

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

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016 AND 2015**

# SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Society of the Third Street Music School Settlement (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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  
November 10, 2016

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>								
Cash and cash equivalents (Notes 1b and 11)	\$ 1,322,869	\$ 630,762	\$ 4,792	\$ 1,958,423	\$ 1,356,970	\$ 1,909,511	\$ 10,441	\$ 3,276,922
Unconditional promises to give (Notes 1c and 3)								
Unrestricted	89,750	-	-	89,750	68,410	-	-	68,410
Restricted to future programs and periods	-	583,629	-	583,629	-	554,932	-	554,932
Restricted to the capital campaign	-	190,945	-	190,945	-	1,429,280	-	1,429,280
Tuition and other receivables (net of allowance for doubtful accounts of \$38,000 in 2016 and 2015)	1,136,562	-	-	1,136,562	1,568,678	-	-	1,568,678
Prepaid expenses and other current assets	58,733	-	-	58,733	102,349	-	-	102,349
Investments (Notes 1d, 1e and 4)	4,557,712	1,048,078	4,661,676	10,267,466	4,720,774	1,359,688	4,644,608	10,725,070
Renovation project - in progress (Note 5b)	-	262,355	-	262,355	50,006	1,131,369	-	1,181,375
Property and equipment, at cost (net of accumulated depreciation) (Notes 1f and 5a)	4,180,337	-	-	4,180,337	732,993	-	-	732,993
<b>Total Assets</b>	<b>\$11,345,963</b>	<b>\$ 2,715,769</b>	<b>\$ 4,666,468</b>	<b>\$18,728,200</b>	<b>\$ 8,600,180</b>	<b>\$ 6,384,780</b>	<b>\$ 4,655,049</b>	<b>\$19,640,009</b>
<b>Liabilities and Net Assets</b>								
Liabilities								
Accounts payable and other current liabilities - operating	\$ 310,785	\$ -	\$ -	\$ 310,785	\$ 365,399	\$ -	\$ -	\$ 365,399
Accounts payable - capital	-	164,832	-	164,832	-	475,521	-	475,521
Deferred tuition revenue (Note 1g)	2,034,377	-	-	2,034,377	2,435,477	-	-	2,435,477
Total Liabilities	2,345,162	164,832	-	2,509,994	2,800,876	475,521	-	3,276,397
Commitments and Contingency (Notes 6 and 7)								
Net Assets (Note 2)								
Board designated reserve	5,234,873	-	-	5,234,873	5,209,840	-	-	5,209,840
Operating	(414,409)	817,629	-	403,220	(193,535)	668,182	-	474,647
Property and equipment	4,180,337	-	-	4,180,337	732,993	-	-	732,993
Capital campaign	-	685,230	-	685,230	50,006	3,881,389	-	3,931,395
Cash reserve	-	-	348,435	348,435	-	-	348,435	348,435
Endowment	-	1,048,078	4,318,033	5,366,111	-	1,359,688	4,306,614	5,666,302
Total Net Assets	9,000,801	2,550,937	4,666,468	16,218,206	5,799,304	5,909,259	4,655,049	16,363,612
<b>Total Liabilities and Net Assets</b>	<b>\$11,345,963</b>	<b>\$ 2,715,769</b>	<b>\$ 4,666,468</b>	<b>\$18,728,200</b>	<b>\$ 8,600,180</b>	<b>\$ 6,384,780</b>	<b>\$ 4,655,049</b>	<b>\$19,640,009</b>

See notes to financial statements.

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	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 \$619,835 (2016) and \$571,821 (2015) (Notes 1g and 8)	\$ 3,292,609	\$ -	\$ -	\$ 3,292,609	\$ 3,249,575	\$ -	\$ -	\$ 3,249,575
School partnerships	473,917	-	-	473,917	391,360	-	-	391,360
Contributions								
Government agencies	187,500	15,000	-	202,500	160,800	-	-	160,800
Foundations, trusts and corporations	689,156	405,197	-	1,094,353	880,013	560,812	-	1,440,825
Individuals and others	309,023	4,500	11,419	324,942	342,466	10,000	10,391	362,857
Estates, trusts and bequests	263,492	-	-	263,492	-	-	-	-
Special events income	544,427	-	-	544,427	506,940	-	-	506,940
Less: Cost of direct benefits	(129,142)	-	-	(129,142)	(115,506)	-	-	(115,506)
Miscellaneous	23,621	-	-	23,621	30,156	-	-	30,156
	<u>5,654,603</u>	<u>424,697</u>	<u>11,419</u>	<u>6,090,719</u>	<u>5,445,804</u>	<u>570,812</u>	<u>10,391</u>	<u>6,027,007</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	543,781	(543,781)	-	-	369,015	(369,015)	-	-
Total Operating Revenue and Contributed Support	<u>6,198,384</u>	<u>(119,084)</u>	<u>11,419</u>	<u>6,090,719</u>	<u>5,814,819</u>	<u>201,797</u>	<u>10,391</u>	<u>6,027,007</u>
Operating Expenses								
Program Services								
Instruction	3,942,245	-	-	3,942,245	3,730,744	-	-	3,730,744
School partnerships	893,628	-	-	893,628	766,818	-	-	766,818
Performances	87,799	-	-	87,799	93,259	-	-	93,259
Total Program Services	<u>4,923,672</u>	<u>-</u>	<u>-</u>	<u>4,923,672</u>	<u>4,590,821</u>	<u>-</u>	<u>-</u>	<u>4,590,821</u>
Supporting Services								
Management and general	650,525	-	-	650,525	627,221	-	-	627,221
Fundraising	520,864	-	-	520,864	508,989	-	-	508,989
Total Supporting Services	<u>1,171,389</u>	<u>-</u>	<u>-</u>	<u>1,171,389</u>	<u>1,136,210</u>	<u>-</u>	<u>-</u>	<u>1,136,210</u>
Depreciation	<u>312,567</u>	<u>-</u>	<u>-</u>	<u>312,567</u>	<u>188,116</u>	<u>-</u>	<u>-</u>	<u>188,116</u>
Total Operating Expenses	<u>6,407,628</u>	<u>-</u>	<u>-</u>	<u>6,407,628</u>	<u>5,915,147</u>	<u>-</u>	<u>-</u>	<u>5,915,147</u>
Increase (Decrease) in Net Assets from Operations	<u>(209,244)</u>	<u>(119,084)</u>	<u>11,419</u>	<u>(316,909)</u>	<u>(100,328)</u>	<u>201,797</u>	<u>10,391</u>	<u>111,860</u>
Non-Operating Activity								
Investment income (loss), net of investment fees (Note 4)	(61,637)	(43,079)	-	(104,716)	4,646	(2,094)	-	2,552
Capital campaign contributions (Note 9)	-	276,219	-	276,219	5,000	3,881,389	-	3,886,389
Net assets released from restrictions								
Satisfaction of capital restrictions	<u>3,472,378</u>	<u>(3,472,378)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Income and Contributed Support	<u>3,410,741</u>	<u>(3,239,238)</u>	<u>-</u>	<u>171,503</u>	<u>9,646</u>	<u>3,879,295</u>	<u>-</u>	<u>3,888,941</u>
Increase (decrease) in net assets	3,201,497	(3,358,322)	11,419	(145,406)	(90,682)	4,081,092	10,391	4,000,801
Net assets, beginning of year	<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>
<b>Net Assets, End of Year</b>	<u>\$ 9,000,801</u>	<u>\$ 2,550,937</u>	<u>\$ 4,666,468</u>	<u>\$16,218,206</u>	<u>\$ 5,799,304</u>	<u>\$ 5,909,259</u>	<u>\$ 4,655,049</u>	<u>\$16,363,612</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ (145,406)	\$4,000,801
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized loss on investments	471,638	594,442
Net realized gain on sale of investments	(95,479)	(243,727)
Depreciation	312,567	188,116
Contributions for renovation project	(276,219)	(3,881,389)
Contributions for endowment	(11,419)	(10,391)
Bad debts	70,380	23,988
(Increase) decrease in:		
Unconditional promises to give	(50,037)	(477,329)
Tuition and other receivables	361,736	(549,377)
Prepaid expenses and other current assets	43,616	(17,419)
Increase (decrease) in:		
Accounts payable and other current liabilities - operating	(54,614)	31,478
Deferred tuition revenue	(401,100)	751,662
Net Cash Provided By Operating Activities	225,663	410,855
 <b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(287,533)	(145,910)
Payments for renovation project	(2,864,047)	(662,523)
Purchase of investments	(1,540,083)	(403,079)
Proceeds from sale of investments	1,621,528	820,682
Net Cash Used By Investing Activities	(3,070,135)	(390,830)
 <b>Cash Flows From Financing Activities</b>		
Contributions received for renovation project	1,514,554	2,452,109
Contributions received for endowment	11,419	10,391
Net Cash Provided By Financing Activities	1,525,973	2,462,500
 Net increase (decrease) in cash and cash equivalents	(1,318,499)	2,482,525
Cash and cash equivalents, beginning of year	3,276,922	794,397
 <b>Cash and Cash Equivalents, End of Year</b>	<b>\$1,958,423</b>	<b>\$3,276,922</b>

See notes to financial statements.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Founded in 1894, Society of the Third Street Music School Settlement (the "School") is the longest-running community music school in the nation. With roots in the late 19<sup>th</sup> century settlement house movement, the School was instrumental in establishing community arts education in the United States and has continued to change the lives of its students and community by providing access to high-quality music and arts instruction to students of all ages and backgrounds, regardless of artistic experience or circumstances. Today, including during the year ended June 30, 2016, the School serves more than 5,000 students. This includes 1,672 individuals at its East 11th Street location and 3,411 children across 28 New York City public schools and community partnerships. More than 75% of its students benefit from tuition assistance, including need-based financial aid, merit-based scholarships or participate in low cost or tuition-free instruction and enrichment programs. The School is known for its vibrant chamber music programs, a music-centered preschool and early childhood program, its focus on adult programming, its commitment to woodwinds and brass instruction for pre-teen and teenage beginners, and its acclaimed faculty. The School offers weekly after-school and Saturday music instruction in most instruments and voice, along with music theory, composition, chamber music, ensemble and many performance activities. The School also offers classes in ballet, tap dance and hip-hop. In addition, a range of summer workshops is offered. As part of its educational mission and in service to the broader community, the School presents more than 250 free-to-the-public concerts and recitals by faculty, students and renowned guest artists each year.

**b - Cash and Cash Equivalents**

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

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

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



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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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

c - Contributions and Unconditional Promises to Give (continued)

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

d - Investments

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

e - Fair Value Measurements

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

Level 1      quoted prices for identical instruments in active markets;

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

Level 3      instruments the significant inputs of which are unobservable

f - Property and Equipment

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

g - Tuition

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

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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

h - Financial Statement Presentation

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

i - Estimates

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

j - Tax Status

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

k - Subsequent Events

The School has evaluated subsequent events through November 10, 2016, 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, 2016 and 2015, the Board Designated Reserve consists of the following:

	<u>2016</u>	<u>2015</u>
General operating reserve	\$4,149,858	\$4,149,858
Capital Projects Reserve	785,015	759,982
Barbara Field Chamber Music Fund	<u>300,000</u>	<u>300,000</u>
	<u>\$5,234,873</u>	<u>\$5,209,840</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**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:

	<b>2016</b>	<b>2015</b>
Operating		
Future programs	\$ 817,629	\$ 668,182
Capital campaign (See Note 9)	685,230	3,881,389
Endowment		
Scholarships/financial aid	516,909	646,574
Faculty development	183,454	234,786
Chamber music	158,539	202,940
General purposes	189,176	275,388
	1,048,078	1,359,688
	<b>\$2,550,937</b>	<b>\$5,909,259</b>

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, 2016 and 2015.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**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>2016 Net Investment Loss</u>
Scholarship/financial aid funds	\$1,419,736	\$(18,914)
Faculty development	662,951	(6,801)
General purposes, including additional scholarship and program support	1,661,748	(11,481)
Barbara Field Chamber Music Fund	<u>573,598</u>	<u>(5,883)</u>
	<u>\$4,318,033</u>	<u>\$(43,079)</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, 2016 AND 2015**

**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>
2016	<u>\$1,048,078</u>	<u>\$4,313,241</u>	<u>\$5,361,319</u>
2015	<u>\$1,359,688</u>	<u>\$4,296,173</u>	<u>\$5,655,861</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**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>2016</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$1,359,688	\$4,296,173	\$5,655,861
Investment Return:			
Investment income	152,333	-	152,333
Net depreciation (realized and unrealized)	(195,412)	-	(195,412)
Total Investment Return	(43,079)	-	(43,079)
Transfer of contributions	-	17,068	17,068
Appropriation to unrestricted assets	(268,531)	-	(268,531)
Endowment Net Assets, End of Year	<u>\$1,048,078</u>	<u>\$4,313,241</u>	<u>\$5,361,319</u>
	<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)	(185,528)	-	(185,528)
Total Investment Return	(2,094)	-	(2,094)
Transfer of contributions	-	4	4
Appropriation to unrestricted assets	(255,365)	-	(255,365)
Endowment Net Assets, End of Year	<u>\$1,359,688</u>	<u>\$4,296,173</u>	<u>\$5,655,861</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****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, 2016 AND 2015**

**Note 3 - Unconditional Promises to Give**

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Due within one year	\$89,750	\$ 430,945	\$520,695	\$1,524,660
Due in one to five years	-	364,000	364,000	550,564
	<u>89,750</u>	<u>794,945</u>	<u>884,695</u>	<u>2,075,224</u>
Less: Discount to present value	-	(20,371)	(20,371)	(22,602)
	<u>89,750</u>	<u>774,574</u>	<u>864,324</u>	
Total, 2016	<u>\$89,750</u>	<u>\$ 774,574</u>	<u>\$864,324</u>	
Total, 2015	<u>\$68,410</u>	<u>\$1,984,212</u>		<u>\$2,052,622</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>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money markets	\$ 239,946	\$ 239,946	\$ 1,166	\$ 1,166
Mutual Funds				
Equity	4,764,700	6,234,796	3,613,280	5,424,477
Fixed income	3,515,773	3,792,724	4,743,086	4,884,291
Common stock	-	-	148,853	415,136
	<u>\$8,520,419</u>	<u>\$10,267,466</u>	<u>\$8,506,385</u>	<u>\$10,725,070</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**Note 4 - Investments (continued)**

The following schedule summarizes investment income for the years ended June 30, 2016 and 2015:

	<b>2016</b>		
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
Net unrealized loss on investments	\$(226,586)	\$(245,052)	\$(471,638)
Net realized gain on sale of investments	45,839	49,640	95,479
Interest and dividend income, including capital gain distributions	147,460	155,955	303,415
Less: Investment fees	<u>(28,350)</u>	<u>(3,622)</u>	<u>(31,972)</u>
	<u>\$ (61,637)</u>	<u>\$ (43,079)</u>	<u>\$ (104,716)</u>
	<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>

At June 30, 2016 and 2015, 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, 2016 AND 2015**

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

a - Property and equipment consist of the following:

	<u>Life</u>	<u>2016</u>	<u>2015</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	5,733,784	2,193,550
Courtyard renovations	10 years	175,321	175,321
Furniture and fixtures	3-8 years	281,991	219,893
Instruments	5-15 years	720,007	605,798
Registration software	2 years	<u>156,616</u>	<u>138,406</u>
		7,814,898	4,080,147
Less: Accumulated depreciation		<u>(3,804,056)</u>	<u>(3,516,649)</u>
		4,010,842	563,498
Land		<u>169,495</u>	<u>169,495</u>
Total		<u>\$4,180,337</u>	<u>\$ 732,993</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$312,567 and \$188,116, respectively.

b - The School is undertaking a renovation of its building. Phase 1 which includes renovating the auditorium, recital hall and installing a recording studio, was completed in 2016. Phase 2 includes renovation of the lobbies and elevator and is expected to be completed in 2017. (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 \$62,874 and \$58,410 for the years ended June 30, 2016 and 2015, 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.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****Note 7 - Commitment and Contingency (continued)**

b - The Organization has entered into a contract to renovate the lobbies and the elevator (Phase 2) in the amount of \$733,968. At June 30, 2016 \$146,522 has been incurred in connection with this project.

**Note 8 - Student Financial Assistance**

Scholarships of \$619,835 and \$571,821, 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, 2016 and 2015, respectively.

In addition to the above, group instruction in music theory, composition, ensembles, chamber music and performance, with tuition value of approximately \$340,000 and \$280,000, was provided to students at no additional charge during the years ended June 30, 2016 and 2015, 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. 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 and modernizing the freight elevator into a self-service passenger elevator. As of June 30, 2016, Phase 1 of the renovation has been completed and Phase 2 will be completed by the end of June 30, 2017.

**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

We have audited the financial statements of Society of the Third Street Music School Settlement as of and for the years ended June 30, 2016 and 2015, and our report thereon dated November 10, 2016, 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, 2016 with comparative totals for 2015 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  
November 10, 2016

## SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016 WITH COMPARATIVE TOTALS FOR 2015

	Program Services				Supporting Services			2016	2015
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$2,679,395	\$ 654,748	\$ 51,003	\$3,385,146	\$ 460,664	\$ 249,198	\$ 709,862	\$4,095,008	\$3,953,565
Employee benefits and payroll taxes	494,346	99,746	11,066	605,158	60,020	42,219	102,239	707,397	671,965
Total Personnel Expenses	3,173,741	754,494	62,069	3,990,304	520,684	291,417	812,101	4,802,405	4,625,530
Guest artists, instructional services and teaching substitutes	59,951	6,553	13,698	80,202	-	-	-	80,202	57,682
Professional fees and services	75,218	14,110	936	90,264	66,736	86,740	153,476	243,740	185,113
Security and custodial services	58,965	13,983	1,247	74,195	9,029	12,335	21,364	95,559	81,437
Instruments, tuning, repairs and instructional supplies	60,287	12,417	1,525	74,229	-	-	-	74,229	54,298
Printing, duplicating and advertising	46,522	7,051	1,375	54,948	3,594	17,609	21,203	76,151	88,034
Telephone and internet	16,232	3,849	343	20,424	2,485	3,396	5,881	26,305	24,004
Stationery and supplies	17,075	3,412	282	20,769	2,037	2,804	4,841	25,610	21,676
Shipping, postage and delivery	5,778	1,370	122	7,270	886	3,493	4,379	11,649	14,079
Dues, conferences, professional development	33,308	7,518	306	41,132	2,243	13,870	16,113	57,245	40,407
Travel and meetings	8,240	3,058	135	11,433	1,089	1,395	2,484	13,917	22,903
Occupancy and storage	126,000	21,035	1,877	148,912	17,949	18,556	36,505	185,417	157,993
Insurance	53,230	12,623	1,126	66,979	8,149	11,136	19,285	86,264	85,239
Repairs and maintenance	44,761	10,615	947	56,323	6,854	9,364	16,218	72,541	50,305
Credit card processing fees and bank charges	36,385	8,628	770	45,783	5,570	7,612	13,182	58,965	61,575
Bad debts	70,380	-	-	70,380	-	-	-	70,380	23,988
Special events (non-direct benefit costs)	-	-	-	-	-	25,545	25,545	25,545	44,912
Other non-personnel expenses	56,172	12,912	1,041	70,125	3,220	15,592	18,812	88,937	87,856
Total expenses before depreciation	3,942,245	893,628	87,799	4,923,672	650,525	520,864	1,171,389	6,095,061	5,727,031
Depreciation	192,724	45,739	4,081	242,544	29,674	40,349	70,023	312,567	188,116
Total Expenses, 2016	<u>\$4,134,969</u>	<u>\$ 939,367</u>	<u>\$ 91,880</u>	<u>\$5,166,216</u>	<u>\$ 680,199</u>	<u>\$ 561,213</u>	<u>\$1,241,412</u>	<u>\$6,407,628</u>	
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>

See independent auditors' report on supplementary information.