

MANHATTAN SCHOOL OF MUSIC

FINANCIAL STATEMENTS

(Including Single Audit)

June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Manhattan School of Music (the School), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manhattan School of Music as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020, except as to note 15, which is as of May 20, 2021, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.


Crowe LLP

New York, New York
December 16, 2020, except as to Note 15, which is
as of May 20, 2021

MANHATTAN SCHOOL OF MUSIC
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 5,027,382	\$ 5,788,070
Contributions receivable, net (note 3)	3,867,946	6,505,893
Prepaid expenses and other assets	1,880,392	680,259
Student loans receivable (note 4)	584,831	626,292
Investments (note 2)	27,553,929	29,667,057
Property, plant, and equipment, net (note 5)	<u>66,471,798</u>	<u>67,047,233</u>
 Total assets	 <u>\$ 105,386,278</u>	 <u>\$ 110,314,804</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,900,126	\$ 3,161,989
Unearned tuition and fees	1,384,991	1,255,396
Notes payable and line of credit payable (note 8)	4,853,772	8,825,914
Equipment financing obligation (note 7)	666,754	1,008,148
U.S. government grants refundable	202,185	386,942
Bonds payable (note 6)	26,677,661	28,537,418
Asset retirement obligation	<u>160,252</u>	<u>163,502</u>
Total liabilities	<u>35,845,741</u>	<u>43,339,309</u>
 Net Assets (note 9)		
Without donor restrictions	35,429,029	28,346,558
With donor restrictions	<u>34,111,508</u>	<u>38,628,937</u>
Total net assets	<u>69,540,537</u>	<u>66,975,495</u>
 Total liabilities and net assets	 <u>\$ 105,386,278</u>	 <u>\$ 110,314,804</u>

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENT OF ACTIVITIES
Year ended June 30, 2020 (with comparative totals for 2019)

	2020		Total	2019
	Without Donor Restrictions	With Donor Restrictions		
Operating activities				
Revenue				
Student tuition and fees	\$ 53,459,687	\$ -	\$ 53,459,687	\$ 50,997,129
Less scholarships	(18,945,468)	-	(18,945,468)	(17,883,428)
Net tuition and fees	34,514,219	-	34,514,219	33,113,701
Auxiliary services	5,998,521	-	5,998,521	7,239,317
Contributions and private grants	1,114,115	3,962,587	5,076,702	10,123,661
Government grants	711,604	-	711,604	269,858
Investment return appropriated for operations	1,364,917	-	1,364,917	1,364,917
Other revenue	524,203	-	524,203	1,399
Net assets released from restrictions related to operating activities	1,442,581	(1,442,581)	-	-
Total operating revenue	<u>45,670,160</u>	<u>2,520,006</u>	<u>48,190,166</u>	<u>52,112,853</u>
Expenses				
Program services				
Instruction	19,673,388	-	19,673,388	20,481,066
Academic support	4,898,396	-	4,898,396	5,972,301
Student services	3,525,164	-	3,525,164	3,381,623
Auxiliary services	3,712,095	-	3,712,095	3,287,042
Total program services	<u>31,809,043</u>	<u>-</u>	<u>31,809,043</u>	<u>33,122,032</u>
Supporting services				
Management and general	6,563,385	-	6,563,385	6,985,298
Fundraising	936,044	-	936,044	1,080,513
Total supporting services	<u>7,499,429</u>	<u>-</u>	<u>7,499,429</u>	<u>8,065,811</u>
Total expenses	<u>39,308,472</u>	<u>-</u>	<u>39,308,472</u>	<u>41,187,843</u>
Excess of operating revenue over expenses	6,361,688	2,520,006	8,881,694	10,925,010
Nonoperating activities				
Investment (loss) gain in excess of amount appropriated for operations	(1,364,917)	(1,380,060)	(2,744,977)	221,850
Depreciation and amortization expense	(3,117,144)	-	(3,117,144)	(3,160,071)
Other	(454,531)	-	(454,531)	(506,670)
	<u>(4,936,592)</u>	<u>(1,380,060)</u>	<u>(6,316,652)</u>	<u>(3,444,891)</u>
Net assets released from restrictions for capital expenditures	5,657,375	(5,657,375)	-	-
Change in net assets	7,082,471	(4,517,429)	2,565,042	7,480,119
Net assets, beginning of year	<u>28,346,558</u>	<u>38,628,937</u>	<u>66,975,495</u>	<u>59,495,376</u>
Net assets, end of year	<u>\$ 35,429,029</u>	<u>\$ 34,111,508</u>	<u>\$ 69,540,537</u>	<u>\$ 66,975,495</u>

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENT OF ACTIVITIES
Year ended June 30, 2019

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Operating activities			
Revenue			
Student tuition and fees	\$ 50,997,129	\$ -	\$ 50,997,129
Less scholarships	(17,883,428)	-	(17,883,428)
Net tuition and fees	33,113,701	-	33,113,701
Auxiliary services	7,239,317	-	7,239,317
Contributions and private grants	726,254	9,397,407	10,123,661
Government grants	269,858	-	269,858
Investment return appropriated for operations	1,364,917	-	1,364,917
Other revenue	1,399	-	1,399
Net assets released from restrictions related to operating activities	1,848,283	(1,848,283)	-
Total operating revenue	<u>44,563,729</u>	<u>7,549,124</u>	<u>52,112,853</u>
Expenses			
Program services			
Instruction	20,481,066	-	20,481,066
Academic support	5,972,301	-	5,972,301
Student services	3,381,623	-	3,381,623
Auxiliary services	3,287,042	-	3,287,042
Total program services	<u>33,122,032</u>	<u>-</u>	<u>33,122,032</u>
Supporting services			
Management and general	6,985,298	-	6,985,298
Fundraising	1,080,513	-	1,080,513
Total supporting services	<u>8,065,811</u>	<u>-</u>	<u>8,065,811</u>
Total expenses	<u>41,187,843</u>	<u>-</u>	<u>41,187,843</u>
Excess of operating revenue over expenses	3,375,886	7,549,124	10,925,010
Nonoperating activities			
Investment (loss) gain in excess of amount appropriated for operations	(1,946,790)	2,168,640	221,850
Depreciation and amortization expense	(3,160,071)	-	(3,160,071)
Other	(506,670)	-	(506,670)
	<u>(5,613,531)</u>	<u>2,168,640</u>	<u>(3,444,891)</u>
Net assets released from restrictions for capital expenditures	5,450,927	(5,450,927)	-
Change in net assets	3,213,282	4,266,837	7,480,119
Net assets, beginning of year	<u>25,133,276</u>	<u>34,362,100</u>	<u>59,495,376</u>
Net assets, end of year	<u>\$ 28,346,558</u>	<u>\$ 38,628,937</u>	<u>\$ 66,975,495</u>

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
STATEMENTS OF CASH FLOWS
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 2,565,042	\$ 7,480,119
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contributions restricted for endowment and capital	(3,045,901)	(4,891,130)
Depreciation and amortization expense	3,117,144	3,160,071
Net change in fair value of investments	2,776,371	1,159,229
Changes in operating assets and liabilities		
Contributions receivable, net	(197,449)	(2,249,878)
Prepaid expenses and other assets	(1,200,133)	(63,652)
Accounts payable and accrued expenses	(788,892)	(1,310,988)
Unearned tuition and fees	129,595	135,553
Asset retirement obligation	(3,250)	(132,575)
Net cash provided by operating activities	<u>3,352,527</u>	<u>3,286,750</u>
Cash flows from investing activities		
Purchases of property, plant, and equipment	(2,954,436)	(8,216,933)
Student loans repaid	41,461	37,138
Purchases of investments	(11,627,152)	(4,191,103)
Proceeds from sales of investments	10,963,909	4,588,350
Net cash used in investing activities	<u>(3,576,218)</u>	<u>(7,782,548)</u>
Cash flows from financing activities		
Contributions restricted for endowment and capital	3,045,901	4,891,130
Change in contributions receivable related to endowment and capital	2,835,396	(2,619,525)
Decrease in U.S. government grants refundable	(184,757)	(9,281)
Payment of bonds payable	(1,920,000)	(1,805,000)
Payment of equipment financing obligation	(341,394)	(298,410)
Proceeds from notes payable and line of credit payable	-	6,759,888
Payments on notes payable and line of credit payable	(3,972,143)	(474,049)
Net cash (used in) provided by financing activities	<u>(536,997)</u>	<u>6,444,753</u>
Net change in cash and cash equivalents	(760,688)	1,948,955
Cash and cash equivalents, beginning of year	<u>5,788,070</u>	<u>3,839,115</u>
Cash and cash equivalents, end of year	<u>\$ 5,027,382</u>	<u>\$ 5,788,070</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 1,090,323	\$ 1,205,812
Construction in progress in accounts payable	-	472,971
Supplemental disclosure of non-cash investing activity		
Stock gifts in purchases of investments	1,137,766	270,249

See accompanying notes to financial statements.

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 more than 960 college students (both undergraduate and graduate) from more than 40 countries, and more than 470 students in the age group of 5 – 18 in the precollege division, as well as provides a summer music program by audition to approximately 140 students in the age group of 8 - 17. The School employs an artist-teacher faculty of approximately 275 professional musicians.

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

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

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

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

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

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

The School recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the School's exempt purpose is subject to tax under Internal Revenue Code Section 511. The School recognized unrelated business income tax liability of \$0 and \$32,572 for disallowed fringe benefits in 2020 and 2019, respectively, which are included in accounts payable and accrued expenses on the statements of financial position.

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

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

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

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

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

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

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

At June 30, 2020 and 2019, the carrying values of the School's cash equivalents, receivables, prepaid expenses and other assets, and accounts payable and accrued expenses approximate their fair values because of the terms and relatively short maturities of these financial instruments.

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

Contributions: Contributions, which include unconditional promises to give, are recognized as revenue when received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates (ranging from 0.16% to 0.49%) applicable to the years in which the promises are received.

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

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

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

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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

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

Unearned Tuition 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.

U.S. Government Grants Refundable: The School participates in the Perkins Loan Program (the Program) sponsored by the U.S. Department of Education. These funds are ultimately refundable to the U.S. government and are presented in the accompanying statement of financial position as U.S. government grants refundable.

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 \$3,250 and \$132,575 in 2020 and 2019, respectively.

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

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

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

Recently Adopted Accounting Guidance: In June 2018, the FASB issued ASU 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The School applied the amendments in this ASU for the year ended June 30, 2020. The School implemented ASU 2018-08 using a full retrospective method of application. The adoption of ASU 2018-08 resulted in minor changes to the disclosure of revenue. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2018-08. As a result, no cumulative effect adjustment was recorded upon adoption.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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, 2020 and 2019 and investments reported at net asset value:

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

<u>June 30, 2019</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income funds	\$ 8,371,746	\$ 8,371,746	\$ -	\$ -
Equity funds:				
Real estate	4,291,533	4,291,533	-	-
Domestic	10,109,186	10,109,186	-	-
International	<u>6,471,166</u>	<u>6,471,166</u>	-	-
	<u>\$ 29,243,631</u>	<u>\$ 29,243,631</u>	<u>\$ -</u>	<u>\$ -</u>
Investments reported at net asset value:				
Private Equity	<u>423,426</u>			
Total	<u>\$ 29,667,057</u>			

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

Private equity fund – the objective is to achieve capital growth through direct equity investments in private companies. These investments are not readily redeemable and distributions normally are received through the liquidation of the underlying assets in the fund. The School had unfunded commitments of \$269,730 and \$273,340 with respect to its private equity fund as of June 30, 2020 and 2019, respectively. The fund is subject to lock up through 2022 – 2027.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 2 - INVESTMENTS (Continued)

The School reports as operating revenue the amount of investment return appropriated by the Board of Trustees for spending. This amount includes return on investments held as part of a long-term investment strategy as well as return on cash and cash equivalents. The difference between the actual return and the authorized spending level is reported as nonoperating activity. Investment return, net for the years ended June 30, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 1,507,340	\$ 2,079,120
Net depreciation in fair value of investments	(2,776,371)	(383,423)
Investment advisory fees	<u>(111,029)</u>	<u>(108,930)</u>
Total investment gain (loss)	(1,380,060)	1,586,767
Amount appropriated for operations	<u>(1,364,917)</u>	<u>(1,364,917)</u>
Investment gain (loss) in excess of amount appropriated for operations	<u>\$ (2,744,977)</u>	<u>\$ 221,850</u>

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are scheduled to be collected as follows at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 874,772	\$ 3,342,313
One to five years	2,788,080	2,818,976
Five or more years	<u>305,000</u>	<u>482,745</u>
	3,967,852	6,644,034
Discount to present value	<u>(99,906)</u>	<u>(138,141)</u>
Contributions receivable, net	<u>\$ 3,867,946</u>	<u>\$ 6,505,893</u>

Approximately 68% and 76% of the contributions receivable at June 30, 2020 and 2019, respectively are from two donors.

NOTE 4 - STUDENT LOANS RECEIVABLE

Student loans receivable consist of amounts due from students under the School's federally-sponsored Perkins student loan program. A reasonable estimate of the fair value of loans receivable from students under government loan programs could not be made because the notes cannot be sold and can only be assigned to the U.S. government or its designees. The fair value of notes receivable from students under the School's other student loan programs approximates carrying value.

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MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at June 30, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,240,000	\$ 1,240,000
Buildings	99,318,562	96,418,082
Furniture and equipment	8,932,178	8,838,174
Musical instruments and audio equipment	4,909,036	4,897,036
Library books, music, and art work	1,199,953	1,199,953
Construction in progress	204,500	699,309
	<u>115,804,229</u>	<u>113,292,554</u>
Accumulated depreciation	<u>(49,332,431)</u>	<u>(46,245,321)</u>
	<u>\$ 66,471,798</u>	<u>\$ 67,047,233</u>

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

Construction in progress at June 30, 2020 is related to roof and elevator replacement. Construction in progress at June 30, 2019 was related to the Neidorff-Karpati Hall Phase 2 of the project, including the renovation of the lower lounge, which was placed in service in February 2020.

Depreciation expense was \$3,087,110 and \$3,130,039 for the years ended June 30, 2020 and 2019, respectively.

NOTE 6 - INDEBTEDNESS

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

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

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 6 - INDEBTEDNESS (Continued)

On October 30, 2014, the Israel Discount Bank of New York (the Bank) purchased the outstanding principal balance of the Series 2009A Bonds totaling \$35,670,000. In October 2014, the School entered into an Amended and Restated Continuing Covenant Agreement with the Bank. The interest rate is set at a fixed rate of 2.92% for a 15 year term through October 2029. The maturity schedule does not change under the new agreement. The Amended and Restated Continuing Covenant Agreement requires that the School maintain specific financial ratios, as well as other financial and operational standards. At June 30, 2020, the School was not in compliance with the minimum liquidity covenant which requires the School maintain liquidity of not less than \$7,000,000 at the close of each fiscal year. The School obtained a waiver from the lender through June 30, 2021.

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 2020 and 2019 was \$833,566 and \$890,751, respectively.

The maturities of the bonds payable are as follows:

<u>Year ending June 30,</u>	
2021	\$ 2,035,000
2022	2,160,000
2023	2,290,000
2024	2,430,000
2025	2,575,000
Thereafter	<u>15,435,000</u>
	26,925,000
Less unamortized bond issuance costs	<u>(247,339)</u>
	<u>\$ 26,677,661</u>

NOTE 7 - EQUIPMENT FINANCING OBLIGATION

On April 21, 2016, the School entered into an equipment lease obligation with First American Equipment Finance, A City National Bank Company, for the sole purpose of financing the purchase and installation of various HVAC equipment in the amount of \$2,000,000. Installments of \$30,500 are due monthly, and the payment schedule of principal and interest is calculated at an annualized interest rate of 3.21%, including a final payment of \$360,000 due to be paid in 2021. The outstanding balance of the equipment financing obligation is \$666,754 and \$1,008,148 as of June 30, 2020 and 2019, respectively.

NOTE 8 - NOTES PAYABLE AND LINE OF CREDIT PAYABLE

On November 9, 2017, the School established a \$10,000,000 revolving line of credit arrangement with First American Commercial Bancorp, Inc., A City National Bank Company, for the sole purpose of obtaining bridge financing for the renovation of Neidorff-Karpati Hall. The line of credit bore interest at the prime rate minus 1.00% per annum and converted to a term note at a fixed rate of 4.66% per annum at December 31, 2018 with a maturity date of December 2024. The outstanding balance on the note payable and line of credit payable was \$4,853,772 and \$8,825,914, respectively, for the years ended June 30, 2020 and 2019.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 8 - NOTES PAYABLE AND LINE OF CREDIT PAYABLE (Continued)

On December 1, 2018, the School established a \$2,799,963 term note at with First American Commercial Bancorp, Inc., A City National Bank Company, for the sole purpose of obtaining short-term bridge financing for the renovation of Neidorff-Karpati Hall. The term note bears interest at the prime rate minus 1.00% per annum, which resulted in a 4.5% interest rate at June 30, 2019. The term note was paid in full in July 2019.

Interest expense on notes payable and line of credit during 2020 and 2019 was \$265,757 and \$313,270, respectively.

NOTE 9 - NET ASSETS AND ENDOWMENT

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

	<u>2020</u>	<u>2019</u>
<u>With donor restrictions of a temporary nature</u>		
Scholarships	\$ 3,204,041	\$ 4,178,199
Capital purchases	2,879,548	5,828,763
Educational programs	372,347	1,075,945
General operations of the School	<u>386,314</u>	<u>528,023</u>
	6,842,250	11,610,930
<u>With donor restrictions to be kept in perpetuity</u>		
Scholarships	22,016,259	21,843,541
Educational programs	2,471,226	2,392,693
General operations of the School	<u>2,781,773</u>	<u>2,781,773</u>
	<u>27,269,258</u>	<u>27,018,007</u>
 Total net assets with donor restrictions	 <u>\$ 34,111,508</u>	 <u>\$ 38,628,937</u>

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

	<u>2020</u>	<u>2019</u>
Scholarships	\$ 649,963	\$ 756,769
Capital purchases	5,657,375	5,450,927
Educational programs	772,780	635,873
General operations of the School	<u>19,838</u>	<u>455,641</u>
	<u>\$ 7,099,956</u>	<u>\$ 7,299,210</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.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 9 - NET ASSETS AND ENDOWMENT (Continued)

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

The following table presents the changes in donor-restricted endowment funds for the years ended June 30, 2020 and 2019. These balances include contributions receivable restricted for the endowment of \$646,841 and \$653,383 at June 30, 2020 and 2019. The School does not have any endowment funds without donor restrictions.

	<u>With Donor Restrictions</u>
Endowment net assets, July 1, 2018	\$ 29,159,817
Investment gain	2,168,640
Contributions	515,063
Appropriation per spending policy	<u>(1,364,917)</u>
Endowment net assets, June 30, 2019	30,478,603
Investment loss	(1,380,061)
Contributions	257,792
Appropriation per spending policy	<u>(1,364,917)</u>
Endowment net assets, June 30, 2020	<u>\$ 27,991,417</u>

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

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 10 - BENEFIT PLANS

The School sponsors a defined contribution plan established under the provisions of Section 403(b) of the Internal Revenue Code, which includes a qualified deferred arrangement, for the benefit of eligible employees of the School. The plan also provides for tax-deferred elective contributions for eligible employees. The School's policy is to fund, on a current basis, pension costs accrued under this plan. Total annual costs under this plan for the years ended June 30, 2020 and 2019 amounted to \$1,048,300 and \$985,324, respectively.

The School participates in a multiemployer union pension plan, Building Service 32BJ Pension Fund. The Employer Identification Number is 13-1879376, and the three-digit Pension Plan number is 001. The most recent Pension Protection Act (PPA) zone status is red at July 1, 2018, which is for the plan year ended June 30, 2019. The zone status is based on information that the School received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The plan's sponsor has indicated that a rehabilitation plan has been implemented, as required by the PPA. The expiration date of the collective bargaining agreement requiring contributions to the plan is December 31, 2023. The contributions by the School to the union pension fund were approximately \$60,000 for the years ended June 30, 2020 and 2019. These contributions represent 100% fulfillment of the School's contractual obligations to the union pension fund for each of the respective years. Under the terms of the plan if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. At the date the financial statements were issued, Form 5500 was not available for the plan for the years ended June 30, 2020 and 2019.

The School also participates in a multiemployer union health fund, Building Service 32BJ Health Fund. The Employer Identification Number is 13-2928869, and the three-digit Pension Plan number is 501. The contributions by the School to the union health fund were approximately \$188,000 and \$175,000 for the years ended June 30, 2020 and 2019. At the date the financial statements were issued, Form 5500 was not available for the plan years ended June 30, 2020 and 2019.

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

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 11 - FUNCTIONAL EXPENSES BY NATURAL CLASSIFICATION

The allocations of certain categories of expenses attributable to more than one program or supporting function is described in Note 1. The tables below present these functional expenses by their natural classification for the year ended June 30, 2020 and 2019.

June 30, 2020

	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Auxiliary Services</u>	<u>Total Program Service Expense</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 14,671,366	\$ 3,293,541	\$ 2,321,715	\$ 938,065	\$ 21,224,687	\$ 3,086,892	\$ 666,077	\$ 24,977,656
Benefits	3,448,721	894,894	638,042	76,389	5,058,047	1,155,401	122,370	6,335,818
Services	430,032	90,089	288,504	71,830	880,455	1,708,947	96,309	2,685,711
Supplies	243,155	271,820	84,126	253,469	852,570	400,226	37,277	1,290,073
Occupancy and utilities	880,114	348,052	192,777	2,372,342	3,793,284	211,919	14,011	4,019,214
Operating expenses	19,673,388	4,898,396	3,525,164	3,712,095	31,809,043	6,563,385	936,044	39,308,472
Depreciation & amortization	1,128,937	113,596	156,525	1,659,464	3,058,522	50,372	8,251	3,117,144
Other	78,000	957	3,412	363,382	445,751	6,972	1,807	454,531
Total expenses	<u>\$ 20,880,325</u>	<u>\$ 5,012,949</u>	<u>\$ 3,685,101</u>	<u>\$ 5,734,941</u>	<u>\$ 35,313,316</u>	<u>\$ 6,620,729</u>	<u>\$ 946,102</u>	<u>\$ 42,880,147</u>

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 11 - FUNCTIONAL EXPENSES BY NATURAL CLASSIFICATION (Continued)

June 30, 2019

	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Auxiliary Services</u>	<u>Total Program Service Expense</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 14,687,940	\$ 3,820,892	\$ 2,056,987	\$ 889,225	\$ 21,455,044	\$ 3,026,793	\$ 744,557	\$ 25,226,394
Benefits	3,412,387	858,542	573,100	76,752	4,920,781	1,052,113	140,838	6,113,732
Services	1,135,627	180,056	415,613	33,327	1,764,623	2,146,311	124,129	4,035,063
Supplies	286,247	513,527	93,607	185,780	1,079,161	489,360	52,608	1,621,129
Occupancy and utilities	<u>958,865</u>	<u>599,284</u>	<u>242,316</u>	<u>2,101,958</u>	<u>3,902,423</u>	<u>270,721</u>	<u>18,381</u>	<u>4,191,525</u>
Operating expenses	20,481,066	5,972,301	3,381,623	3,287,042	33,122,032	6,985,298	1,080,513	41,187,843
Depreciation & amortization	1,017,316	212,793	194,697	1,651,421	3,076,227	73,523	10,321	3,160,071
Other	<u>274,898</u>	<u>42,852</u>	<u>52,177</u>	<u>125,047</u>	<u>494,974</u>	<u>10,915</u>	<u>781</u>	<u>506,670</u>
Total expenses	<u>\$ 21,773,280</u>	<u>\$ 6,227,946</u>	<u>\$ 3,628,497</u>	<u>\$ 5,063,510</u>	<u>\$ 36,693,233</u>	<u>\$ 7,069,736</u>	<u>\$ 1,091,615</u>	<u>\$ 44,854,584</u>

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 12 - LIQUIDITY AND AVAILABILITY

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

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 5,027,382	\$ 5,788,070
Contributions receivable, net	3,867,946	6,505,893
Student loans receivable	584,831	626,292
Investments	<u>27,553,929</u>	<u>29,667,057</u>
Total financial assets	<u>37,034,088</u>	<u>42,587,313</u>
Less amounts not available for general expenditure within one year:		
Contributions receivable restricted for endowment	646,841	653,383
Contributions receivable, net due greater than one year	2,401,173	2,674,387
Student loans receivable due greater than one year	584,831	625,717
Donor restricted endowment funds net next year's estimated draw	26,593,101	29,113,686
Cash designated for line of credit repayment	<u>-</u>	<u>2,799,963</u>
Financial assets not available to be used within one year	<u>30,225,946</u>	<u>35,867,136</u>
Financial assets available to meet general expenditures within one year	<u>\$ 6,808,142</u>	<u>\$ 6,720,177</u>

The School's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amount available for general use and subject to the School's spending policy. Donor-restricted endowment funds are not available for general expenditure. The Board of Trustees approved a budgeted endowment draw of \$1,398,316 for fiscal year 2021 which is considered available for general expenditure within one year in the table above.

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

NOTE 13 - SUBSEQUENT EVENTS

The School evaluated events subsequent to December 16, 2020, the date on which the financial statements were available to be issued, and concluded that no additional disclosures are required.

NOTE 14 - COVID-19 IMPACT ON THE SCHOOL

In December 2019, a novel strain of coronavirus surfaced and spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In response to the pandemic and in compliance with various state and local ordinances, the School moved to online instruction from March 23, 2020 through the end of the 2019-2020 academic year. In addition, summer programs normally held in person at the College were held online.

The operations and business results of the School could be materially adversely affected in the future. In addition, significant estimates as disclosed in Note 1, such as fair values of investments and the allowance for doubtful accounts, may be materially adversely impacted by national, state and local events designed to contain the coronavirus. In September 2020, the School re-opened to in-person instruction for the 2020-2021 academic year.

In April 2020, the School received an allocation of Higher Education Emergency Relief Funding through the CARES Act totaling \$441,481 for emergency grants to students and institutional support in response to the COVID-19 pandemic. The funds were fully expended, and the government grant revenue was fully recognized during the year ended June 30, 2020.

(Continued)

MANHATTAN SCHOOL OF MUSIC
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 15 - U.S. DEPARTMENT OF EDUCATION SUPPLEMENTAL DISCLOSURES

The Department of Education issued regulations on September 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV.

Net Assets

1. Annuities with donor restrictions \$ -

Property, Plant and Equipment, net

2. Pre-implementation property, plant and equipment, (PP&E, net)	
a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2019)	67,047,233
b. Less subsequent depreciation and disposals	<u>(3,087,110)</u>
c. Property, plant and equipment pre-implementation	63,960,123
3. Property, plant and equipment post-implementation with outstanding debt for original purchase	-
4. Property, plant and equipment post-implementation without outstanding debt for original purchase	2,307,175
5. Construction in progress acquired subsequent to June 30, 2019	204,500
6. Total property plant, and equipment, net - June 30, 2020	<u><u>66,471,798</u></u>

Debt to be excluded from expendable net assets

7. Pre-implementation debt	
a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2019)	38,679,132
b. less subsequent debt repayments	<u>(6,233,606)</u>
c. Long-term debt for long term purposes pre-implementation	32,445,526
8. Long-term debt for long term purposes post-implementation	-
9. Long-term debt not for the purchase of property, plant and equipment or liability greater than assets value	-
10. Construction in progress financed with short term debt	-
11. Long-term debt for long term purposes	<u><u>32,445,526</u></u>

Expenses and losses

12. Non-operating expenses and losses	
a. Depreciation and amortization expense	3,117,144
b. Other expense	454,531
c. Total non-operating expenses and losses	<u>\$ 3,571,675</u>

Net Income

13. Revenues and gains	
a. Total operating revenue and other additions	45,670,160
b. Non-operating investments, net	(1,364,917)
c. Net assets released from restrictions for capital expenditures	5,657,375
d. Total revenues and gains	<u><u>\$ 49,962,618</u></u>

SUPPLEMENTARY INFORMATION

MANHATTAN SCHOOL OF MUSIC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2020

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Student Financial Assistance Cluster:		
U.S. Department of Education:		
Federal Supplemental Educational Opportunity Grant Program	84.007	\$ 37,083
Federal Work Study Program	84.033	167,678
Federal Perkins Loan Program	84.038	625,717
Federal Pell Grant Program	84.063	360,728
Federal Direct Loan Program	84.268	<u>8,359,684</u>
Total student financial assistance cluster		<u>9,550,890</u>
COVID-19 Higher Education Emergency Relief Fund (HEERF) Cluster:		
COVID-19 HEERF Student Aid Portion	84.425E	220,741
COVID-19 HEERF Institutional Aid Portion	84.425F	<u>220,740</u>
Total COVID-19 HEERF Cluster		<u>441,481</u>
Total expenditures of federal awards		<u><u>\$ 9,992,371</u></u>

The accompanying notes are an integral part of the
Schedule of Expenditures of Federal Awards.

MANHATTAN SCHOOL OF MUSIC
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the activity of Manhattan School of Music (the "School") for the year ended June 30, 2020 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 - FEDERAL LOAN PROGRAMS

The amount presented on the schedule of expenditures of federal awards for the Federal Perkins Loan Program represents loan balances outstanding at June 30, 2019 for which the government imposes continuing compliance requirements. No disbursements are permitted under the Federal Perkins Loan Program subsequent to June 30, 2018. As of June 30, 2020, the School's outstanding Perkins loan balance is \$586,008.

The School also participates in the Federal Direct Student Loans Program and Federal PLUS Loans (PLUS). The dollar amounts are listed in the schedule of federal awards although the School is not the recipient of the funds. Such programs are considered a component of the student financial assistance cluster.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Manhattan School of Music (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2020, except as to note 15, which is as of May 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for determining audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Crowe LLP

New York, New York
December 16, 2020, except as to Note 15, which is
as of May 20, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

We have audited Manhattan School of Music's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Manhattan School of Music complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

(Continued)

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance and Report on Financial Responsibility Supplemental Schedule Required by US Department of Education

We have audited the financial statements of the Manhattan School of Music as of and for the year ended June 30, 2020, and have issued our report thereon dated December 16, 2020, except as to note 15, which is as of May 20, 2021, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Financial Responsibility Supplemental Schedule required by US Department of Education are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.


Crowe LLP

New York, New York
May 20, 2021

MANHATTAN SCHOOL OF MUSIC
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2020

Section I—Summary of Auditor’s Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Loan Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

(Continued)

MANHATTAN SCHOOL OF MUSIC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2020

Section II—Financial Statement Findings

None reported.

Section III—Federal Award Findings and Questioned Costs

None reported.

MANHATTAN SCHOOL OF MUSIC
 FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE –
 U.S. DEPARTMENT OF EDUCATION
 June 30, 2020

Ratio Element	Reference to Financial Statements and/or Notes	Element Amount
Primary Reserve Ratio		
<u>Expendable net assets:</u>		
Net assets without donor restrictions	Statement of Financial Position	\$ 35,429,029
Net assets with donor restrictions	Statement of Financial Position	34,111,508
Annuities with donor restrictions	Not applicable	-
Term endowments with donor restrictions	Not applicable	-
Life income funds with donor restrictions	Not applicable	-
Secured and unsecured related party receivable	Not applicable	-
Unsecured related party receivable	Not applicable	-
Grant advance liability	Not applicable	-
<u>Property, plant and equipment, net (includes construction in progress)</u>		
Property, plant and equipment pre-implementation	Note disclosure 15	63,960,123
Property, plant and equipment post-implementation with outstanding debt for original purchase	Note disclosure 15	-
Property, plant and equipment post-implementation without outstanding debt for original purchase	Note disclosure 15	2,307,175
Construction in progress, acquired after June 30, 2019	Note disclosure 15	204,500
<u>Lease right-of-use asset, net</u>		
Lease right-of-use asset, pre-implementation	Not applicable	-
Lease right-of-use asset, post-implementation	Not applicable	-
<u>Long-term debt - for long term purposes</u>		
Long-term debt - for long term purposes pre-implementation	Note disclosure 15	32,445,526
Long-term debt - for long term purposes post-implementation	Not applicable	-
Line of credit for construction in progress	Not applicable	-
<u>Lease right-of-use asset liability</u>		
Pre-implementation right-of-use asset liability	Not applicable	-
Post-implementation right-of-use asset liability	Not applicable	-
<u>Net assets with donor restrictions: restricted in perpetuity</u>		
	Note disclosure 9	27,269,258
<u>Total expenses and losses without donor restrictions</u>		
Total operating expenses without donor restriction	Statement of Activities	39,308,472
Total non-operating expenses and losses - without donor restrictions	Note disclosure 15	3,571,675
Pension-related changes other than net periodic costs	Not applicable	-
Net investment loss	Not applicable	-
Equity Ratio		
<u>Modified net assets</u>		
Net assets without donor restrictions	Statement of Financial Position	\$ 35,429,029
Net assets with donor restrictions	Statement of Financial Position	34,111,508
Intangible assets	Not applicable	-
Secured and unsecured related party receivables	Not applicable	-
Unsecured related party receivables	Not applicable	-
Grant advance liability	Not applicable	-
<u>Modified assets</u>		
Total assets	Statement of Financial Position	105,386,278
Lease right-of-use asset pre-implementation	Not applicable	-
Pre-implementation right-of-use asset liability	Not applicable	-
Intangible assets	Not applicable	-
Secured and unsecured related party receivable	Not applicable	-
Unsecured related party receivable	Not applicable	-
Net Income Ratio		
Change in net assets without donor restrictions	Statement of Activities	7,082,471
Total revenue and gains without donor restrictions	Note disclosure 15	49,962,618