

**SOCIETY OF THE THIRD STREET MUSIC  
SCHOOL SETTLEMENT, INC.**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2012 AND 2011**

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Society of the Third Street Music School Settlement, Inc.

We have audited the accompanying statements of financial position of Society of the Third Street Music School Settlement, Inc. (a not-for-profit corporation) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Society of the Third Street Music School Settlement, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
October 18, 2012

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>								
Cash and cash equivalents (Notes 1b and 10)	\$ 372,204	\$ 55,499	\$ 188,108	\$ 615,811	\$ 355,782	\$ 62,000	\$ 89,356	\$ 507,138
Unconditional promises to give (Notes 1c and 3)								
Unrestricted	43,975	-	-	43,975	65,321	-	-	65,321
Restricted to future programs and periods	-	52,800	-	52,800	-	-	-	-
Tuition and other receivables (net of allowance for doubtful accounts of \$38,000 in 2012 and 2011)	1,145,595	-	-	1,145,595	1,408,814	-	-	1,408,814
Prepaid expenses and other current assets	38,427	-	-	38,427	50,637	-	-	50,637
Investments (Notes 1d, 1e and 4)	4,492,334	697,194	4,434,736	9,624,264	4,919,594	934,688	4,245,281	10,099,563
Property and equipment, at cost (net of accumulated depreciation) (Notes 1f and 5)	700,885	-	-	700,885	667,827	-	-	667,827
<b>Total Assets</b>	<b>\$ 6,793,420</b>	<b>\$ 805,493</b>	<b>\$ 4,622,844</b>	<b>\$12,221,757</b>	<b>\$ 7,467,975</b>	<b>\$ 996,688</b>	<b>\$ 4,334,637</b>	<b>\$12,799,300</b>
<b>Liabilities and Net Assets</b>								
Liabilities								
Accounts payable and other current liabilities	\$ 295,777	\$ -	\$ -	\$ 295,777	\$ 220,621	\$ -	\$ -	\$ 220,621
Deferred tuition revenue	1,607,419	-	-	1,607,419	1,970,053	-	-	1,970,053
Total Liabilities	1,903,196	-	-	1,903,196	2,190,674	-	-	2,190,674
Commitment and Contingency (Notes 6 and 7)								
Net Assets (Note 2)								
Board Designated Reserve	4,492,334	-	-	4,492,334	4,738,182	-	-	4,738,182
Property and equipment	700,885	-	-	700,885	667,827	-	-	667,827
Operating	(302,995)	805,493	-	502,498	(128,708)	996,688	-	867,980
Cash reserve	-	-	348,435	348,435	-	-	348,435	348,435
Endowment	-	-	4,274,409	4,274,409	-	-	3,986,202	3,986,202
Total Net Assets	4,890,224	805,493	4,622,844	10,318,561	5,277,301	996,688	4,334,637	10,608,626
<b>Total Liabilities and Net Assets</b>	<b>\$ 6,793,420</b>	<b>\$ 805,493</b>	<b>\$ 4,622,844</b>	<b>\$12,221,757</b>	<b>\$ 7,467,975</b>	<b>\$ 996,688</b>	<b>\$ 4,334,637</b>	<b>\$12,799,300</b>

See notes to financial statements.

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Changes in Unrestricted Net Assets</b>								
Operating Revenue and Contributed Support								
Tuition and registration (net of scholarships of \$500,329 (2012) and \$530,631 (2011) (Note 8)	\$ 3,022,027	\$ -	\$ -	\$ 3,022,027	\$ 2,717,441	\$ -	\$ -	\$ 2,717,441
School partnerships	464,383	-	-	464,383	515,215	-	-	515,215
Contributions								
Government agencies	130,750	-	-	130,750	146,001	-	-	146,001
Foundations, trusts and corporations	646,363	105,500	100,000	851,863	516,959	61,000	-	577,959
Individuals and others	348,346	2,800	3,791	354,937	505,219	1,000	5,031	511,250
Estates, trusts and bequests	500	-	184,416	184,916	-	-	3,568	3,568
Special events income	315,603	-	-	315,603	354,563	-	-	354,563
Less: Cost of direct benefits	(30,662)	-	-	(30,662)	(35,398)	-	-	(35,398)
Miscellaneous	20,712	-	-	20,712	15,934	-	-	15,934
	<u>4,918,022</u>	<u>108,300</u>	<u>288,207</u>	<u>5,314,529</u>	<u>4,735,934</u>	<u>62,000</u>	<u>8,599</u>	<u>4,806,533</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	278,036	(278,036)	-	-	57,834	(57,834)	-	-
	<u>5,196,058</u>	<u>(169,736)</u>	<u>288,207</u>	<u>5,314,529</u>	<u>4,793,768</u>	<u>4,166</u>	<u>8,599</u>	<u>4,806,533</u>
Operating Expenses								
Program Services								
Instruction	3,437,550	-	-	3,437,550	3,098,575	-	-	3,098,575
School partnerships	956,173	-	-	956,173	1,024,821	-	-	1,024,821
Performances	113,254	-	-	113,254	112,084	-	-	112,084
Total Program Services	<u>4,506,977</u>	<u>-</u>	<u>-</u>	<u>4,506,977</u>	<u>4,235,480</u>	<u>-</u>	<u>-</u>	<u>4,235,480</u>
Supporting Services								
Management and general	524,055	-	-	524,055	445,961	-	-	445,961
Fundraising	536,449	-	-	536,449	547,009	-	-	547,009
Total Supporting Services	<u>1,060,504</u>	<u>-</u>	<u>-</u>	<u>1,060,504</u>	<u>992,970</u>	<u>-</u>	<u>-</u>	<u>992,970</u>
	<u>5,567,481</u>	<u>-</u>	<u>-</u>	<u>5,567,481</u>	<u>5,228,450</u>	<u>-</u>	<u>-</u>	<u>5,228,450</u>
Increase (Decrease) in Net Assets from Operations	(371,423)	(169,736)	288,207	(252,952)	(434,682)	4,166	8,599	(421,917)
Non-Operating Activity								
Investment income (loss), net of investment fees (Note 4)	(15,654)	(21,459)	-	(37,113)	1,206,473	658,990	-	1,865,463
Increase (decrease) in net assets	(387,077)	(191,195)	288,207	(290,065)	771,791	663,156	8,599	1,443,546
Net assets, beginning of year	<u>5,277,301</u>	<u>996,688</u>	<u>4,334,637</u>	<u>10,608,626</u>	<u>4,505,510</u>	<u>333,532</u>	<u>4,326,038</u>	<u>9,165,080</u>
<b>Net Assets, End of Year</b>	<u>\$ 4,890,224</u>	<u>\$ 805,493</u>	<u>\$ 4,622,844</u>	<u>\$10,318,561</u>	<u>\$ 5,277,301</u>	<u>\$ 996,688</u>	<u>\$ 4,334,637</u>	<u>\$10,608,626</u>

See notes to financial statements.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ (290,065)	\$1,443,546
Adjustments to reconcile change in net assets to cash used by operating activities:		
Net unrealized (gain) loss on investments	1,219,398	(1,427,907)
Net realized gain on sale of investments	(842,710)	(224,020)
Donation of marketable securities	(47,828)	(83,457)
Depreciation	196,738	152,829
Contributions for endowment	(288,207)	(8,599)
Bad debts	8,715	32,391
(Increase) decrease in:		
Unconditional promises to give	(31,454)	(13,121)
Tuition and other receivables	254,504	(403,145)
Prepaid expenses and other current assets	12,210	12,774
Increase (decrease) in:		
Accounts payable and other current liabilities	75,156	(5,046)
Deferred tuition revenue	(362,634)	304,482
Retirement benefits payable	-	(406,000)
Net Cash Used By Operating Activities	<u>(96,177)</u>	<u>(625,273)</u>
 <b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(229,796)	(165,865)
Purchase of investments	(3,533,219)	(253,905)
Proceeds from sale of investments	<u>3,679,658</u>	<u>1,024,114</u>
Net Cash Provided (Used) By Investing Activities	<u>(83,357)</u>	<u>604,344</u>
 <b>Cash Flows From Financing Activities</b>		
Contributions received for endowment	<u>288,207</u>	<u>11,099</u>
Net increase (decrease) in cash and cash equivalents	108,673	(9,830)
Cash and cash equivalents, beginning of year	<u>507,138</u>	<u>516,968</u>
 <b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 615,811</u>	<u>\$ 507,138</u>

See notes to financial statements.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012 AND 2011****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Since 1894, the Society of the Third Street Music School Settlement, Inc. (the "School") has enriched the cultural life of New York City's Lower East Side, providing a model for community schools of the arts nationwide. Today, the School continues to offer quality instruction in music and dance, serving an economically and ethnically diverse population of more than 4,500 students of all ages annually, including during the year ended June 30, 2012, a total of 2,962 children who participated in its school partnership program in low and moderate income areas and 1,746 students, infant through adult, who enrolled in main school programs. More than 75% of all students served benefited from tuition assistance, including need-based financial aid and merit-based scholarships, and/or tuition-free or deeply-discounted instruction and honors enrichment programs. To further its education goals and as a cultural service to the 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.

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.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012 AND 2011****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****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.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the School. Unobservable inputs reflect the assumptions developed by management based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3. An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

**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 - 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.



**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

h - 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.

i - Tax Status

Society of the Third Street Music School Settlement, Inc. 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. Management believes that it has appropriate support for any tax positions taken and does not have any uncertain tax positions that are material to the financial statements. Generally, the School's tax returns for years prior to 2008 are no longer subject to examination by taxing authorities.

j - Subsequent Events

The School has evaluated subsequent events through October 18, 2012, the date that the financial statements are considered available to be issued.

**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.

At June 30, 2012 and 2011, the Board Designated Reserve consists of the following:

	<u>2012</u>	<u>2011</u>
Reserve	\$3,559,808	\$3,784,395
Capital Projects Reserve	632,526	653,787
Barbara Field Chamber Music Fund	<u>300,000</u>	<u>300,000</u>
	<u>\$4,492,334</u>	<u>\$4,738,182</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

a - Board Designated Reserve (continued)

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.)

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.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2012</u>	<u>2011</u>
Future programs	\$108,300	\$ 36,000
Scholarships/financial aid	349,140	476,248
Faculty development	131,096	172,685
Chamber music	111,539	146,938
General purposes	<u>105,418</u>	<u>164,817</u>
	<u>\$805,493</u>	<u>\$996,688</u>

At June 30, 2012 and 2011, temporarily restricted net assets include cumulative investment income of \$697,194 and \$934,688, respectively, earned on restricted endowment assets for faculty development, scholarships/financial aid and other programs.

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, 2012 and 2011.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

c - Permanently Restricted Net Assets (continued)

2 - Endowment

Endowment net assets are used to account for contributions for which the principal must be retained and only the income can be used for programs of the School.

Income generated by the permanently restricted endowment net assets is restricted for following programs of the School:

	<u>Endowment Principal</u>	<u>2012 Net Investment Income (Loss)</u>
Scholarship/financial aid funds	\$1,377,685	\$ (7,137)
Faculty development	662,951	(3,699)
General purposes, including additional scholarship and program support	1,660,575	(7,424)
Barbara Field Chamber Music Fund	<u>573,198</u>	<u>(3,199)</u>
	<u>\$4,274,409</u>	<u>\$( 21,459)</u>

The School's endowment consists of funds which are donor restricted. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

*Interpretation of Relevant Law*

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, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

c - Permanently Restricted Net Assets (continued)

2 - Endowment (continued)

In accordance with NYPMIFA, the School considers the following factors 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

Endowment net assets are donor restricted and are summarized by net asset classification as follows as of June 30:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2012	<u>\$697,194</u>	<u>\$4,086,301</u>	<u>\$4,783,495</u>
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2011	<u>\$934,688</u>	<u>\$3,896,846</u>	<u>\$4,831,534</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

c - Permanently Restricted Net Assets (continued)

2 - Endowment (continued)

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

	<u>2012</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$934,688	\$3,896,846	\$4,831,534
Investment Return:			
Investment income	187,992	-	187,992
Net appreciation (realized and unrealized)	(209,451)	-	(209,451)
Total Investment Return	(21,459)	-	(21,459)
Contributions	-	189,455	189,455
Appropriation to unrestricted assets	(216,035)	-	(216,035)
Endowment Net Assets, End of Year	<u>\$697,194</u>	<u>\$4,086,301</u>	<u>\$4,783,495</u>
	<u>2011</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$275,698	\$3,885,747	\$4,161,445
Investment Return:			
Investment income	100,332	-	100,332
Net appreciation (realized and unrealized)	754,464	-	754,464
Total Investment Return	854,796	-	854,796
Contributions	-	11,099	11,099
Appropriation to unrestricted assets	(195,806)	-	(195,806)
Endowment Net Assets, End of Year	<u>\$934,688</u>	<u>\$3,896,846</u>	<u>\$4,831,534</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012 AND 2011****Note 2 - Restriction on Assets (continued)**c - Permanently Restricted Net Assets (continued)2 - Endowment (continued)*Return Objective and Risk Parameters*

The School has adopted investment and spending policies for its invested assets, known as its "Investment Fund", which include endowment assets as well as other reserves and unrestricted assets, designed to assure a predictable stream of funding to programs and operations while seeking to maintain the purchasing power of the invested assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity. Under these policies, as approved by the Board of Directors, the Investment Fund is 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 Fund over the prior three 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. Accordingly, over the long-term, the School expects the current spending policy to allow its Investment Fund to grow at an average of 5% annually. This is consistent with the School's objective to maintain the purchasing power of the invested assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Note 3 - Unconditional Promises to Give**

Unconditional promises to give are all due within one year. Uncollectible promises are expected to be insignificant.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**Note 4 - Investments**

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

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money markets	\$ 852	\$ 852	\$ 25,279	\$ 25,279
Mutual funds	7,854,810	9,369,255	7,086,284	9,838,245
Common stock	<u>148,853</u>	<u>254,157</u>	<u>148,853</u>	<u>236,039</u>
	<u>\$8,004,515</u>	<u>\$9,624,264</u>	<u>\$7,260,416</u>	<u>\$10,099,563</u>

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

	<u>2012</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net unrealized loss on investments	\$(541,400)	\$(677,998)	\$(1,219,398)
Net realized gain on sale of investments	374,163	468,547	842,710
Interest and dividend income, including capital gain distributions	166,961	207,249	374,210
Less: Investment fees	<u>(15,378)</u>	<u>(19,257)</u>	<u>(34,635)</u>
	<u>\$(15,654)</u>	<u>\$(21,459)</u>	<u>\$(37,113)</u>
	<u>2011</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net unrealized gain on investments	\$ 932,527	\$495,380	\$1,427,907
Net realized gain on sale of investments	146,297	77,723	224,020
Interest and dividend income, including capital gain distributions	155,464	93,281	248,745
Less: Investment fees	<u>(27,815)</u>	<u>(7,394)</u>	<u>(35,209)</u>
	<u>\$1,206,473</u>	<u>\$658,990</u>	<u>\$1,865,463</u>

At June 30, 2012 and 2011, 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, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**Note 5 - Property and Equipment**

Property and equipment consist of the following:

	<u>Life</u>	<u>2012</u>	<u>2011</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	1,954,716	1,786,556
Courtyard renovations	10 years	175,321	175,321
Furniture and fixtures	3-8 years	114,623	84,275
Instruments	5-15 years	396,103	364,815
Registration software	2 years	<u>106,700</u>	<u>106,700</u>
		3,494,642	3,264,846
Less: Accumulated depreciation		<u>(2,963,252)</u>	<u>(2,766,514)</u>
		531,390	498,332
Land		<u>169,495</u>	<u>169,495</u>
Total		<u>\$ 700,885</u>	<u>\$ 667,827</u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$196,738 and \$152,829, respectively.

**Note 6 - 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 \$60,047 and \$51,143 for the years ended June 30, 2012 and 2011, respectively.

**Note 7 - 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, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012 AND 2011****Note 8 - Student Financial Assistance**

Scholarships of \$500,329 and \$530,631, 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, 2012 and 2011, respectively.

In addition to the above, group instruction in music theory, composition, literature, note-reading, chamber music and performance with tuition value of \$392,904 and \$299,642 was provided to students, at no additional charge, during the years ended June 30, 2012 and 2011, respectively.

**Note 9 - 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 10 - 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**



**LUTZ AND CARR**

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**INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTARY INFORMATION**

To the Board of Directors of  
Society of the Third Street Music School Settlement, Inc.

We have audited the financial statements of Society of the Third Street Music School Settlement, Inc. as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 18, 2012, which contained an unqualified opinion on those financial statements. Our audits were performed 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, 2012 with comparative totals for 2011 is presented for the 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 18, 2012

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Program Services				Supporting Services			2012	2011
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$2,378,713	\$ 697,477	\$ 62,946	\$3,139,136	\$ 342,713	\$ 323,244	\$ 665,957	\$3,805,093	\$3,560,577
Employee benefits and payroll taxes	393,027	90,767	10,185	493,979	58,485	53,389	111,874	605,853	556,193
Total Personnel Expenses	<u>2,771,740</u>	<u>788,244</u>	<u>73,131</u>	<u>3,633,115</u>	<u>401,198</u>	<u>376,633</u>	<u>777,831</u>	<u>4,410,946</u>	<u>4,116,770</u>
Guest artists, instructional services and teaching substitutes	64,309	1,934	14,140	80,383	-	-	-	80,383	83,752
Professional fees and services	79,910	22,255	5,618	107,783	49,645	10,614	60,259	168,042	152,112
Security and custodial services	43,572	12,812	1,143	57,527	7,104	4,900	12,004	69,531	71,729
Instruments, tuning, repairs and instructional supplies	31,818	8,263	3,538	43,619	-	-	-	43,619	49,081
Printing, duplicating and advertising	30,142	5,796	5,114	41,052	3,205	13,335	16,540	57,592	67,526
Telephone and internet	6,937	2,027	181	9,145	1,124	776	1,900	11,045	10,783
Stationery and supplies	10,782	3,076	265	14,123	1,649	1,338	2,987	17,110	14,656
Shipping, postage and delivery	5,110	1,505	134	6,749	836	4,991	5,827	12,576	13,410
Dues, conferences, professional development	21,795	4,422	181	26,398	1,168	2,580	3,748	30,146	25,782
Travel and meetings	6,102	1,438	86	7,626	530	629	1,159	8,785	5,087
Occupancy	87,526	25,736	2,295	115,557	14,272	9,843	24,115	139,672	133,701
Insurance	46,451	13,658	1,219	61,328	7,574	5,224	12,798	74,126	67,991
Repairs and maintenance	34,830	10,241	914	45,985	5,679	3,917	9,596	55,581	40,455
Credit card processing fees and bank charges	24,692	7,260	648	32,600	4,026	2,777	6,803	39,403	35,141
Bad debts	8,715	-	-	8,715	-	-	-	8,715	32,391
Special events (non-direct benefit costs)	-	-	-	-	-	75,290	75,290	75,290	73,490
Other non-personnel expenses	<u>39,833</u>	<u>11,256</u>	<u>1,412</u>	<u>52,501</u>	<u>5,942</u>	<u>9,738</u>	<u>15,680</u>	<u>68,181</u>	<u>81,764</u>
Total expenses before depreciation	3,314,264	919,923	110,019	4,344,206	503,952	522,585	1,026,537	5,370,743	5,075,621
Depreciation	<u>123,286</u>	<u>36,250</u>	<u>3,235</u>	<u>162,771</u>	<u>20,103</u>	<u>13,864</u>	<u>33,967</u>	<u>196,738</u>	<u>152,829</u>
Total Expenses, 2012	<u>\$3,437,550</u>	<u>\$ 956,173</u>	<u>\$ 113,254</u>	<u>\$4,506,977</u>	<u>\$ 524,055</u>	<u>\$ 536,449</u>	<u>\$1,060,504</u>	<u>\$5,567,481</u>	
Total Expenses, 2011	<u>\$3,098,575</u>	<u>\$ 1,024,821</u>	<u>\$ 112,084</u>	<u>\$4,235,480</u>	<u>\$ 445,961</u>	<u>\$ 547,009</u>	<u>\$ 992,970</u>		<u>\$5,228,450</u>

See independent auditors' report on supplementary information.