions.)

- a Sale, exchange, or leasing of property?
- b Lending of money or other extension of credit?
- c Furnishing of goods, services, or facilities?
- d Payment of compensation (or payment or reimbursement of expenses if more than \$1,000)?
- e Transfer of any part of its income or assets?

**3a** Do you make grants for scholarships, fellowships, student loans, etc.? (If "Yes," attach an explanation of how you determine that recipients qualify to receive payments.)

**b** Do you have a section 403(b) annuity plan for your employees?

**4a** Did you maintain any separate account for participating donors where donors have the right to provide advice on the use or distribution of funds?

**b** Do you provide credit counseling, debt management, credit repair, or debt negotiation services?

	Yes	No
<b>1</b>		✓
<b>2a</b>		✓
<b>2b</b>		✓
<b>2c</b>		✓
<b>2d</b>		✓
<b>2e</b>		✓
<b>3a</b>	✓	
<b>3b</b>	✓	
<b>4a</b>		✓
<b>4b</b>		✓

**Part IV** Reason for Non-Private Foundation Status (See pages 3 through 6 of the instructions.)

The organization is not a private foundation because it is: (Please check only **ONE** applicable box.)

- 5**  A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).
- 6**  A school. Section 170(b)(1)(A)(ii). (Also complete Part V.)
- 7**  A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).
- 8**  A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).
- 9**  A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). Enter the hospital's name, city, and state ► \_\_\_\_\_
- 10**  An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the **Support Schedule** in Part IV-A.)
- 11a**  An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)
- 11b**  A community trust. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)
- 12**  An organization that normally receives: **(1) more than 33 1/3%** of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions—subject to certain exceptions, and **(2) no more than 33 1/3%** of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the **Support Schedule** in Part IV-A.)
- 13**  An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: **(1)** lines 5 through 12 above; or **(2)** section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See page 5 of the instructions.)

(a) Name(s) of supported organization(s)	(b) Line number from above

**14**  An organization organized and operated to test for public safety. Section 509(a)(4) (See page 5 of the instructions.)

**Part IV-A Support Schedule** (Complete only if you checked a box on line 10, 11, or 12.) **Use cash method of accounting.**

**Note:** You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.

Calendar year (or fiscal year beginning in)	(a) 2003	(b) 2002	(c) 2001	(d) 2000	(e) Total
<b>15</b> Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.)					
<b>16</b> Membership fees received					
<b>17</b> Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose					
<b>18</b> Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975					
<b>19</b> Net income from unrelated business activities not included in line 18					
<b>20</b> Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf					
<b>21</b> The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge					
<b>22</b> Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets					
<b>23</b> Total of lines 15 through 22					
<b>24</b> Line 23 minus line 17					
<b>25</b> Enter 1% of line 23					
<b>26 Organizations described on lines 10 or 11:</b>					
<b>a</b> Enter 2% of amount in column (e), line 24					<b>26a</b>
<b>b</b> Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 2000 through 2003 exceeded the amount shown in line 26a. <b>Do not file this list with your return.</b> Enter the total of all these excess amounts					<b>26b</b>
<b>c</b> Total support for section 509(a)(1) test: Enter line 24, column (e)					<b>26c</b>
<b>d</b> Add: Amounts from column (e) for lines:	18 _____	19 _____			
	22 _____	26b _____			<b>26d</b>
<b>e</b> Public support (line 26c minus line 26d total)					<b>26e</b>
<b>f</b> Public support percentage (line 26e (numerator) divided by line 26c (denominator))					<b>26f</b> %
<b>27 Organizations described on line 12:</b>					
<b>a</b> For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." <b>Do not file this list with your return.</b> Enter the sum of such amounts for each year:					
(2003) _____ (2002) _____ (2001) _____ (2000) _____					
<b>b</b> For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the larger of (1) the amount on line 25 for the year or (2) \$5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) <b>Do not file this list with your return.</b> After computing the difference between the amount received and the larger amount described in (1) or (2), enter the sum of these differences (the excess amounts) for each year.					
(2003) _____ (2002) _____ (2001) _____ (2000) _____					
<b>c</b> Add: Amounts from column (e) for lines:	15 _____	16 _____			
	17 _____	20 _____	21 _____		<b>27c</b>
<b>d</b> Add: Line 27a total _____ and line 27b total _____					<b>27d</b>
<b>e</b> Public support (line 27c total minus line 27d total)					<b>27e</b>
<b>f</b> Total support for section 509(a)(2) test: Enter amount from line 23, column (e)					<b>27f</b>
<b>g</b> Public support percentage (line 27e (numerator) divided by line 27f (denominator))					<b>27g</b> %
<b>h</b> Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))					<b>27h</b> %
<b>28 Unusual Grants:</b> For an organization described in line 10, 11, or 12 that received any unusual grants during 2000 through 2003, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. <b>Do not file this list with your return.</b> Do not include these grants in line 15.					

**Part V Private School Questionnaire** (See page 7 of the instructions.)  
**(To be completed ONLY by schools that checked the box on line 6 in Part IV)**

	Yes	No
<b>29</b> Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	✓	
<b>30</b> Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	✓	
<b>31</b> Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves? If "Yes," please describe; if "No," please explain. (If you need more space, attach a separate statement.)	✓	
<b>32</b> Does the organization maintain the following.		
<b>a</b> Records indicating the racial composition of the student body, faculty, and administrative staff?	✓	
<b>b</b> Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	✓	
<b>c</b> Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	✓	
<b>d</b> Copies of all material used by the organization or on its behalf to solicit contributions?	✓	
If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)		
<b>33</b> Does the organization discriminate by race in any way with respect to:		
<b>a</b> Students' rights or privileges?		✓
<b>b</b> Admissions policies?		✓
<b>c</b> Employment of faculty or administrative staff?		✓
<b>d</b> Scholarships or other financial assistance?		✓
<b>e</b> Educational policies?		✓
<b>f</b> Use of facilities?		✓
<b>g</b> Athletic programs?		✓
<b>h</b> Other extracurricular activities?		✓
If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)		
<b>34a</b> Does the organization receive any financial aid or assistance from a governmental agency?	✓	
<b>b</b> Has the organization's right to such aid ever been revoked or suspended? If you answered "Yes" to either 34a or b, please explain using an attached statement.		✓
<b>35</b> Does the organization certify that it has complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation	✓	

**Part VI-A Lobbying Expenditures by Electing Public Charities** (See page 9 of the instructions.)  
(To be completed **ONLY** by an eligible organization that filed Form 5768)

Check **a**  if the organization belongs to an affiliated group. Check **b**  if you checked "a" and "limited control" provisions apply.

<b>Limits on Lobbying Expenditures</b>		(a) Affiliated group totals	(b) To be completed for ALL electing organizations
(The term "expenditures" means amounts paid or incurred.)			
<b>36</b>	Total lobbying expenditures to influence public opinion (grassroots lobbying)	<b>36</b>	
<b>37</b>	Total lobbying expenditures to influence a legislative body (direct lobbying)	<b>37</b>	
<b>38</b>	Total lobbying expenditures (add lines 36 and 37)	<b>38</b>	
<b>39</b>	Other exempt purpose expenditures	<b>39</b>	
<b>40</b>	Total exempt purpose expenditures (add lines 38 and 39)	<b>40</b>	
<b>41</b>	Lobbying nontaxable amount. Enter the amount from the following table—		
	<b>If the amount on line 40 is—</b>		
	Not over \$500,000		
	Over \$500,000 but not over \$1,000,000		
	Over \$1,000,000 but not over \$1,500,000		
	Over \$1,500,000 but not over \$17,000,000		
	Over \$17,000,000		
	<b>The lobbying nontaxable amount is—</b>		
	20% of the amount on line 40		
	\$100,000 plus 15% of the excess over \$500,000		
	\$175,000 plus 10% of the excess over \$1,000,000		
	\$225,000 plus 5% of the excess over \$1,500,000		
	\$1,000,000		
<b>42</b>	Grassroots nontaxable amount (enter 25% of line 41)	<b>42</b>	
<b>43</b>	Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36.	<b>43</b>	
<b>44</b>	Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38	<b>44</b>	

**Caution:** If there is an amount on either line 43 or line 44, you must file Form 4720.

**4-Year Averaging Period Under Section 501(h)**

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 11 of the instructions.)

Calendar year (or fiscal year beginning in) ▶	Lobbying Expenditures During 4-Year Averaging Period				
	(a) 2004	(b) 2003	(c) 2002	(d) 2001	(e) Total
<b>45</b> Lobbying nontaxable amount					
<b>46</b> Lobbying ceiling amount (150% of line 45(e))					
<b>47</b> Total lobbying expenditures					
<b>48</b> Grassroots nontaxable amount					
<b>49</b> Grassroots ceiling amount (150% of line 48(e))					
<b>50</b> Grassroots lobbying expenditures					

**Part VI-B Lobbying Activity by Nonelecting Public Charities**  
(For reporting only by organizations that did not complete Part VI-A) (See page 11 of the instructions.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:

- a** Volunteers
- b** Paid staff or management (Include compensation in expenses reported on lines c through h.)
- c** Media advertisements
- d** Mailings to members, legislators, or the public
- e** Publications, or published or broadcast statements
- f** Grants to other organizations for lobbying purposes
- g** Direct contact with legislators, their staffs, government officials, or a legislative body
- h** Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means
- i** Total lobbying expenditures (Add lines c through h.)

Yes	No	Amount

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities.



MANHATTAN SCHOOL OF MUSIC

FED.ID: 13-1656667

YEAR 2004

**FORM 990, PART 1, LINE 1C**

GOVERNMENT GRANTS

NYS BUNDY AID 97,289

SEOG 116,250

CWS-FEDERAL 137,445

\$ 350,984

**FORM 990, PART 1, LINE 8D**

NET GAINS

SECURITIES & BONDS

U. S. Trust 1,881

S. Bernstein 129,511

S. Barney 280,370

\$ 411,762

**FORM 990, PART 1, LINE 10C**

Books 5,966

Clothing,gifts,supplies,food, sundries 4,688

**10,654**

**FORM 990, PART 1, LINE 20**

Unrealized capital gains **93,409**

MANHATTAN SCHOOL OF MUSIC

FED.ID: 13-1656667

YEAR 2004

**FORM 990, PART 11, LINE 22**

**GRANTS & ALLOCATIONS**

Restricted Government Funds

\$ 253,695

**FORM 990, PART 11, LINE 42**

**Depreciation and Amortization Expense for:**

Buildings	1,807,116
Equipment and Capital Leases	137,743
Musical Instruments and audio	118,273
Library Books and Music	73,058

\$ 2,136,190

**MANHATTAN SCHOOL OF MUSIC**

**FED.ID# 13-1656667**

**YEAR**

**2004**

**FROM 990, PART IV, LINE 51C**

Perkins Loan Program Receivable	641,477
	<u>641,477</u>

**FORM 990, PART IV, LINE 54**

U. S. Government Securities	
Corporate Bonds	2,469,838
Stocks	<u>12,762,079</u>
	<u>15,231,917</u>

**FORM 990, PART IV, LINE 57C**

Land	1,240,000
Buildings	64,516,448
Furniture and equipment	1,515,859
Musical instruments and audio equipment	2,797,065
Library books, music and art works	1,120,783
construction in progress	<u>199,490</u>
	71,389,645
Less: Accumulated depreciation	(10,552,214)
Total investment in Plant	<u>60,837,431</u>

**FORM 990, PART IV, LINE 64A**

Year ending June 30:	
2006	915,000
2007	960,000
2008	1,015,000
2009	1,070,000
2010	1,130,000
Thereafter	<u>41,545,000</u>
	<u>46,635,000</u>

**FORM 990, PART IV, LINE 64B**

Bond Swap Interest Liability (see attached)	<u>3,716,436</u>
--	------------------

**MANHATTAN SCHOOL OF MUSIC**

**FED.ID: 13-1656667**

**YEAR**

**2004**

**FORM 990, PART IV, LINE 64A**

Schedule of Notes Payable:

Tax Exempt Bond

Fiscal Year

2006	915,000
2007	960,000
2008	1,015,000
2009	1,070,000
2010	1,130,000
Thereafter	<u>41,545,000</u>

\$ 46,635,000

**FORM 990, PART IV, LINE 64B**

Interest Rate Swap Liability

2004	\$ 3,910,997
2005	\$ 3,716,436

Valuation Statement

Manhattan School of Music

Date: July 1, 2005

Manhattan School of Music as of June 30, 2005

Trade ID:	Trade Date:	Maturity Date:	CCY:	Notional:	MTM:
AUBF3	16-Dec-02	1-Oct-10	USD	46,635,000	(3,716,436)

\*\*\*\*THESE MTM'S ARE PROVIDED FROM YOUR PERSPECTIVE\*\*\*\*

Manhattan School of Music

FED. ID: 13-1656667

YEAR 2004

FY 2005

FORM 990, PART V

LIST OF OFFICERS, DIRECTORS, AND TRUSTEES

NAME	ADDRESS	Column B TITLE	Col.B Av. Hrs	Column C COMPENSATION	Column D Cont. to Emp. Ben. Plans & Def. Comp.
Richard Adams	120 Claremont Ave, New York, N Y 10027	VP of Faculty	35	\$ 119,340	\$ 13,020 00
Alan M Ades	120 Claremont Ave, New York, N Y 10027	Trustee		0	
Betty Allen	120 Claremont Ave, New York, N Y 10027	Trustee		0	
Ms Carla Bossi-Comelli	120 Claremont Ave, New York, N Y 10027	Trustee		0	
Nancy Behrman	120 Claremont Ave, New York, N Y 10027	Trustee		0	
Susan Blumstein	120 Claremont Ave, New York, N Y 10027	V P of External Affairs	35	\$ 151,500	\$ 7,800 00
Harold Chumacero	120 Claremont Ave, New York, N Y 10027	Trustee		0	
David Geber	120 Claremont Ave, New York, N Y 10027	Dir -Dean of Performance	35	\$ 90,000	\$ 10,680 00
Frank Graupe	120 Claremont Ave, New York, N Y 10027	Dir Of Facilities	35	\$ 87,415	\$ 10,473 00
Marta Istomin	120 Claremont Ave, New York, N Y 10027	President	35	\$ 210,000	\$ 20,280 00
Constance Keene	120 Claremont Ave, New York, N Y 10027	Trustee		0	
Edward Lowenthal	120 Claremont Ave, New York, N Y 10027	Trustee		0	
Joanne E. Mandry	120 Claremont Ave, New York, N Y 10027	Chief Fin Off	35	\$ 132,600	\$ 14,088 00
Carol Matos	120 Claremont Ave, New York, N Y 10027	Dir of H R & Admin	35	\$ 102,000	\$ 11,640 00
William R Miller	120 Claremont Ave, New York, N Y 10027	Trustee		0	
David Noon	120 Claremont Ave, New York, N Y 10027	Dean of Academics	35	\$ 88,850	\$ 10,588 00
Hon Richard Owen	120 Claremont Ave, New York, N Y 10027	Trustee		0	
Joanne Polk	120 Claremont Ave, New York, N Y 10027	Dir Of Precollege	35	\$ 90,000	\$ 10,680 00
David A Rahm, Esq	120 Claremont Ave, New York, N Y 10027	Chairman		0	
Robert G Simon	120 Claremont Ave, New York, N Y 10027	Trustee		0	

Note No expense accounts and other allowances

**MANHATTAN SCHOOL OF MUSIC**

**FED.ID:13-1656667**

**YEAR**

**2004**

**FORM 990, SCHEDULE A, PART V, LINE 34A**

Government aid is limited to amount reported on Form 990 Part I, Line 1C

**FORM 990, SCHEDULE A, PART III, LINE 4**

Most disbursements in furtherance of the School's exempt programs are made directly for salary and similar expenses incurred directly in the active conduct of the activities constituting the exempt purpose or function in which the School is organized and operated. Otherwise, disbursements are made in accordance with procedures or subject to conditions by the School's governing board designed to insure that individuals receiving disbursements from the organization are adequately investigated to determine that they are qualifying recipients. Students receiving scholarships and fellowships are judged worthy by the School on the basis of performing talent, academic achievement, financial need, and other similar standards.



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154

## **Independent Auditors' Report**

The Board of Trustees  
Manhattan School of Music:

We have audited the accompanying statement of financial position of Manhattan School of Music (the School) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2004 financial statements that were audited by other auditors, whose report dated September 17, 2004, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

October 14, 2005

**MANHATTAN SCHOOL OF MUSIC**

Statement of Financial Position

June 30, 2005

(with comparative financial information  
as of June 30, 2004)

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Cash and cash equivalents	\$ 3,984,521	2,797,261
Contributions receivable, net (note 3)	3,122,747	3,212,324
Prepaid expenses and other assets	231,884	206,955
Student loans receivable	641,477	593,519
Deposits with trustee (note 6)	4,212,889	3,966,273
Investments (note 2)	15,231,917	14,004,237
Deferred bond issue costs, net	1,724,418	1,772,319
Property, plant, and equipment, net (note 4)	60,837,431	62,051,442
Total assets	<u>\$ 89,987,284</u>	<u>88,604,330</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,110,249	604,338
Unearned tuition and fees	911,705	792,051
U.S. Government grants refundable	525,703	518,254
Interest rate swap liability (note 7)	3,716,436	3,910,997
Bonds payable (note 6)	46,635,000	47,455,000
Total liabilities	<u>52,899,093</u>	<u>53,280,640</u>
<b>Net assets:</b>		
Unrestricted	21,152,224	19,853,679
Temporarily restricted (note 8)	2,984,156	3,212,324
Permanently restricted (note 8)	12,951,811	12,257,687
Total net assets	<u>37,088,191</u>	<u>35,323,690</u>
Total liabilities and net assets	<u>\$ 89,987,284</u>	<u>88,604,330</u>

See accompanying notes to financial statements.

**MANHATTAN SCHOOL OF MUSIC**

Statement of Activities

Year ended June 30, 2005  
(with summarized financial information  
for the year ended June 30, 2004)

	2005			2004 Total	
	Unrestricted	Temporarily restricted	Permanently restricted		Total
<b>Operating activities:</b>					
<b>Revenues:</b>					
Student tuition and fees – net of scholarship allowance of \$4,936,069 and \$4,898,719 in 2005 and 2004, respectively	\$ 18,849,692	—	—	18,849,692	16,935,824
Contributions and grants (note 3)	1,862,601	495,728	—	2,358,329	1,542,731
Investment return (note 2)	765,904	—	—	765,904	1,521,572
Government grants	350,984	—	—	350,984	321,966
Investment income on deposits with trustee (note 6)	247,673	—	—	247,673	240,410
Auxiliary services	5,437,628	—	—	5,437,628	5,571,113
Other revenue	41,931	—	—	41,931	38,776
Net assets released from restrictions	723,896	(723,896)	—	—	—
<b>Total operating revenues</b>	<b>28,280,309</b>	<b>(228,168)</b>	<b>—</b>	<b>28,052,141</b>	<b>26,172,392</b>
<b>Expenses:</b>					
<b>Program services:</b>					
Instruction	10,400,671	—	—	10,400,671	10,050,506
Academic support	3,624,134	—	—	3,624,134	3,282,646
Student services	2,799,362	—	—	2,799,362	2,739,388
Auxiliary services	6,275,359	—	—	6,275,359	6,650,348
<b>Total program services</b>	<b>23,099,526</b>	<b>—</b>	<b>—</b>	<b>23,099,526</b>	<b>22,722,888</b>
<b>Supporting services:</b>					
General and administrative	3,188,581	—	—	3,188,581	2,937,035
Fund-raising	888,218	—	—	888,218	808,304
<b>Total supporting services</b>	<b>4,076,799</b>	<b>—</b>	<b>—</b>	<b>4,076,799</b>	<b>3,745,339</b>
<b>Total expenses</b>	<b>27,176,325</b>	<b>—</b>	<b>—</b>	<b>27,176,325</b>	<b>26,468,227</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>1,103,984</b>	<b>(228,168)</b>	<b>—</b>	<b>875,816</b>	<b>(295,835)</b>
<b>Nonoperating activities:</b>					
Contributions restricted for endowment	—	—	694,124	694,124	151,118
Change in value of interest rate swap (note 7)	194,561	—	—	194,561	2,624,681
<b>Change in net assets</b>	<b>1,298,545</b>	<b>(228,168)</b>	<b>694,124</b>	<b>1,764,501</b>	<b>2,479,964</b>
Net assets – beginning of year	19,853,679	3,212,324	12,257,687	35,323,690	32,843,726
<b>Net assets – end of year</b>	<b>\$ 21,152,224</b>	<b>2,984,156</b>	<b>12,951,811</b>	<b>37,088,191</b>	<b>35,323,690</b>

See accompanying notes to financial statements.

**MANHATTAN SCHOOL OF MUSIC**

Statement of Cash Flows

Year ended June 30, 2005  
(with comparative financial information  
for the year ended June 30, 2004)

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 1,764,501	2,479,964
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	(694,124)	(151,118)
Contributions of equity securities	(77,757)	(345,282)
Depreciation and amortization	2,136,190	2,130,782
Net appreciation in fair value of investments	(505,172)	(1,362,604)
Change in value of interest rate swap	(194,561)	(2,624,681)
Changes in assets and liabilities:		
Decrease in contributions receivable, net	89,577	1,809,743
Increase in prepaid expenses and other assets	(24,929)	(46,514)
Increase in accounts payable and accrued expenses	505,911	128,542
Increase in unearned tuition and fees	119,654	108,114
Net cash provided by operating activities	3,119,290	2,126,946
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(874,278)	(1,721,434)
Student loans granted	(114,125)	(110,750)
Student loans repaid	66,167	67,608
Purchases of investments	(9,463,338)	(13,015,887)
Proceeds from sales of investments	8,818,587	13,426,052
Net cash used in investing activities	(1,566,987)	(1,354,411)
Cash flows from financing activities:		
Contributions restricted for endowment	694,124	151,118
Increase in U.S. government grants refundable	7,449	17,653
Increase in deposits with trustee	(246,616)	(151,160)
Repayment of bonds payable	(820,000)	(775,000)
Net cash used in financing activities	(365,043)	(757,389)
Net increase in cash and cash equivalents	1,187,260	15,146
Cash and cash equivalents – beginning of year	2,797,261	2,782,115
Cash and cash equivalents – end of year	\$ 3,984,521	2,797,261
Supplemental disclosures of cash flow information:		
Interest paid during the year	\$ 2,487,314	2,483,901

See accompanying notes to financial statements.

# MANHATTAN SCHOOL OF MUSIC

## Notes to Financial Statements

June 30, 2005

(with comparative financial information as of  
and for the year ended June 30, 2004)

### (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, and doctor of musical arts degrees and post-graduate degrees programs. The School, which was founded in 1918, serves more than 800 College students from more than 40 countries, and more than 400 students aged 5-18 in the Precollege division, as well as providing a Summer Music Camp to approximately 125 New York City School children in fifth through eighth grades each summer. The School employs an artist-teacher faculty of approximately 275 professional musicians.

#### Tax Status

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

#### Summary of Significant Accounting Policies

The significant accounting policies followed by the School are described below.

#### *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:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the School and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the School, but permit the School to expend all or part of the income derived therefrom.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary 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 year as received which are reported as revenues of the unrestricted net assets, are reported as net assets released from restrictions.

The statement of activities distinguishes between operating and nonoperating activities. Nonoperating activities include contributions restricted for endowment and the change in value of interest rate swap.

**MANHATTAN SCHOOL OF MUSIC**

Notes to Financial Statements

June 30, 2005

(with comparative financial information as of  
and for the year ended June 30, 2004)

***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-free interest rates (ranging from 2.8% to 6.25%) applicable to the years in which the promises are received.

***Cash and Cash Equivalents***

Cash and cash equivalents include all cash balances and highly liquid investments that at date of purchase had maturities of three months or less.

***Investments***

The School's investments are carried at fair value with realized and unrealized gains and losses reflected in the statement of activities.

***Deferred Bond Issue Costs***

Costs incurred for issuance of bonds are capitalized and amortized on a straight-line basis over the term of the related bonds.

***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 the assets.

***Unearned Tuition and Fees***

The School records unearned tuition and fees related to prepayments of summer and fall session college tuition.

***U.S. Government Grants Refundable***

The School participates in the Perkins Loan Program (the Program) sponsored by the U.S. Department of Education. Funds provided by the U.S. Government under the Program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. Government and are presented in the accompanying statement of financial position as liabilities.

MANHATTAN SCHOOL OF MUSIC

Notes to Financial Statements

June 30, 2005

(with comparative financial information as of  
and for the year ended June 30, 2004)

*Use of Estimates*

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

*Prior Year Summarized Financial Information*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

*Reclassifications*

Certain reclassifications have been made to the 2004 financial information to conform to the 2005 presentation.

(2) **Investments**

The fair value of investments at June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Bonds	\$ 2,469,838	3,124,497
Equity securities	<u>12,762,079</u>	<u>10,879,740</u>
	<u>\$ 15,231,917</u>	<u>14,004,237</u>

Bonds and equity securities consist of publicly traded marketable securities. Fair values at June 30, 2005 and 2004 are based on published prices as of that date.

Investment return for the years ended June 30, 2005 and 2004 consists of the following:

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 378,088	243,775
Net appreciation in fair value of investments	505,172	1,362,604
Less investment advisory fees	<u>(117,356)</u>	<u>(84,807)</u>
Investment return	<u>\$ 765,904</u>	<u>1,521,572</u>

**MANHATTAN SCHOOL OF MUSIC**

Notes to Financial Statements

June 30, 2005

(with comparative financial information as of  
and for the year ended June 30, 2004)

**(3) Contributions Receivable**

Contributions receivable are scheduled to be collected as follows at June 30, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Within one year	\$ 943,214	737,857
In one to five years	1,669,286	1,462,143
In over five years	981,596	1,500,000
	3,594,096	3,700,000
Discount to present value	(471,349)	(487,676)
Contributions receivable, net	\$ 3,122,747	3,212,324

Approximately 69% and 81% of the contributions receivable at June 30, 2005 and 2004, respectively, are from an individual donor.

**(4) Property, Plant, and Equipment**

Property, plant, and equipment at June 30, 2005 and 2004 are as follows:

	<b>2005</b>	<b>2004</b>
Land	\$ 1,240,000	1,240,000
Buildings	64,516,448	62,320,515
Furniture and equipment	1,515,859	1,668,958
Musical instruments and audio equipment	2,797,065	2,778,209
Library books, music, and art work (including rare collection items)	1,120,783	1,120,783
Construction in progress	199,490	1,653,760
	71,389,645	70,782,225
Less accumulated depreciation	(10,552,214)	(8,730,783)
	\$ 60,837,431	62,051,442

**(5) Pension Plan**

The School participates in an immediate vesting, defined contribution pension plan which covers all full-time employees through the Teachers Insurance and Annuity Association (TIAA). The School's policy is to fund, on a current basis, pension costs accrued under the plan. Total annual costs under the plan for the years ended June 30, 2005 and 2004 amounted to approximately \$601,000 and \$603,000, respectively.

**MANHATTAN SCHOOL OF MUSIC**

Notes to Financial Statements

June 30, 2005

(with comparative financial information as of  
and for the year ended June 30, 2004)

**(6) Bonds Payable**

In July 2000, the School entered into a financial arrangement for \$49,000,000 of Revenue Bonds, which are due serially through 2029 and issued by the Trust for Cultural Resources of the City of New York (the Trust). The arrangement was entered into to fund construction on a mixed-use building primarily for use as a dormitory for the School's students. The School has financed the balance of the construction with available funds of the School. As part of the arrangement, the School was granted a mortgage on the land, building, and certain fixtures and equipment, which were financed by the Revenue Bonds. During 2005, interest rates on the bonds ranged from 0.99% to 2.96%.

In connection with the debt agreements, the School is required to maintain a bond principal fund and bond interest fund. Amounts deposited into these funds are available for principal and interest payments. The balances in the bond principal fund are \$4,170,897 and \$3,924,762, and the bond interest fund balances are \$0 and \$0 at June 30, 2005 and 2004, respectively. Earnings on these funds, which totaled \$247,673 and \$240,410 in 2005 and 2004, respectively, are used to make principal and interest payments. In addition, the School created a development fund, which was established to pay the administrative costs of issuing the bonds and the capitalized interest on bonds when due. Any remaining balances will be applied to outstanding principal balances. The balances in the development fund at June 30, 2005 and 2004 are \$41,992 and \$41,511, respectively.

The maturities of the bonds payable are as follows:

	<u>Amount</u>
Year ending June 30:	
2006	\$ 915,000
2007	960,000
2008	1,015,000
2009	1,070,000
2010	1,130,000
Thereafter	<u>41,545,000</u>
	<u>\$ 46,635,000</u>

Interest expense related to the bonds for fiscal 2005 and 2004 is \$855,819 and \$458,737, respectively.

**MANHATTAN SCHOOL OF MUSIC**

Notes to Financial Statements

June 30, 2005

(with comparative financial information as of  
and for the year ended June 30, 2004)

**(7) Interest Rate Swap**

At June 30, 2005 and 2004, the School had an interest rate swap contract to pay fixed-rate interest (4.85%) and receive variable rates of interest on the contractually established notional amount. The contract expires October 1, 2010. The School is required to pay the difference between the BMA Municipal Swap Index, which is reset weekly, and the fixed rate. The weekly BMA Municipal Swap Index rate was between 0.99% and 2.96% during the period July 1, 2004 to June 30, 2005. The interest rate swap liability balance of \$3,716,436 and \$3,910,997 at June 30, 2005 and 2004, respectively, is the cost of terminating the swap agreement. The change in fair value of the swap is recorded as a reduction or increase in unrestricted net assets in the statement of activities. In 2005 and 2004, the change in fair value of the swap amounted to an increase in unrestricted net assets of \$194,561 and \$2,624,681, respectively.

**(8) Restricted Net Assets**

Temporarily restricted net assets of \$2,984,156 and \$3,212,324 are primarily restricted for capital purposes at June 30, 2005 and 2004, respectively.

Permanently restricted net assets are represented by investments held in perpetuity. The income from these endowments is expendable to support the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Educational programs	\$ 683,016	683,016
Scholarships	9,837,507	9,143,383
General operations of the School	2,431,288	2,431,288
	<u>\$ 12,951,811</u>	<u>12,257,687</u>