

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

**FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**JUNE 30, 2011 AND 2010**

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

**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditors' Report .....	1
Financial Statements	
Statements of Financial Position .....	2
Statements of Activities .....	3-4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6-17
Additional Information	
Independent Auditors' Report on Additional Information .....	19
Schedule of Functional Expenses .....	20



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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 statements of financial position of Society of the Third Street Music School Settlement, Inc. (a not-for-profit corporation) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
October 27, 2011

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

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 1b and 10)	\$ 507,138	\$ 516,968
Unconditional promises to give (Notes 1c and 4)		
Unrestricted	65,321	48,700
Restricted to future programs and periods	-	3,500
Restricted for endowment funds	-	2,500
Tuition and other receivables (net of allowance for doubtful accounts of \$38,000 in 2011 and 2010)	1,408,814	1,038,060
Prepaid expenses and other current assets	50,637	63,411
Investments (Notes 1d and 3)	10,099,563	9,134,388
Property and equipment, at cost (net of accumulated depreciation) (Notes 1e and 5)	<u>667,827</u>	<u>654,791</u>
 <b>Total Assets</b>	 <u><u>\$12,799,300</u></u>	 <u><u>\$11,462,318</u></u>
 <b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and other current liabilities	\$ 220,621	\$ 225,667
Deferred tuition revenue	1,970,053	1,665,571
Retirement benefits payable (Notes 2a and 6)	<u>-</u>	<u>406,000</u>
 Total Liabilities	 <u>2,190,674</u>	 <u>2,297,238</u>
 Commitment and Contingency (Notes 6 and 7)		
 Net Assets		
Unrestricted		
Board designated reserve (Note 2a)	4,738,182	5,132,218
Property and equipment	667,827	654,791
Other unrestricted deficit	<u>(128,708)</u>	<u>(1,281,499)</u>
Total Unrestricted	<u>5,277,301</u>	<u>4,505,510</u>
Temporarily restricted (Note 2b)	<u>996,688</u>	<u>333,532</u>
Permanently restricted (Note 2c)		
Cash reserve	348,435	348,435
Endowment	<u>3,986,202</u>	<u>3,977,603</u>
Total Permanently Restricted	<u>4,334,637</u>	<u>4,326,038</u>
 Total Net Assets	 <u>10,608,626</u>	 <u>9,165,080</u>
 <b>Total Liabilities and Net Assets</b>	 <u><u>\$12,799,300</u></u>	 <u><u>\$11,462,318</u></u>

See notes to financial statements.

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

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED JUNE 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>Changes in Unrestricted Net Assets</b>		
Operating Revenue and Contributed Support		
Tuition and registration (net of scholarships of \$530,631 (2011) and \$563,603 (2010) (Note 8)	\$ 2,717,441	\$2,566,908
School partnerships	515,215	437,701
Contributions		
Government agencies	\$146,001	\$219,309
Foundations, trusts and corporations	516,959	346,226
Individuals and others	505,219	467,215
Bequests	-	125,936
	1,168,179	1,158,686
Special events income	354,563	324,056
Less: Cost of direct benefits	(35,398)	(31,754)
	319,165	292,302
Miscellaneous	15,934	32,018
	4,735,934	4,487,615
Net assets released from restrictions		
Satisfaction of time and program restrictions	57,834	131,918
	57,834	131,918
Total Operating Revenue and Contributed Support	4,793,768	4,619,533
Operating Expenses		
Program Services		
Instruction	3,098,575	2,938,735
School partnerships	1,024,821	887,682
Performances	112,084	110,269
Total Program Services	4,235,480	3,936,686
Supporting Services		
Management and general	445,961	407,687
Fundraising	547,009	509,050
Total Supporting Services	992,970	916,737
Total Operating Expenses	5,228,450	4,853,423
Decrease in Unrestricted Net Assets from Operations	(434,682)	(233,890)
Non-Operating Activity		
Investment income (Note 3)	1,241,682	906,116
Investment advisory fees	(35,209)	(35,041)
	1,206,473	871,075
Increase in Unrestricted Net Assets (carried forward)	771,791	637,185

**See notes to financial statements.**

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

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Increase in Unrestricted Net Assets (brought forward)	<u>\$ 771,791</u>	<u>\$ 637,185</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions		
Foundations, trusts and corporations	\$ 61,000	\$ 51,000
Individuals	<u>1,000</u>	<u>62,000</u>
Investment income (Note 3)	658,990	245,353
Net assets released from restrictions	<u>(57,834)</u>	<u>(131,918)</u>
Increase in Temporarily Restricted Net Assets	<u>663,156</u>	<u>164,435</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Contributions		
Individuals	5,031	10,758
Estates and trusts	<u>3,568</u>	<u>70,000</u>
Increase in Permanently Restricted Net Assets	<u>8,599</u>	<u>80,758</u>
Increase in net assets	1,443,546	882,378
Net assets, beginning of year	<u>9,165,080</u>	<u>8,282,702</u>
<b>Net Assets, End of Year</b>	<u><u>\$10,608,626</u></u>	<u><u>\$9,165,080</u></u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$1,443,546	\$ 882,378
Adjustments to reconcile increase in net assets to cash provided (used) by operating activities:		
Net unrealized gain on investments	(1,427,907)	(913,167)
Net realized gain on sale of investments	(224,020)	(15,132)
Donation of marketable securities	(83,457)	-
Depreciation	152,829	145,590
Contributions for endowment	(8,599)	(80,758)
Bad debts	32,391	25,756
(Increase) decrease in:		
Unconditional promises to give	(13,121)	26,195
Tuition and other receivables	(403,145)	48,395
Prepaid expenses and other current assets	12,774	(13,961)
Increase (decrease) in:		
Accounts payable and other current liabilities	(5,046)	116,720
Deferred tuition revenue	304,482	(92,827)
Retirement benefits payable	<u>(406,000)</u>	<u>72,667</u>
Net Cash Provided (Used) By Operating Activities	<u>(625,273)</u>	<u>201,856</u>
 <b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(165,865)	(120,760)
Purchase of investments	(253,905)	(1,480,402)
Proceeds from sale of investments	<u>1,024,114</u>	<u>1,139,705</u>
Net Cash Provided (Used) By Investing Activities	<u>604,344</u>	<u>(461,457)</u>
 <b>Cash Flows From Financing Activities</b>		
Contributions received for endowment	<u>11,099</u>	<u>78,258</u>
Net decrease in cash and cash equivalents	(9,830)	(181,343)
Cash and cash equivalents, beginning of year	<u>516,968</u>	<u>698,311</u>
 <b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 507,138</u></u>	<u><u>\$ 516,968</u></u>

See notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**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, dance and the visual arts, serving an economically and ethnically diverse population of more than 5,400 students of all ages annually, including, during the year ended June 30, 2011 a total of 3,629 children who participated in its public school partnership programs in low-income areas and 1,693 students, infant through adult, who enrolled in main school programs. Approximately 81% of all students served benefited from tuition assistance, including need-based aid and merit-based scholarships, and/or tuition-free or deeply-discounted instruction and enrichment programs. As part of the School's ongoing mission to provide opportunities for cultural exchange and community togetherness, 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 received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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, 2011 AND 2010****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.

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.

Investments in cash and money markets, mutual funds and common stocks are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

**e - 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.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011 AND 2010****Note 1 - Organization and Summary of Significant Accounting Policies (continued)**f - 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.

g - 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. With respect to the School, estimates are utilized to determine the uncollectibility of unconditional promises to give, tuition and other receivables and the useful life of property and equipment.

h - 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.

i - Subsequent Events

The School has evaluated subsequent events through October 27, 2011, 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. The Board Designated Reserve included a retirement benefit fund for a certain employee which was disbursed in January, 2011 (see Note 6).

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**Note 2 - Restriction on Assets (continued)**

a - Board Designated Reserve (continued)

At June 30, 2011 and 2010, the Board Designated Reserve consists of the following:

	<u>2011</u>	<u>2010</u>
Board Designated Reserve	\$3,784,395	\$3,784,395
Capital Projects Reserve	653,787	641,823
Barbara Field Chamber Music Fund	300,000	300,000
Retirement Benefit Fund (Note 6)	-	406,000
	<u>\$4,738,182</u>	<u>\$5,132,218</u>

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>2011</u>	<u>2010</u>
Future programs	\$ 36,000	\$ 44,500
Scholarships/financial aid	476,248	183,033
Faculty development	172,685	57,283
Chamber music	146,938	48,716
General purposes	164,817	-
	<u>\$996,688</u>	<u>\$333,532</u>

At June 30, 2011 and 2010, temporarily restricted net assets include cumulative investment income of \$934,688 and \$275,698, respectively, earned on restricted endowment assets for faculty development, scholarships/financial aid and other programs.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**Note 2 - Restriction on Assets (continued)**

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, 2011 and 2010.

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 expendable on the following programs of the School:

	<u>Endowment Principal</u>	<u>2011 Net Investment Income</u>
Scholarship/financial aid funds	\$1,273,894	\$271,721
Faculty development	662,951	147,367
General purposes, including additional scholarship and program support	1,476,159	308,302
Barbara Field Chamber Music Fund	<u>573,198</u>	<u>127,406</u>
	<u>\$3,986,202</u>	<u>\$854,796</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, 2011 AND 2010**

**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 asset composition by type of fund and net asset classification are summarized as follows as of June 30:

	<b>2011</b>			<b>Total</b>
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	
Donor-Restricted Endowment Funds - Total Funds	<u>\$ -</u>	<u>\$934,688</u>	<u>\$3,986,202</u>	<u>\$4,920,890</u>

  

	<b>2010</b>			<b>Total</b>
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	
Donor-Restricted Endowment Funds - Total Funds	<u>\$ -</u>	<u>\$275,698</u>	<u>\$3,975,103</u>	<u>\$4,250,801</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**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:

	<b>2011</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net asset, beginning of year	\$ -	\$275,698	\$3,975,103	\$4,250,801
Investment Return:				
Investment income	14,445	85,887	-	100,332
Net appreciation (realized and unrealized)	181,361	573,103	-	754,464
Total Investment Return	<u>195,806</u>	<u>658,990</u>	<u>-</u>	<u>854,796</u>
Contributions	-	-	11,099	11,099
Appropriation to unrestricted assets	<u>(195,806)</u>	<u>-</u>	<u>-</u>	<u>(195,806)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$934,688</u>	<u>\$3,986,202</u>	<u>\$4,920,890</u>
	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net asset, beginning of year	\$ -	\$ 30,345	\$3,896,845	\$3,927,190
Investment Return:				
Investment income	39,667	46,898	-	86,565
Net appreciation (realized and unrealized)	260,259	198,455	-	458,714
Total Investment Return	<u>299,926</u>	<u>245,353</u>	<u>-</u>	<u>545,279</u>
Contributions	-	-	78,258	78,258
Appropriation to unrestricted assets	<u>(299,926)</u>	<u>-</u>	<u>-</u>	<u>(299,926)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$275,698</u>	<u>\$3,975,103</u>	<u>\$4,250,801</u>

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011 AND 2010****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.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**Note 3 - Investments**

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

	<b>2011</b>		<b>2010</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Cash and money markets	\$ 25,279	\$ 25,279	\$ 165,877	\$ 165,877
Mutual funds	7,086,284	9,838,245	7,408,418	8,725,457
Common stocks	<u>148,853</u>	<u>236,039</u>	<u>148,853</u>	<u>243,054</u>
	<u><b>\$7,260,416</b></u>	<u><b>\$10,099,563</b></u>	<u><b>\$7,723,148</b></u>	<u><b>\$9,134,388</b></u>

The School's investments at June 30, as reflected on the statement of financial position, includes the following:

	<b>2011</b>	<b>2010</b>
Investments	\$ 5,764,926	\$4,810,850
Investments to be held in perpetuity	<u>4,334,637</u>	<u>4,323,538</u>
	<u><b>\$10,099,563</b></u>	<u><b>\$9,134,388</b></u>

The following schedule summarizes investment income for the years ended June 30:

	<b>2011</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Net unrealized gain on investments	\$ 932,527	\$495,380	\$1,427,907
Net realized gain on sale of investments	146,297	77,723	224,020
Interest and dividend income, including capital gain distributions	<u>162,858</u>	<u>85,887</u>	<u>248,745</u>
	<u><b>\$1,241,682</b></u>	<u><b>\$658,990</b></u>	<u><b>\$1,900,672</b></u>
	<b>2010</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Net unrealized gain on investments	\$717,947	\$195,220	\$ 913,167
Net realized gain on sale of investments	11,897	3,235	15,132
Interest and dividend income, including capital gain distributions	<u>176,272</u>	<u>46,898</u>	<u>223,170</u>
	<u><b>\$906,116</b></u>	<u><b>\$245,353</b></u>	<u><b>\$1,151,469</b></u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**Note 3 - Investments (continued)**

At June 30, 2011 and 2010, all investments held by the Organization are classified within Level 1 (prices in active markets for identical assets or liabilities) of the fair value hierarchy.

**Note 4 - Unconditional Promises to Give**

Unconditional promises to give are all due within one year. Uncollectible promises are expected to be insignificant.

**Note 5 - Property and Equipment**

Property and equipment consist of the following:

	<u>Life</u>	<u>2011</u>	<u>2010</u>
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-10 years	1,786,556	1,693,676
Courtyard renovations	10 years	175,321	175,321
Furniture and fixtures	3-8 years	84,275	70,648
Instruments	5-15 years	<u>364,815</u>	<u>312,157</u>
		3,158,146	2,998,981
Less: Accumulated depreciation		<u>(2,766,514)</u>	<u>(2,613,685)</u>
		391,632	385,296
Land		169,495	169,495
Registration software - in process		<u>106,700</u>	<u>100,000</u>
Total		<u>\$ 667,827</u>	<u>\$ 654,791</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$152,829 and \$145,590, respectively.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011 AND 2010****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 \$51,143 and \$46,739 for the years ended June 30, 2011 and 2010, respectively.

The School had a supplemental retirement agreement with a key employee to compensate this employee for the absence of a School sponsored retirement plan. The employee retired as of July 31, 2010 and the retirement benefit of \$406,000 was paid in January 2011.

**Note 7 - Contingency**

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

**Note 8 - Student Financial Assistance**

Scholarships of \$530,631 and \$563,603, 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, 2011 and 2010, respectively.

In addition to the above, group instruction in music theory, composition, literature, note-reading, chamber music and performance with tuition value of \$299,642 and \$247,680 was provided to students, at no additional charge, during the years ended June 30, 2011 and 2010, respectively.

**SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011 AND 2010****Note 9 - 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 10 - 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.

**ADDITIONAL INFORMATION**



**LUTZ AND CARR**

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**INDEPENDENT AUDITORS' REPORT ON  
ADDITIONAL INFORMATION**

To the Board of Directors of  
Society of the Third Street Music School Settlement, Inc.

Our report on our audits of the basic financial statements of Society of the Third Street Music School Settlement, Inc. for 2011 and 2010 appears on page one. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended June 30, 2011 with comparative totals for 2010 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lutz + Carr, LLP*

New York, New York  
October 27, 2011

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

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE TOTALS FOR 2010

	Program Services				Supporting Services			2011	2010
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries and wages	\$2,126,723	\$ 753,062	\$ 61,305	\$2,941,090	\$ 279,301	\$ 340,186	\$619,487	\$3,560,577	\$3,273,466
Payroll taxes and employee benefits	357,492	85,811	9,699	453,002	49,567	53,624	103,191	556,193	616,848
Total Salaries, Payroll Taxes and Employee Benefits	2,484,215	838,873	71,004	3,394,092	328,868	393,810	722,678	4,116,770	3,890,314
Guest artists, instructional services and teaching substitutes	63,013	6,939	13,800	83,752	-	-	-	83,752	40,708
Professional fees and outside services	61,281	20,940	5,231	87,452	55,745	8,915	64,660	152,112	122,988
Security and custodial services	42,832	15,170	1,231	59,233	6,567	5,929	12,496	71,729	64,268
Instruments, tuning, repairs and instructional supplies	33,347	12,023	3,711	49,081	-	-	-	49,081	42,690
Printing, duplicating and promotion	35,898	8,642	7,208	51,748	3,538	12,240	15,778	67,526	59,192
Telephone and internet	6,439	2,281	185	8,905	987	891	1,878	10,783	11,989
Stationery and supplies	8,723	3,104	243	12,070	1,298	1,288	2,586	14,656	12,991
Shipping, postage and delivery	6,785	2,385	193	9,363	1,033	3,014	4,047	13,410	14,988
Dues, subscriptions and conferences	17,061	5,055	284	22,400	1,539	1,843	3,382	25,782	19,091
Travel and meetings	2,337	2,136	50	4,523	273	291	564	5,087	3,842
Occupancy	79,838	28,277	2,293	110,408	12,241	11,052	23,293	133,701	126,902
Insurance	40,600	14,380	1,167	56,147	6,224	5,620	11,844	67,991	66,235
Repairs and maintenance	24,157	8,556	694	33,407	3,704	3,344	7,048	40,455	48,278
Bank charges and credit card services	20,984	7,432	603	29,019	3,217	2,905	6,122	35,141	40,218
Bad debts	32,391	-	-	32,391	-	-	-	32,391	25,756
Indirect benefit expenses	-	-	-	-	-	73,490	73,490	73,490	69,899
Other non-personnel expenses	47,414	16,306	1,565	65,285	6,734	9,745	16,479	81,764	47,484
Total expenses before depreciation	3,007,315	992,499	109,462	4,109,276	431,968	534,377	966,345	5,075,621	4,707,833
Depreciation	91,260	32,322	2,622	126,204	13,993	12,632	26,625	152,829	145,590
Total Expenses, 2011	<u>\$3,098,575</u>	<u>\$ 1,024,821</u>	<u>\$ 112,084</u>	<u>\$4,235,480</u>	<u>\$ 445,961</u>	<u>\$ 547,009</u>	<u>\$992,970</u>	<u>\$5,228,450</u>	
Total Expenses, 2010	<u>\$2,938,735</u>	<u>\$ 887,682</u>	<u>\$ 110,269</u>	<u>\$3,936,686</u>	<u>\$ 407,687</u>	<u>\$ 509,050</u>	<u>\$916,737</u>		<u>\$4,853,423</u>

See independent auditors' report on additional information.