

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024



LUTZ AND GARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
551 FIFTH AVENUE - SUITE 400, NEW YORK, NY 10176
212-697-2299 FAX: 212-949-1768

INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2025 and 2024, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2025 and 2024, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Society of the Third Street Music School Settlement and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Society of the Third Street Music School Settlement's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Society of the Third Street Music School Settlement's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Society of the Third Street Music School Settlement's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Lotz + Carr, LLP

New York, New York
January 29, 2026

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and cash equivalents	\$ 1,278,697	\$ 1,120,777
Unconditional promises to give		
Without donor restrictions	210,700	1,224,823
With donor restrictions	385,681	25,000
Tuition and other receivables (net of allowance for expected credit losses of \$60,000 (2025 and 2024))	2,938,612	2,446,560
Prepaid expenses and other current assets	26,800	61,164
Investments	15,906,520	14,243,455
Operating lease right-of-use asset	181,937	-
Property and equipment, at cost (net of accumulated depreciation)	<u>4,501,434</u>	<u>4,848,166</u>
 Total Assets	 <u><u>\$25,430,381</u></u>	 <u><u>\$23,969,945</u></u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and other current liabilities	\$ 522,237	\$ 487,059
Deferred tuition revenue	3,469,245	3,343,066
Operating lease liability	181,962	-
Total Liabilities	<u>4,173,444</u>	<u>3,830,125</u>
 Commitment and Contingency		
 Net Assets		
Without Donor Restrictions		
Available for operations	873,889	1,321,939
Board designated	7,353,445	6,525,833
Net investment in property and equipment	4,501,434	4,848,166
Total Without Donor Restrictions	<u>12,728,768</u>	<u>12,695,938</u>
With Donor Restrictions		
Time and purpose restrictions	1,114,154	590,935
Endowment (principal and earnings)	7,414,015	6,852,947
Total With Donor Restrictions	<u>8,528,169</u>	<u>7,443,882</u>
Total Net Assets	<u>21,256,937</u>	<u>20,139,820</u>
 Total Liabilities and Net Assets	 <u><u>\$25,430,381</u></u>	 <u><u>\$23,969,945</u></u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2025 AND 2024

	2025			2024		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Changes in Net Assets						
Operating Revenue and Contributed Support						
Tuition and registration, net of scholarships of \$1,174,828 (2025) and \$1,126,662 (2024)	\$ 4,725,134	\$ -	\$ 4,725,134	\$ 4,434,530	\$ -	\$ 4,434,530
Partners program fees	568,001	-	568,001	550,987	-	550,987
Contributions						
Government agencies	329,950	-	329,950	684,879	-	684,879
Foundations, trusts and corporations	1,965,742	763,220	2,728,962	1,192,057	118,350	1,310,407
Individuals and others	552,215	-	552,215	598,148	-	598,148
Special events income, net of direct costs in 2025 of \$232,286 and 2024 of \$157,636	1,153,461	-	1,153,461	931,714	-	931,714
Other income	94,769	-	94,769	77,190	-	77,190
	<u>9,389,272</u>	<u>763,220</u>	<u>10,152,492</u>	<u>8,469,505</u>	<u>118,350</u>	<u>8,587,855</u>
Net assets released from restrictions						
Satisfaction of time and program restrictions	497,813	(497,813)	-	1,721,382	(1,721,382)	-
	<u>9,887,085</u>	<u>265,407</u>	<u>10,152,492</u>	<u>10,190,887</u>	<u>(1,603,032)</u>	<u>8,587,855</u>
Total Operating Revenue and Contributed Support						
Operating Expenses						
Program Services						
Instruction	7,060,536	-	7,060,536	6,690,694	-	6,690,694
School partnerships	1,408,084	-	1,408,084	1,216,507	-	1,216,507
Performances	383,033	-	383,033	478,851	-	478,851
Total Program Services	<u>8,851,653</u>	<u>-</u>	<u>8,851,653</u>	<u>8,386,052</u>	<u>-</u>	<u>8,386,052</u>
Supporting Services						
Management and general	1,092,083	-	1,092,083	1,021,434	-	1,021,434
Fundraising	785,288	-	785,288	687,156	-	687,156
Total Supporting Services	<u>1,877,371</u>	<u>-</u>	<u>1,877,371</u>	<u>1,708,590</u>	<u>-</u>	<u>1,708,590</u>
Total Operating Expenses	<u>10,729,024</u>	<u>-</u>	<u>10,729,024</u>	<u>10,094,642</u>	<u>-</u>	<u>10,094,642</u>
Increase (Decrease) in Net Assets from Operations	(841,939)	265,407	(576,532)	96,245	(1,603,032)	(1,506,787)
Non-Operating Activity						
Investment income, net of investment fees	<u>874,769</u>	<u>818,880</u>	<u>1,693,649</u>	<u>946,703</u>	<u>924,799</u>	<u>1,871,502</u>
Increase (decrease) in net assets	32,830	1,084,287	1,117,117	1,042,948	(678,233)	364,715
Net assets, beginning of year	<u>12,695,938</u>	<u>7,443,882</u>	<u>20,139,820</u>	<u>11,652,990</u>	<u>8,122,115</u>	<u>19,775,105</u>
Net Assets, End of Year	<u>\$12,728,768</u>	<u>\$ 8,528,169</u>	<u>\$21,256,937</u>	<u>\$12,695,938</u>	<u>\$ 7,443,882</u>	<u>\$20,139,820</u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2025 WITH COMPARATIVE TOTALS FOR 2024

	2025							2024
	Program Services				Supporting Services			
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	Total Expenses
Salaries and wages	\$4,453,879	\$ 1,016,129	\$ 141,351	\$5,611,359	\$ 606,237	\$ 365,497	\$ 971,734	\$ 6,583,093
Employee benefits and payroll taxes	807,563	155,362	30,446	993,371	98,694	65,868	164,562	1,157,933
Total Personnel Expenses	5,261,442	1,171,491	171,797	6,604,730	704,931	431,365	1,136,296	7,741,026
Guest artists, instructional services and teaching substitutes	112,462	37,586	25,350	175,398	-	-	-	175,398
Professional fees and services	191,326	47,219	11,722	250,267	47,592	98,572	146,164	396,431
Student fellowships	104,266	-	-	104,266	-	-	-	104,266
Security and custodial services	74,188	-	26,585	100,773	12,920	1,053	13,973	114,746
Instruments, tuning, repairs and instructional supplies	223,915	20,853	-	244,768	-	-	-	244,768
Printing, duplicating and advertising	106,186	23,718	9,904	139,808	23,645	26,243	49,888	189,696
Telephone and internet	17,446	377	6,008	23,831	3,251	329	3,580	27,411
Stationery and supplies	9,207	3,532	732	13,471	2,931	849	3,780	17,251
Shipping, postage and delivery	2,593	380	668	3,641	676	1,450	2,126	5,767
Dues, conferences and professional development	105,637	10,243	1,862	117,742	7,446	3,965	11,411	129,153
Travel and meetings	10,440	6,364	630	17,434	6,971	767	7,738	25,172
Occupancy, storage and offsite rentals	157,538	17,763	51,250	226,551	33,813	10,912	44,725	271,276
Insurance	59,871	23,949	5,987	89,807	23,949	5,987	29,936	119,743
Repairs and maintenance	38,289	-	13,721	52,010	6,668	544	7,212	59,222
Credit card processing fees and bank charges	65,273	26,041	6,510	97,824	26,041	7,051	33,092	130,916
Credit loss	-	-	-	-	48,329	-	48,329	48,329
Special events (non-direct benefit costs)	-	-	-	-	-	151,310	151,310	151,310
Computer expenses	72,868	6,631	17,584	97,083	12,030	12,110	24,140	121,223
Other non-personnel expenses	29,671	11,937	2,872	44,480	11,485	2,930	14,415	58,895
Total expenses before depreciation	6,642,618	1,408,084	353,182	8,403,884	972,678	755,437	1,728,115	10,131,999
Depreciation	417,918	-	29,851	447,769	119,405	29,851	149,256	597,025
Total Expenses, 2025	<u>\$7,060,536</u>	<u>\$ 1,408,084</u>	<u>\$ 383,033</u>	<u>\$8,851,653</u>	<u>\$ 1,092,083</u>	<u>\$ 785,288</u>	<u>\$1,877,371</u>	<u>\$10,729,024</u>
Total Expenses, 2024	<u>\$6,690,694</u>	<u>\$ 1,216,507</u>	<u>\$ 478,851</u>	<u>\$8,386,052</u>	<u>\$ 1,021,434</u>	<u>\$ 687,156</u>	<u>\$1,708,590</u>	<u>\$10,094,642</u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2024

	Program Services				Supporting Services			Total Expenses
	Instruction	School Partnerships	Performances	Total	Management and General	Fundraising	Total	
Salaries and wages	\$4,266,710	\$ 857,677	\$ 145,597	\$5,269,984	\$ 588,756	\$ 336,379	\$ 925,135	\$ 6,195,119
Employee benefits and payroll taxes	771,755	150,374	32,154	954,283	101,751	62,527	164,278	1,118,561
Total Personnel Expenses	5,038,465	1,008,051	177,751	6,224,267	690,507	398,906	1,089,413	7,313,680
Guest artists, instructional services and teaching substitutes	125,592	17,421	16,300	159,313	-	-	-	159,313
Professional fees and services	130,429	45,066	11,266	186,761	45,068	72,756	117,824	304,585
Student fellowships	106,975	-	-	106,975	-	-	-	106,975
Security and custodial services	70,763	-	25,358	96,121	12,323	1,005	13,328	109,449
Instruments, tuning, repairs and instructional supplies	170,316	34,967	-	205,283	-	-	-	205,283
Printing, duplicating and advertising	82,048	25,612	6,717	114,377	15,522	18,189	33,711	148,088
Telephone and internet	19,345	328	6,720	26,393	3,555	345	3,900	30,293
Stationery and supplies	9,890	2,854	714	13,458	2,930	714	3,644	17,102
Shipping, postage and delivery	3,035	516	654	4,205	859	180	1,039	5,244
Dues, conferences and professional development	114,715	9,266	1,797	125,778	6,860	6,953	13,813	139,591
Travel and meetings	11,959	5,142	485	17,586	13,367	655	14,022	31,608
Occupancy, storage and offsite rentals	165,317	-	48,796	214,113	23,716	1,933	25,649	239,762
Insurance	66,845	26,738	6,684	100,267	26,739	6,684	33,423	133,690
Repairs and maintenance	49,039	-	17,573	66,612	8,540	696	9,236	75,848
Credit card processing fees and bank charges	60,439	24,165	6,041	90,645	24,164	6,783	30,947	121,592
Credit loss	-	-	-	-	53,107	-	53,107	53,107
Special events (non-direct benefit costs)	-	-	-	-	-	151,593	151,593	151,593
Computer expenses	72,968	5,623	18,591	97,182	12,043	11,297	23,340	120,522
Other non-personnel expenses	27,086	10,758	2,439	40,283	18,647	3,279	21,926	62,209
Total expenses before depreciation	6,325,226	1,216,507	347,886	7,889,619	957,947	681,968	1,639,915	9,529,534
Depreciation	365,468	-	130,965	496,433	63,487	5,188	68,675	565,108
Total Expenses	<u>\$6,690,694</u>	<u>\$ 1,216,507</u>	<u>\$ 478,851</u>	<u>\$8,386,052</u>	<u>\$ 1,021,434</u>	<u>\$ 687,156</u>	<u>\$1,708,590</u>	<u>\$10,094,642</u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Increase in net assets	\$1,117,117	\$ 364,715
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Non-cash operating lease expense	27,510	-
Net unrealized gain on investments	(979,228)	(1,541,968)
Net realized gain on sale of investments	(369,564)	(3,379)
Depreciation	597,025	565,108
Credit losses	48,329	53,107
(Increase) decrease in:		
Unconditional promises to give	653,442	742,112
Tuition and other receivables	(540,381)	328,712
Prepaid expenses and other current assets	34,364	(23,754)
Increase (decrease) in:		
Accounts payable and other current liabilities	35,178	(72,211)
Deferred tuition revenue	126,179	54,673
Operating lease liability	<u>(27,485)</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>722,486</u>	<u>467,115</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(250,293)	(182,043)
Purchase of investments	(1,198,989)	(830,367)
Proceeds from sale of investments	<u>884,716</u>	<u>4,879</u>
Net Cash Used By Investing Activities	<u>(564,566)</u>	<u>(1,007,531)</u>
Net increase (decrease) in cash and cash equivalents	157,920	(540,416)
Cash and cash equivalents, beginning of year	<u>1,120,777</u>	<u>1,661,193</u>
Cash and Cash Equivalents, End of Year	<u><u>\$1,278,697</u></u>	<u><u>\$1,120,777</u></u>
Supplemental Disclosure of Non-Cash Investing Activities		
Operating lease right-of-use asset obtained in exchange for lease liability	<u>\$ 209,447</u>	<u>\$ -</u>

See notes to financial statements.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

As the nation's longest-running community music school, Society of the Third Street Music School Settlement (the "School") has been transforming lives through the arts for 131 years. In 1894, the School was founded by Emilie Wagner, an arts education pioneer who believed music played a critical role in both the development of a child and the advancement of a community. She made music education the cornerstone of a settlement house that welcomed immigrants to New York City and provided families housing support, food, and medical care alongside arts enrichment. Today, the School is committed to leveraging arts education to empower youth to reach their fullest potential and to unite the diverse communities of New York City. The School serves 5,000 plus students annually, enriching their lives and communities.

The School trains students in two-dozen instruments, multiple dance disciplines, and ensembles ranging from chamber to orchestra to jazz band. The School's programs include: 1) music and dance instruction for people of all ages, offered seven days a week; 2) public school, public housing and community partnerships (Third Street Partners) providing instruction in 30 plus under-served schools and community centers; 3) a music-infused preschool for students six months to five years; and 4) a performance program with over 250 live and virtual concerts annually for more than 10,000 audience members at the School and celebrated venues across New York City.

The School community reflects New York City's ethnic, racial, religious, and economic diversity - 32% Hispanic, 24% Caucasian, 21% Asian, 11% Black, and 12% mixed race. Over 75% of the School's students receive financial assistance, which includes need-based financial aid, merit-based scholarships, and deeply subsidized enrichment classes, such as chamber music, choir, orchestras, music theory, and composition.

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.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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

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. Conditional promises to give, that is, those with a measurable performance-related or other barrier and right of return of assets transferred or release of a promisor's obligation to transfer assets in the future, are not recognized until the conditions on which they depend have been met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions that are restricted to be used to acquire and or develop long-lived assets are reclassified to net assets without donor restriction at the time the long-lived assets are placed in service.

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

d - Current Expected Credit Loss

Tuition and other receivables are presented net of an allowance for credit losses, which is an estimate of amounts that may not be collectible. The School separates tuition and other receivables into risk pools based on their aging. In determining the amount of the allowance as of the statement of financial position date, the School develops a loss rate for each risk pool. The loss rate is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions.

e - 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 net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income that is limited to specific uses by donor-imposed restrictions is reported in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions for time and purpose are reclassified to net assets without donor restrictions.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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

f - 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.

Level 3 Instruments the significant inputs of which are unobservable.

g - 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.

h - Revenue Recognition

The School has multiple revenue streams that are accounted for as exchange transactions including tuition and registration, partners program fees and other earned income.

Tuition revenue is collected prior to the start of the class or on a payment plan during the course of the class. Tuition and related fees are recorded as revenue in the period the class takes place. Tuition and related fees relating to future periods are recorded as deferred revenue.

Partners program fees from public schools, public housing and community partnerships is recognized in the period the services are provided.

Other earned income consists of rentals and other service agreements. Revenue is recognized in the period the rental or services are provided.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

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

i - Leases

For leases with an initial term greater than twelve months, The School's operating lease liability is initially recorded at the present value of the lease payments as of the lease commencement date. The School's operating lease right-of-use asset is initially recorded at the carrying amount of the lease liability adjusted for initial direct costs, accruals and lease incentives, if any. Operating lease cost is recognized on a straight-line basis over the lease term.

Lease terms may include options to extend the lease term. The present value of the lease option is reflected in the valuation if it is reasonably certain management will exercise an option.

The School uses the risk-free interest rate for a period comparable to the lease term.

j - Financial Statement Presentation

The financial statements of the School have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), which require the School to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the School. These net assets may be used at the discretion of the School's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the School or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

k - Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Expenses are applied directly to programs, where applicable, or allocated on a reasonable and consistent basis. A substantial portion of the School's expenses are directly related to program activities. Depreciation and occupancy costs are allocated based on the square footage occupied by each activity. Program management costs, including certain salaries and fringe benefits, advertising and promotion, office supplies, insurance, banking fees and computer expenses are allocated based on an estimate of time and effort spent on various functions.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2025 AND 2024****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****l - Use of Estimates**

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

m - 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.

n - Subsequent Events

The School has evaluated subsequent events through January 29, 2026, the date that the financial statements are considered available to be issued.

Note 2 - Information Regarding Liquidity and Availability

The School operates with a balanced budget for each fiscal year based on anticipated revenues and expenses. Revenue is received throughout the year, principally from tuition, school partnerships and contributions. The School considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and administrative and fundraising activities undertaken to support those services.

The School regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available funds. Management prepares regular cash flow projections to determine liquidity needs and has a policy to maintain liquid financial assets on an ongoing basis sufficient to cover ninety days of general expenditures.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 2 - Information Regarding Liquidity and Availability (continued)

The School's financial assets as of June 30, 2025 and 2024 available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2025</u>	<u>2024</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$1,278,697	\$ 1,120,777
Unconditional promises to give	596,381	1,249,823
Tuition and other receivables	2,938,612	2,446,560
Investments	<u>15,906,520</u>	<u>14,243,455</u>
Total Financial Assets	20,720,210	19,060,615
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, not expected to be met within one year relating to expenditure for specific purposes or passage of time	(285,720)	-
Net assets with donor restrictions for endowment, subject spending policy and appropriation, net of amounts to appropriated for use within one year	(7,119,015)	(6,557,947)
Net assets with donor restrictions for cash reserve	(348,435)	(348,435)
Net assets restricted by Board for reserve	<u>(7,353,445)</u>	<u>(6,525,833)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$5,613,595</u>	<u>\$ 5,628,400</u>

In addition to these financial assets available within one year, the School maintains a board designated reserve of \$7,353,445, which could be made available to meet cash needs for general expenditures at the discretion of the Board. The School may also borrow from its donor-restricted cash reserve of \$348,435. The School also has available a \$200,000 line of credit from which it may draw upon, the terms of which are more fully described in Note 8.

Note 3 - Net Assets

a - Net Assets Without Donor Restrictions - Board Designated Reserve

The Board Designated Reserve (the "Reserve") is set aside for specific purposes subject to Board approval, including operating and capital contingencies, strategic initiatives and special projects. Withdrawals from this reserve must be authorized by the Board of Directors or the Finance Committee. The Reserve balances are \$7,353,445 and \$6,525,833 for the years ended June 30, 2025 and 2024, respectively.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 3 - Net Assets (continued)

b - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30:

	<u>2025</u>	<u>2024</u>
Operating		
Future programs and periods	\$ 765,719	\$ 217,500
Capital improvements	-	25,000
	<u>765,719</u>	<u>242,500</u>
Cash reserve	<u>348,435</u>	<u>348,435</u>
Endowment subject to spending policy and appropriation:		
Accumulated investment income above original gift amount:		
Scholarships/financial aid	1,474,988	1,210,596
Faculty development	466,164	383,351
Chamber music	403,083	331,449
General purposes	690,142	547,913
	<u>3,034,377</u>	<u>2,473,309</u>
Restricted in perpetuity:		
Scholarship/financial aid funds	1,481,341	1,481,341
Faculty development	662,951	662,951
General purposes, including additional scholarship and program support	1,661,748	1,661,748
Barbara Field Chamber Music Fund	573,598	573,598
	<u>4,379,638</u>	<u>4,379,638</u>
Total Endowments	<u>7,414,015</u>	<u>6,852,947</u>
Total Net Assets With Donor Restrictions	<u>\$8,528,169</u>	<u>\$7,443,882</u>

The cash reserve is perpetual in nature and all borrowings from the fund must be repaid within two years.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 4 - Endowment Funds

The School's endowment consists of numerous donor-restricted funds established for the support of its programs and operations. 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 net assets with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment and (c) accumulations to the donor-restricted 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 as perpetual in nature are classified as net assets subject to spending policy and appropriation 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, 2025 and 2024, the composition of the School's invested endowment funds is summarized as follows:

	<u>With Donor Restrictions</u>		
	<u>Investment Income Above Original Gift Amount</u>	<u>Perpetual in Nature</u>	<u>Total</u>
Donor-restricted funds, 2025	<u>\$3,034,377</u>	<u>\$4,379,638</u>	<u>\$7,414,015</u>
Donor-restricted funds, 2024	<u>\$2,473,309</u>	<u>\$4,379,638</u>	<u>\$6,852,947</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 4 - Endowment Funds (continued)

Changes in endowment net assets for the years ended June 30, 2025 and 2024 are summarized as follows:

	2025		
	With Donor Restrictions		
	Investment Income Above Original Gift Amount	Perpetual in Nature	Total
Endowment net assets, beginning of year	\$2,473,309	\$4,379,638	\$6,852,947
Net investment return	818,880	-	818,880
Appropriation of endowment assets for expenditure	<u>(257,812)</u>	<u>-</u>	<u>(257,812)</u>
Endowment Net Assets, End of Year	<u>\$3,034,377</u>	<u>\$4,379,638</u>	<u>\$7,414,015</u>

	2024		
	With Donor Restrictions		
	Investment Income Above Original Gift Amount	Perpetual in Nature	Total
Endowment net assets, beginning of year	\$1,823,892	\$4,379,638	\$6,203,530
Net investment return	924,799	-	924,799
Appropriation of endowment assets for expenditure	<u>(275,382)</u>	<u>-</u>	<u>(275,382)</u>
Endowment Net Assets, End of Year	<u>\$2,473,309</u>	<u>\$4,379,638</u>	<u>\$6,852,947</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, 2025 AND 2024

Note 4 - 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 5 - Unconditional Promises to Give

Unconditional promises to give at June 30, 2025 and 2024 are due as follows:

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Due in less than one year	\$210,700	\$200,000	\$410,700
Due in one to two years	<u>-</u>	<u>200,000</u>	<u>200,000</u>
	210,700	400,000	610,700
Less: Discount to present value	<u>-</u>	<u>(14,319)</u>	<u>(14,319)</u>
	<u>\$210,700</u>	<u>\$385,681</u>	<u>\$596,381</u>
	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Due in less than one year	<u>\$1,224,823</u>	<u>\$25,000</u>	<u>\$1,249,823</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 5 - Unconditional Promises to Give (continued)

Uncollectible promises are expected to be insignificant. Unconditional promises to give due after one year are discounted to net present value using the discount rate of 3.72%.

At June 30, 2025, approximately 86% of unconditional promises to give were from two donors. During the year ended June 30, 2025, three donors accounted for approximately 37% of contributions and special event income.

At June 30, 2024, approximately 80% of unconditional promises to give were from two donors. During the year ended June 30, 2024, two donors accounted for approximately 29% of contributions and special event income.

Note 6 - Investments

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

	<u>2025</u>		<u>2024</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and money market	\$ 776,930	\$ 776,930	\$ 590,292	\$ 590,292
Mutual Funds:				
Equity	6,862,835	11,504,664	7,068,321	10,777,563
Fixed income	3,069,269	3,013,258	2,401,837	2,295,698
Alternative Multi-Strategy	<u>561,588</u>	<u>611,668</u>	<u>526,335</u>	<u>579,902</u>
	<u>\$11,270,622</u>	<u>\$15,906,520</u>	<u>\$10,586,785</u>	<u>\$14,243,455</u>

Investment income for the years ended June 30, 2025 and 2024 consists of the following:

	<u>2025</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net unrealized gain on investments	\$498,924	\$480,304	\$ 979,228
Net realized gain on sale of investments	188,296	181,268	369,564
Interest and dividend income, including capital gain distributions	195,099	164,576	359,675
Less: Investment fees	<u>(7,550)</u>	<u>(7,268)</u>	<u>(14,818)</u>
	<u>\$874,769</u>	<u>\$818,880</u>	<u>\$1,693,649</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 6 - Investments (continued)

	Without Donor Restrictions	2024 With Donor Restrictions	Total
Net unrealized gain on investments	\$772,269	\$769,699	\$1,541,968
Net realized gain on sale of investments	1,692	1,687	3,379
Interest and dividend income, including capital gain distributions	178,639	158,392	337,031
Less: Investment fees	<u>(5,897)</u>	<u>(4,979)</u>	<u>(10,876)</u>
	<u>\$946,703</u>	<u>\$924,799</u>	<u>\$1,871,502</u>

At June 30 2025 and 2024, 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.

Note 7 - Property and Equipment and Construction in Progress

Property and equipment consist of the following:

	Life	2025	2024
Building	25 years	\$ 747,179	\$ 747,179
Building improvements	5-15 years	10,417,707	10,300,227
Furniture and fixtures	3-8 years	581,333	506,405
Instruments	5-15 years	1,079,642	1,055,242
Registration software	2 years	114,113	80,628
		12,939,974	12,689,681
Less: Accumulated depreciation		<u>(8,608,035)</u>	<u>(8,011,010)</u>
		4,331,939	4,678,671
Land		<u>169,495</u>	<u>169,495</u>
Total Property and Equipment		<u>\$ 4,501,434</u>	<u>\$ 4,848,166</u>

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

Note 8 - Line of Credit

In March 2024, the School entered into a \$200,000 line of credit with TD Bank. Borrowings from the line of credit bear interest at the prime rate plus 0.99%. The line of credit agreement specifies certain covenants, including the requirements to not purchasing any non-operating property and equipment and to provide periodic financial reporting. The line of credit is secured by the School's assets. The line of credit renews annually.

Note 9 - Operating Lease Liability

The School entered into a lease agreement for office space which commenced on February 1, 2025, that expires on February 1, 2028. Operating lease expense for the year ended June 30, 2025 was \$31,050. In addition to base rent, The School is required to reimburse the landlord for its pro rata share of real estate taxes (if any) and utilities. There were no variable lease costs incurred. As of June 30, 2025, the remaining term of The School's operating lease is thirty one months, and the discount rate is 4.28%.

Maturities of The School's operating lease liability as of June 30, 2025 are as follows:

<u>Year Ending June 30,</u>	
2026	\$ 74,460
2027	74,460
Thereafter through February 1, 2028	<u>43,621</u>
	192,541
Less: Amount attributable to interest	<u>(10,579)</u>
	<u>\$181,962</u>

As of June, 2025, The School has \$6,205 outstanding as a security deposit under this office space lease.

Note 10 - 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 expense under this plan amounted to \$96,686 and \$91,717 for the years ended June 30, 2025 and 2024, respectively.

SOCIETY OF THE THIRD STREET MUSIC SCHOOL SETTLEMENT**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2025 AND 2024****Note 11 - Commitment and Contingency**

Effective September 1, 2023, the School entered into a collective bargaining agreement with Third Street Faculty Association (TSFA), an affiliate of New York State United Teachers, which covers the School's faculty members. The agreement provides for specified based wage and annual increases. The term of the agreement expires August 31, 2026.

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 12 - Student Financial Assistance

Scholarships of \$1,174,828 and \$1,126,662, 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, 2025 and 2024, respectively.

In addition to the above, group instruction in music theory, composition, ensembles, chamber music and performance, with tuition value of approximately \$406,897 and \$395,000 was provided to students at no additional charge during the years ended June 30, 2025 and 2024, respectively.

Note 13 - Concentration of Credit Risk

The School maintains its cash and cash equivalents at a financial institution located in New York. The cash balances exceed federally insured limits.