

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

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2013 AND 2012

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 11)	\$ 441,618	\$ 92,936	\$ 4,733	\$ 539,287	\$ 372,204	\$ 55,499	\$ 188,108	\$ 615,811
Unconditional promises to give (Notes 1c and 3)								
Unrestricted	73,665	-	-	73,665	43,975	-	-	43,975
Restricted to future programs and periods	-	28,000	-	28,000	-	52,800	-	52,800
Tuition and other receivables (net of allowance for doubtful accounts of \$38,000 in 2013 and 2012)	1,087,552	-	-	1,087,552	1,145,595	-	-	1,145,595
Prepaid expenses and other current assets	55,687	-	-	55,687	38,427	-	-	38,427
Investments (Notes 1d, 1e and 4)	4,473,997	993,838	4,635,113	10,102,948	4,492,334	697,194	4,434,736	9,624,264
Property and equipment, at cost (net of accumulated depreciation) (Notes 1f and 5)	780,157	-	-	780,157	700,885	-	-	700,885
Total Assets	\$ 6,912,676	\$ 1,114,774	\$ 4,639,846	\$12,667,296	\$ 6,793,420	\$ 805,493	\$ 4,622,844	\$12,221,757
Liabilities and Net Assets								
Liabilities								
Accounts payable and other current liabilities	\$ 324,828	\$ -	\$ -	\$ 324,828	\$ 295,777	\$ -	\$ -	\$ 295,777
Deferred tuition revenue (Note 1g)	1,506,831	-	-	1,506,831	1,607,419	-	-	1,607,419
Total Liabilities	1,831,659	-	-	1,831,659	1,903,196	-	-	1,903,196
Commitment and Contingencies (Notes 6 and 7)								
Net Assets (Note 2)								
Board designated reserve	4,473,997	-	-	4,473,997	4,492,334	-	-	4,492,334
Property and equipment	780,157	-	-	780,157	700,885	-	-	700,885
Operating	(173,137)	1,114,774	-	941,637	(302,995)	805,493	-	502,498
Cash reserve	-	-	348,435	348,435	-	-	348,435	348,435
Endowment	-	-	4,291,411	4,291,411	-	-	4,274,409	4,274,409
Total Net Assets	5,081,017	1,114,774	4,639,846	10,835,637	4,890,224	805,493	4,622,844	10,318,561
Total Liabilities and Net Assets	\$ 6,912,676	\$ 1,114,774	\$ 4,639,846	\$12,667,296	\$ 6,793,420	\$ 805,493	\$ 4,622,844	\$12,221,757

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2013 AND 2012

	2013				2012			
	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 \$470,594 (2013) and \$500,329 (2012) (Notes 1g and 8)	\$ 3,208,576	\$ -	\$ -	\$ 3,208,576	\$ 3,022,027	\$ -	\$ -	\$ 3,022,027
School partnerships	375,887	-	-	375,887	464,383	-	-	464,383
Contributions								
Government agencies	164,485	15,000	-	179,485	130,750	-	-	130,750
Foundations, trusts and corporations	589,808	79,300	1,000	670,108	646,363	105,500	100,000	851,863
Individuals and others	345,082	26,636	14,829	386,547	348,346	2,800	3,791	354,937
Estates, trusts and bequests	-	-	1,173	1,173	500	-	184,416	184,916
In-kind donations - instruments (Note 9)	134,565	-	-	134,565	-	-	-	-
Special events income	302,611	-	-	302,611	315,603	-	-	315,603
Less: Cost of direct benefits	(36,808)	-	-	(36,808)	(30,662)	-	-	(30,662)
Miscellaneous	17,419	-	-	17,419	20,712	-	-	20,712
	<u>5,101,625</u>	<u>120,936</u>	<u>17,002</u>	<u>5,239,563</u>	<u>4,918,022</u>	<u>108,300</u>	<u>288,207</u>	<u>5,314,529</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	<u>347,315</u>	<u>(347,315)</u>	<u>-</u>	<u>-</u>	<u>278,036</u>	<u>(278,036)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Contributed Support	<u>5,448,940</u>	<u>(226,379)</u>	<u>17,002</u>	<u>5,239,563</u>	<u>5,196,058</u>	<u>(169,736)</u>	<u>288,207</u>	<u>5,314,529</u>
Operating Expenses								
Program Services								
Instruction	3,722,545	-	-	3,722,545	3,437,550	-	-	3,437,550
School partnerships	872,232	-	-	872,232	956,173	-	-	956,173
Performances	98,556	-	-	98,556	113,254	-	-	113,254
Total Program Services	<u>4,693,333</u>	<u>-</u>	<u>-</u>	<u>4,693,333</u>	<u>4,506,977</u>	<u>-</u>	<u>-</u>	<u>4,506,977</u>
Supporting Services								
Management and general	611,470	-	-	611,470	524,055	-	-	524,055
Fundraising	496,713	-	-	496,713	536,449	-	-	536,449
Total Supporting Services	<u>1,108,183</u>	<u>-</u>	<u>-</u>	<u>1,108,183</u>	<u>1,060,504</u>	<u>-</u>	<u>-</u>	<u>1,060,504</u>
Total Operating Expenses	<u>5,801,516</u>	<u>-</u>	<u>-</u>	<u>5,801,516</u>	<u>5,567,481</u>	<u>-</u>	<u>-</u>	<u>5,567,481</u>
Increase (Decrease) in Net Assets from Operations	(352,576)	(226,379)	17,002	(561,953)	(371,423)	(169,736)	288,207	(252,952)
Non-Operating Activity								
Investment income (loss), net of investment fees (Note 4)	<u>543,369</u>	<u>535,660</u>	<u>-</u>	<u>1,079,029</u>	<u>(15,654)</u>	<u>(21,459)</u>	<u>-</u>	<u>(37,113)</u>
Increase (decrease) in net assets	190,793	309,281	17,002	517,076	(387,077)	(191,195)	288,207	(290,065)
Net assets, beginning of year	<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>
Net Assets, End of Year	<u>\$ 5,081,017</u>	<u>\$ 1,114,774</u>	<u>\$ 4,639,846</u>	<u>\$10,835,637</u>	<u>\$ 4,890,224</u>	<u>\$ 805,493</u>	<u>\$ 4,622,844</u>	<u>\$10,318,561</u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 517,076	\$ (290,065)
Adjustments to reconcile change in net assets to cash used by operating activities:		
Net unrealized loss on investments	69,332	1,219,398
Net realized gain on sale of investments	(811,405)	(842,710)
Donation of marketable securities	(107,614)	(47,828)
Depreciation	232,725	196,738
Contributions for endowment	(17,002)	(288,207)
Bad debts	13,717	8,715
In-kind donations - instruments	(134,565)	-
(Increase) decrease in:		
Unconditional promises to give	(4,890)	(31,454)
Tuition and other receivables	44,326	254,504
Prepaid expenses and other current assets	(17,260)	12,210
Increase (decrease) in:		
Accounts payable and other current liabilities	29,051	75,156
Deferred tuition revenue	(100,588)	(362,634)
Net Cash Used By Operating Activities	(287,097)	(96,177)
Cash Flows From Investing Activities		
Purchase of property and equipment	(177,432)	(229,796)
Purchase of investments	(2,003,467)	(3,533,219)
Proceeds from sale of investments	2,374,470	3,679,658
Net Cash Provided (Used) By Investing Activities	193,571	(83,357)
Cash Flows From Financing Activities		
Contributions received for endowment	17,002	288,207
Net increase (decrease) in cash and cash equivalents	(76,524)	108,673
Cash and cash equivalents, beginning of year	615,811	507,138
Cash and Cash Equivalents, End of Year	\$ 539,287	\$ 615,811

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****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, 2013, a total of 2,766 children who participated in its school partnership program in low and moderate income areas and 1,689 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, 2013 AND 2012****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 - 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, 2013 AND 2012

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 for years prior to 2009 are generally no longer subject to examination by taxing authorities.

k - Subsequent Events

The School has evaluated subsequent events through October 24, 2013, 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, 2013 and 2012, the Board Designated Reserve consists of the following:

	<u>2013</u>	<u>2012</u>
Reserve	\$3,476,178	\$3,559,808
Capital Projects Reserve	697,819	632,526
Barbara Field Chamber Music Fund	<u>300,000</u>	<u>300,000</u>
	<u>\$4,473,997</u>	<u>\$4,492,334</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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>2013</u>	<u>2012</u>
Future programs	\$ 120,936	\$108,300
Scholarships/financial aid	482,178	349,140
Faculty development	180,986	131,096
Chamber music	154,002	111,539
General purposes	<u>176,672</u>	<u>105,418</u>
	<u>\$1,114,774</u>	<u>\$805,493</u>

At June 30, 2013 and 2012, temporarily restricted net assets include cumulative investment income of \$993,838 and \$697,194, 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, 2013 and 2012.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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>2013 Net Investment Income</u>
Scholarship/financial aid funds	\$1,393,514	\$ 240,228
Faculty development	662,951	88,690
General purposes, including additional scholarship and program support	1,661,748	130,065
Barbara Field Chamber Music Fund	<u>573,198</u>	<u>76,677</u>
	<u>\$4,291,411</u>	<u>\$535,660</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, 2013 AND 2012

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>
2013	<u>\$993,838</u>	<u>\$4,286,678</u>	<u>\$5,280,516</u>
2012	<u>\$697,194</u>	<u>\$4,086,301</u>	<u>\$4,783,495</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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>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	<u>535,660</u>	<u>-</u>	<u>535,660</u>
Transfer of contributions	<u>-</u>	<u>200,377</u>	<u>200,377</u>
Appropriation to unrestricted assets	<u>(239,016)</u>	<u>-</u>	<u>(239,016)</u>
Endowment Net Assets, End of Year	<u>\$993,838</u>	<u>\$4,286,678</u>	<u>\$5,280,516</u>
	<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	<u>(21,459)</u>	<u>-</u>	<u>(21,459)</u>
Transfer of contributions	<u>-</u>	<u>189,455</u>	<u>189,455</u>
Appropriation to unrestricted assets	<u>(216,035)</u>	<u>-</u>	<u>(216,035)</u>
Endowment Net Assets, End of Year	<u>\$697,194</u>	<u>\$4,086,301</u>	<u>\$4,783,495</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****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, 2013 AND 2012

Note 4 - Investments

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

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money markets	\$ 37,167	\$ 37,167	\$ 852	\$ 852
Mutual funds	8,366,511	9,724,425	7,854,810	9,369,255
Common stock	<u>148,853</u>	<u>341,356</u>	<u>148,853</u>	<u>254,157</u>
	<u>\$8,552,531</u>	<u>\$10,102,948</u>	<u>\$8,004,515</u>	<u>\$9,624,264</u>

The following schedule summarizes investment income (loss) for the years ended June 30, 2013 and 2012:

	<u>2013</u>		
	<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>
	<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>

At June 30, 2013 and 2012, 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, 2013 AND 2012

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2013</u>	<u>2012</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	2,059,578	1,954,716
Courtyard renovations	10 years	175,321	175,321
Furniture and fixtures	3-8 years	164,453	114,623
Instruments	5-15 years	553,408	396,103
Registration software	2 years	<u>106,700</u>	<u>106,700</u>
		3,806,639	3,494,642
Less: Accumulated depreciation		<u>(3,195,977)</u>	<u>(2,963,252)</u>
		610,662	531,390
Land		<u>169,495</u>	<u>169,495</u>
Total		<u>\$ 780,157</u>	<u>\$ 700,885</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$232,725 and \$196,738, 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 \$54,850 and \$60,047 for the years ended June 30, 2013 and 2012, respectively.

Note 7 - Contingencies

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.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****Note 7 - Contingencies (continued)**

b - A former employee filed an employment practices complaint against the School. The School is in the process of responding to the complaint and will deny all allegations. The School has insurance to cover claims of this nature.

Note 8 - Student Financial Assistance

Scholarships of \$470,594 and \$500,329, 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, 2013 and 2012, respectively.

In addition to the above, group instruction in music theory, composition, literature, note-reading, chamber music and performance, with tuition value of approximately \$570,000 and \$390,000, was provided to students at no additional charge during the years ended June 30, 2013 and 2012, respectively.

Note 9 - In-Kind Donations - Instruments

The School received donated instruments in connection with its programs that it 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.

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, 2013 and 2012, and our report thereon dated October 24, 2013, 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, 2013 with comparative totals for 2012 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, 2013

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Program Services				Supporting Services			2013	2012
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$2,474,245	\$ 606,110	\$ 48,419	\$3,128,774	\$ 422,673	\$ 294,781	\$ 717,454	\$3,846,228	\$3,805,093
Employee benefits and payroll taxes	463,496	99,368	9,723	572,587	61,439	51,162	112,601	685,188	605,853
Total Personnel Expenses	2,937,741	705,478	58,142	3,701,361	484,112	345,943	830,055	4,531,416	4,410,946
Guest artists, instructional services and teaching substitutes	55,908	3,405	14,470	73,783	-	-	-	73,783	80,383
Professional fees and services	133,445	30,569	6,530	170,544	50,489	12,130	62,619	233,163	168,042
Security and custodial services	49,296	11,823	1,006	62,125	7,226	4,695	11,921	74,046	69,531
Instruments, tuning, repairs and instructional supplies	25,766	2,887	3,435	32,088	-	-	-	32,088	43,619
Printing, duplicating and advertising	40,145	6,097	5,571	51,813	3,675	10,047	13,722	65,535	57,592
Telephone and internet	8,363	2,006	171	10,540	1,226	796	2,022	12,562	11,045
Stationery and supplies	9,553	2,297	191	12,041	1,378	900	2,278	14,319	17,110
Shipping, postage and delivery	5,946	1,425	122	7,493	871	1,332	2,203	9,696	12,576
Dues, conferences, professional development	18,949	5,139	196	24,284	1,419	1,282	2,701	26,985	30,146
Travel and meetings	5,575	1,500	90	7,165	644	497	1,141	8,306	8,785
Occupancy	96,261	23,087	1,967	121,315	14,112	9,166	23,278	144,593	139,672
Insurance	52,590	12,613	1,074	66,277	7,710	5,008	12,718	78,995	74,126
Repairs and maintenance	36,156	8,671	738	45,565	5,301	3,443	8,744	54,309	55,581
Credit card processing fees and bank charges	31,549	7,566	644	39,759	4,624	3,005	7,629	47,388	39,403
Bad debts	13,717	-	-	13,717	-	-	-	13,717	8,715
Special events (non-direct benefit costs)	-	-	-	-	-	75,007	75,007	75,007	75,290
Other non-personnel expenses	46,649	10,511	1,044	58,204	5,972	8,707	14,679	72,883	68,181
Total expenses before depreciation	3,567,609	835,074	95,391	4,498,074	588,759	481,958	1,070,717	5,568,791	5,370,743
Depreciation	154,936	37,158	3,165	195,259	22,711	14,755	37,466	232,725	196,738
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>	
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>

See independent auditors' report on supplementary information.