

**SOCIETY OF THE THIRD STREET  
MUSIC SCHOOL SETTLEMENT**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017 AND 2016**

# SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## TABLE OF CONTENTS

	<b>Page</b>
Independent Auditors' Report .....	1-2
Financial Statements	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6-16
Supplementary Information	
Independent Auditors' Report on Supplementary Information .....	18
Schedule of Functional Expenses .....	19



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Society of the Third Street Music School Settlement

We have audited the accompanying financial statements of Society of the Third Street Music School Settlement (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 entity'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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Society of the Third Street Music School Settlement as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Lotz + Carr, LLP*

New York, New York  
October 26, 2017

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>								
Cash and cash equivalents (Notes 1b and 12)	\$ 1,209,054	\$ 284,350	\$ 9,027	\$ 1,502,431	\$ 1,322,869	\$ 630,762	\$ 4,792	\$ 1,958,423
Unconditional promises to give (Notes 1c and 4)								
Unrestricted	114,073	-	-	114,073	89,750	-	-	89,750
Restricted to future programs and periods	-	287,645	-	287,645	-	583,629	-	583,629
Restricted to the capital campaign	26,500	-	-	26,500	-	190,945	-	190,945
Tuition and other receivables (net of allowance for doubtful accounts of \$38,000 in 2017 and 2016)	1,154,016	-	-	1,154,016	1,136,562	-	-	1,136,562
Prepaid expenses and other current assets	46,903	-	-	46,903	58,733	-	-	58,733
Investments (Notes 1d, 1e and 5)	4,870,989	1,360,819	4,666,776	10,898,584	4,557,712	1,048,078	4,661,676	10,267,466
Renovation project - in progress (Note 6b)	-	-	-	-	-	262,355	-	262,355
Property and equipment, at cost (net of accumulated depreciation) (Notes 1f and 6a)	5,002,364	-	-	5,002,364	4,180,337	-	-	4,180,337
<b>Total Assets</b>	<b>\$12,423,899</b>	<b>\$ 1,932,814</b>	<b>\$ 4,675,803</b>	<b>\$19,032,516</b>	<b>\$11,345,963</b>	<b>\$ 2,715,769</b>	<b>\$ 4,666,468</b>	<b>\$18,728,200</b>
<b>Liabilities and Net Assets</b>								
Liabilities								
Accounts payable and other current liabilities - operating	\$ 417,584	\$ -	\$ -	\$ 417,584	\$ 310,785	\$ -	\$ -	\$ 310,785
Accounts payable - capital	-	-	-	-	-	164,832	-	164,832
Deferred tuition revenue (Note 1g)	2,321,478	-	-	2,321,478	2,034,377	-	-	2,034,377
Total Liabilities	2,739,062	-	-	2,739,062	2,345,162	164,832	-	2,509,994
Contingency (Notes 7 and 8)								
Net Assets (Note 2)								
Board designated reserve	5,551,486	-	-	5,551,486	5,234,873	-	-	5,234,873
Operating	(869,013)	571,995	-	(297,018)	(414,409)	817,629	-	403,220
Property and equipment	5,002,364	-	-	5,002,364	4,180,337	-	-	4,180,337
Capital campaign	-	-	-	-	-	685,230	-	685,230
Cash reserve	-	-	348,435	348,435	-	-	348,435	348,435
Endowment	-	1,360,819	4,327,368	5,688,187	-	1,048,078	4,318,033	5,366,111
Total Net Assets	9,684,837	1,932,814	4,675,803	16,293,454	9,000,801	2,550,937	4,666,468	16,218,206
<b>Total Liabilities and Net Assets</b>	<b>\$12,423,899</b>	<b>\$ 1,932,814</b>	<b>\$ 4,675,803</b>	<b>\$19,032,516</b>	<b>\$11,345,963</b>	<b>\$ 2,715,769</b>	<b>\$ 4,666,468</b>	<b>\$18,728,200</b>

See notes to financial statements.

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Changes in Net Assets</b>								
Operating Revenue and Contributed Support								
Tuition and registration (net of scholarships of \$709,654 (2017) and \$619,835 (2016) (Notes 1g and 9)	\$ 3,616,365	\$ -	\$ -	\$ 3,616,365	\$ 3,292,609	\$ -	\$ -	\$ 3,292,609
School partnerships	558,302	-	-	558,302	473,917	-	-	473,917
Contributions								
Government agencies	192,500	30,000	-	222,500	187,500	15,000	-	202,500
Foundations, trusts and corporations	609,164	64,516	-	673,680	689,156	405,197	-	1,094,353
Individuals and others	349,055	-	9,335	358,390	309,023	4,500	11,419	324,942
Estates, trusts and bequests	-	-	-	-	263,492	-	-	263,492
Special events income	635,346	-	-	635,346	544,427	-	-	544,427
Less: Cost of direct benefits	(163,743)	-	-	(163,743)	(129,142)	-	-	(129,142)
Miscellaneous	19,427	-	-	19,427	23,621	-	-	23,621
	<u>5,816,416</u>	<u>94,516</u>	<u>9,335</u>	<u>5,920,267</u>	<u>5,654,603</u>	<u>424,697</u>	<u>11,419</u>	<u>6,090,719</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	610,038	(610,038)	-	-	543,781	(543,781)	-	-
	<u>6,426,454</u>	<u>(515,522)</u>	<u>9,335</u>	<u>5,920,267</u>	<u>6,198,384</u>	<u>(119,084)</u>	<u>11,419</u>	<u>6,090,719</u>
Operating Expenses								
Program Services								
Instruction	4,249,227	-	-	4,249,227	3,942,245	-	-	3,942,245
School partnerships	1,003,954	-	-	1,003,954	893,628	-	-	893,628
Performances	91,920	-	-	91,920	87,799	-	-	87,799
Total Program Services	<u>5,345,101</u>	<u>-</u>	<u>-</u>	<u>5,345,101</u>	<u>4,923,672</u>	<u>-</u>	<u>-</u>	<u>4,923,672</u>
Supporting Services								
Management and general	647,509	-	-	647,509	650,525	-	-	650,525
Fundraising	606,366	-	-	606,366	520,864	-	-	520,864
Total Supporting Services	<u>1,253,875</u>	<u>-</u>	<u>-</u>	<u>1,253,875</u>	<u>1,171,389</u>	<u>-</u>	<u>-</u>	<u>1,171,389</u>
Depreciation	<u>532,860</u>	<u>-</u>	<u>-</u>	<u>532,860</u>	<u>312,567</u>	<u>-</u>	<u>-</u>	<u>312,567</u>
Total Operating Expenses	<u>7,131,836</u>	<u>-</u>	<u>-</u>	<u>7,131,836</u>	<u>6,407,628</u>	<u>-</u>	<u>-</u>	<u>6,407,628</u>
Increase (Decrease) in Net Assets from Operations	<u>(705,382)</u>	<u>(515,522)</u>	<u>9,335</u>	<u>(1,211,569)</u>	<u>(209,244)</u>	<u>(119,084)</u>	<u>11,419</u>	<u>(316,909)</u>
Non-Operating Activity								
Investment income (loss), net of investment fees (Note 5)	513,133	582,629	-	1,095,762	(61,637)	(43,079)	-	(104,716)
Capital campaign contributions (Note 10)	191,055	-	-	191,055	-	276,219	-	276,219
Net assets released from restrictions								
Satisfaction of capital restrictions	685,230	(685,230)	-	-	3,472,378	(3,472,378)	-	-
Total Non-Operating Income and Contributed Support	<u>1,389,418</u>	<u>(102,601)</u>	<u>-</u>	<u>1,286,817</u>	<u>3,410,741</u>	<u>(3,239,238)</u>	<u>-</u>	<u>171,503</u>
Increase (decrease) in net assets	684,036	(618,123)	9,335	75,248	3,201,497	(3,358,322)	11,419	(145,406)
Net assets, beginning of year	<u>9,000,801</u>	<u>2,550,937</u>	<u>4,666,468</u>	<u>16,218,206</u>	<u>5,799,304</u>	<u>5,909,259</u>	<u>4,655,049</u>	<u>16,363,612</u>
<b>Net Assets, End of Year</b>	<u>\$ 9,684,837</u>	<u>\$ 1,932,814</u>	<u>\$ 4,675,803</u>	<u>\$16,293,454</u>	<u>\$ 9,000,801</u>	<u>\$ 2,550,937</u>	<u>\$ 4,666,468</u>	<u>\$16,218,206</u>

See notes to financial statements.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ 75,248	\$ (145,406)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized (gain) loss on investments	(446,666)	471,638
Net realized gain on sale of investments	(408,502)	(95,479)
Depreciation	532,860	312,567
Contributions for renovation project	(191,055)	(276,219)
Contributions for endowment	(9,335)	(11,419)
Bad debts	42,046	70,380
(Increase) decrease in:		
Unconditional promises to give	271,661	(50,037)
Tuition and other receivables	(59,500)	361,736
Prepaid expenses and other current assets	11,830	43,616
Increase (decrease) in:		
Accounts payable and other current liabilities - operating	106,799	(54,614)
Deferred tuition revenue	287,101	(401,100)
Net Cash Provided By Operating Activities	212,487	225,663
 <b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(104,437)	(287,533)
Payments for renovation project	(1,152,927)	(2,864,047)
Purchase of investments	(3,313,491)	(1,540,083)
Proceeds from sale of investments	3,537,541	1,621,528
Net Cash Used By Investing Activities	(1,033,314)	(3,070,135)
 <b>Cash Flows From Financing Activities</b>		
Contributions received for renovation project	355,500	1,514,554
Contributions received for endowment	9,335	11,419
Net Cash Provided By Financing Activities	364,835	1,525,973
 Net decrease in cash and cash equivalents	(455,992)	(1,318,499)
Cash and cash equivalents, beginning of year	1,958,423	3,276,922
 <b>Cash and Cash Equivalents, End of Year</b>	<b>\$1,502,431</b>	<b>\$1,958,423</b>

See notes to financial statements.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Founded in 1894, Society of the Third Street Music School Settlement (the "School") is the longest-running community music school in the nation. With roots in the late 19<sup>th</sup> century settlement house movement, the School was instrumental in establishing community arts education in the United States and has continued to change the lives of its students and community by providing access to high-quality music and arts instruction to students of all ages and backgrounds, regardless of artistic experience or circumstances. During the year ended June 30, 2017, the School served more than 5,800 students. This includes 1,700 individuals at its East 11th Street location and 4,100 children across 29 New York City public schools and community partnerships. More than 75% of its students benefit from tuition assistance, including need-based financial aid and merit-based scholarships or participate in low cost or tuition-free instruction and enrichment programs. The School is known for its vibrant chamber music programs, a music-centered preschool and early childhood program, its focus on adult programming, its commitment to woodwinds and brass instruction for pre-teen and teenage beginners, and its acclaimed faculty. The School offers weekly after-school and Saturday music instruction in most instruments and voice, along with music theory, composition, chamber music, ensemble and many performance activities. The School also offers classes in ballet, tap dance and hip-hop. In addition, a range of summer workshops is offered. As part of its educational mission and in service to the broader community, the School presents more than 250 free-to-the-public concerts and recitals by faculty, students and renowned guest artists each year.

**b - Cash and Cash Equivalents**

For purposes of the statement of cash flows, the School considers all unrestricted highly liquid investments, purchased with a maturity of three months or less, to be cash equivalents, except for cash managed by the School's investment managers as part of their long-term investment strategies.

**c - Contributions and Unconditional Promises to Give**

Contributions are recognized when the donor makes a promise to give to the School, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that the donor requires to be used to acquire and or develop long-lived assets are reclassified to unrestricted net assets at the time the long-lived assets are placed in service.



**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

c - Contributions and Unconditional Promises to Give (continued)

The School uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

d - Investments

The School reflects investments at fair value in the statement of financial position. Interest, dividends, and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income that is limited to specific uses by donor-imposed restrictions is reported in unrestricted net assets if the restrictions are met in the fiscal year in which the investment income is recognized.

e - Fair Value Measurements

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1      quoted prices for identical instruments in active markets;

Level 2      quoted prices for similar instruments in active markets; and quoted prices for identical or similar instruments in markets that are not active; and

Level 3      instruments the significant inputs of which are unobservable

f - Property and Equipment

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful life of the asset.

g - Tuition

Tuition and related fees relating to future periods are deferred and recognized as revenue in the period the class takes place.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****h - Financial Statement Presentation**

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**i - Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**j - Tax Status**

Society of the Third Street Music School Settlement is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

**k - Subsequent Events**

The School has evaluated subsequent events through October 26, 2017, the date that the financial statements are considered available to be issued.

**l - New Accounting Pronouncement**

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not for Profit Entities ("ASU 2016-14"). The new standard looks to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this update, which amend the requirements for financial statements and notes, require not-for-profit entities to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. Other amendments include improved quantitative and qualitative disclosures in the footnotes. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The School is evaluating the impact this will have on the financial statements.

**Note 2 - Restriction on Assets****a - Board Designated Reserve**

The Board Designated Reserve has been designated, by a resolution of the Board of Directors, to be set aside for specific purposes subject to Board approval. Withdrawals from this reserve must be authorized by the Board of Directors or the Executive Committee.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 2 - Restriction on Assets (continued)**

a - Board Designated Reserve (continued)

At June 30, 2017 and 2016, the Board Designated Reserve consists of the following:

	<u>2017</u>	<u>2016</u>
General operating reserve	\$4,149,858	\$4,149,858
Capital Projects Reserve	1,101,628	785,015
Barbara Field Chamber Music Fund	<u>300,000</u>	<u>300,000</u>
	<u>\$5,551,486</u>	<u>\$5,234,873</u>

The purpose of the Capital Projects Reserve is to fund the costs of approved capital expenditures for which separate funding is not secured. An amount equal to depreciation of property and equipment, net of unfunded capital expenditures, is added to the reserve on an annual basis.

The Barbara Field Chamber Music Fund was established to honor Barbara Field's distinguished service as Executive Director of the School. The purpose of the Fund is to create a permanent means of support for the School's chamber and ensemble music instruction and performance programs. (See Note 2(c)(2) for permanently restricted contributions to this fund.)

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2017</u>	<u>2016</u>
Operating		
Future programs and periods	<u>\$ 571,995</u>	<u>\$ 817,629</u>
Endowment		
Scholarships/financial aid	657,891	516,909
Faculty development	230,439	183,454
Chamber music	199,181	158,539
General purposes	<u>273,308</u>	<u>189,176</u>
	<u>1,360,819</u>	<u>1,048,078</u>
Capital campaign (See Note 10)	<u>-</u>	<u>685,230</u>
	<u>\$1,932,814</u>	<u>\$2,550,937</u>

Temporarily restricted net assets - endowment - consists of cumulative investment income earned on restricted endowment assets.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 2 - Restriction on Assets (continued)**

c - Permanently Restricted Net Assets

1 - Cash Reserve

The reserve is permanent in nature and all borrowing from the fund must be repaid within two years. There were no borrowings outstanding as of June 30, 2017 and 2016.

2 - Endowment

The School's endowments are permanently restricted. The income generated is restricted for the following programs of the School:

	<u>Endowment Principal</u>	<u>2017 Net Investment Gain</u>
Scholarship/financial aid funds	\$1,429,071	\$256,483
Faculty development	662,951	91,653
General purposes, including additional scholarship and program support	1,661,748	155,213
Barbara Field Chamber Music Fund	<u>573,598</u>	<u>79,280</u>
	<u>\$4,327,368</u>	<u>\$582,629</u>

**Note 3 - Endowment Funds**

The School's endowment consists of numerous donor-restricted funds established for a variety of purposes. Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with New York State Not-for-Profit Corporation Law and the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The accumulated earnings of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 3 - Endowments Funds (continued)**

In accordance with NYPMIFA, the School considers the following factors (and the directions of the donor) in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the School and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the School;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the School; and
- (viii) the investment policy of the School

As of June 30, 2017 and 2016, the composition of the School's invested endowment funds is summarized as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds, 2017	<u>\$1,360,819</u>	<u>\$4,318,341</u>	<u>\$5,679,160</u>
Donor-restricted funds, 2016	<u>\$1,048,078</u>	<u>\$4,313,241</u>	<u>\$5,361,319</u>

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$1,048,078</u>	<u>\$4,313,241</u>	<u>\$5,361,319</u>
Investment Return:			
Investment income	136,906	-	136,906
Net appreciation (realized and unrealized)	<u>445,723</u>	<u>-</u>	<u>445,723</u>
Total Investment Return	<u>582,629</u>	<u>-</u>	<u>582,629</u>
Transfer of contributions	<u>-</u>	<u>5,100</u>	<u>5,100</u>
Appropriation to unrestricted assets	<u>(269,888)</u>	<u>-</u>	<u>(269,888)</u>
Endowment Net Assets, End of Year	<u>\$1,360,819</u>	<u>\$4,318,341</u>	<u>\$5,679,160</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 3 - Endowments Funds (continued)**

	<b>2016</b>		
	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Endowment net assets, beginning of year	<u>\$1,359,688</u>	<u>\$4,296,173</u>	<u>\$5,655,861</u>
Investment Return:			
Investment income	152,333	-	152,333
Net depreciation (realized and unrealized)	<u>(195,412)</u>	<u>-</u>	<u>(195,412)</u>
Total Investment Return	<u>(43,079)</u>	<u>-</u>	<u>(43,079)</u>
Transfer of contributions	<u>-</u>	<u>17,068</u>	<u>17,068</u>
Appropriation to unrestricted assets	<u>(268,531)</u>	<u>-</u>	<u>(268,531)</u>
Endowment Net Assets, End of Year	<u>\$1,048,078</u>	<u>\$4,313,241</u>	<u>\$5,361,319</u>

*Return Objective and Risk Parameters*

The School has adopted investment and spending policies for its endowment or donor restricted assets and its unrestricted assets held in its investment funds. The primary objective is to provide long-term support for capital and operating programs and to maximize total return while protecting the investments inflation adjusted value over time. Under these policies, as approved by the Board of Directors, the School's investment funds are invested in a manner that is intended to produce long-term results that meet or exceed market returns as measured by a custom index that includes all relevant asset classes.

*Strategies Employed for Achieving Objectives*

To satisfy its long-term return objectives, the School relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). To achieve these objectives within prudent risk constraints, investments are guided by a diversified asset allocation consisting of various categories of marketable equity and fixed income securities.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The School has a policy of appropriating for distribution each year up to 5% of the average market value of the investment funds over the prior three fiscal years as long as the value does not exceed 7% of the average of the investment funds' prior five fiscal year-end market values. In establishing this policy, the School considered the long-term expected return on its invested assets as well as future rates of inflation. This is consistent with the School's objective to maintain the purchasing power of the invested assets held as well as to provide additional real growth through new gifts and investment return.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 4 - Unconditional Promises to Give**

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Due within one year	\$140,573	\$130,000	\$270,573	\$520,695
Due in one to five years	-	164,000	164,000	364,000
	<u>140,573</u>	<u>294,000</u>	<u>434,573</u>	<u>884,695</u>
Less: Discount to present value	-	(6,355)	(6,355)	(20,371)
Total, 2017	<u>\$140,573</u>	<u>\$287,645</u>	<u>\$428,218</u>	
Total, 2016	<u>\$ 89,750</u>	<u>\$774,574</u>		<u>\$864,324</u>

Unconditional promises due in more than one year are discounted to present value using a discount rate of 3%. Uncollectible promises are expected to be insignificant.

**Note 5 - Investments**

Investments are stated at fair value and consist of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money markets	\$ 35,722	\$ 35,722	\$ 239,946	\$ 239,946
Mutual Funds				
Equity	6,105,569	8,026,340	4,764,700	6,234,796
Fixed income	<u>2,563,580</u>	<u>2,836,522</u>	<u>3,515,773</u>	<u>3,792,724</u>
	<u>\$8,704,871</u>	<u>\$10,898,584</u>	<u>\$8,520,419</u>	<u>\$10,267,466</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 5 - Investments (continued)**

The following schedule summarizes investment income (loss) for the years ended June 30, 2017 and 2016:

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net unrealized gain on investments	\$213,859	\$232,807	\$ 446,666
Net realized gain on sale of investments	195,586	212,916	408,502
Interest and dividend income, including capital gain distributions	131,453	139,915	271,368
Less: Investment fees	<u>(27,765)</u>	<u>(3,009)</u>	<u>(30,774)</u>
	<u>\$513,133</u>	<u>\$582,629</u>	<u>\$1,095,762</u>
	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net unrealized loss on investments	\$(226,586)	\$(245,052)	\$(471,638)
Net realized gain on sale of investments	45,839	49,640	95,479
Interest and dividend income, including capital gain distributions	147,460	155,955	303,415
Less: Investment fees	<u>(28,350)</u>	<u>(3,622)</u>	<u>(31,972)</u>
	<u>\$ (61,637)</u>	<u>\$ (43,079)</u>	<u>\$(104,716)</u>

At June 30, 2017 and 2016, all investments held by the School are classified within Level 1 (prices in active markets for identical assets or liabilities) of the fair value hierarchy.



**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**Note 6 - Property, Equipment and Renovation Project**

a - Property and equipment consist of the following:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	6,907,870	5,733,784
Courtyard renovations	10 years	175,321	175,321
Furniture and fixtures	3-8 years	380,135	281,991
Instruments	5-15 years	747,638	720,007
Registration software	2 years	<u>52,078</u>	<u>156,616</u>
		9,010,221	7,814,898
Less: Accumulated depreciation		<u>(4,177,352)</u>	<u>(3,804,056)</u>
		4,832,869	4,010,842
Land		<u>169,495</u>	<u>169,495</u>
Total		<u>\$5,002,364</u>	<u>\$4,180,337</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$532,860 and \$312,567, respectively.

b - The School began a renovation of its building in 2015. Phase 1 and 2 of the project were completed by June 30, 2017. After June 30, 2017, the School began Phase 3 renovations to create a multi-use ensemble room. In relation to this renovation, the School entered into a contract for approximately \$182,000.

**Note 7 - Retirement Benefits**

The School has a Tax Deferred Annuity Plan under Section 403(b) of the Internal Revenue Code for all employees who choose to participate. At its discretion, the School may contribute a matching contribution for all eligible employees. The pension expense amounted to \$67,924 and \$62,874 for the years ended June 30, 2017 and 2016, respectively.

**Note 8 - Contingency**

Government supported projects are subject to audit by the granting agency. Management believes that no significant adjustments, if any, would result from such audits.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 9 - Student Financial Assistance**

Scholarships of \$709,654 and \$619,835, representing the value of reductions in tuition costs, were given as scholarships and tuition assistance to students attending the school during the years ended June 30, 2017 and 2016, respectively.

In addition to the above, group instruction in music theory, composition, ensembles, chamber music and performance, with tuition value of approximately \$380,000 and \$340,000, was provided to students at no additional charge during the years ended June 30, 2017 and 2016, respectively.

**Note 10 - Capital Campaign**

In June 2014, the School's Board of Directors approved a \$5.5 million capital renovation project to transform its main rehearsal, performance and public service areas to enable the school to better serve its students, families and the community. The project focuses on renovating the auditorium for music and dance performances with state-of-the-art acoustics, transforming a former boiler room into a multi-purpose instruction, rehearsal and performance space and modernizing the freight elevator into a self-service passenger elevator. As of June 30, 2017, Phase 1 and 2 of the renovation have been completed. The final phase is the renovation of a multi-use ensemble room on the third floor which was started during the summer of 2017.

**Note 11 - Functional Allocation of Expenses**

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

**Note 12 - Concentration of Credit Risk**

The School maintains its cash and cash equivalents at financial institutions located in New York. The cash balances exceed federally insured limits.

**SUPPLEMENTARY INFORMATION**



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**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of  
Society of the Third Street Music School Settlement

We have audited the financial statements of Society of the Third Street Music School Settlement as of and for the years ended June 30, 2017 and 2016, and our report thereon dated October 26, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended June 30, 2017 with comparative totals for 2016 is presented for purposes of additional analysis and is 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 audits of the financial statements and certain additional 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.

*Lutz + Carr, LLP*

New York, New York  
October 26, 2017

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Program Services				Supporting Services			2017	2016
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$2,865,064	\$ 730,105	\$ 55,701	\$3,650,870	\$ 460,798	\$ 379,989	\$ 840,787	\$4,491,657	\$4,095,008
Employee benefits and payroll taxes	500,667	110,178	10,543	621,388	57,250	65,193	122,443	743,831	707,397
Total Personnel Expenses	3,365,731	840,283	66,244	4,272,258	518,048	445,182	963,230	5,235,488	4,802,405
Guest artists, instructional services and teaching substitutes	45,680	659	10,440	56,779	-	-	-	56,779	80,202
Professional fees and services	106,350	20,090	1,600	128,040	57,676	29,787	87,463	215,503	223,740
Student fellowships	43,750	-	-	43,750	-	-	-	43,750	20,000
Security and custodial services	68,622	17,135	1,363	87,120	8,530	8,177	16,707	103,827	95,559
Instruments, tuning, repairs and instructional supplies	50,996	3,427	2,427	56,850	-	-	-	56,850	74,229
Printing, duplicating and advertising	48,110	9,417	1,003	58,530	4,103	17,226	21,329	79,859	76,151
Telephone and internet	20,623	5,150	410	26,183	2,563	2,457	5,020	31,203	26,305
Stationery and supplies	12,314	3,353	243	15,910	1,517	1,602	3,119	19,029	25,610
Shipping, postage and delivery	9,212	1,792	143	11,147	890	7,419	8,309	19,456	11,649
Dues, conferences and professional development	38,382	9,411	379	48,172	3,950	21,656	25,606	73,778	57,245
Travel and meetings	12,781	2,995	198	15,974	2,128	1,171	3,299	19,273	13,917
Occupancy, storage and offsite rentals	132,480	27,168	2,162	161,810	21,537	12,964	34,501	196,311	185,417
Insurance	80,310	20,054	1,596	101,960	9,982	9,569	19,551	121,511	86,264
Repairs and maintenance	50,185	12,532	997	63,714	6,238	5,980	12,218	75,932	72,541
Credit card processing fees and bank charges	54,237	13,543	1,078	68,858	6,742	6,463	13,205	82,063	58,965
Bad debts	42,046	-	-	42,046	-	-	-	42,046	70,380
Special events (non-direct benefit costs)	-	-	-	-	-	19,482	19,482	19,482	25,545
Other non-personnel expenses	67,418	16,945	1,637	86,000	3,605	17,231	20,836	106,836	88,937
Total expenses before depreciation	4,249,227	1,003,954	91,920	5,345,101	647,509	606,366	1,253,875	6,598,976	6,095,061
Depreciation	352,032	87,941	6,998	446,971	43,924	41,965	85,889	532,860	312,567
Total Expenses, 2017	<u>\$4,601,259</u>	<u>\$ 1,091,895</u>	<u>\$ 98,918</u>	<u>\$5,792,072</u>	<u>\$ 691,433</u>	<u>\$ 648,331</u>	<u>\$1,339,764</u>	<u>\$7,131,836</u>	
Total Expenses, 2016	<u>\$4,134,969</u>	<u>\$ 939,367</u>	<u>\$ 91,880</u>	<u>\$5,166,216</u>	<u>\$ 680,199</u>	<u>\$ 561,213</u>	<u>\$1,241,412</u>		<u>\$6,407,628</u>

See independent auditors' report on supplementary information.