

Settlement Music School of Philadelphia

Consolidated Financial Statements

Years Ended June 30, 2022 and 2021

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WIPFLI

Independent Auditor's Report

Central Board
Settlement Music School of Philadelphia
Philadelphia, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Settlement Music School of Philadelphia and Subsidiaries (the "School"), a nonprofit organization, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the School 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 GAAS and *Government 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the School'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School'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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2023 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Wipfli LLP

Philadelphia, Pennsylvania

March 6, 2023

Settlement Music School of Philadelphia

Consolidated Statements of Financial Position

<i>As of June 30,</i>	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,484,130	\$ 4,268,883
Accounts receivable, net of allowance for doubtful accounts of \$12,921 in 2022 and \$29,766 in 2021	46,277	99,498
Contributions, grants and bequests receivable, net of allowance of doubtful accounts of \$15,000 in 2022 and 2021	999,310	1,594,379
Prepaid expenses and other assets	124,218	139,945
Total current assets	3,653,935	6,102,705
NONCURRENT ASSETS		
Contributions, grants and bequests receivable, due beyond one year	2,527,401	1,468,823
Life insurance policies	300,000	300,000
Beneficial interest in charitable remainder unitrust	877,807	927,713
Cash restricted for the endowment	82,746	27,496
Investments	9,819,659	10,584,574
Property and equipment, net	15,300,020	15,391,430
Total noncurrent assets	28,907,633	28,700,036
Total assets	\$ 32,561,568	\$ 34,802,741

Settlement Music School of Philadelphia

Consolidated Statements of Financial Position (Continued)

<i>As of June 30,</i>	2022	2021
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 703,357	\$ 350,119
Agency obligations	557,762	419,422
Deposits and advance payments	420,157	449,605
Current portion of term loans	179,930	146,451
Total current liabilities	1,861,206	1,365,597
NONCURRENT LIABILITIES		
Agency obligations, net of current portion	-	354,870
Loans payable - Paycheck Protection Program	-	1,014,136
Term loans, net of current portion	2,737,137	3,523,498
Total noncurrent liabilities	2,737,137	4,892,504
Total liabilities	4,598,343	6,258,101
NET ASSETS		
Without donor restrictions	15,760,620	15,734,217
With donor restrictions	12,202,605	12,810,423
Total net assets	27,963,225	28,544,640
Total liabilities and net assets	\$ 32,561,568	\$ 34,802,741

See accompanying notes to consolidated financial statements.

Settlement Music School of Philadelphia

Consolidated Statements of Activities

<i>Years Ended June 30,</i>	2022			2021		
	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	\$ 1,449,882	\$ 2,563,515	\$ 4,013,397	\$ 3,351,715	\$ 1,859,830	\$ 5,211,545
Special event, net of direct costs to donors of \$81,875 in 2022 and \$9,313 in 2021	269,745	-	269,745	290,662	-	290,662
Net assets released from restrictions	2,705,798	(2,705,798)	-	2,812,051	(2,812,051)	-
Total public support	4,425,425	(142,283)	4,283,142	6,454,428	(952,221)	5,502,207
Revenues and gains						
Tuition and registration fees	4,367,363	-	4,367,363	3,422,911	-	3,422,911
Endowment spending policy distribution	351,000	-	351,000	335,000	-	335,000
Other income	112,542	-	112,542	55,709	-	55,709
Total revenues and gains	4,830,905	-	4,830,905	3,813,620	-	3,813,620
Total public support, revenues and gains	9,256,330	(142,283)	9,114,047	10,268,048	(952,221)	9,315,827
Expenses						
Program services						
Instruction and student activities	5,228,580	-	5,228,580	4,925,599	-	4,925,599
Non-Core programs	3,129,031	-	3,129,031	2,487,723	-	2,487,723
Total program services	8,357,611	-	8,357,611	7,413,322	-	7,413,322
Supporting services						
Management and general	770,630	-	770,630	916,073	-	916,073
Fundraising	558,840	-	558,840	437,511	-	437,511
Total supporting services	1,329,470	-	1,329,470	1,353,584	-	1,353,584
Total expenses	9,687,081	-	9,687,081	8,766,906	-	8,766,906
Change in net assets from operating activities	(430,751)	(142,283)	(573,034)	1,501,142	(952,221)	548,921

Settlement Music School of Philadelphia Consolidated Statements of Activities (Continued)

<i>Years Ended June 30,</i>	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
NONOPERATING						
Contributions	-	1,095,592	1,095,592	-	183,148	183,148
Bad debt losses	-	(100,000)	(100,000)	-	(60,000)	(60,000)
Investment income (loss)	(478,773)	(1,138,430)	(1,617,203)	300,090	1,721,682	2,021,772
Endowment spending policy distribution	(78,209)	(272,791)	(351,000)	(43,312)	(291,688)	(335,000)
Change in value of beneficial interest	-	(49,906)	(49,906)	-	238,528	238,528
Gain on sale of properties	-	-	-	717,734	-	717,734
Loan forgiveness-PPP	1,014,136	-	1,014,136	1,301,300	-	1,301,300
Change in net assets from nonoperating activities	457,154	(465,535)	(8,381)	2,275,812	1,791,670	4,067,482
CHANGE IN NET ASSETS	26,403	(607,818)	(581,415)	3,776,954	839,449	4,616,403
NET ASSETS						
Beginning of year	15,734,217	12,810,423	28,544,640	11,957,263	11,970,974	23,928,237
End of year	\$ 15,760,620	\$ 12,202,605	\$27,963,225	\$ 15,734,217	\$ 12,810,423	\$ 28,544,640

See accompanying notes to consolidated financial statements.

Settlement Music School of Philadelphia
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Mary Louise Curtis Branch	Germantown Branch	Northeast Branch	Willow Grove Branch	Wynnefield 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	\$ 651,652	\$ 292,470	\$ 271,337	\$ 331,732	\$ 279,710	\$ 76,522	\$ 952,438	\$ 2,855,861	\$ -	\$ -	\$ 2,855,861
Faculty Benefits and Payroll Taxes	99,584	34,812	42,650	49,305	30,313	6,293	149,705	412,662	-	-	412,662
	751,236	327,282	313,987	381,037	310,023	82,815	1,102,143	3,268,523	-	-	3,268,523
Staff											
Staff Salaries and Wages	338,385	226,544	323,163	252,072	284,830	4,342	1,120,000	2,549,336	361,898	349,679	3,260,913
Staff Benefits and Payroll Taxes	52,194	26,454	32,816	36,287	34,390	376	137,819	320,336	44,463	33,776	398,575
	390,579	252,998	355,979	288,359	319,220	4,718	1,257,819	2,869,672	406,361	383,455	3,659,488
Total salaries, wages and related expenses	1,141,815	580,280	669,966	669,396	629,243	87,533	2,359,962	6,138,195	406,361	383,455	6,928,011
Occupancy											
Heat and Utilities	45,272	19,203	28,514	26,204	19,508	-	21,524	160,225	2,122	1,578	163,925
Insurance	39,323	22,689	17,967	31,396	19,514	-	36,319	167,208	1,843	1,372	170,423
Repairs and Maintenance	16,441	35,073	26,573	30,756	26,991	-	42,070	177,904	10,843	1,445	190,192
Total occupancy	101,036	76,965	73,054	88,356	66,013	-	99,913	505,337	14,808	4,395	524,540
Administrative and other											
Advertising and promotion	308	408	3,497	3,511	533	-	12,809	21,066	43,622	-	64,688
Auto, conference and dues	2,011	644	998	966	1,222	-	27,085	32,926	53,330	12,285	98,541
Insurance, taxes and professional fees	38,003	16,789	11,950	16,391	15,623	5,220	85,095	189,071	79,742	50,776	319,589
Interest expense and fees	31,723	16,337	5,869	78,990	6,345	-	12,689	151,953	4,283	2,379	158,615
Miscellaneous	-	-	-	-	250	-	3,014	3,264	7,558	635	11,457
Music expense and contract services	32,155	2,041	395	6,611	706	-	360,390	402,298	13,413	139,941	555,652
Office supplies, telephone and printing	13,934	10,239	8,790	9,895	8,629	-	7,759	59,246	38,161	10,978	108,385
Refunds and bad debt	3,350	522	(1,416)	(1,738)	(2,335)	-	37,081	35,464	-	-	35,464
Technology expenses	12,926	11,739	13,638	13,270	13,701	-	43,813	109,087	88,923	32,865	230,875
Total administrative and other	134,410	58,719	43,721	127,896	44,674	5,220	589,735	1,004,375	329,032	249,859	1,583,266
Total expenses before depreciation	1,377,261	715,964	786,741	885,648	739,930	92,753	3,049,610	7,647,907	750,201	637,709	9,035,817
Depreciation	150,210	133,590	34,258	244,021	68,204	-	79,421	709,704	20,429	3,006	733,139
	1,527,471	849,554	820,999	1,129,669	808,134	92,753	3,129,031	8,357,611	770,630	640,715	9,768,956
Less expenses included with revenues on the statement of activities											
Costs of direct benefits to donors	-	-	-	-	-	-	-	-	-	(81,875)	(81,875)
Total Expenses	\$ 1,527,471	\$ 849,554	\$ 820,999	\$ 1,129,669	\$ 808,134	\$ 92,753	\$ 3,129,031	\$ 8,357,611	\$ 770,630	\$ 558,840	\$ 9,687,081

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	Wynnefield 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 Statements of Cash Flows

<i>Years Ended June 30,</i>	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (581,415)	\$ 4,616,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	2,044,246	(1,752,794)
Bad debt loss	100,000	60,000
Depreciation	733,139	725,194
Amortization of loan issuance costs	5,683	15,182
Write-off of loan issuance costs	44,265	-
Change in reserve on accounts receivable	(16,846)	(94,234)
Change in reserve on contributions, grants and bequests receivable	-	(10,000)
Contributions restricted for long-term purposes	(60,000)	(269,810)
Change in value of beneficial interest	49,906	(238,528)
Loan forgiveness-PPP	(1,014,136)	(1,301,300)
Gain on sale of properties	-	(717,734)
Changes in operating assets and liabilities:		
Accounts receivable	70,067	64,699
Contributions, grants and bequests receivable	(563,509)	811,147
Prepaid expenses and other assets	15,727	(23,219)
Accounts payable and accrued expenses	353,238	20,756
Agency obligations	(216,530)	(285,319)
Deposits and advance payments	(29,448)	151,389
Net cash provided by operating activities	934,387	1,771,832
Cash flows from investing activities		
Proceeds from sale of investments	663,355	818,936
Purchase of investments	(1,942,686)	(2,273,025)
Purchase of property and equipment	(641,729)	(77,759)
Proceeds from sale of properties	-	735,673
Net cash used in investing activities	(1,921,060)	(796,175)
Cash flows from financing activities		
Payments of long-term debt	(4,416,238)	(1,172,074)
Proceeds from term loans	3,700,567	-
Loan issuance costs	(87,159)	-
Proceeds from loans payable - Paycheck Protection Program	-	1,014,136
Collections of contributions restricted for endowment	60,000	269,810
Net cash provided by (used in) financing activities	(742,830)	111,872
Net change in cash and cash restricted for the endowment	(1,729,503)	1,087,529
Cash and cash restricted for the endowment - beginning of year	4,296,379	3,208,850
Cash and cash restricted for the endowment - end of year	\$ 2,566,876	\$ 4,296,379
Supplemental cash flow information:		
Cash	\$ 2,484,130	\$ 4,268,883
Cash restricted for the endowment	82,746	27,496
Total cash and cash restricted for the endowment	\$ 2,566,876	\$ 4,296,379
Cash paid during the year for:		
Interest	\$ 108,666	\$ 172,513

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.

Settlement Music School of Philadelphia is the sole member of SMS Collaborative Management, LLC. SMS Collaborative Management, LLC, is the sole member of the Settlement Music School Pre-K Scholarship Collaborative, LLC ("Company"), both are Pennsylvania limited liability companies. The Company was formed exclusively to participate in the Pennsylvania Educational Improvement Scholarship Tax Credit Program and earn Educational Improvement Tax Credits (EITC). The Company makes charitable donations to SMS.

The consolidated financial statements for the years ended June 30, 2022 and 2021 include the accounts of Settlement Music School of Philadelphia, Camden School of Musical Arts, Inc., SMS Collaborative Management, LLC, and Settlement Music School Pre-K Scholarship Collaborative, LLC (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 \$2,928,133 and \$2,359,468 as of June 30, 2022 and 2021, respectively, and is included in Investments on the statements of financial position.

Settlement Music School of Philadelphia

Notes to Financial Statements

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

Basis of Presentation (Continued)

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.

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, 2022 and 2021. Cash includes donor-imposed restrictions for purpose or time of approximately \$1,100,000 and \$1,500,000 at June 30, 2022 and 2021, 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 net of investment expenses and 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.

Settlement Music School of Philadelphia

Notes to Financial Statements

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

Investments and Investment Income (Continued)

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.

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.

Settlement Music School of Philadelphia

Notes to Financial Statements

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

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.

Loan Issuance Costs

Costs incurred in connection with the issuance of the term loans are deferred and amortized over the life of the loans. During fiscal year 2022, the School refinanced its term loan and wrote off approximately \$44,000 of unamortized loan issuance costs, and capitalized new loan issuance costs of \$87,000. As of June 30, 2022 and 2021, total unamortized loan issuances costs are \$82,741 and \$45,530, respectively, and presented as a reduction of the term loans payable. Total amortization of loan issuance costs was \$5,683 and \$15,182 for the years ended June 30, 2022 and 2021, respectively. 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.

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 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.

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 \$780,000 and \$760,000 for the years ended June 30, 2022 and 2021, 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.

Settlement Music School of Philadelphia

Notes to Financial Statements

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

Revenue Recognition (Continued)

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>	2022	2021	2020
Accounts receivable, net	\$ 46,277	\$ 99,498	\$ 69,963
Contract liabilities - deposits and advance payments	\$ 420,157	\$ 449,605	\$ 298,216

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, 2022, included the full amount of revenue deferred as of June 30, 2021, and tuition revenue recognized during the year ended June 30, 2021, included the full amount of revenue deferred as of June 30, 2020.

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, 2022, the uninsured balance was approximately \$2,150,000. 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, 2022 are owed from various sources and are expected to be collected in fiscal 2023. Contributions, grants and bequests receivable are further described in Note 2.

Settlement Music School of Philadelphia

Notes to Financial Statements

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

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.

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>	2022	2021
Receivables in less than one year	\$ 2,003,427	\$ 1,594,379
Receivables in one to five years	209,528	88,875
Receivables in more than five years	1,914,977	1,982,621
Total pledges and bequests receivable	4,127,932	3,665,875
Less discount to net present value	(586,221)	(587,673)
Less allowance for doubtful accounts	(15,000)	(15,000)
Net pledges and bequests receivable	\$ 3,526,711	\$ 3,063,202
Current	\$ 999,310	\$ 1,594,379
Noncurrent	2,527,401	1,468,823
	\$ 3,526,711	\$ 3,063,202

Contributions, grants and bequests receivable that are restricted for long-term use are classified in the statements of financial position as noncurrent regardless of the timing of collection, which is presented in the table above.

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>	2022	2021
Land	\$ 1,575,918	\$ 1,575,918
Buildings and improvements	23,196,385	22,720,975
Pianos and organs	2,005,147	1,951,147
Other instruments	205,239	175,215
Furniture and equipment	479,271	402,399
Computer hardware and software	1,860,929	1,855,506
	29,322,889	28,681,160
Accumulated depreciation	(14,022,869)	(13,289,730)
Property and equipment, net	\$ 15,300,020	\$ 15,391,430

Note 4: Investments

Investments consisted of the following:

<i>As of June 30,</i>	2022	2021
Money market funds	\$ 58,925	\$ 1,281,551
Mutual funds		
Equity	6,302,784	6,252,893
Fixed income	3,457,950	3,050,130
Total	\$ 9,819,659	\$ 10,584,574

Investment income (loss) was comprised of the following:

<i>Years ended June 30,</i>	2022	2021
Net realized and unrealized gain (loss) on investments	\$ (2,044,246)	\$ 1,752,794
Interest and dividends	472,630	300,426
Investment management fees	(45,587)	(31,448)
Total	\$ (1,617,203)	\$ 2,021,772

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, 2022 and 2021.

Note 6: Term Loans

Prior to July 2021, the School's debt consisted of a tax-exempt loan issued by Lower Salford Industrial Authority in the amount of \$5,100,000, with interest at a fixed rate of 3.80%, paid in monthly installments of principal and interest, and a maturity date of September 1, 2024. As of June 30, 2021 this note had an outstanding balance of \$3,715,479. The loan has been presented at June 30, 2021 net of unamortized loan acquisition costs of \$45,530 on the consolidated statements of financial position. The School had another note in the amount of \$2,300,000, with interest at a fixed rate of 4.00%, that matured on and was paid off by the School by December 31, 2020. These obligations were secured by substantially all of the School's assets and a first mortgage on the School's real estate. The notes also required the School to comply with certain financial covenants.

In July 2021, the School refinanced its tax-exempt loan 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 loan, which was purchased by VIST Bank, with the proceeds to be loaned to the School through a credit facility in the amount of \$3,700,567. As of June 30, 2022, this loan had an outstanding balance of \$2,999,808. The loan has been presented at June 30, 2022 net of unamortized loan acquisition costs of \$82,741 on the consolidated statements of financial position. The loan is to mature on November 30, 2039. 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.

Future annual principal payments for each of the next five years and in the aggregate as of June 30, are as follows:

2023	\$	179,930
2024		185,126
2025		190,471
2026		195,971
2027		201,630
Thereafter		2,046,680
<hr/>		
Total	\$	2,999,808

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"). The loan was eligible for forgiveness if certain conditions were met as required by the loan agreement and governmental statute and regulations. Effective April 4, 2022, the School received notification from the SBA that the full loan amount was forgiven. The School recognized revenue in the year ended June 30, 2022 for the forgiveness of the loan amount, classified as forgiveness of debt in the nonoperating activities section of the consolidated statements of activities.

Note 8: Net Assets with Donor Restriction

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

	2022	2021
<hr/>		
Purpose restricted:		
Music and Art Education Programs	\$ 1,528,580	\$ 1,447,116
Restricted for purchase of property and equipment	112,604	256,825
	<hr/>	<hr/>
	1,641,184	1,703,941
<hr/>		
Time restricted:		
Multi-year contributions receivable and cash restricted for future years	395,341	574,867
Life insurance policies	300,000	300,000
Beneficial interest in charitable remainder unitrust	877,807	927,713
	<hr/>	<hr/>
	1,573,148	1,802,580
<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	8,988,273	9,303,902
	<hr/>	<hr/>
	\$ 12,202,605	\$ 12,810,423
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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:

	2022	2021
Expiration of time restrictions:		
Multi-year contributions receivable and cash restricted for future years	\$ 213,300	\$ 751,781
Satisfaction of purpose restrictions:		
Music and Art Education Programs	2,057,894	1,915,365
Restricted for debt reductions	30,450	100,000
Restricted for the purpose of property and equipment	404,154	44,905
	\$ 2,705,798	\$ 2,812,051

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, 2022, 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, 2022 and 2021 is as follows:

Years Ended June 30, 2022 and 2021	Without Donor Restriction	With Donor Restriction	Total
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 distributions	(43,312)	(291,688)	(335,000)
Endowment net assets as of June 30, 2021	2,359,468	9,303,902	11,663,370
Investment loss	(478,773)	(1,138,430)	(1,617,203)
Contributions	1,395,647	1,095,592	2,491,239
Withdrawals	(270,000)	-	(270,000)
Spending policy distribution	(78,209)	(272,791)	(351,000)
Endowment net assets as of June 30, 2022	\$ 2,928,133	\$ 8,988,273	\$ 11,916,406

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, 2022 and 2021.

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, 2022 and 2021:

<i>June 30, 2022</i>	Fair Value of Assets			Total
	Level 1	Level 2	Level 3	
Assets				
Investments				
Money market funds	\$ 58,925	\$ -	\$ -	\$ 58,925
Mutual funds				
Equity	6,302,784	-	-	6,302,784
Fixed income	3,457,950	-	-	3,457,950
Total	9,819,659	-	-	9,819,659
Life insurance policies	-	-	300,000	300,000
Beneficial interest in charitable remainder unitrust	-	-	877,807	877,807
Total	\$ 9,819,659	\$ -	\$ 1,177,807	\$ 10,997,466

<i>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

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, 2022 and 2021.

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. Effective January 1, 2022, the plan was restated to include a discretionary employer match of employee contributions. There were approximately \$26,000 of employer contributions made to the plan for the year ended June 30, 2022. There were no employer contributions made to the plan for the year ended June 30, 2021.

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>	2022	2021
Cash	\$ 1,513,789	\$ 2,753,732
Accounts receivable, net	46,277	99,498
Contributions, grants and bequests receivable, net	441,165	-
Total financial assets before adjustments	2,001,231	2,853,230
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	400,000	358,000
Total financial assets available and liquidity resources within one year	\$ 3,051,231	\$ 3,861,230

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, 2022 and 2021, the School had \$2,928,133 and \$2,359,468 in funds functioning as endowment by Board designation included in investments on the consolidated statements 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

The School has evaluated subsequent events through March 6, 2023, which is the date the financial statements were available to be issued.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Central Board
Settlement Music School of Philadelphia
Philadelphia, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Settlement Music School of Philadelphia and Subsidiaries (the "School"), which comprise the consolidated statement of financial position as of June 30, 2022 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, and have issued our report thereon dated March 6, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

March 6, 2023
Philadelphia, Pennsylvania