

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

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 25, 2018

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018			2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 12)	\$ 872,023	\$ 833,675	\$ 7,562	\$ 1,713,260	\$ 1,209,054	\$ 284,350	\$ 9,027	\$ 1,502,431
Unconditional promises to give (Notes 1c and 4)								
Unrestricted	153,048	-	-	153,048	114,073	-	-	114,073
Restricted to future programs and periods	-	1,248,626	-	1,248,626	-	287,645	-	287,645
Restricted to the capital campaign	19,000	-	-	19,000	26,500	-	-	26,500
Tuition and other receivables (net of allowance for doubtful accounts of \$45,000 and \$38,000 in 2018 and 2017, respectively)	1,549,717	-	-	1,549,717	1,154,016	-	-	1,154,016
Prepaid expenses and other current assets	71,371	-	-	71,371	46,903	-	-	46,903
Investments (Notes 1d, 1e and 5)	5,112,304	1,497,305	4,676,011	11,285,620	4,870,989	1,360,819	4,666,776	10,898,584
Property and equipment, at cost (net of accumulated depreciation) (Notes 1f and 6a)	5,092,817	-	-	5,092,817	5,002,364	-	-	5,002,364
Total Assets	\$12,870,280	\$ 3,579,606	\$ 4,683,573	\$21,133,459	\$12,423,899	\$ 1,932,814	\$ 4,675,803	\$19,032,516
Liabilities and Net Assets								
Liabilities								
Accounts payable and other current liabilities	\$ 390,375	\$ -	\$ -	\$ 390,375	\$ 417,584	\$ -	\$ -	\$ 417,584
Deferred tuition revenue (Note 1g)	2,794,294	-	-	2,794,294	2,321,478	-	-	2,321,478
Total Liabilities	3,184,669	-	-	3,184,669	2,739,062	-	-	2,739,062
Commitment and Contingency (Notes 7 and 8)								
Net Assets (Note 2)								
Board designated reserve	5,486,033	-	-	5,486,033	5,551,486	-	-	5,551,486
Operating	(893,239)	2,082,301	-	1,189,062	(869,013)	571,995	-	(297,018)
Property and equipment	5,092,817	-	-	5,092,817	5,002,364	-	-	5,002,364
Cash reserve	-	-	348,435	348,435	-	-	348,435	348,435
Endowment	-	1,497,305	4,335,138	5,832,443	-	1,360,819	4,327,368	5,688,187
Total Net Assets	9,685,611	3,579,606	4,683,573	17,948,790	9,684,837	1,932,814	4,675,803	16,293,454
Total Liabilities and Net Assets	\$12,870,280	\$ 3,579,606	\$ 4,683,573	\$21,133,459	\$12,423,899	\$ 1,932,814	\$ 4,675,803	\$19,032,516

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017				
	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 \$752,101 (2018) and \$709,654 (2017) (Notes 1g and 9)	\$ 3,832,368	\$ -	\$ -	\$ 3,832,368	\$ 3,616,365	\$ -	\$ -	\$ 3,616,365
School partnerships	626,564	-	-	626,564	558,302	-	-	558,302
Contributions (Note 4)								
Government agencies	213,875	-	-	213,875	192,500	30,000	-	222,500
Foundations, trusts and corporations	818,878	1,853,981	-	2,672,859	609,164	64,516	-	673,680
Individuals and others	344,945	12,000	7,770	364,715	349,055	-	9,335	358,390
Special events income	742,094	-	-	742,094	635,346	-	-	635,346
Less: Cost of direct benefits	(142,414)	-	-	(142,414)	(163,743)	-	-	(163,743)
Miscellaneous	34,118	-	-	34,118	19,427	-	-	19,427
	<u>6,470,428</u>	<u>1,865,981</u>	<u>7,770</u>	<u>8,344,179</u>	<u>5,816,416</u>	<u>94,516</u>	<u>9,335</u>	<u>5,920,267</u>
Net assets released from restrictions								
Satisfaction of time and program restrictions	620,851	(620,851)	-	-	610,038	(610,038)	-	-
	<u>7,091,279</u>	<u>1,245,130</u>	<u>7,770</u>	<u>8,344,179</u>	<u>6,426,454</u>	<u>(515,522)</u>	<u>9,335</u>	<u>5,920,267</u>
Operating Expenses								
Program Services								
Instruction	4,544,174	-	-	4,544,174	4,249,227	-	-	4,249,227
School partnerships	1,017,218	-	-	1,017,218	1,003,954	-	-	1,003,954
Performances	92,493	-	-	92,493	91,920	-	-	91,920
Total Program Services	<u>5,653,885</u>	<u>-</u>	<u>-</u>	<u>5,653,885</u>	<u>5,345,101</u>	<u>-</u>	<u>-</u>	<u>5,345,101</u>
Supporting Services								
Management and general	683,102	-	-	683,102	647,509	-	-	647,509
Fundraising	591,085	-	-	591,085	606,366	-	-	606,366
Total Supporting Services	<u>1,274,187</u>	<u>-</u>	<u>-</u>	<u>1,274,187</u>	<u>1,253,875</u>	<u>-</u>	<u>-</u>	<u>1,253,875</u>
Depreciation	<u>543,493</u>	<u>-</u>	<u>-</u>	<u>543,493</u>	<u>532,860</u>	<u>-</u>	<u>-</u>	<u>532,860</u>
Total Operating Expenses	<u>7,471,565</u>	<u>-</u>	<u>-</u>	<u>7,471,565</u>	<u>7,131,836</u>	<u>-</u>	<u>-</u>	<u>7,131,836</u>
Increase (Decrease) in Net Assets from Operations	<u>(380,286)</u>	<u>1,245,130</u>	<u>7,770</u>	<u>872,614</u>	<u>(705,382)</u>	<u>(515,522)</u>	<u>9,335</u>	<u>(1,211,569)</u>
Non-Operating Activity								
Investment income, net of investment fees (Note 5)	356,060	401,662	-	757,722	513,133	582,629	-	1,095,762
Capital campaign contributions (Note 10)	25,000	-	-	25,000	191,055	-	-	191,055
Net assets released from restrictions								
Satisfaction of capital restrictions	-	-	-	-	685,230	(685,230)	-	-
Total Non-Operating Income and Contributed Support	<u>381,060</u>	<u>401,662</u>	<u>-</u>	<u>782,722</u>	<u>1,389,418</u>	<u>(102,601)</u>	<u>-</u>	<u>1,286,817</u>
Increase (decrease) in net assets	774	1,646,792	7,770	1,655,336	684,036	(618,123)	9,335	75,248
Net assets, beginning of year	<u>9,684,837</u>	<u>1,932,814</u>	<u>4,675,803</u>	<u>16,293,454</u>	<u>9,000,801</u>	<u>2,550,937</u>	<u>4,666,468</u>	<u>16,218,206</u>
Net Assets, End of Year	<u>\$ 9,685,611</u>	<u>\$ 3,579,606</u>	<u>\$ 4,683,573</u>	<u>\$17,948,790</u>	<u>\$ 9,684,837</u>	<u>\$ 1,932,814</u>	<u>\$ 4,675,803</u>	<u>\$16,293,454</u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Increase in net assets	\$1,655,336	\$ 75,248
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net unrealized gain on investments	(402,665)	(446,666)
Net realized gain on sale of investments	(46,450)	(408,502)
Depreciation	543,493	532,860
Contributions for capital projects	(290,000)	(191,055)
Contributions for endowment	(7,770)	(9,335)
Bad debt expense	37,542	42,046
(Increase) decrease in:		
Unconditional promises to give	(1,020,106)	271,661
Tuition and other receivables	(413,093)	(59,500)
Prepaid expenses and other current assets	(24,468)	11,830
Increase (decrease) in:		
Accounts payable and other current liabilities	(27,209)	106,799
Deferred tuition revenue	472,816	287,101
Net Cash Provided By Operating Activities	477,426	212,487
 Cash Flows From Investing Activities		
Purchase of property and equipment	(404,725)	(104,437)
Payments for renovation project	(229,221)	(1,152,927)
Purchase of investments	485,000	(3,313,491)
Proceeds from sale of investments	(422,921)	3,537,541
Net Cash Used By Investing Activities	(571,867)	(1,033,314)
 Cash Flows From Financing Activities		
Contributions received for capital projects	297,500	355,500
Contributions received for endowment	7,770	9,335
Net Cash Provided By Financing Activities	305,270	364,835
 Net increase (decrease) in cash and cash equivalents	210,829	(455,992)
Cash and cash equivalents, beginning of year	1,502,431	1,958,423
 Cash and Cash Equivalents, End of Year	\$1,713,260	\$1,502,431

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2018 AND 2017****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 19th century settlement house movement, Third Street 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, Third Street serves more than 5,000 students. This includes 1,776 individuals at its East 11th Street location and 3,235 children across 26 New York City public schools and community partnerships. More than 70% of its students benefit from tuition assistance, including need-based financial aid, merit-based scholarships or participation in low cost or tuition-free instruction and enrichment programs. Third Street trains students in two dozen instruments, a variety of dance disciplines, and ensembles ranging from advanced orchestra to jazz band. Programs encompass: 1) after-school/Saturday instruction in music and dance; 2) a school partnership program providing in-school instruction public schools, community centers, and public housing centers; 3) a licensed arts-based preschool; and 4) a performance program that presents 250 free concerts a year for up to 10,000 audience members at Third Street and at celebrated venues across NYC (e.g., Carnegie Hall, Steinway Hall, WQXR's The Greene Space, to name a few). The Third Street community celebrates New York City's ethnic, racial, religious and economic diversity and brings people together through a shared language of music and the arts. For students, music and dance training helps them develop their creativity and critical thinking, builds self-confidence and contributes to their long-term advancement, both as artists and individuals. For communities, Third Street promotes social capital, spurs economic growth, fosters civic understanding and inspires an inclusive culture that is accessible by all.

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, 2018 AND 2017

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.

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, 2018 AND 2017****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.

k - Subsequent Events

The School has evaluated subsequent events through October 25, 2018, the date that the financial statements are considered available to be issued.

l - New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*". The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two net asset classes now entitled "net assets without donor restrictions" and "net assets with donor restrictions"; (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The School is currently evaluating the impact of ASU 2016-14 on its 2019 financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statements of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. The School is currently evaluating the impact of ASU 2016-02 on its financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

I - New Accounting Pronouncement (continued)

In May 2014, the Financial Accounting Standards Board ("FASB") issued a standard on Revenue from Contracts with Customers (*Topic 606*). This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. The School is evaluating the impact this will have on the financial statements.

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, 2018 and 2017, the Board Designated Reserve consists of the following:

	2018	2017
General operating reserve	\$4,149,858	\$4,149,858
Capital Projects Reserve	1,036,175	1,101,628
Barbara Field Chamber Music Fund	300,000	300,000
	\$5,486,033	\$5,551,486

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.)

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 2 - Restriction on Assets (continued)

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following:

	<u>2018</u>	<u>2017</u>
Operating		
Future programs and periods	\$1,817,301	\$ 571,995
Capital improvements	265,000	-
	<u>2,082,301</u>	<u>571,995</u>
Endowment		
Scholarships/financial aid	721,227	657,891
Faculty development	249,664	230,439
Chamber music	215,811	199,181
General purposes	310,603	273,308
	<u>1,497,305</u>	<u>1,360,819</u>
	<u>\$3,579,606</u>	<u>\$1,932,814</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, 2018 and 2017.

2 - Endowment

The School's endowments are permanently restricted. The income generated is restricted for the following programs of the School:

	<u>Endowment Principal</u>	<u>2018 Net Investment Gain</u>
Scholarship/financial aid funds	\$1,436,841	\$177,398
Faculty development	662,951	62,931
General purposes, including additional scholarship and program support	1,661,748	106,898
Barbara Field Chamber Music Fund	573,598	54,435
	<u>\$4,335,138</u>	<u>\$401,662</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 3 - Endowments Funds

The School's endowment consists of numerous donor-restricted funds established for a variety of purposes. Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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.

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

As of June 30, 2018 and 2017, the composition of the School's invested endowment funds is summarized as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds, 2018	<u>\$1,497,305</u>	<u>\$4,327,576</u>	<u>\$5,824,881</u>
Donor-restricted funds, 2017	<u>\$1,360,819</u>	<u>\$4,318,341</u>	<u>\$5,679,160</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 3 - Endowments Funds (continued)

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$1,360,819	\$4,318,341	\$5,679,160
Investment Return:			
Investment income	169,806	-	169,806
Net appreciation (realized and unrealized)	231,856	-	231,856
Total Investment Return	401,662	-	401,662
Transfer of contributions	-	9,235	9,235
Appropriation to unrestricted assets	(265,176)	-	(265,176)
Endowment Net Assets, End of Year	<u>\$1,497,305</u>	<u>\$4,327,576</u>	<u>\$5,824,881</u>
	<u>2017</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$1,048,078	\$4,313,241	\$5,361,319
Investment Return:			
Investment income	136,906	-	136,906
Net depreciation (realized and unrealized)	445,723	-	445,723
Total Investment Return	582,629	-	582,629
Transfer of contributions	-	5,100	5,100
Appropriation to unrestricted assets	(269,888)	-	(269,888)
Endowment Net Assets, End of Year	<u>\$1,360,819</u>	<u>\$4,318,341</u>	<u>\$5,679,160</u>

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. The primary objective is to provide long-term support for capital and operating programs and to maximize total return while protecting the investments inflation adjusted value over time. 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.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 3 - Endowments Funds (continued)

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.

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Due within one year	\$172,048	\$ 394,000	\$ 566,048	\$270,573
Due in one to five years	<u>-</u>	<u>920,000</u>	<u>920,000</u>	<u>164,000</u>
	172,048	1,314,000	1,486,048	434,573
Less: Discount to present value	<u>-</u>	<u>(65,374)</u>	<u>(65,374)</u>	<u>(6,355)</u>
Total, 2018	<u>\$172,048</u>	<u>\$1,248,626</u>	<u>\$1,420,674</u>	
Total, 2017	<u>\$140,573</u>	<u>\$ 287,645</u>		<u>\$428,218</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.

At June 30, 2018, approximately 78% of unconditional promises to give were from two donors. During the year ended June 30, 2018, one donor accounted for approximately 40% of contributions and special event income.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Note 5 - Investments

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

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and money markets	\$ 38,999	\$ 38,999	\$ 35,722	\$ 35,722
Mutual Funds				
Equity	6,143,702	8,546,820	6,105,569	8,026,340
Fixed income	<u>2,506,541</u>	<u>2,699,801</u>	<u>2,563,580</u>	<u>2,836,522</u>
	<u>\$8,689,242</u>	<u>\$11,285,620</u>	<u>\$8,704,871</u>	<u>\$10,898,584</u>

The following schedule summarizes investment income for the years ended June 30, 2018 and 2017:

	2018		
	Unrestricted	Temporarily Restricted	Total
Net unrealized gain on investments	\$194,789	\$207,876	\$ 402,665
Net realized gain on sale of investments	22,470	23,980	46,450
Interest and dividend income, including capital gain distributions	166,687	172,887	339,574
Less: Investment fees	<u>(27,886)</u>	<u>(3,081)</u>	<u>(30,967)</u>
	<u>\$356,060</u>	<u>\$401,662</u>	<u>\$757,722</u>
	2017		
	Unrestricted	Temporarily Restricted	Total
Net unrealized gain on investments	\$213,859	\$232,807	\$ 446,666
Net realized gain on sale of investments	195,586	212,916	408,502
Interest and dividend income, including capital gain distributions	131,453	139,915	271,368
Less: Investment fees	<u>(27,765)</u>	<u>(3,009)</u>	<u>(30,774)</u>
	<u>\$513,133</u>	<u>\$582,629</u>	<u>\$1,095,762</u>

At June 30, 2018 and 2017, 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, 2018 AND 2017

Note 6 - Property, Equipment and Renovation Project

a - Property and equipment consist of the following:

	<u>Life</u>	<u>2018</u>	<u>2017</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	7,452,009	7,083,191
Furniture and fixtures	3-8 years	394,438	380,135
Instruments	5-15 years	927,604	747,638
Registration software	2 years	<u>52,078</u>	<u>52,078</u>
		9,573,308	9,010,221
Less: Accumulated depreciation		<u>(4,649,986)</u>	<u>(4,177,352)</u>
		4,923,322	4,832,869
Land		<u>169,495</u>	<u>169,495</u>
Total		<u>\$5,092,817</u>	<u>\$5,002,364</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$543,493 and \$532,860, respectively.

b - The School began a renovation of its building in 2015. Phase 1 and 2 of the project were completed by June 30, 2017. During the year ended June 30, 2018, the School completed Phase 3, to create a multi-use ensemble room.

Note 7 - 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 \$64,042 and \$67,924 for the years ended June 30, 2018 and 2017, respectively.

Note 8 - Commitment and Contingency

a - The School entered into an agreement for additional office space on a month-to-month basis beginning May 1, 2018. The monthly fee is approximately \$5,400. Occupancy expense for the year ended June 30, 2018 was \$11,512.

b - 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, 2018 AND 2017****Note 9 - Student Financial Assistance**

Scholarships of \$752,101 and \$709,654, 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, 2018 and 2017, respectively.

In addition to the above, group instruction in music theory, composition, ensembles, chamber music and performance, with tuition value of approximately \$365,000 and \$380,000, was provided to students at no additional charge during the years ended June 30, 2018 and 2017, respectively.

Note 10 - Capital Campaign

In June 2014, the School'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, rehearsal and performance space and modernizing the freight elevator into a self-service passenger elevator. The renovations were completed during the year ended June 30, 2018.

Note 11 - 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 12 - 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, 2018 and 2017, and our report thereon dated October 25, 2018, 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, 2018 with comparative totals for 2017 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 25, 2018

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR 2017

	Program Services				Supporting Services			2018	2017
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$3,101,486	\$ 743,576	\$ 56,787	\$3,901,849	\$ 477,925	\$ 332,684	\$ 810,609	\$4,712,458	\$4,491,657
Employee benefits and payroll taxes	526,424	110,391	11,328	648,143	61,487	61,325	122,812	770,955	743,831
Total Personnel Expenses	3,627,910	853,967	68,115	4,549,992	539,412	394,009	933,421	5,483,413	5,235,488
Guest artists, instructional services and teaching substitutes	47,470	1,294	7,767	56,531	-	-	-	56,531	56,779
Professional fees and services	120,908	9,880	810	131,598	54,853	50,506	105,359	236,957	215,503
Student fellowships	75,275	-	-	75,275	-	-	-	75,275	43,750
Security and custodial services	84,236	19,787	1,689	105,712	10,560	8,100	18,660	124,372	103,827
Instruments, tuning, repairs and instructional supplies	28,725	8,316	3,087	40,128	-	-	-	40,128	56,850
Printing, duplicating and advertising	37,235	6,742	1,399	45,376	3,417	13,619	17,036	62,412	79,859
Telephone and internet	19,075	4,481	383	23,939	2,391	1,834	4,225	28,164	31,203
Stationery and supplies	16,437	4,159	323	20,919	2,017	1,914	3,931	24,850	19,029
Shipping, postage and delivery	8,881	2,086	178	11,145	1,114	4,688	5,802	16,947	19,456
Dues, conferences and professional development	59,104	11,350	571	71,025	3,573	7,890	11,463	82,488	73,778
Travel and meetings	11,545	4,511	498	16,554	1,359	1,186	2,545	19,099	19,273
Occupancy, storage and offsite rentals	120,242	28,245	2,411	150,898	31,821	11,561	43,382	194,280	196,311
Insurance	81,563	19,159	1,636	102,358	10,224	7,843	18,067	120,425	121,511
Repairs and maintenance	44,155	10,372	885	55,412	5,536	4,246	9,782	65,194	75,932
Credit card processing fees and bank charges	60,486	14,208	1,213	75,907	7,582	5,816	13,398	89,305	82,063
Bad debts	17,392	-	-	17,392	-	20,150	20,150	37,542	42,046
Special events (non-direct benefit costs)	-	-	-	-	-	39,991	39,991	39,991	19,482
Computer expenses	54,620	12,801	1,093	68,514	6,834	15,701	22,535	91,049	70,746
Other non-personnel expenses	28,915	5,860	435	35,210	2,409	2,031	4,440	39,650	36,090
Total expenses before depreciation	4,544,174	1,017,218	92,493	5,653,885	683,102	591,085	1,274,187	6,928,072	6,598,976
Depreciation	368,102	86,465	7,382	461,949	46,149	35,395	81,544	543,493	532,860
Total Expenses, 2018	<u>\$4,912,276</u>	<u>\$ 1,103,683</u>	<u>\$ 99,875</u>	<u>\$6,115,834</u>	<u>\$ 729,251</u>	<u>\$ 626,480</u>	<u>\$1,355,731</u>	<u>\$7,471,565</u>	
Total Expenses, 2017	<u>\$4,601,259</u>	<u>\$ 1,091,895</u>	<u>\$ 98,918</u>	<u>\$5,792,072</u>	<u>\$ 691,433</u>	<u>\$ 648,331</u>	<u>\$1,339,764</u>		<u>\$7,131,836</u>

See independent auditors' report on supplementary information.