

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

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015 AND 2014**

**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 .....	6-17
Supplementary Information	
Independent Auditors' Report on Supplementary Information .....	19
Schedule of Functional Expenses .....	20



## 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, 2015 and 2014, 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, 2015 and 2014, 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 21, 2015

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>								
Cash and cash equivalents (Notes 1b and 11)	\$ 1,356,970	\$ 1,909,511	\$ 10,441	\$ 3,276,922	\$ 643,270	\$ 151,073	\$ 54	\$ 794,397
Unconditional promises to give (Notes 1c and 3)								
Unrestricted	68,410	-	-	68,410	79,393	-	-	79,393
Restricted to future programs and periods	-	554,932	-	554,932	-	66,620	-	66,620
Restricted to the capital campaign	-	1,429,280	-	1,429,280	-	-	-	-
Tuition and other receivables (net of allowance for doubtful accounts of \$38,000 in 2015 and 2014)	1,568,678	-	-	1,568,678	1,043,289	-	-	1,043,289
Prepaid expenses and other current assets	102,349	-	-	102,349	84,930	-	-	84,930
Investments (Notes 1d, 1e and 4)	4,720,774	1,359,688	4,644,608	10,725,070	5,231,635	1,617,149	4,644,604	11,493,388
Renovation project - in progress (Note 5b)	50,006	1,131,369	-	1,181,375	50,006	-	-	50,006
Property and equipment, at cost (net of accumulated depreciation) (Notes 1f and 5a)	732,993	-	-	732,993	775,199	-	-	775,199
<b>Total Assets</b>	<b>\$ 8,600,180</b>	<b>\$ 6,384,780</b>	<b>\$ 4,655,049</b>	<b>\$19,640,009</b>	<b>\$ 7,907,722</b>	<b>\$ 1,834,842</b>	<b>\$ 4,644,658</b>	<b>\$14,387,222</b>
<b>Liabilities and Net Assets</b>								
Liabilities								
Accounts payable and other current liabilities - operating	\$ 365,399	\$ -	\$ -	\$ 365,399	\$ 333,921	\$ -	\$ -	\$ 333,921
Accounts payable - capital	-	475,521	-	475,521	-	6,675	-	6,675
Deferred tuition revenue (Note 1g)	2,435,477	-	-	2,435,477	1,683,815	-	-	1,683,815
Total Liabilities	2,800,876	475,521	-	3,276,397	2,017,736	6,675	-	2,024,411
Commitment and Contingency (Notes 6 and 7)								
Net Assets (Note 2)								
Board designated reserve	5,209,840	-	-	5,209,840	5,231,635	-	-	5,231,635
Operating	(193,535)	668,182	-	474,647	(166,854)	211,020	-	44,166
Property and equipment	732,993	-	-	732,993	775,199	-	-	775,199
Capital campaign	50,006	3,881,389	-	3,931,395	50,006	-	-	50,006
Cash reserve	-	-	348,435	348,435	-	-	348,435	348,435
Endowment	-	1,359,688	4,306,614	5,666,302	-	1,617,147	4,296,223	5,913,370
Total Net Assets	5,799,304	5,909,259	4,655,049	16,363,612	5,889,986	1,828,167	4,644,658	12,362,811
<b>Total Liabilities and Net Assets</b>	<b>\$ 8,600,180</b>	<b>\$ 6,384,780</b>	<b>\$ 4,655,049</b>	<b>\$19,640,009</b>	<b>\$ 7,907,722</b>	<b>\$ 1,834,842</b>	<b>\$ 4,644,658</b>	<b>\$14,387,222</b>

See notes to financial statements.

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014				
	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 \$571,821 (2015) and \$562,206 (2014) (Notes 1g and 8)	\$ 3,249,575	\$ -	\$ -	\$ 3,249,575	\$ 3,170,228	\$ -	\$ -	\$ 3,170,228
School partnerships	391,360	-	-	391,360	364,612	-	-	364,612
Contributions								
Government agencies	160,800	-	-	160,800	170,785	10,000	-	180,785
Foundations, trusts and corporations	880,013	560,812	-	1,440,825	754,058	175,370	-	929,428
Individuals and others	342,466	10,000	10,391	362,857	446,207	25,650	4,812	476,669
Estates, trusts and bequests	-	-	-	-	501,353	-	-	501,353
Special events income	506,940	-	-	506,940	-	-	-	-
Less: Cost of direct benefits	(115,506)	-	-	(115,506)	-	-	-	-
Miscellaneous	30,156	-	-	30,156	28,446	-	-	28,446
	<u>5,445,804</u>	<u>570,812</u>	<u>10,391</u>	<u>6,027,007</u>	<u>5,435,689</u>	<u>211,020</u>	<u>4,812</u>	<u>5,651,521</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	369,015	(369,015)	-	-	380,734	(380,734)	-	-
Total Operating Revenue and Contributed Support	<u>5,814,819</u>	<u>201,797</u>	<u>10,391</u>	<u>6,027,007</u>	<u>5,816,423</u>	<u>(169,714)</u>	<u>4,812</u>	<u>5,651,521</u>
Operating Expenses								
Program Services								
Instruction	3,730,744	-	-	3,730,744	3,620,551	-	-	3,620,551
School partnerships	766,818	-	-	766,818	819,126	-	-	819,126
Performances	93,259	-	-	93,259	92,103	-	-	92,103
Total Program Services	<u>4,590,821</u>	<u>-</u>	<u>-</u>	<u>4,590,821</u>	<u>4,531,780</u>	<u>-</u>	<u>-</u>	<u>4,531,780</u>
Supporting Services								
Management and general	627,221	-	-	627,221	582,142	-	-	582,142
Fundraising	508,989	-	-	508,989	550,381	-	-	550,381
Total Supporting Services	<u>1,136,210</u>	<u>-</u>	<u>-</u>	<u>1,136,210</u>	<u>1,132,523</u>	<u>-</u>	<u>-</u>	<u>1,132,523</u>
Depreciation	188,116	-	-	188,116	170,554	-	-	170,554
Total Operating Expenses	<u>5,915,147</u>	<u>-</u>	<u>-</u>	<u>5,915,147</u>	<u>5,834,857</u>	<u>-</u>	<u>-</u>	<u>5,834,857</u>
Increase (Decrease) in Net Assets from Operations	(100,328)	201,797	10,391	111,860	(18,434)	(169,714)	4,812	(183,336)
Non-Operating Activity								
Investment income, net of investment fees (Note 4)	4,646	(2,094)	-	2,552	827,403	883,107	-	1,710,510
Capital campaign contributions (Note 9)	5,000	3,881,389	-	3,886,389	-	-	-	-
Increase in net assets	(90,682)	4,081,092	10,391	4,000,801	808,969	713,393	4,812	1,527,174
Net assets, beginning 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>
<b>Net Assets, End of Year</b>	<u>\$ 5,799,304</u>	<u>\$ 5,909,259</u>	<u>\$ 4,655,049</u>	<u>\$16,363,612</u>	<u>\$ 5,889,986</u>	<u>\$ 1,828,167</u>	<u>\$ 4,644,658</u>	<u>\$12,362,811</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$4,000,801	\$1,527,174
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized (gain) loss on investments	594,442	(1,262,710)
Net realized (gain) on sale of investments	(243,727)	(86,627)
Depreciation	188,116	170,554
Contributions for renovation project	(3,881,389)	-
Contributions for endowment	(10,391)	(4,812)
Bad debts	23,988	18,594
(Increase) decrease in:		
Unconditional promises to give	(477,329)	(44,348)
Tuition and other receivables	(549,377)	25,669
Prepaid expenses and other current assets	(17,419)	(29,243)
Increase (decrease) in:		
Accounts payable and other current liabilities - operating	31,478	9,093
Deferred tuition revenue	<u>751,662</u>	<u>176,984</u>
Net Cash Provided By Operating Activities	<u>410,855</u>	<u>500,328</u>
 <b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(145,910)	(158,921)
Payments for renovation project	(662,523)	(50,006)
Purchase of investments	(403,079)	(361,574)
Proceeds from sale of investments	<u>820,682</u>	<u>320,471</u>
Net Cash Used By Investing Activities	<u>(390,830)</u>	<u>(250,030)</u>
 <b>Cash Flows From Financing Activities</b>		
Contributions received for renovation project	2,452,109	-
Contributions received for endowment	<u>10,391</u>	<u>4,812</u>
Net Cash Provided By Financing Activities	<u>2,462,500</u>	<u>4,812</u>
 Net increase in cash and cash equivalents	2,482,525	255,110
Cash and cash equivalents, beginning of year	<u>794,397</u>	<u>539,287</u>
 <b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$3,276,922</u></u>	<u><u>\$ 794,397</u></u>

See notes to financial statements.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Since 1894, the Society of the Third Street Music School Settlement (the "School") has enriched the cultural life of New York City's Lower Manhattan, 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, 2015, a total of 3,094 children who participated in its school partnership program in low and moderate income areas and 1,696 students, infant through adult, who enrolled in main school programs. More than 59% 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. 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.

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**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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 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 21, 2015, 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, 2015 and 2014, the Board Designated Reserve consists of the following:

	<u>2015</u>	<u>2014</u>
General operating reserve	\$4,149,858	\$4,218,858
Capital Projects Reserve	759,982	712,777
Barbara Field Chamber Music Fund	<u>300,000</u>	<u>300,000</u>
	<u>\$5,209,840</u>	<u>\$5,231,635</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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>2015</u>	<u>2014</u>
Operating		
Future programs	\$ 668,182	\$ 211,020
Endowment		
Scholarships/financial aid	646,574	752,853
Faculty development	234,786	281,839
Chamber music	202,940	239,840
General purposes	<u>275,388</u>	<u>342,615</u>
	<u>1,359,688</u>	<u>1,617,147</u>
Capital campaign (See Note 9)	<u>3,881,389</u>	<u>-</u>
	<u>\$5,909,259</u>	<u>\$1,828,167</u>

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

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, 2015 and 2014.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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>2015 Net Investment Loss</u>
Scholarship/financial aid funds	\$1,408,317	\$ (914)
Faculty development	662,951	(332)
General purposes, including additional scholarship and program support	1,661,748	(561)
Barbara Field Chamber Music Fund	<u>573,598</u>	<u>(287)</u>
	<u>\$4,306,614</u>	<u>\$(2,094)</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**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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:

	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
2015	<u>\$1,359,688</u>	<u>\$4,296,173</u>	<u>\$5,655,861</u>
2014	<u>\$1,617,147</u>	<u>\$4,296,169</u>	<u>\$5,913,316</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**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>2015</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$1,617,147	\$4,296,169	\$5,913,316
Investment Return:			
Investment income	183,434	-	183,434
Net depreciation (realized and unrealized)	<u>(185,528)</u>	<u>-</u>	<u>(185,528)</u>
Total Investment Return	<u>(2,094)</u>	<u>-</u>	<u>(2,094)</u>
Transfer of contributions	<u>-</u>	<u>4</u>	<u>4</u>
Appropriation to unrestricted assets	<u>(255,365)</u>	<u>-</u>	<u>(255,365)</u>
Endowment Net Assets, End of Year	<u>\$1,359,688</u>	<u>\$4,296,173</u>	<u>\$5,655,861</u>
	<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)	<u>697,408</u>	<u>-</u>	<u>697,408</u>
Total Investment Return	<u>883,107</u>	<u>-</u>	<u>883,107</u>
Transfer of contributions	<u>-</u>	<u>9,491</u>	<u>9,491</u>
Appropriation to unrestricted assets	<u>(259,798)</u>	<u>-</u>	<u>(259,798)</u>
Endowment Net Assets, End of Year	<u>\$1,617,147</u>	<u>\$4,296,169</u>	<u>\$5,913,316</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****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**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**Note 3 - Unconditional Promises to Give**

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Due within one year	\$68,410	\$1,456,250	\$1,524,660	\$ 89,393
Due in one to five years	-	550,564	550,564	60,000
	<u>68,410</u>	<u>2,006,814</u>	<u>2,075,224</u>	<u>149,393</u>
Less: Discount to present value	-	(22,602)	(22,602)	(3,380)
	<u>68,410</u>	<u>1,984,212</u>	<u>2,052,622</u>	
Total, 2015	<u>\$68,410</u>	<u>\$1,984,212</u>	<u>\$2,052,622</u>	
Total, 2014	<u>\$79,393</u>	<u>\$ 66,620</u>		<u>\$146,013</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>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money markets	\$ 1,166	\$ 1,166	\$ 22,333	\$ 22,333
Mutual Funds				
Equity	3,613,280	5,424,477	3,957,181	6,076,750
Fixed income	4,743,086	4,884,291	4,551,894	5,008,297
Common stock	<u>148,853</u>	<u>415,136</u>	<u>148,853</u>	<u>386,008</u>
	<u>\$8,506,385</u>	<u>\$10,725,070</u>	<u>\$8,680,261</u>	<u>\$11,493,388</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

**Note 4 - Investments (continued)**

The following schedule summarizes investment income for the years ended June 30, 2015 and 2014:

	<b>2015</b>		
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
Net unrealized loss on investments	\$(279,982)	\$(314,460)	\$(594,442)
Net realized gain on sale of investments	114,795	128,932	243,727
Interest and dividend income, including capital gain distributions	186,872	202,571	389,443
Less: Investment fees	<u>(17,039)</u>	<u>(19,137)</u>	<u>(36,176)</u>
	<u>\$ 4,646</u>	<u>\$ (2,094)</u>	<u>\$ 2,552</u>
	<b>2014</b>		
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
Net unrealized loss 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>

At June 30, 2015 and 2014, 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, 2015 AND 2014**

**Note 5 - Property, Equipment and Renovation Project**

a - Property and equipment consist of the following:

	<u>Life</u>	<u>2015</u>	<u>2014</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	2,193,550	2,130,000
Courtyard renovations	10 years	175,321	175,321
Furniture and fixtures	3-8 years	251,599	200,799
Instruments	5-15 years	605,798	579,183
Registration software	2 years	<u>106,700</u>	<u>106,700</u>
		4,080,147	3,939,182
Less: Accumulated depreciation		<u>(3,516,649)</u>	<u>(3,333,478)</u>
		563,498	605,704
Land		<u>169,495</u>	<u>169,495</u>
Total		<u>\$ 732,993</u>	<u>\$ 775,199</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$188,116 and \$170,554, respectively.

b - The School is undertaking a renovation of its building. The renovation is expected to be completed in 2016 (see Note 9).

**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 \$58,410 and \$53,916 for the years ended June 30, 2015 and 2014, respectively.

**Note 7 - Commitment and Contingency**

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

b - The Organization has entered into a contract to renovate the auditorium and boiler room in the amount of \$2,390,000. At June 30, 2015, \$713,000 has been incurred in connection with this project.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****Note 8 - Student Financial Assistance**

Scholarships of \$571,821 and \$562,206, 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, 2015 and 2014, respectively.

In addition to the above, group instruction in music theory, composition, ensembles, chamber music and performance, with tuition value of approximately \$280,000 and \$337,000, was provided to students at no additional charge during the years ended June 30, 2015 and 2014, respectively.

**Note 9 - Capital Campaign**

In June 2014, Third Street'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. Approximately 90% of the campaign goal has been secured through a leadership grant of \$3 million, pledges from Board Members, and other grants from foundations, government agencies, and individuals. 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 and rehearsal space, installing a second stairway to enable students, families and guests to move more easily throughout the building, and modernizing the freight elevator into a self-service passenger elevator.

**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.

**SUPPLEMENTARY INFORMATION**



**LUZ AND CARR**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP  
300 EAST 42ND ST., NEW YORK, NY 10017  
212-697-2299 Fax 212-949-1768

**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, 2015 and 2014, and our report thereon dated October 21, 2015, 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, 2015 with comparative totals for 2014 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 21, 2015

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Program Services				Supporting Services			2015	2014
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$2,573,072	\$ 558,900	\$ 47,046	\$3,179,018	\$ 453,337	\$ 321,210	\$ 774,547	\$3,953,565	\$3,840,446
Employee benefits and payroll taxes	470,002	83,166	9,592	562,760	62,279	46,926	109,205	671,965	684,323
Total Personnel Expenses	3,043,074	642,066	56,638	3,741,778	515,616	368,136	883,752	4,625,530	4,524,769
Guest artists, instructional services and teaching substitutes	33,939	7,478	16,265	57,682	-	-	-	57,682	72,975
Professional fees and services	96,064	13,177	4,804	114,045	44,465	26,603	71,068	185,113	327,574
Security and custodial services	54,751	11,641	1,055	67,447	8,381	5,609	13,990	81,437	80,552
Instruments, tuning, repairs and instructional supplies	46,648	5,575	2,075	54,298	-	-	-	54,298	39,868
Printing, duplicating and advertising	52,626	7,243	5,203	65,072	5,100	17,862	22,962	88,034	70,146
Telephone and internet	16,138	3,431	311	19,880	2,471	1,653	4,124	24,004	17,366
Stationery and supplies	14,428	3,261	276	17,965	2,193	1,518	3,711	21,676	15,996
Shipping, postage and delivery	7,213	1,523	138	8,874	1,096	4,109	5,205	14,079	13,024
Dues, conferences, professional development	29,372	5,109	322	34,803	1,912	3,692	5,604	40,407	28,669
Travel and meetings	15,798	3,227	263	19,288	2,089	1,526	3,615	22,903	17,980
Occupancy and storage	106,164	21,508	1,949	129,621	18,007	10,365	28,372	157,993	170,384
Insurance	57,307	12,184	1,104	70,595	8,773	5,871	14,644	85,239	79,725
Repairs and maintenance	33,821	7,191	652	41,664	5,176	3,465	8,641	50,305	50,210
Credit card processing fees and bank charges	41,397	8,802	798	50,997	6,337	4,241	10,578	61,575	53,515
Bad debts	23,988	-	-	23,988	-	-	-	23,988	18,594
Special events (non-direct benefit costs)	-	-	-	-	-	44,912	44,912	44,912	-
Other non-personnel expenses	58,016	13,402	1,406	72,824	5,605	9,427	15,032	87,856	82,956
Total expenses before depreciation	3,730,744	766,818	93,259	4,590,821	627,221	508,989	1,136,210	5,727,031	5,664,303
Depreciation	126,473	26,890	2,437	155,800	19,359	12,957	32,316	188,116	170,554
Total Expenses, 2015	<u>\$3,857,217</u>	<u>\$ 793,708</u>	<u>\$ 95,696</u>	<u>\$4,746,621</u>	<u>\$ 646,580</u>	<u>\$ 521,946</u>	<u>\$1,168,526</u>	<u>\$5,915,147</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>

See independent auditors' report on supplementary information.