

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

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2014 AND 2013

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 financial statements of Society of the Third Street Music School Settlement, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, 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, Inc. as of June 30, 2014 and 2013, 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 24, 2014

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 11)	\$ 649,945	\$ 144,398	\$ 54	\$ 794,397	\$ 441,618	\$ 92,936	\$ 4,733	\$ 539,287
Unconditional promises to give (Notes 1c and 3)								
Unrestricted	79,393	-	-	79,393	73,665	-	-	73,665
Restricted to future programs and periods	-	66,620	-	66,620	-	28,000	-	28,000
Tuition and other receivables (net of allowance for doubtful accounts of \$38,000 in 2014 and 2013)	1,043,289	-	-	1,043,289	1,087,552	-	-	1,087,552
Prepaid expenses and other current assets	84,930	-	-	84,930	55,687	-	-	55,687
Investments (Notes 1d, 1e and 4)	5,231,635	1,617,149	4,644,604	11,493,388	4,473,997	993,838	4,635,113	10,102,948
Property and equipment, at cost (net of accumulated depreciation) (Notes 1f and 5)	825,205	-	-	825,205	780,157	-	-	780,157
Total Assets	\$ 7,914,397	\$ 1,828,167	\$ 4,644,658	\$14,387,222	\$ 6,912,676	\$ 1,114,774	\$ 4,639,846	\$12,667,296
Liabilities and Net Assets								
Liabilities								
Accounts payable and other current liabilities	\$ 340,596	\$ -	\$ -	\$ 340,596	\$ 324,828	\$ -	\$ -	\$ 324,828
Deferred tuition revenue (Note 1g)	1,683,815	-	-	1,683,815	1,506,831	-	-	1,506,831
Total Liabilities	2,024,411	-	-	2,024,411	1,831,659	-	-	1,831,659
Commitment and Contingencies (Notes 6 and 7)								
Net Assets (Note 2)								
Board designated reserve	5,231,635	-	-	5,231,635	4,473,997	-	-	4,473,997
Property and equipment	825,205	-	-	825,205	780,157	-	-	780,157
Operating	(166,854)	1,828,167	-	1,661,313	(173,137)	1,114,774	-	941,637
Cash reserve	-	-	348,435	348,435	-	-	348,435	348,435
Endowment	-	-	4,296,223	4,296,223	-	-	4,291,411	4,291,411
Total Net Assets	5,889,986	1,828,167	4,644,658	12,362,811	5,081,017	1,114,774	4,639,846	10,835,637
Total Liabilities and Net Assets	\$ 7,914,397	\$ 1,828,167	\$ 4,644,658	\$14,387,222	\$ 6,912,676	\$ 1,114,774	\$ 4,639,846	\$12,667,296

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in Net Assets								
Operating Revenue and Contributed Support								
Tuition and registration (net of scholarships of \$562,206 (2014) and \$470,594 (2013) (Notes 1g and 8)	\$ 3,170,228	\$ -	\$ -	\$ 3,170,228	\$ 3,208,576	\$ -	\$ -	\$ 3,208,576
School partnerships	364,612	-	-	364,612	375,887	-	-	375,887
Contributions								
Government agencies	170,785	10,000	-	180,785	164,485	15,000	-	179,485
Foundations, trusts and corporations	754,058	175,370	-	929,428	589,808	79,300	1,000	670,108
Individuals and others	446,207	25,650	4,812	476,669	345,082	26,636	14,829	386,547
Estates, trusts and bequests	501,353	-	-	501,353	-	-	1,173	1,173
In-kind donations - instruments (Note 9)	-	-	-	-	134,565	-	-	134,565
Special events income	-	-	-	-	302,611	-	-	302,611
Less: Cost of direct benefits	-	-	-	-	(36,808)	-	-	(36,808)
Miscellaneous	28,446	-	-	28,446	17,419	-	-	17,419
	<u>5,435,689</u>	<u>211,020</u>	<u>4,812</u>	<u>5,651,521</u>	<u>5,101,625</u>	<u>120,936</u>	<u>17,002</u>	<u>5,239,563</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	380,734	(380,734)	-	-	347,315	(347,315)	-	-
	<u>5,816,423</u>	<u>(169,714)</u>	<u>4,812</u>	<u>5,651,521</u>	<u>5,448,940</u>	<u>(226,379)</u>	<u>17,002</u>	<u>5,239,563</u>
Total Operating Revenue and Contributed Support								
Operating Expenses								
Program Services								
Instruction	3,735,178	-	-	3,735,178	3,722,545	-	-	3,722,545
School partnerships	845,019	-	-	845,019	872,232	-	-	872,232
Performances	94,265	-	-	94,265	98,556	-	-	98,556
Total Program Services	<u>4,674,462</u>	<u>-</u>	<u>-</u>	<u>4,674,462</u>	<u>4,693,333</u>	<u>-</u>	<u>-</u>	<u>4,693,333</u>
Supporting Services								
Management and general	599,037	-	-	599,037	611,470	-	-	611,470
Fundraising	561,358	-	-	561,358	496,713	-	-	496,713
Total Supporting Services	<u>1,160,395</u>	<u>-</u>	<u>-</u>	<u>1,160,395</u>	<u>1,108,183</u>	<u>-</u>	<u>-</u>	<u>1,108,183</u>
Total Operating Expenses	<u>5,834,857</u>	<u>-</u>	<u>-</u>	<u>5,834,857</u>	<u>5,801,516</u>	<u>-</u>	<u>-</u>	<u>5,801,516</u>
Increase (Decrease) in Net Assets from Operations	(18,434)	(169,714)	4,812	(183,336)	(352,576)	(226,379)	17,002	(561,953)
Non-Operating Activity								
Investment income, net of investment fees (Note 4)	827,403	883,107	-	1,710,510	543,369	535,660	-	1,079,029
Increase in net assets	808,969	713,393	4,812	1,527,174	190,793	309,281	17,002	517,076
Net assets, beginning of year	5,081,017	1,114,774	4,639,846	10,835,637	4,890,224	805,493	4,622,844	10,318,561
Net Assets, End of Year	<u>\$ 5,889,986</u>	<u>\$ 1,828,167</u>	<u>\$ 4,644,658</u>	<u>\$12,362,811</u>	<u>\$ 5,081,017</u>	<u>\$ 1,114,774</u>	<u>\$ 4,639,846</u>	<u>\$10,835,637</u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities		
Increase in net assets	\$1,527,174	\$ 517,076
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net unrealized (gain) loss on investments	(1,262,710)	69,332
Net realized gain on sale of investments	(86,627)	(811,405)
Donation of marketable securities	(89,769)	(107,614)
Depreciation	170,554	232,725
Contributions for endowment	(4,812)	(17,002)
Bad debts	18,594	13,717
In-kind donations - instruments	-	(134,565)
(Increase) decrease in:		
Unconditional promises to give	(44,348)	(4,890)
Tuition and other receivables	25,669	44,326
Prepaid expenses and other current assets	(29,243)	(17,260)
Increase (decrease) in:		
Accounts payable and other current liabilities - operating	9,093	29,051
Deferred tuition revenue	176,984	(100,588)
Net Cash Provided (Used) By Operating Activities	410,559	(287,097)
Cash Flows From Investing Activities		
Purchase of property and equipment	(208,927)	(177,432)
Purchase of investments	(361,574)	(2,003,467)
Proceeds from sale of investments	410,240	2,374,470
Net Cash Provided (Used) By Investing Activities	(160,261)	193,571
Cash Flows From Financing Activities		
Contributions received for endowment	4,812	17,002
Net increase (decrease) in cash and cash equivalents	255,110	(76,524)
Cash and cash equivalents, beginning of year	539,287	615,811
Cash and Cash Equivalents, End of Year	\$ 794,397	\$ 539,287

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****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 students of all ages annually, including during the year ended June 30, 2014, a total of 3,396 children who participated in its school partnership program in low and moderate income areas and 1,770 students, infant through adult, who enrolled in main school programs. More than 75% of all students benefited from tuition assistance, including need-based financial aid and merit-based scholarships, 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, 2014 AND 2013****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. 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 are deferred when received and recognized as revenue when the class term begins.

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.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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

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, 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. The School's tax returns are generally subject to examination by taxing authorities for a period of three years from the date of filing.

k - Subsequent Events

The School has evaluated subsequent events through October 24, 2014, 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, 2014 and 2013, the Board Designated Reserve consists of the following:

	<u>2014</u>	<u>2013</u>
General operating reserve	\$4,218,858	\$3,476,178
Capital Projects Reserve	712,777	697,819
Barbara Field Chamber Music Fund	<u>300,000</u>	<u>300,000</u>
	<u>\$5,231,635</u>	<u>\$4,473,997</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 2 - Restriction on Assets (continued)

a - Board Designated Reserve (continued)

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>2014</u>	<u>2013</u>
Future programs	\$ 211,020	\$ 120,936
Scholarships/financial aid	752,853	482,178
Faculty development	281,839	180,986
Chamber music	239,840	154,002
General purposes	<u>342,615</u>	<u>176,672</u>
	<u>\$1,828,167</u>	<u>\$1,114,774</u>

At June 30, 2014 and 2013, temporarily restricted net assets include cumulative investment income of \$1,617,147 and \$993,838, 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, 2014 and 2013.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 2 - Restriction on Assets (continued)

c - Permanently Restricted Net Assets (continued)

2 - Endowment

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.

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

	<u>Endowment Principal</u>	<u>2014 Net Investment Income</u>
Scholarship/financial aid funds	\$1,398,126	\$383,493
Faculty development	662,951	140,669
General purposes, including additional scholarship and program support	1,661,748	237,329
Barbara Field Chamber Music Fund	<u>573,398</u>	<u>121,616</u>
	<u>\$4,296,223</u>	<u>\$883,107</u>

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, 2014 AND 2013

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 (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

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>
2014	<u>\$1,617,147</u>	<u>\$4,296,169</u>	<u>\$5,913,316</u>
2013	<u>\$ 993,838</u>	<u>\$4,286,678</u>	<u>\$5,280,516</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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>2014</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 993,838	\$4,286,678	\$5,280,516
Investment Return:			
Investment income	185,699	-	185,699
Net appreciation (realized and unrealized)	697,408	-	697,408
Total Investment Return	883,107	-	883,107
Transfer of contributions	-	9,491	9,491
Appropriation to unrestricted assets	(259,798)	-	(259,798)
Endowment Net Assets, End of Year	<u>\$1,617,147</u>	<u>\$4,296,169</u>	<u>\$5,913,316</u>
	<u>2013</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$697,194	\$4,086,301	\$4,783,495
Investment Return:			
Investment income	166,874	-	166,874
Net appreciation (realized and unrealized)	368,786	-	368,786
Total Investment Return	535,660	-	535,660
Transfer of contributions	-	200,377	200,377
Appropriation to unrestricted assets	(239,016)	-	(239,016)
Endowment Net Assets, End of Year	<u>\$993,838</u>	<u>\$4,286,678</u>	<u>\$5,280,516</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****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 endowment or donor restricted assets and its unrestricted assets held in its investment funds. These policies are designed to assure a predictable stream of funding to programs and operations while seeking to maintain the purchasing power of the invested assets. 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, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 3 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Due within one year	\$79,393	\$10,000	\$ 89,393	\$101,665
Due in one to five years	<u>-</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
	79,393	70,000	149,393	101,665
Less: Discount to present value	<u>-</u>	<u>(3,380)</u>	<u>(3,380)</u>	<u>-</u>
	-	-	-	-
Total, 2014	<u>\$79,393</u>	<u>\$66,620</u>	<u>\$146,013</u>	
Total, 2013	<u>\$73,665</u>	<u>\$28,000</u>		<u>\$101,665</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 4 - Investments

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

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money markets	\$ 22,333	\$ 22,333	\$ 37,167	\$ 37,167
Mutual Funds				
Equity	3,957,181	6,076,750	4,049,604	5,137,114
Fixed income	4,551,894	5,008,297	4,316,907	4,587,311
Common stock	<u>148,853</u>	<u>386,008</u>	<u>148,853</u>	<u>341,356</u>
	<u>\$8,680,261</u>	<u>\$11,493,388</u>	<u>\$8,552,531</u>	<u>\$10,102,948</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 4 - Investments (continued)

The following schedule summarizes investment income for the years ended June 30, 2014 and 2013:

	2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net unrealized gain on investments	\$610,062	\$652,648	\$1,262,710
Net realized gain on sale of investments	41,867	44,760	86,627
Interest and dividend income, including capital gain distributions	192,816	204,252	397,068
Less: Investment fees	<u>(17,342)</u>	<u>(18,553)</u>	<u>(35,895)</u>
	<u>\$827,403</u>	<u>\$883,107</u>	<u>\$1,710,510</u>
	2013		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net unrealized loss on investments	\$ (34,881)	\$ (34,451)	\$ (69,332)
Net realized gain on sale of investments	408,168	403,237	811,405
Interest and dividend income, including capital gain distributions	187,750	184,325	372,075
Less: Investment fees	<u>(17,668)</u>	<u>(17,451)</u>	<u>(35,119)</u>
	<u>\$543,369</u>	<u>\$535,660</u>	<u>\$1,079,029</u>

At June 30, 2014 and 2013, 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, 2014 AND 2013

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2014</u>	<u>2013</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	2,130,000	2,059,578
Courtyard renovations	10 years	175,321	175,321
Furniture and fixtures	3-8 years	200,799	164,453
Instruments	5-15 years	579,183	553,408
Registration software	2 years	106,700	106,700
Renovation project - in process		<u>50,006</u>	<u>-</u>
		3,989,188	3,806,639
Less: Accumulated depreciation		<u>(3,333,478)</u>	<u>(3,195,977)</u>
		655,710	610,662
Land		<u>169,495</u>	<u>169,495</u>
Total		<u>\$ 825,205</u>	<u>\$ 780,157</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$170,554 and \$232,725, 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 \$53,916 and \$54,850 for the years ended June 30, 2014 and 2013, respectively.

Note 7 - Contingencies

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, 2014 AND 2013****Note 8 - Student Financial Assistance**

Scholarships of \$562,206 and \$470,594, 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, 2014 and 2013, respectively.

In addition to the above, group instruction in music theory, composition, literature, note-reading, chamber music and performance, with tuition value of approximately \$337,000 and \$570,000, was provided to students at no additional charge during the years ended June 30, 2014 and 2013, respectively.

Note 9 - In-Kind Donations - Instruments

During the year ended June 30, 2013, the School received donated instruments in connection with its programs that were valued using the estimated fair value at the time of the donations.

Note 10 - 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 11 - 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.

Note 12 - Capital Campaign

In June 2014, the Board of Directors approved a \$5.3 million capital campaign for a building renovation and expansion project. A leadership grant in the amount of \$3 million (to be paid in three annual installments), and pledges from several Board members were secured after the year end for approximately 80% of the campaign goal.

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, 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, 2014 and 2013, and our report thereon dated October 24, 2014, 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, 2014 with comparative totals for 2013 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 24, 2014

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014 WITH COMPARATIVE TOTALS FOR 2013

	Program Services				Supporting Services			2014	2013
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$2,488,724	\$ 584,185	\$ 44,795	\$3,117,704	\$ 413,570	\$ 309,172	\$ 722,742	\$3,840,446	\$3,846,228
Employee benefits and payroll taxes	458,993	97,895	10,155	567,043	63,910	53,370	117,280	684,323	685,188
Total Personnel Expenses	<u>2,947,717</u>	<u>682,080</u>	<u>54,950</u>	<u>3,684,747</u>	<u>477,480</u>	<u>362,542</u>	<u>840,022</u>	<u>4,524,769</u>	<u>4,531,416</u>
Guest artists, instructional services and teaching substitutes	57,785	635	14,555	72,975	-	-	-	72,975	73,783
Professional fees and services	119,512	26,822	6,008	152,342	46,834	128,398	175,232	327,574	233,163
Security and custodial services	54,138	12,230	1,021	67,389	7,979	5,184	13,163	80,552	74,046
Instruments, tuning, repairs and instructional supplies	36,343	1,157	2,368	39,868	-	-	-	39,868	32,088
Printing, duplicating and advertising	36,950	10,607	6,456	54,013	3,261	12,872	16,133	70,146	65,535
Telephone and internet	11,706	2,691	217	14,614	1,625	1,127	2,752	17,366	12,562
Stationery and supplies	10,853	2,448	196	13,497	1,473	1,026	2,499	15,996	14,319
Shipping, postage and delivery	6,965	1,603	128	8,696	960	3,368	4,328	13,024	9,696
Dues, conferences, professional development	21,114	4,031	217	25,362	1,195	2,112	3,307	28,669	26,985
Travel and meetings	12,430	2,579	253	15,262	1,316	1,402	2,718	17,980	8,306
Occupancy	114,851	26,400	2,127	143,378	15,953	11,053	27,006	170,384	144,593
Insurance	53,740	12,353	995	67,088	7,465	5,172	12,637	79,725	78,995
Repairs and maintenance	33,845	7,780	627	42,252	4,701	3,257	7,958	50,210	54,309
Credit card processing fees and bank charges	36,072	8,292	668	45,032	5,011	3,472	8,483	53,515	47,388
Bad debts	13,054	5,540	-	18,594	-	-	-	18,594	13,717
Special events (non-direct benefit costs)	-	-	-	-	-	-	-	-	75,007
Other non-personnel expenses	<u>53,476</u>	<u>11,878</u>	<u>1,317</u>	<u>66,671</u>	<u>6,889</u>	<u>9,396</u>	<u>16,285</u>	<u>82,956</u>	<u>72,883</u>
Total expenses before depreciation	<u>3,620,551</u>	<u>819,126</u>	<u>92,103</u>	<u>4,531,780</u>	<u>582,142</u>	<u>550,381</u>	<u>1,132,523</u>	<u>5,664,303</u>	<u>5,568,791</u>
Depreciation	<u>114,627</u>	<u>25,893</u>	<u>2,162</u>	<u>142,682</u>	<u>16,895</u>	<u>10,977</u>	<u>27,872</u>	<u>170,554</u>	<u>232,725</u>
Total Expenses, 2014	<u>\$3,735,178</u>	<u>\$ 845,019</u>	<u>\$ 94,265</u>	<u>\$4,674,462</u>	<u>\$ 599,037</u>	<u>\$ 561,358</u>	<u>\$1,160,395</u>	<u>\$5,834,857</u>	
Total Expenses, 2013	<u>\$3,722,545</u>	<u>\$ 872,232</u>	<u>\$ 98,556</u>	<u>\$4,693,333</u>	<u>\$ 611,470</u>	<u>\$ 496,713</u>	<u>\$1,108,183</u>		<u>\$5,801,516</u>

See independent auditors' report on supplementary information.