

Settlement Music School of Philadelphia

Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

The logo for WIPFLI, consisting of the letters "WIPFLI" in a white, bold, sans-serif font, centered within a solid blue rectangular background.

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Independent Auditor's Report

Central Board
Settlement Music School of Philadelphia
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Settlement Music School of Philadelphia and Subsidiary (the "School"), which comprise the consolidated statements of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Settlement Music School of Philadelphia and Subsidiary as of June 30, 2021, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

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Prior Period Financial Statements

The consolidated financial statements of Settlement Music School of Philadelphia as of June 30, 2020, were audited by other auditors whose report dated March 2, 2021, expressed an unmodified opinion on those statements.

Wipfli LLP

Wipfli LLP

February 14, 2022
Philadelphia, Pennsylvania

Settlement Music School of Philadelphia

Consolidated Statements of Financial Position

<i>As of June 30,</i>	2021	2020
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,268,883	\$ 3,127,205
Accounts receivable, net of allowance for doubtful accounts of \$29,766 in 2021 and \$124,000 in 2020	99,498	69,963
Contributions, grants and bequests receivable, net of allowance of doubtful accounts of \$15,000 in 2021 and \$25,000 in 2020	1,594,379	1,114,410
Prepaid expenses and other assets	139,945	116,726
Total current assets	6,102,705	4,428,304
NONCURRENT ASSETS		
Contributions, grants and bequests receivable, due beyond one year	1,468,823	2,809,939
Life insurance policies	300,000	300,000
Beneficial interest in charitable remainder unitrust	927,713	689,185
Cash restricted for the endowment	27,496	81,645
Investments	10,584,574	7,377,691
Property and equipment, net	15,391,430	16,056,804
Total noncurrent assets	28,700,036	27,315,264
Total assets	\$ 34,802,741	\$ 31,743,568

Settlement Music School of Philadelphia

Consolidated Statements of Financial Position (Continued)

<i>As of June 30,</i>	2021	2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 350,119	\$ 329,363
Agency obligations	419,422	354,870
Deposits and advance payments	449,605	298,216
Current portion of term loans	146,451	752,748
Total current liabilities	1,365,597	1,735,197
NONCURRENT LIABILITIES		
Agency obligations, net of current portion	354,870	704,741
Loans payable - Paycheck Protection Program	1,014,136	1,301,300
Term loans, net of current portion	3,523,498	4,074,093
Total noncurrent liabilities	4,892,504	6,080,134
Total liabilities	6,258,101	7,815,331
NET ASSETS		
Without donor restrictions	15,734,217	11,957,263
With donor restrictions	12,810,423	11,970,974
Total net assets	28,544,640	23,928,237
Total liabilities and net assets	\$ 34,802,741	\$ 31,743,568

See accompanying notes to consolidated financial statements.

Settlement Music School of Philadelphia

Consolidated Statements of Activities

<i>Years Ended June 30,</i>	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING						
Public support, revenues and gains						
Public support						
Contributions, bequests and grants	\$ 3,351,715	\$ 1,859,830	\$ 5,211,545	\$ 741,270	\$ 2,860,550	\$ 3,601,820
Special event, net of direct costs to donors of \$9,313 in 2021 and \$0 in 2020	290,662	-	290,662	306,276	-	306,276
Net assets released from restrictions	2,812,051	(2,812,051)	-	2,402,211	(2,402,211)	-
Total public support	6,454,428	(952,221)	5,502,207	3,449,757	458,339	3,908,096
Revenues and gains						
Tuition and registration fees	3,422,911	-	3,422,911	4,586,924	-	4,586,924
Endowment spending policy distribution	335,000	-	335,000	325,000	-	325,000
Other income	55,709	-	55,709	100,621	-	100,621
Total revenues and gains	3,813,620	-	3,813,620	5,012,545	-	5,012,545
Total public support, revenues and gains	10,268,048	(952,221)	9,315,827	8,462,302	458,339	8,920,641
Expenses						
Program services						
Instruction and student activities	4,925,599	-	4,925,599	5,801,226	-	5,801,226
Non-Core programs	2,487,723	-	2,487,723	2,294,347	-	2,294,347
Total program services	7,413,322	-	7,413,322	8,095,573	-	8,095,573
Supporting services						
Management and general	916,073	-	916,073	850,056	-	850,056
Fundraising	437,511	-	437,511	427,743	-	427,743
Total supporting services	1,353,584	-	1,353,584	1,277,799	-	1,277,799
Total expenses	8,766,906	-	8,766,906	9,373,372	-	9,373,372
Change in net assets from operating activities	1,501,142	(952,221)	548,921	(911,070)	458,339	(452,731)

Settlement Music School of Philadelphia

Consolidated Statements of Activities (Continued)

<i>Years Ended June 30,</i>	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
NONOPERATING						
Contributions	-	183,148	183,148	-	158,090	158,090
Bad debt losses	-	(60,000)	(60,000)	-	-	-
Investment income	300,090	1,721,682	2,021,772	9,399	56,728	66,127
Endowment spending policy distribution	(43,312)	(291,688)	(335,000)	(42,019)	(282,981)	(325,000)
Change in value of beneficial interest	-	238,528	238,528	-	20,344	20,344
Gain on sale of properties	717,734	-	717,734	-	-	-
Loan forgiveness-PPP	1,301,300	-	1,301,300	-	-	-
Change in net assets from nonoperating activities	2,275,812	1,791,670	4,067,482	(32,620)	(47,819)	(80,439)
CHANGE IN NET ASSETS	3,776,954	839,449	4,616,403	(943,690)	410,520	(533,170)
NET ASSETS						
Beginning of year	11,957,263	11,970,974	23,928,237	12,900,953	11,560,454	24,461,407
End of year	\$ 15,734,217	\$ 12,810,423	\$28,544,640	\$ 11,957,263	\$ 11,970,974	\$ 23,928,237

See accompanying notes to consolidated financial statements.

Settlement Music School of Philadelphia
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Mary Louise Curtis Branch	Germantown Branch	Northeast Branch	Willow Grove Branch	Wynnfield Branch	Settlement Music Online	Non-Core Programs	Total Program Services	Management and General	Fundraising	Total
Salaries, wages and related expenses											
Faculty											
Faculty Salaries and Wages	\$ 604,043	\$ 277,041	\$ 220,858	\$ 260,355	\$ 228,369	\$ 83,989	\$ 837,449	2,512,104	\$ -	\$ -	\$ 2,512,104
Faculty Benefits and Payroll Taxes	85,287	29,600	26,879	40,116	25,438	6,999	141,699	356,018	-	-	356,018
	689,330	306,641	247,737	300,471	253,807	90,988	979,148	2,868,122	-	-	2,868,122
Staff											
Staff Salaries and Wages	393,461	245,589	239,883	251,134	278,660	12,723	860,389	2,281,839	592,929	193,369	3,068,137
Staff Benefits and Payroll Taxes	52,855	22,556	28,913	34,650	38,634	1,899	104,159	283,666	77,259	46,270	407,195
	446,316	268,145	268,796	285,784	317,294	14,622	964,548	2,565,505	670,188	239,639	3,475,332
Total salaries, wages and related expenses	1,135,646	574,786	516,533	586,255	571,101	105,610	1,943,696	5,433,627	670,188	239,639	6,343,454
Occupancy											
Heat and Utilities	27,476	17,755	21,763	22,939	16,875	-	27,775	134,583	1,288	957	136,828
Insurance	13,638	23,843	16,405	28,666	17,817	-	52,636	153,005	1,225	912	155,142
Repairs and Maintenance	35,770	39,004	35,188	28,927	32,989	-	26,254	198,132	4,840	1,331	204,303
Total occupancy	76,884	80,602	73,356	80,532	67,681	-	106,665	485,720	7,353	3,200	496,273
Administrative and other											
Advertising and promotion	19,327	8,420	7,976	10,340	9,899	4,887	5,000	65,849	-	2,900	68,749
Auto, conference and dues	2,271	-	-	-	24	-	10,512	12,807	42,761	3,456	59,024
Insurance, taxes and professional fees	28,205	28,449	9,762	13,472	12,825	5,662	34,123	132,498	57,297	123,423	313,218
Interest expense and fees	34,981	19,307	6,980	93,439	7,599	-	19,777	182,083	2,777	2,777	187,637
Miscellaneous	-	510	8	145	115	-	10,393	11,171	5,960	3,690	20,821
Music expense and contract services	4,163	1,080	692	3,300	605	-	178,106	187,946	8,663	3,910	200,519
Office supplies, telephone and printing	9,833	8,624	7,171	8,458	7,614	-	5,661	47,361	33,667	25,527	106,555
Refunds and bad debt	8,363	2,820	1,316	(4,766)	(2,995)	1,010	22,647	28,395	-	3,001	31,396
Technology expenses	13,366	12,564	13,921	13,366	13,366	-	54,756	121,339	71,284	30,757	223,380
Total administrative and other	120,509	81,774	47,826	137,754	49,052	11,559	340,975	789,449	222,409	199,441	1,211,299
Total expenses before depreciation	1,333,039	737,162	637,715	804,541	687,834	117,169	2,391,336	6,708,796	899,950	442,280	8,051,026
Depreciation	124,698	139,247	31,528	245,270	67,396	-	96,387	704,526	16,123	4,544	725,193
	1,457,737	876,409	669,243	1,049,811	755,230	117,169	2,487,723	7,413,322	916,073	446,824	8,776,219
Less expenses included with revenues on the statement of activities											
Costs of direct benefits to donors	-	-	-	-	-	-	-	-	-	(9,313)	(9,313)
Total Expenses	\$ 1,457,737	\$ 876,409	\$ 669,243	\$ 1,049,811	\$ 755,230	\$ 117,169	\$ 2,487,723	\$ 7,413,322	\$ 916,073	\$ 437,511	\$ 8,766,906

See accompanying notes to consolidated financial statements.

Settlement Music School of Philadelphia
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Mary Louise Curtis Branch	Germantown Branch	Northeast Branch	Willow Grove Branch	Wynnefield Branch	Camden Branch	Non-Core Programs	Total Program Services	Management and General	Fundraising	Total
Salaries, wages and related expenses											
Faculty											
Faculty Salaries and Wages	\$ 781,117	\$ 326,871	\$ 454,232	\$ 363,010	\$ 324,203	\$ 53,218	\$ 866,165	\$ 3,168,816	\$ -	\$ -	\$ 3,168,816
Faculty Benefits and Payroll Taxes	106,016	34,805	47,523	54,104	35,620	4,612	144,220	426,900	-	-	426,900
	887,133	361,676	501,755	417,114	359,823	57,830	1,010,385	3,595,716	-	-	3,595,716
Staff											
Staff Salaries and Wages	375,547	220,509	305,335	269,088	244,884	41,783	826,136	2,283,282	515,193	223,773	3,022,248
Staff Benefits and Payroll Taxes	48,444	21,581	41,259	38,925	40,292	9,510	96,879	296,890	76,929	52,446	426,265
	423,991	242,090	346,594	308,013	285,176	51,293	923,015	2,580,172	592,122	276,219	3,448,513
Total salaries, wages and related expenses	1,311,124	603,766	848,349	725,127	644,999	109,123	1,933,400	6,175,888	592,122	276,219	7,044,229
Occupancy											
Heat and Utilities	35,222	21,396	21,304	28,535	13,768	-	16,169	136,394	1,640	1,196	139,230
Insurance	30,406	30,915	13,892	24,276	15,225	-	14,456	129,170	1,425	1,061	131,656
Repairs and Maintenance	37,352	30,394	23,902	19,153	22,228	13,372	11,888	158,289	8,252	1,327	167,868
Total occupancy	102,980	82,705	59,098	71,964	51,221	13,372	42,513	423,853	11,317	3,584	438,754
Administrative and other											
Advertising and promotion	9,600	4,855	3,804	4,997	4,451	2,173	203	30,083	3	224	30,310
Auto, conference and dues	4,051	1,279	1,894	2,061	1,623	5,349	5,849	22,106	45,583	4,639	72,328
Insurance, taxes and professional fees	18,926	10,071	6,875	9,545	9,097	4,601	22,961	82,076	50,192	81,582	213,850
Interest expense and fees	57,743	21,301	7,700	103,087	8,384	-	3,064	201,279	3,064	3,064	207,407
Miscellaneous	882	153	542	179	301	469	6,890	9,416	11,177	9,694	30,287
Music expense and contract services	22,118	727	355	3,868	667	(1,169)	150,520	177,086	10,470	1,148	188,704
Office supplies, telephone and printing	14,377	11,655	8,259	9,284	8,844	4,766	6,107	63,292	38,407	14,507	116,206
Refunds and bad debt	19,108	8,357	11,139	11,068	8,040	4,226	62,062	124,000	-	1,000	125,000
Technology expenses	9,621	7,847	10,164	9,620	9,770	3,848	25,011	75,881	77,346	29,076	182,303
Total administrative and other	156,426	66,245	50,732	153,709	51,177	24,263	282,667	785,219	236,242	144,934	1,166,395
Total expenses before depreciation	1,570,530	752,716	958,179	950,800	747,397	146,758	2,258,580	7,384,960	839,681	424,737	8,649,378
Depreciation	173,684	159,680	29,279	240,687	67,851	3,665	35,767	710,613	10,375	3,006	723,994
Total Expenses	\$ 1,744,214	\$ 912,396	\$ 987,458	\$ 1,191,487	\$ 815,248	\$ 150,423	\$ 2,294,347	\$ 8,095,573	\$ 850,056	\$ 427,743	\$ 9,373,372

See accompanying notes to consolidated financial statements.

Settlement Music School of Philadelphia

Consolidated Statements of Cash Flows

<i>Years Ended June 30,</i>	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 4,616,403	\$ (533,170)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(1,752,794)	61,880
Bad debt loss	60,000	-
Depreciation	725,194	723,994
Amortization of loan issuance costs	15,182	15,182
Change in reserve on accounts receivable	(94,234)	124,000
Change in reserve on contributions, grants and bequests receivable	(10,000)	-
Contributions restricted for long-term purposes	(269,810)	(20,000)
Change in value of beneficial interest	(238,528)	(20,344)
Loan forgiveness-PPP	(1,301,300)	-
Gain on sale of properties	(717,734)	-
Changes in operating assets and liabilities:		
Accounts receivable	64,699	(100,429)
Contributions, grants and bequests receivable	811,147	(476,159)
Prepaid expenses and other assets	(23,219)	2,427
Accounts payable and accrued expenses	20,756	156,293
Agency obligations	(285,319)	480,176
Deposits and advance payments	151,389	(188,991)
Net cash provided by operating activities	1,771,832	224,859
Cash flows from investing activities		
Proceeds from sale of investments	818,936	355,248
Purchase of investments	(2,273,025)	(157,279)
Purchase of property and equipment	(77,759)	(84,665)
Proceeds from sale of properties	735,673	-
Net cash provided by (used in) investing activities	(796,175)	113,304
Cash flows from financing activities		
Payments of long-term debt	(1,172,074)	(120,663)
Proceeds from loans payable - Paycheck Protection Program	1,014,136	1,301,300
Collections of contributions restricted for endowment	269,810	54,811
Net cash provided by financing activities	111,872	1,235,448
Net change in cash and cash restricted for the endowment	1,087,529	1,573,611
Cash and cash restricted for the endowment - beginning of year	3,208,850	1,635,239
Cash and cash restricted for the endowment - end of year	\$ 4,296,379	\$ 3,208,850
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	\$ 172,513	\$ 175,726

See accompanying notes to consolidated financial statements.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Settlement Music School of Philadelphia ("SMS") is a nonprofit organization that provides instruction in music, including special programs for the disabled and disadvantaged, to residents of Philadelphia and surrounding communities. Operating facilities are located in South Philadelphia, Germantown, Northeast Philadelphia, Wynnefield and Willow Grove, Pennsylvania, and Camden, New Jersey. SMS is supported primarily through tuition and fee revenue, and public support.

Principles of Consolidation

Settlement Music School of Philadelphia is the sole member of Camden School of Musical Arts, Inc. ("CSMA"), a New Jersey corporation. CSMA is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and was established for the purpose of providing quality education in the arts to the southern New Jersey community.

The consolidated financial statements for the years ended June 30, 2021 and 2020 include the accounts of Settlement Music School of Philadelphia and Camden School of Musical Arts (together, the "School"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP").

Basis of Presentation

Net assets, support and revenue are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions

Net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs are not considered "restricted" under GAAP, though for internal reporting, the School tracks such grants and contributions to verify that the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, board-designated. The School's Board of Directors has designated a portion of the net assets without donor restrictions as a board-designated endowment fund. The board-designated endowment fund totaled \$2,359,468 and \$954,891 as of June 30, 2021 and 2020, respectively, and included in Investments on the statement of financial position.

With donor restrictions

Net assets subject to donor-imposed stipulation that are more restrictive than the School's mission and purpose. Some donor-imposed restrictions are temporary in nature. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, when the donor stipulates that the resources be maintained in perpetuity.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Cash and Cash Equivalents

The School considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2021 and 2020. Cash includes donor-imposed restrictions for purpose or time of approximately \$1,500,000 and \$552,000 at June 30, 2021 and 2020, respectively.

Property and Equipment

Property and equipment purchased are carried at cost or, in the case of donated property and equipment, at estimated fair market value on the date of the gift. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 50 years.

Contributions, Grants and Bequests Receivable

Unconditional contributions, grants and bequests are recognized as contributions when the promise is received. Contributions due to be received within the next year are recorded at their net realizable value. Contributions due to be collected in future years are recorded at the present value of their net realizable value, using an appropriate discount rate applicable to the years in which the promises are expected to be received. The allowance for uncollectible promises is based on management's evaluation of the collectibility of individual promises.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value in the consolidated statements of financial position, as determined by quoted market prices. Realized and unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities. Dividend and interest income is recorded as earned. Donated investments are recorded at fair value at the date of receipt.

The School invests in a professionally-managed portfolio that contains various types of securities. Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect the investment balances and the amounts reported in the consolidated financial statements.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the School. Unobservable inputs reflect the School's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the School has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the School's own assumptions.

Beneficial Interest in Charitable Remainder Unitrust

The beneficial interest in the charitable remainder unitrust has been estimated based upon the fair value of the assets in the trust, the expected return on the assets in the trust, life expectancy of the donor, and the payments to be made to the lead beneficiaries during their lifetimes.

Life Insurance Policies

The School is the owner and beneficiary of two life insurance policies. These policies have been recorded at fair value using the income method.

Agency Obligations

During the year ended June 30, 2020, the School, along with eight other local musical education organizations, was awarded a three-year grant in the amount of \$2,500,000 from The Andrew W. Mellon Foundation. Pursuant to the grant terms, the School is charged with administering the total grant. Management has recorded a liability on the consolidated statements of financial position for the amounts received and payable to the eight other local musical education organizations.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Loan Issuance Costs

Costs incurred in connection with the issuance of the term loans are deferred and amortized over the life of the loans. Loan issuance costs are presented as a reduction of term loans payable. Amortization of loan issuance costs was \$15,182 for each of the years ended June 30, 2021 and 2020, and accumulated amortization was \$45,530 at June 30, 2021 and \$60,712 at June 30, 2020. Amortization of these costs is included in interest and fees expense in the consolidated statements of functional expenses.

Deposits and Advance Payments

Deposits and advance payments principally represent tuition and other fees received in the current year that apply to the following school year.

Revenue Recognition

Contributions

Contributions are recognized as revenue when received and are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions on net assets (that is, the donor-stipulation purpose has been fulfilled or the stipulated time period has elapsed, or both) are reported as net assets released from restrictions on the consolidated statements of activities.

Conditional contributions, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Tuition and registration fees

The School operates a community music school providing music and dance education, and creative arts therapy. Student enrollment contracts contain only one performance obligation, which is providing educational instruction or creative arts therapy. Tuition and registration fee revenue is recognized in the period in which the related instruction or services are performed. The passage of time is used as management considers that to be the best available measure of progress on the School's delivery of educational and therapy services. Overdue payments are reflected in accounts receivable as the School has an unconditional right to payment. The School determines the transaction price based on annual tuition rates for the services provided. Tuition refunds are prorated to the date the student officially withdraws from the School. No refund liability is recorded at year-end as the School year is complete.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Tuition and fees received in advance for program activities that will be conducted in the subsequent fiscal year (principally tuition deposits and registration fees) are recorded as deposits and advance payments in the consolidated statements of financial position.

The School has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are most significantly affected by enrollment in the programs and the number of individuals who are interested in music, dance, and creative arts therapy within the surrounding area. Adverse changes in the local economy may have an adverse impact on the ability of families to contract with and pay the School. Subsequent changes that are determined to be the result of an adverse change in the family's ability to pay are recorded as bad debt expense.

Included in tuition and registration fee revenue is early childhood educational funding from the School District of Philadelphia for the School's preschool arts enrichment program, Kaleidoscope. The funding is a conditional contribution and included in tuition and registration fees in the consolidated statements of activities in accordance with the School's policy for recognizing conditional contributions as noted in "Contributions" above. This funding approximates \$760,000 and \$734,000 for the years ended June 30, 2021 and 2020, respectively.

Special event revenue

Special event revenue contains an exchange element based on the value of benefits provided and a contribution element for the difference between the total amount paid and the exchange element. The School recognizes the exchange portion of fundraising events revenue equal to the fair value of direct benefits to donors when the event takes place, and contribution revenue for the excess received. The contribution portion is recognized immediately.

Accounts Receivable and Contract balances

Opening and closing balances for accounts receivable and contract liabilities arising from contracts with customers include:

<i>As of June 30,</i>	2021	2020	2019
Accounts receivable, net	\$ 99,498	\$ 69,963	\$ 93,534
Contract liabilities - deposits and advance payments	\$ 449,605	\$ 298,216	\$ 487,207

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Contract assets arise when the School transfers goods or services to a customer in advance of receiving consideration and the right to consideration is conditioned on something other than the passage of time such as work in process or unbilled receivables. Contract assets are transferred to receivables when the right to receive consideration becomes unconditional and the School is able to invoice the customer. Contract liabilities represent the School's obligation to transfer goods or services to a customer when consideration has already been received from the customer, such as deposits and advanced payments. When transfer of control of the related good or service occurs, contract liabilities are reclassified, and revenue is recognized. Tuition and fee revenue recognized during the year ended June 30, 2021, included the full amount of revenue deferred as of June 30, 2020, and tuition revenue recognized during the year ended June 30, 2020, included the full amount of revenue deferred as of June 30, 2019.

Functional Allocation of Expenses

The costs of providing the program and supporting services have been presented on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributable to a specific functional area are reported as expenses of the functional area. Expenses not directly attributable to a specific functional area are allocated. Significant expenses that are allocated include salaries and wages and benefits and payroll taxes which are allocated to functional areas based on estimates of time and effort.

Concentration of Credit Risk

Financial instruments that potentially subject the School to concentration of credit risk are cash, accounts receivable and contributions receivable. The School maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. As of June 30, 2021, the uninsured balance was approximately \$3,280,000. The School has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk. Accounts receivable as of June 30, 2021 are owed from various sources and are expected to be collected in fiscal 2022. Contributions, grants and bequests receivable are further described in Note 2.

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the School's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as organizations that are not private foundations.

GAAP prescribes a minimum recognition threshold that a tax position is required to meet in order to be recognized in the consolidated financial statements. The School believes that it had no uncertain tax positions as defined in that standard.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 1: Nature of Activities and Summary of Significant Accounting Policies (Continued)

Reclassification

Certain amounts as previously reported in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation. Such reclassifications have no effect on reported amounts of net assets or change in net assets, and related to reclassification of the 2020 staff salaries and wages, and staff benefits and payroll taxes from management and general expenses to program expenses in the consolidated statements of functional expenses.

Note 2: Contributions, Grants and Bequests Receivable, net

Contributions, grants and bequests receivable are discounted at rates ranging from .17% to 3.65%. The amounts to be received are as follows:

<i>As of June 30,</i>	2021	2020
Receivables in less than one year	\$ 1,594,379	\$ 1,114,410
Receivables in one to five years	88,875	1,587,283
Receivables in more than five years	1,982,621	1,797,620
Total pledges and bequests receivable	3,665,875	4,499,313
Less discount to net present value	(587,673)	(549,964)
Less allowance for doubtful accounts	(15,000)	(25,000)
Net pledges and bequests receivable	\$ 3,063,202	\$ 3,924,349
Current	\$ 1,594,379	\$ 1,114,410
Noncurrent	1,468,823	2,809,939
	\$ 3,063,202	\$ 3,924,349

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 3: Property and Equipment, net

A summary of property and equipment is as follows:

<i>As of June 30,</i>	2021	2020
Land	\$ 1,575,918	\$ 1,590,357
Buildings and improvements	22,720,975	22,700,675
Pianos and organs	1,951,147	1,948,869
Other instruments	175,215	171,715
Furniture and equipment	402,399	408,555
Computer hardware and software	1,855,506	1,821,327
	28,681,160	28,641,498
Accumulated depreciation	(13,289,730)	(12,584,694)
Property and equipment, net	\$ 15,391,430	\$ 16,056,804

Note 4: Investments

Investments consisted of the following:

<i>As of June 30,</i>	2021	2020
Money market funds	\$ 1,281,551	\$ 579,159
Mutual funds		
Equity	6,252,893	4,227,024
Fixed income	3,050,130	2,571,508
Total	\$ 10,584,574	\$ 7,377,691

Investment income was comprised of the following:

<i>Years ended June 30,</i>	2021	2020
Net realized and unrealized gain (loss) on investments	\$ 1,752,794	\$ (61,880)
Interest and dividends	300,426	157,279
Investment management fees	(31,448)	(29,272)
Total	\$ 2,021,772	\$ 66,127

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 5: Line of Credit

The School has a \$650,000 bank line of credit. Advances under the credit line are payable on demand, bear interest at the bank's base lending rate plus 0.75% and are secured by the School's real estate. There were no advances outstanding at June 30, 2021 and 2020.

Note 6: Term Loans

The School's debt consists of two notes. The first note in the amount of \$5,100,000, bears interest at a fixed rate of 3.80%, requires monthly interest and principal installments, and matures on September 1, 2024. This note had an outstanding balance of \$3,715,479 at June 30, 2021 and \$4,287,553 at June 30, 2020. The second note in the amount of \$2,300,000, bears interest at a fixed rate of 4.00% and matured on and was paid off by the School by December 31, 2020. This note had an outstanding balance of \$600,000 at June 30, 2020. These obligations are secured by substantially all of the School's assets and a first mortgage on the School's real estate. The notes also require the School to comply with certain financial covenants. These loans are presented net of unamortized loan acquisition costs of \$45,530 and \$60,712 at June 30, 2021 and 2020, respectively, on the consolidated statements of financial position.

Future annual principal payments for each of the next five years and in the aggregate as of June 30, as refinanced in July 2021 (see below), are as follows:

2022	\$	146,451
2023		162,022
2024		166,504
2025		171,642
2026		176,668
Thereafter		2,892,192
<hr/>		
Total	\$	3,715,479

In July 2021, the School refinanced its tax-exempt note issued by Lower Salford Industrial Development Authority on August 21, 2014, and entered into a loan transaction, whereupon the Horsham Industrial and Commercial Development Authority issued a tax-exempt note, which was purchased by VIST Bank, with the proceeds from the note to be loaned to the School through a credit facility (the "Note") in the amount of \$3,700,567. Under the loan agreement interest on the unpaid principal balance will accrue from the date of the Note through the 7th anniversary of the Note at the fixed rate of 2.85% per annum. Thereafter, for the balance of the term, the interest on the unpaid balance hereof will accrue at the floating reinterest rate of 79% of the Wall Street Prime Rate, with a floor of 2.85%. This obligation is secured by substantially all of the School's assets and a first mortgage on the School's real estate. The Note also requires the School to comply with certain financial covenants. The new term is reflected in the above table of future maturities.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 7: Loans Payable - Paycheck Protection Program

On April 22, 2020, the School received loan proceeds in the amount of \$1,301,300 under the U.S. Small Business Administration (SBA) Paycheck Protection Program ("PPP"). The loan was eligible for forgiveness if certain conditions were met as required by the loan agreement and governmental statute and regulations. Effective February 1, 2021, the School received notification from the SBA that the full loan amount was forgiven. The School recognized revenue in the year ended June 30, 2021 for the forgiveness of the loan amount, classified as forgiveness of debt in the nonoperating activities section of the consolidated statements of activities.

On February 11, 2021, the School received loan proceeds in the amount of \$1,014,136 under the Paycheck Protection Program ("PPP") as a second-draw loan as part of the Consolidated Appropriations Act of 2021 ("CAA"). PPP loans and accrued interest are forgivable if certain conditions are met as required by the loan agreement and governmental statute and regulations. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period.

To the extent that the School is not granted forgiveness, the School will be required to pay interest on the PPP loan at a rate of 1% per annum. If the application for forgiveness is not made within 10 months of the end of the covered period, payments of principal and interest will be required until application is made and approved or until the maturity date, which is February 11, 2026.

Note 8: Net Assets with Donor Restriction

Net assets with donor restrictions consistent of the following as of June 30:

	2021	2020
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Purpose restricted:		
Music and Art Education Programs	\$ 1,447,116	\$ 2,545,230
Restricted for purchase of property and equipment	256,825	127,825
Debt reduction	-	100,000
	<hr/>	<hr/>
	1,703,941	2,773,055
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Time restricted:		
Multi-year contributions receivable and cash restricted for future years	574,867	457,975
Life insurance policies	300,000	300,000
Beneficial interest in charitable remainder unitrust	927,713	689,185
	<hr/>	<hr/>
	1,802,580	1,447,160
<hr/>		
Endowment to be held in perpetuity		
Income is available for educational programs, scholarships and financial aid.		
Management is not aware of the Historic Dollar Value of the endowment	9,303,902	7,750,759
	<hr/>	<hr/>
	\$ 12,810,423	\$ 11,970,974
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Settlement Music School of Philadelphia

Notes to Financial Statements

Note 8: Net Assets with Donor Restriction (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

	2021	2020
Expiration of time restrictions:		
Multi-year contributions receivable and cash restricted for future years	\$ 751,781	\$ 531,774
Satisfaction of purpose restrictions:		
Music and Art Education Programs	1,915,365	1,843,337
Restricted for debt reductions	100,000	-
Restricted for the purpose of property and equipment	44,905	27,100
	\$ 2,812,051	\$ 2,402,211

Note 9: Endowment Funds

Accounting standards for the classification and disclosure of endowments of not-for-profit organizations provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and require additional disclosures about an organization's endowment funds. As of June 30, 2021, Pennsylvania has not adopted UPMIFA. The following disclosures are made as required by accounting standards.

The endowment of the School consists of funds established for various purposes and includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The School interprets Pennsylvania law governing donor-restricted endowment funds (PA Law) as requiring the preservation of the fair value of the original gift in its donor-restricted endowment funds absent explicit donor stipulations to the contrary, but without regard to the concept of original value. Rather, the School's interpretation of PA law allows the School to make an election under 15 Pa.C.S Section 5548(c)(3)(i) so that "income" shall include a percentage of the value of the assets held by the School between 2% and 7% per year, without regard to the historic concept of original value.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 9: Endowment Funds (Continued)

In accordance with PA Law, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) the duration and preservation of the fund
- (2) the purposes of the School and the donor-restricted endowment fund
- (3) general economic conditions
- (4) the possible effect of inflation and deflation
- (5) the expected total return from income and the appreciation of investments
- (6) other resources of the School
- (7) the investment policies of the School

Changes in endowment net assets composition by type of fund as of and for the years ended June 30, 2021 and 2020 is as follows:

Years Ended June 30, 2021 and 2020	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets as of June 30, 2019	\$ 987,511	\$ 7,818,923	\$ 8,806,434
Investment income	9,399	56,728	66,127
Contributions	-	158,090	158,090
Spending policy distributions	(42,019)	(282,981)	(325,000)
Endowment net assets as of June 30, 2020	954,891	7,750,760	8,705,651
Investment income	265,286	1,721,682	1,986,968
Contributions	1,632,603	183,148	1,815,751
Other changes - bad debt loss	-	(60,000)	(60,000)
Withdrawals	(450,000)	-	(450,000)
Spending policy distribution	(43,312)	(291,688)	(335,000)
Endowment net assets as of June 30, 2021	\$ 2,359,468	\$ 9,303,902	\$ 11,663,370

Funds with Deficiencies

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PA Law requires the School to retain as a fund of perpetual duration (underwater endowments). We have interpreted the law to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies of this nature as of June 30, 2021 and 2020.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 9: Endowment Funds (Continued)

Return Objectives and Risk Parameters

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for financial aid and ongoing operating expenses supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the School must hold in perpetuity as well as board designated funds. The primary long-term management objective is to preserve the real (inflation adjusted) purchasing power of the endowment, both restricted and unrestricted, before gifts. This objective should be achieved over a rolling three-year period.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of 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).

Spending Policy and How the Investment Objectives Relate to Spending Policy

The School has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year-end preceding the current fiscal year in which the distribution is planned. In establishing this policy, the School considers the long-term expected return on its endowment.

The target spending rate is that which as part of total return satisfies these conditions - (a) permits enough reinvestment to preserve the real purchasing power of current funds, (b) permits a level of consistency and stability in the programs of the School, (c) is sustainable over time regardless of periodic variations in the levels required to satisfy (a), and (d) recognizes that circumstances may preclude achievement of all three objectives in any one year.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 10: Fair Value Measurements

The following tables set forth, by level, the School's assets at fair value within the fair value hierarchy, as of June 30, 2021 and 2020:

<i>As of June 30, 2021</i>	Fair Value of Assets			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Money market funds	\$ 1,281,551	\$ -	\$ -	\$ 1,281,551
Mutual funds				
Equity	6,252,893	-	-	6,252,893
Fixed income	3,050,130	-	-	3,050,130
Total	10,584,574	-	-	10,584,574
Life insurance policies	-	-	300,000	300,000
Beneficial interest in charitable remainder unitrust	-	-	927,713	927,713
Total	\$ 10,584,574	\$ -	\$ 1,227,713	\$ 11,812,287

<i>As of June 30, 2020</i>	Fair Value of Assets			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Money market funds	\$ 579,159	\$ -	\$ -	\$ 579,159
Mutual funds				
Equity	4,227,024	-	-	4,227,024
Fixed income	2,571,508	-	-	2,571,508
Total	7,377,691	-	-	7,377,691
Life insurance policies	-	-	300,000	300,000
Beneficial interest in charitable remainder unitrust	-	-	689,185	689,185
Total	\$ 7,377,691	\$ -	\$ 989,185	\$ 8,366,876

The method of valuing the life insurance policies and charitable remainder trust is described in Note 1. There were no purchases of Level 3 assets and there were no transfers into or out of Level 3 assets during each of the years ended June 30, 2021 and 2020.

Settlement Music School of Philadelphia

Notes to Financial Statements

Note 11: Retirement Plan

The School has a defined-contribution plan, qualified under Section 403(b) of the Internal Revenue Code ("IRC"), allowing an eligible participant to direct the employer to contribute a portion of the participant's compensation to the 403(b) plan on a pre-tax basis through payroll deductions into a 403(b)(7) custodial account. An eligible employee may enter the 403(b) plan as an active member on or after the date on which he or she is hired as an employee of the School. Qualified employees, as defined by the 403(b) plan, generally include all employees with the exception of nonresident aliens. There were no employer contributions made to the plan for the years ended June 30, 2021 and 2020

Note 12: Liquidity and Availability of Financial Resources

Financial assets available and liquidity resources available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

<i>As of June 30,</i>	2021	2020
Cash	\$ 2,753,732	\$ 2,575,240
Accounts receivable, net	99,498	69,963
Contributions, grants and bequests receivable, net	1,249,787	-
Total financial assets before adjustments	4,103,017	2,645,203
Total financial assets and liquidity resources available within one year		
Bank line of credit	650,000	650,000
Endowment payout to use over next twelve months	358,000	335,000
Total financial assets available and liquidity resources within one year	\$ 5,111,017	\$ 3,630,203

As part of the School's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically money market funds and equity and fixed income mutual funds. As of June 30, 2021 and 2020, the School had \$2,359,468 and \$954,891 in funds functioning as endowment by Board designation included in investments on the consolidated statement of financial position. If necessary, some of these funds could be made available for general expenditure with approval by the Central Board. Additionally, in the event of an unanticipated liquidity need, the School could also draw upon a \$650,000 available line of credit (as further discussed in Note 5).

Note 13: Subsequent Events

In July 2021, the School refinanced its term loan, as described in Note 6.

The School has evaluated subsequent events through February 14, 2022, which is the date the financial statements were available to be issued.