

# Settlement Music School of Philadelphia

Consolidated Financial Statements  
Years Ended June 30, 2016 and 2015



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Philadelphia, PA 19103

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# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## CONTENTS

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INDEPENDENT AUDITOR'S REPORT	1
<b>FINANCIAL STATEMENTS</b>	
<i>Consolidated Statements of Financial Position</i>	2
<i>Consolidated Statements of Activities</i>	3
<i>Consolidated Statements of Functional Expenses</i>	5
<i>Consolidated Statements of Cash Flows</i>	7
<i>Notes to Consolidated Financial Statements</i>	8

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## INDEPENDENT AUDITOR'S REPORT

### Central Board Settlement Music School of Philadelphia

We have audited the accompanying consolidated financial statements of Settlement Music School of Philadelphia (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Settlement Music School of Philadelphia as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*BBD, LLP.*

Philadelphia, Pennsylvania  
October 27, 2016

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,470,759	\$ 776,405
Accounts receivable	34,712	52,626
Contributions receivable		
Grants receivable	410,000	195,000
Pledges and bequests receivable, net of allowance for doubtful accounts of \$50,000 in 2016 and 2015	1,016,507	194,417
Prepaid expenses	<u>78,430</u>	<u>77,651</u>
<b>Total current assets</b>	<u>3,010,408</u>	<u>1,296,099</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>18,011,647</u>	<u>17,215,050</u>
<b>INVESTMENTS</b>	<u>6,854,875</u>	<u>7,622,500</u>
<b>NONCURRENT ASSETS</b>		
Assets held for sale	-	1,500,000
Loan issuance costs, net of accumulated amortization of \$29,994 in 2016 and \$14,997 in 2015	119,978	134,976
Life insurance policies	300,000	300,000
Beneficial interest in charitable remainder unitrust	611,046	593,000
Pledges and bequests receivable, due beyond one year	<u>948,269</u>	<u>1,065,158</u>
<b>Total noncurrent assets</b>	<u>1,979,293</u>	<u>3,593,134</u>
	<u>\$ 29,856,223</u>	<u>\$ 29,726,783</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 125,000	\$ -
Accounts payable and accrued expenses	608,151	512,833
Deposits and advance payments	408,106	538,219
Current portion of term loans	147,853	130,428
Current portion of annuity obligations	<u>-</u>	<u>12,471</u>
<b>Total current liabilities</b>	<u>1,289,110</u>	<u>1,193,951</u>
<b>NONCURRENT LIABILITIES</b>		
Term loans, net of current portion	5,716,665	7,165,598
Annuity obligations, net of current portion	<u>-</u>	<u>35,667</u>
<b>Total noncurrent liabilities</b>	<u>5,716,665</u>	<u>7,201,265</u>
<b>Total liabilities</b>	<u>7,005,775</u>	<u>8,395,216</u>
<b>NET ASSETS</b>		
Unrestricted	13,669,027	12,916,425
Temporarily restricted	3,202,947	2,330,410
Permanently restricted	<u>5,978,474</u>	<u>6,084,732</u>
<b>Total net assets</b>	<u>22,850,448</u>	<u>21,331,567</u>
<b>Total liabilities and net assets</b>	<u>\$ 29,856,223</u>	<u>\$ 29,726,783</u>

See accompanying notes

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2016 with comparative totals for 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2016</u>	<u>2015</u>
<b>OPERATING</b>					
<b>Public support, revenues and gains</b>					
<b>Public support</b>					
Contributions, bequests and grants	\$ 1,840,153	3,170,918	\$ -	\$ 5,011,071	\$ 1,813,563
Special event	363,204	-	-	363,204	304,278
Net assets released from restrictions	<u>2,313,402</u>	<u>(2,313,402)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total public support</b>	<u>4,516,759</u>	<u>857,516</u>	<u>-</u>	<u>5,374,275</u>	<u>2,117,841</u>
<b>Revenues and gains</b>					
Tuition and registration fees	4,580,110	-	-	4,580,110	4,341,893
Endowment spending policy distribution	335,000	-	-	335,000	325,000
Rental and miscellaneous income	<u>205,818</u>	<u>-</u>	<u>-</u>	<u>205,818</u>	<u>65,576</u>
<b>Total revenues and gains</b>	<u>5,120,928</u>	<u>-</u>	<u>-</u>	<u>5,120,928</u>	<u>4,732,469</u>
<b>Total public support, revenues and gains</b>	<u>9,637,687</u>	<u>857,516</u>	<u>-</u>	<u>10,495,203</u>	<u>6,850,310</u>
<b>Expenses</b>					
<b>Program services</b>					
Instruction and student activities	5,290,638	-	-	5,290,638	5,328,897
Non-Core programs	<u>1,669,395</u>	<u>-</u>	<u>-</u>	<u>1,669,395</u>	<u>1,537,760</u>
<b>Total program services</b>	<u>6,960,033</u>	<u>-</u>	<u>-</u>	<u>6,960,033</u>	<u>6,866,657</u>
<b>Supporting services</b>					
Management and general	1,250,372	-	-	1,250,372	1,157,368
Fundraising	<u>557,268</u>	<u>-</u>	<u>-</u>	<u>557,268</u>	<u>485,234</u>
<b>Total supporting services</b>	<u>1,807,640</u>	<u>-</u>	<u>-</u>	<u>1,807,640</u>	<u>1,642,602</u>
<b>Total expenses</b>	<u>8,767,673</u>	<u>-</u>	<u>-</u>	<u>8,767,673</u>	<u>8,509,259</u>
<b>Change in net assets from operating activities</b>	<u>870,014</u>	<u>857,516</u>	<u>-</u>	<u>1,727,530</u>	<u>(1,658,949)</u>
<b>NONOPERATING</b>					
Contribution revenue	-	-	191,707	191,707	30,676
Loss on uncollectible contributions receivable	-	(3,025)	(25,000)	(28,025)	-
Loss on sale of assets held for sale	(27,650)	-	-	(27,650)	-
Unrealized gain on interest rate swap	-	-	-	-	26,395
Investment income (loss)	(5,911)	-	(21,816)	(27,727)	237,059
Endowment spending policy distribution	(83,851)	-	(251,149)	(335,000)	(325,000)
Change in value of split-interest agreements	<u>-</u>	<u>18,046</u>	<u>-</u>	<u>18,046</u>	<u>91,230</u>
<b>Change in net assets from nonoperating activities</b>	<u>(117,412)</u>	<u>15,021</u>	<u>(106,258)</u>	<u>(208,649)</u>	<u>60,360</u>
<b>CHANGE IN NET ASSETS</b>	<u>752,602</u>	<u>872,537</u>	<u>(106,258)</u>	<u>1,518,881</u>	<u>(1,598,589)</u>
<b>NET ASSETS</b>					
Beginning of year	<u>12,916,425</u>	<u>2,330,410</u>	<u>6,084,732</u>	<u>21,331,567</u>	<u>22,930,156</u>
<b>End of year</b>	<u>\$13,669,027</u>	<u>\$ 3,202,947</u>	<u>\$5,978,474</u>	<u>\$22,850,448</u>	<u>\$21,331,567</u>

See accompanying notes

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING</b>				
<b>Public support, revenues and gains</b>				
<b>Public support</b>				
Contributions, bequests and grants	\$ 1,314,747	\$ 498,816	\$ -	\$ 1,813,563
Special event	304,278	-	-	304,278
Net assets released from restrictions	<u>1,800,479</u>	<u>(1,800,479)</u>	<u>-</u>	<u>-</u>
<b>Total public support</b>	<u>3,419,504</u>	<u>(1,301,663)</u>	<u>-</u>	<u>2,117,841</u>
<b>Revenues and gains</b>				
Tuition and registration fees	4,341,893	-	-	4,341,893
Endowment spending policy distribution	325,000	-	-	325,000
Rental and miscellaneous income	<u>65,576</u>	<u>-</u>	<u>-</u>	<u>65,576</u>
<b>Total revenues and gains</b>	<u>4,732,469</u>	<u>-</u>	<u>-</u>	<u>4,732,469</u>
<b>Total public support, revenues and gains</b>	<u>8,151,973</u>	<u>(1,301,663)</u>	<u>-</u>	<u>6,850,310</u>
<b>Expenses</b>				
<b>Program services</b>				
Instruction and student activities	5,328,897	-	-	5,328,897
Non-Core programs	<u>1,537,760</u>	<u>-</u>	<u>-</u>	<u>1,537,760</u>
<b>Total program services</b>	<u>6,866,657</u>	<u>-</u>	<u>-</u>	<u>6,866,657</u>
<b>Supporting services</b>				
Management and general	1,157,368	-	-	1,157,368
Fundraising	<u>485,234</u>	<u>-</u>	<u>-</u>	<u>485,234</u>
<b>Total supporting services</b>	<u>1,642,602</u>	<u>-</u>	<u>-</u>	<u>1,642,602</u>
<b>Total expenses</b>	<u>8,509,259</u>	<u>-</u>	<u>-</u>	<u>8,509,259</u>
<b>Change in net assets from operating activities</b>	<u>(357,286)</u>	<u>(1,301,663)</u>	<u>-</u>	<u>(1,658,949)</u>
<b>NONOPERATING</b>				
Contribution revenue	-	-	30,676	30,676
Unrealized gain on interest rate swap	26,395	-	-	26,395
Investment income	75,567	-	161,492	237,059
Endowment spending policy distribution	(99,596)	-	(225,404)	(325,000)
Change in value of split-interest agreements	<u>57,230</u>	<u>34,000</u>	<u>-</u>	<u>91,230</u>
<b>Change in net assets from nonoperating activities</b>	<u>59,596</u>	<u>34,000</u>	<u>(33,236)</u>	<u>60,360</u>
<b>CHANGE IN NET ASSETS</b>	<u>(297,690)</u>	<u>(1,267,663)</u>	<u>(33,236)</u>	<u>(1,598,589)</u>
<b>NET ASSETS</b>				
Beginning of year	<u>13,214,115</u>	<u>3,598,073</u>	<u>6,117,968</u>	<u>22,930,156</u>
<b>End of year</b>	<u>\$ 12,916,425</u>	<u>\$ 2,330,410</u>	<u>\$ 6,084,732</u>	<u>\$ 21,331,567</u>

See accompanying notes

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016

	Mary Louise Curtis Branch	Germantown Branch	Northeast Branch	Willow Grove Branch	Wynnfield Branch	Camden Branch	Non-Core Programs	Total	Management and General	Fundraising	Total
<b>Salaries, wages and related expenses</b>											
<b>Faculty</b>											
Salaries and wages	\$ 636,972	\$321,894	\$456,931	\$ 372,938	\$322,772	\$ 60,113	\$ 822,149	\$2,993,769	\$ -	\$ -	\$2,993,769
Benefits and payroll taxes	<u>90,372</u>	<u>40,356</u>	<u>55,883</u>	<u>57,782</u>	<u>46,714</u>	<u>8,014</u>	<u>112,602</u>	<u>411,723</u>	<u>-</u>	<u>-</u>	<u>411,723</u>
	<u>727,344</u>	<u>362,250</u>	<u>512,814</u>	<u>430,720</u>	<u>369,486</u>	<u>68,127</u>	<u>934,751</u>	<u>3,405,492</u>	<u>-</u>	<u>-</u>	<u>3,405,492</u>
<b>Staff</b>											
Salaries and wages	263,362	189,040	246,431	206,157	178,433	76,542	292,797	1,452,762	752,495	321,545	2,526,802
Benefits and payroll taxes	<u>33,213</u>	<u>25,904</u>	<u>32,498</u>	<u>31,687</u>	<u>21,018</u>	<u>11,389</u>	<u>24,132</u>	<u>179,841</u>	<u>91,476</u>	<u>41,964</u>	<u>313,281</u>
	<u>296,575</u>	<u>214,944</u>	<u>278,929</u>	<u>237,844</u>	<u>199,451</u>	<u>87,931</u>	<u>316,929</u>	<u>1,632,603</u>	<u>843,971</u>	<u>363,509</u>	<u>2,840,083</u>
<b>Total salaries, wages and related expenses</b>	<u>1,023,919</u>	<u>577,194</u>	<u>791,743</u>	<u>668,564</u>	<u>568,937</u>	<u>156,058</u>	<u>1,251,680</u>	<u>5,038,095</u>	<u>843,971</u>	<u>363,509</u>	<u>6,245,575</u>
<b>Occupancy</b>											
Heat and utilities	40,700	25,196	30,032	35,228	24,864	6,320	19,350	181,690	2,944	1,418	186,052
Insurance	31,639	32,026	14,600	25,260	15,701	9,060	15,043	143,329	1,483	1,104	145,916
Repairs and maintenance	<u>46,466</u>	<u>51,968</u>	<u>13,839</u>	<u>23,907</u>	<u>28,241</u>	<u>15,420</u>	<u>12,906</u>	<u>192,747</u>	<u>17,513</u>	<u>1,600</u>	<u>211,860</u>
<b>Total occupancy</b>	<u>118,805</u>	<u>109,190</u>	<u>58,471</u>	<u>84,395</u>	<u>68,806</u>	<u>30,800</u>	<u>47,299</u>	<u>517,766</u>	<u>21,940</u>	<u>4,122</u>	<u>543,828</u>
<b>Other</b>											
Office costs	35,663	25,872	22,429	24,749	26,100	23,674	23,074	181,561	93,535	39,787	314,883
Music expenses and contract services	5,942	1,024	646	1,277	803	12,643	223,596	245,931	159	103,514	349,604
Insurance, taxes and professional fees	336	94	50	71	50	10,614	35,987	47,202	214,519	23,250	284,971
Interest expense and fees	56,574	34,786	7,576	101,423	8,248	18	3,005	211,630	3,193	3,005	217,828
Automobile, conferences and dues	2,481	1,566	2,225	3,303	1,788	886	14,888	27,137	44,773	10,794	82,704
Advertising and publicity	400	250	1,979	2,484	100	3,880	3,082	12,175	9,815	84	22,074
Miscellaneous and other	<u>-</u>	<u>239</u>	<u>218</u>	<u>86</u>	<u>440</u>	<u>2,971</u>	<u>32,281</u>	<u>36,235</u>	<u>14,268</u>	<u>8,669</u>	<u>59,172</u>
<b>Total administrative and other</b>	<u>101,396</u>	<u>63,831</u>	<u>35,123</u>	<u>133,393</u>	<u>37,529</u>	<u>54,686</u>	<u>335,913</u>	<u>761,871</u>	<u>380,262</u>	<u>189,103</u>	<u>1,331,236</u>
<b>Total expenses before depreciation</b>	1,244,120	750,215	885,337	886,352	675,272	241,544	1,634,892	6,317,732	1,246,173	556,734	8,120,639
<b>Depreciation</b>	<u>165,908</u>	<u>107,203</u>	<u>28,900</u>	<u>237,810</u>	<u>63,015</u>	<u>4,962</u>	<u>34,503</u>	<u>642,301</u>	<u>4,199</u>	<u>534</u>	<u>647,034</u>
	<u>\$1,410,028</u>	<u>\$857,418</u>	<u>\$914,237</u>	<u>\$1,124,162</u>	<u>\$738,287</u>	<u>\$246,506</u>	<u>\$1,669,395</u>	<u>\$6,960,033</u>	<u>\$1,250,372</u>	<u>\$557,268</u>	<u>\$8,767,673</u>

See accompanying notes

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2015

	Mary Louise Curtis Branch	Germantown Branch	Northeast Branch	Willow Grove Branch	Wynnfield Branch	Camden Branch	Non-Core Programs	Total	Management and General	Fundraising	Total
<b>Salaries, wages and related expenses</b>											
<b>Faculty</b>											
Salaries and wages	\$ 646,477	\$335,325	\$464,734	\$ 372,889	\$311,393	\$ 70,209	\$ 771,018	\$2,972,045	\$ -	\$ -	\$2,972,045
Benefits and payroll taxes	<u>92,340</u>	<u>38,871</u>	<u>63,534</u>	<u>64,242</u>	<u>53,060</u>	<u>8,912</u>	<u>118,643</u>	<u>439,602</u>	<u>-</u>	<u>-</u>	<u>439,602</u>
	<u>738,817</u>	<u>374,196</u>	<u>528,268</u>	<u>437,131</u>	<u>364,453</u>	<u>79,121</u>	<u>889,661</u>	<u>3,411,647</u>	<u>-</u>	<u>-</u>	<u>3,411,647</u>
<b>Staff</b>											
Salaries and wages	238,879	173,770	233,590	189,432	172,822	102,078	297,391	1,407,962	669,411	248,416	2,325,789
Benefits and payroll taxes	<u>30,210</u>	<u>28,232</u>	<u>30,128</u>	<u>25,665</u>	<u>16,970</u>	<u>15,381</u>	<u>25,464</u>	<u>172,050</u>	<u>78,296</u>	<u>34,336</u>	<u>284,682</u>
	<u>269,089</u>	<u>202,002</u>	<u>263,718</u>	<u>215,097</u>	<u>189,792</u>	<u>117,459</u>	<u>322,855</u>	<u>1,580,012</u>	<u>747,707</u>	<u>282,752</u>	<u>2,610,471</u>
<b>Total salaries, wages and related expenses</b>	<u>1,007,906</u>	<u>576,198</u>	<u>791,986</u>	<u>652,228</u>	<u>554,245</u>	<u>196,580</u>	<u>1,212,516</u>	<u>4,991,659</u>	<u>747,707</u>	<u>282,752</u>	<u>6,022,118</u>
<b>Occupancy</b>											
Heat and utilities	47,174	33,512	28,166	35,526	24,557	20,464	22,429	211,828	2,211	1,645	215,684
Insurance	28,104	28,196	12,402	21,511	13,535	14,417	14,090	132,255	1,317	980	134,552
Repairs and maintenance	<u>45,206</u>	<u>38,720</u>	<u>14,528</u>	<u>27,304</u>	<u>21,535</u>	<u>18,455</u>	<u>33,982</u>	<u>199,730</u>	<u>2,241</u>	<u>1,490</u>	<u>203,461</u>
<b>Total occupancy</b>	<u>120,484</u>	<u>100,428</u>	<u>55,096</u>	<u>84,341</u>	<u>59,627</u>	<u>53,336</u>	<u>70,501</u>	<u>543,813</u>	<u>5,769</u>	<u>4,115</u>	<u>553,697</u>
<b>Other</b>											
Office costs	31,127	24,007	20,631	23,416	24,821	21,598	24,070	169,670	110,251	47,902	327,823
Music expenses and contract services	5,080	1,080	472	2,412	1,329	1,233	139,349	150,955	3,862	98,973	253,790
Insurance, taxes and professional fees	86	8,949	50	30,096	136	18,968	21,523	79,808	219,329	29,230	328,367
Interest expense and fees	73,729	27,382	9,896	132,600	10,784	-	3,929	258,320	3,929	3,929	266,178
Automobile, conferences and dues	2,767	1,347	3,382	3,060	2,852	1,435	5,554	20,397	40,675	8,368	69,440
Advertising and publicity	855	520	-	12,443	435	535	1,610	16,398	9,753	-	26,151
Miscellaneous and other	<u>392</u>	<u>125</u>	<u>210</u>	<u>469</u>	<u>684</u>	<u>922</u>	<u>24,810</u>	<u>27,612</u>	<u>9,559</u>	<u>5,974</u>	<u>43,145</u>
<b>Total administrative and other</b>	<u>114,036</u>	<u>63,410</u>	<u>34,641</u>	<u>204,496</u>	<u>41,041</u>	<u>44,691</u>	<u>220,845</u>	<u>723,160</u>	<u>397,358</u>	<u>194,376</u>	<u>1,314,894</u>
<b>Total expenses before depreciation</b>	<u>1,242,426</u>	<u>740,036</u>	<u>881,723</u>	<u>941,065</u>	<u>654,913</u>	<u>294,607</u>	<u>1,503,862</u>	<u>6,258,632</u>	<u>1,150,834</u>	<u>481,243</u>	<u>7,890,709</u>
<b>Depreciation</b>	<u>160,338</u>	<u>76,730</u>	<u>31,386</u>	<u>238,443</u>	<u>61,953</u>	<u>5,277</u>	<u>33,898</u>	<u>608,025</u>	<u>6,534</u>	<u>3,991</u>	<u>618,550</u>
	<u>\$1,402,764</u>	<u>\$816,766</u>	<u>\$913,109</u>	<u>\$1,179,508</u>	<u>\$716,866</u>	<u>\$299,884</u>	<u>\$1,537,760</u>	<u>\$6,866,657</u>	<u>\$1,157,368</u>	<u>\$485,234</u>	<u>\$8,509,259</u>

See accompanying notes



# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$ 1,518,881	\$ (1,598,589)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Net realized and unrealized (gain) loss	126,104	(713)
Unrealized gain on interest rate swap	-	(26,395)
Loss on uncollectible contributions receivable	28,025	-
Loss on sale of assets held for sale	27,650	-
Depreciation	647,034	618,550
Amortization	14,998	14,997
Change in value of split-interest agreements	(18,046)	(91,230)
(Increase) decrease in		
Accounts receivable	17,914	238,728
Contributions receivable	(948,226)	1,297,726
Prepaid expenses	(779)	10,723
Increase (decrease) in		
Accounts payable and accrued expenses	243,061	(124,792)
Deposits and advance payments	(130,113)	(156,945)
Annuity obligations	(48,138)	(31,497)
<b>Net cash provided by operating activities</b>	<u>1,478,365</u>	<u>150,563</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale and maturity of investments	2,384,603	1,718,045
Purchase of investments	(1,743,082)	(1,629,373)
Proceeds from sale of property and equipment	1,472,350	-
Purchase of property and equipment	(1,591,374)	(399,440)
Change in assets restricted for investment in plant	-	170,017
<b>Net cash provided by (used for) investing activities</b>	<u>522,497</u>	<u>(140,751)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	-	7,400,000
Borrowings on line of credit, net	125,000	
Payments of long-term debt	(1,431,508)	(8,515,112)
Loan issuance costs	-	(122,223)
<b>Net cash used for financing activities</b>	<u>(1,306,508)</u>	<u>(1,237,335)</u>
<b>Net change in cash</b>	694,354	(1,227,523)
<b>CASH</b>		
Beginning of year	<u>776,405</u>	<u>2,003,928</u>
<b>End of year</b>	<u>\$ 1,470,759</u>	<u>\$ 776,405</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 188,581</u>	<u>\$ 292,995</u>
Noncash operating and investing transaction		
Purchase of property and equipment in accounts payable	<u>\$ -</u>	<u>\$ 147,743</u>

See accompanying notes

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

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### (1) NATURE OF OPERATIONS

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.

### (2) SIGNIFICANT ACCOUNTING POLICIES

#### 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, 2016 and 2015 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 using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("**GAAP**").

#### Financial Statement Presentation

The School reports information regarding its financial position and activities according to the following three classes of net assets:

##### Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions.

##### Temporarily restricted net assets

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the School and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as "**net assets released from restrictions.**"

##### Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that such assets be maintained indefinitely.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

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### **Fair Value Measurements of Assets and Liabilities**

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.

### **Property and Equipment**

Property and equipment purchased is stated at cost and donated property and equipment is recorded at estimated fair market value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 50 years.

### **Investments and Investment Income**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at fair value in the consolidated financial statements of financial position, as determined by quoted market prices. Unrealized gains and losses are included in the 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 investments in a professionally-managed portfolio that contains various types of securities (**See Note 5**). 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.

### **Loan Issuance Costs**

Fees and expenditures associated with the loans (**See Note 8**) are being amortized using the effective interest method over the respective terms of the loans.

### **Contributions**

Contributions, bequests and grants received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

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Unconditional contributions, bequests and grants are recognized when the related promise to give is received. Conditional contributions, bequests and grants are recognized when the conditions are satisfied.

### **Tuition and Registration Fees**

Tuition and registration fees are recognized in the period in which the related instruction is performed. Deposits and advance payments principally represent tuition fees received in the current year that apply to the following school year.

### **Charitable Gift Annuities**

Contributions of charitable gift annuities were recorded at fair value of the related assets, and liabilities under the charitable gift annuities were recorded at the present value of the estimated payments to the beneficiaries. Estimated life expectancy was determined using IRS mortality rates. The liabilities, shown as "annuity obligations" on the accompanying consolidated statements of financial position, were adjusted annually for amortization of discount and changes in actuarial assumptions. The existing charitable gift annuity was terminated during the year ended June 30, 2016 and the value of the outstanding liability was recognized as a contribution in the accompanying consolidated statement of activities.

### **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, 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.

### **Functional Allocation of Expenses**

The costs of providing the various program and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Accordingly, certain expenses have been allocated among the program and supporting services benefited.

### **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. The School has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk. Accounts receivable are owed from various sources and are expected to be collected in 2017. Grants receivable are expected to be collected in 2017. Pledges and bequests receivable are further described in Note 3.

### **Income Tax Status**

The School is exempt from federal income tax 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 an organization other than a private foundation under Section 509(a)(1).

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

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

### (3) PLEDGES AND BEQUESTS RECEIVABLE

The School has received pledges, some of which are payable in future years. As of June 30, 2016 and 2015, pledges and bequests receivable, discounted to present value and net of allowance, consisted of the following:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$1,066,507	\$ 244,417
Receivable in one to five years	615,000	635,000
Receivable in more than five years	<u>595,489</u>	<u>675,489</u>
Total pledges	2,276,996	1,554,906
Less discount to net present value	(262,220)	(245,331)
Less allowance for uncollectible accounts	<u>(50,000)</u>	<u>(50,000)</u>
Net pledges and bequests receivable	<u>\$1,964,776</u>	<u>\$1,259,575</u>
Current	\$1,016,507	\$ 194,417
Noncurrent	<u>948,269</u>	<u>1,065,158</u>
	<u>\$1,964,776</u>	<u>\$1,259,575</u>

Pledges, which are receivable in more than one year, are discounted at a risk-free rate of return appropriate for the expected term of the pledge which was 2.8% for each of the years ended June 30, 2016 and 2015.

### (4) PROPERTY AND EQUIPMENT

Property and equipment at June 30, consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,590,357	\$ 1,624,217
Buildings and improvements	22,316,150	20,905,962
Pianos and organs	1,848,149	1,788,149
Other instruments	79,515	79,515
Furniture and equipment	343,355	336,052
Computer hardware and software	<u>1,601,656</u>	<u>1,601,656</u>
	27,779,182	26,335,551
Less accumulated depreciation	<u>(9,767,535)</u>	<u>(9,120,501)</u>
	<u>\$18,011,647</u>	<u>\$17,215,050</u>

### (5) INVESTMENTS

Investments consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 130,478	\$ 36,204
Mutual Funds		
Equity	4,439,335	4,949,060
Fixed income	<u>2,285,062</u>	<u>2,637,236</u>
	<u>\$6,854,875</u>	<u>\$7,622,500</u>

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

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Investment income was comprised of the following:

	<u>2016</u>	<u>2015</u>
Net realized gain	\$ 378,390	\$ 153,629
Net unrealized loss	(504,494)	(152,916)
Interest and dividends	128,542	269,051
Investment management fees	<u>(30,165)</u>	<u>(32,705)</u>
	<u>\$ (27,727)</u>	<u>\$ 237,059</u>

The School designates only a portion of total investment return for support of current operations. The remainder is retained to support operations of future years. The amount used to support current operations was computed by using a spending rate policy whereby approximately 4.5% of the fair value of the School's investments over the prior 12 quarters ending with the prior June 30th is made available for operations during the subsequent year.

### (6) LOAN ISSUANCE COSTS

Loan issuance costs associated with the \$5,100,000 term loan obtained in August 2014 were capitalized by the School. During the year ended June 30, 2016 and 2015, amortization amounted to \$14,998 and \$14,997, respectively.

### (7) LINE OF CREDIT

In October 2015, the School opened 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 advances of \$125,000 outstanding at June 30, 2016.

### (8) TERM LOANS

In August 2014, the School refinanced its existing debt with a new bank. The refinanced debt consists of two notes. The first note is for \$5,100,000 matures in 25 years, and bears interest at a fixed rate of 2.99% for the first five years of the loan and then a floating rate of 67% of Wall Street Prime Rate plus 1.7%. This note had an outstanding balance of \$4,854,518 at June 30, 2016. The second note is a two-year term loan for \$2,300,000 with interest fixed at 2.18%. This note had an outstanding balance of \$1,010,000 at June 30, 2016. 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.

In July 2016, the two-year term loan was modified to extend its maturity date to September 1, 2017.

Annual maturities of term loans payable are as follows:

<u>Year ending June 30,</u>	
2017	\$ 147,853
2018	1,161,231
2019	155,815
2020	160,539
2021	165,405
Thereafter	<u>4,073,675</u>
	<u>\$5,864,518</u>

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# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

### (9) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2016 and 2015 are available for the following purposes or periods:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Releases from Restrictions</u>	<u>June 30, 2016</u>
<b>Purpose restrictions</b>				
Music and Art Education Programs	\$ 258,000	\$1,068,190	\$ 817,190	\$ 509,000
Debt Reduction Campaign	100,000	-	100,000	-
Restricted for purchase of property and equipment	100,000	1,111,325	1,126,325	85,000
<b>Time restrictions</b>				
Pledges, bequests and grants	979,410	988,378	269,887	1,697,901
Life insurance policies	300,000	-	-	300,000
Beneficial interest in charitable remainder unitrust	<u>593,000</u>	<u>18,046</u>	<u>-</u>	<u>611,046</u>
	<u>\$2,330,410</u>	<u>\$3,185,939</u>	<u>\$2,313,402</u>	<u>\$3,202,947</u>

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Releases from Restrictions</u>	<u>June 30, 2015</u>
<b>Purpose restrictions</b>				
Music and Art Education Programs	\$ 859,167	\$ 54,000	\$ 655,167	\$ 258,000
Center for Arts & Heritage	79,675	-	79,675	-
Debt Reduction Campaign	-	100,000	-	100,000
Restricted for purchase of property and equipment	355,305	250,000	505,305	100,000
<b>Time restrictions</b>				
Pledges, bequests and grants	1,444,926	94,816	560,332	979,410
Life insurance policies	283,000	17,000	-	300,000
Beneficial interest in charitable remainder unitrust	<u>576,000</u>	<u>17,000</u>	<u>-</u>	<u>593,000</u>
	<u>\$3,598,073</u>	<u>\$532,816</u>	<u>\$1,800,479</u>	<u>\$2,330,410</u>

### (10) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Cash and pledges receivable, net	\$ 536,873	\$ 370,166
Investments at fair value	<u>5,441,601</u>	<u>5,714,566</u>
	<u>\$5,978,474</u>	<u>\$6,084,732</u>

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

### (11) ENDOWMENT FUNDS

An accounting standard exists which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("**UPMIFA**"). The School is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

In accordance with Pennsylvania statutes, the School has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The School's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The School's endowment funds had the following activity for the years ended June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of June 30, 2014	\$2,458,081	\$6,117,968	\$8,576,049
Investment income	75,567	161,492	237,059
Contributions	-	30,676	30,676
Withdrawals	(526,119)	-	(526,119)
Spending policy distribution	<u>(99,596)</u>	<u>(225,404)</u>	<u>(325,000)</u>
Endowment net assets as of June 30, 2015	1,907,933	6,084,732	7,992,665
Investment income	(10,808)	(21,816)	(32,624)
Contributions	-	191,707	191,707
Withdrawals, net	(400,000)	-	(400,000)
Loss on uncollectable contributions Receivable	-	(25,000)	(25,000)
Spending policy distribution	<u>(83,851)</u>	<u>(251,149)</u>	<u>(335,000)</u>
Endowment net assets as of June 30, 2016	<u>\$1,413,274</u>	<u>\$5,978,474</u>	<u>\$7,391,748</u>

### (12) FAIR VALUE MEASUREMENTS

The following tables set forth, by level, the School's assets and liabilities at fair value within the fair value hierarchy, as of June 30, 2016 and 2015:

<u>Description</u>	<u>Balance June 30, 2016</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Investments				
Money market funds	\$ 130,478	\$ 130,478	\$ -	\$ -
Mutual funds				
Fixed income	2,285,062	2,285,062	-	-
Equity	<u>4,439,335</u>	<u>4,439,335</u>	<u>-</u>	<u>-</u>
Investments	6,854,875	6,854,875	-	-
Life insurance policies	300,000	-	-	300,000
Beneficial interest in charitable remainder unitrust	<u>611,046</u>	<u>-</u>	<u>-</u>	<u>611,046</u>
	<u>\$7,765,921</u>	<u>\$6,854,875</u>	<u>\$ -</u>	<u>\$911,046</u>



# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

<u>Description</u>	<u>Balance June 30, 2015</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Investments				
Money market funds	\$ 36,204	\$ 36,204	\$ -	\$ -
Mutual funds				
Fixed income	2,637,236	2,637,236	-	-
Equity	<u>4,949,060</u>	<u>4,949,060</u>	-	-
Investments	7,622,500	7,622,500	-	-
Life insurance policies	300,000	-	-	300,000
Beneficial interest in charitable remainder unitrust	<u>593,000</u>	<u>-</u>	<u>-</u>	<u>593,000</u>
	<u>\$8,515,500</u>	<u>\$7,672,500</u>	<u>\$ -</u>	<u>\$893,000</u>
<b>Liabilities</b>				
Annuities obligations	<u>\$ 48,138</u>	<u>\$ -</u>	<u>\$48,138</u>	<u>\$ -</u>

### (13) PENSION 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, 2016 and 2015.

### (14) SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA POOLED INCOME FUND

In May 1992, the Board of Directors of the School established a pooled income fund which has been organized as a separate tax-exempt trust. The trust was formed so that friends of the School may make tax deductible gifts to the School, through the trust, while retaining the right to receive income from the donated property for life. As of June 30, 2016 and 2015, the trust's investments are \$20,261 and \$19,866, respectively, and are not included in the accompanying consolidated financial statements.

### (15) TRUSTEE UNDER WILL EMILY E. FAIRCHILD, DECEASED

In 1989, the School began to receive an income distribution from a trust that was established in part to fund financial aid for students to study music. As of June 30, 2016 and 2015 the trust's investments are approximately \$84,000 and \$91,000, respectively, and are not included in the accompanying consolidated financial statements.

The income derived from these investments has been distributed to the School and amounted to \$1,348 and \$3,639 for the years ended June 30, 2016 and 2015, respectively.

# SETTLEMENT MUSIC SCHOOL OF PHILADELPHIA

## *NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

June 30, 2016 and 2015

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### **(16) SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 27, 2016, the date on which the financial statements were available to be issued. No subsequent events have occurred that require recognition in the financial statements.