

Consolidated Financial Statements and  
Report of Independent Certified Public  
Accountants

**The Philadelphia Orchestra and Kimmel  
Center, Inc. (“POKC”)**

Period from December 3, 2021 (inception) through  
August 31, 2022

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**GRANT THORNTON LLP**

2001 Market St., Suite 700  
Philadelphia, PA 19103-7065

**D** +1 215 561 4200

**F** +1 215 561 1066

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees

Philadelphia Orchestra Association and Kimmel Center, Inc. ("POKC")

**Report on the financial statements****Opinion**

We have audited the consolidated financial statements of Philadelphia Orchestra Association and Kimmel Center, Inc. ("POKC") (the "Entity"), which comprise the consolidated statement of financial position as of August 31, 2022, and the related consolidated statements of activities and cash flows for the period from inception (December 3, 2021) through August 31, 2022, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entity as of August 31, 2022, and the changes in its net assets and its cash flows for the period from inception (December 3, 2021) through August 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

**Basis for opinion**

We conducted our audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Entity and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Entity's ability to continue as a going concern for one year after the date the financial statements are issued.

**Auditor's responsibilities for the audit of the 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 US GAAS 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 US GAAS 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 Entity'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 Entity'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 information**

Management is responsible for the Supplementary Pro Forma Information for the period September 1, 2021 through August 31, 2022. This other information comprises the Entity's revenue and changes in net assets without donor restrictions and net assets with donor restrictions for the year ending August 31, 2022, as if the merger had occurred at September 1, 2021 but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Grant Thornton LLP*

Philadelphia, Pennsylvania  
August 18, 2023

The Philadelphia Orchestra and Kimmel Center, Inc.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2022  
(Dollars in thousands)

**ASSETS**

Cash and cash equivalents	\$ 51,658
Trade accounts receivable, net	8,039
Prepaid expenses and other assets	3,432
Pledges receivable, net	31,470
Notes receivable	500
Investments	248,687
Beneficial interests in trusts	12,772
Property and equipment, net	<u>182,946</u>
Total assets	<u><u>\$ 539,504</u></u>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable and accrued expenses	\$ 10,085
Other liabilities	168
Deferred revenue	16,976
Notes payable	10,059
Annuities payable	1,216
Accrued postretirement benefit obligation	<u>7,502</u>
Total liabilities	<u>46,006</u>

**Net assets**

Without donor restrictions	189,388
With donor restrictions	<u>304,110</u>
Total net assets	<u>493,498</u>
Total liabilities and net assets	<u><u>\$ 539,504</u></u>

The accompanying notes are an integral part of this consolidated financial statement.

The Philadelphia Orchestra and Kimmel Center, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the period December 3, 2021 (inception) through August 31, 2022  
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and support</b>			
Performances, events, touring and media	\$ 42,605	\$ -	\$ 42,605
Contributions, sponsorships and events	15,560	36,125	51,685
COVID-19 related grants	8,000	-	8,000
Spending policy draw, designated for current operations	12,663	-	12,663
Income from beneficial interests in trusts	440	-	440
Equity gain in joint venture	1,429	-	1,429
Other revenues	2,488	-	2,488
Gifts in-kind	2	-	2
Net assets released from restrictions			
Satisfaction of program restrictions	8,084	(8,084)	-
<b>Total revenue and support</b>	<b>91,271</b>	<b>28,041</b>	<b>119,312</b>
<b>Expenses</b>			
Program services			
Performances and events	56,091	-	56,091
Event facilities	12,242	-	12,242
<b>Total program services</b>	<b>68,333</b>	<b>-</b>	<b>68,333</b>
<b>Management and general</b>			
Management, administration and general	16,804	-	16,804
Fundraising	3,129	-	3,129
Depreciation	9,527	-	9,527
<b>Total management and general</b>	<b>29,460</b>	<b>-</b>	<b>29,460</b>
<b>Total expenses</b>	<b>97,793</b>	<b>-</b>	<b>97,793</b>
Transfer to POKC - administrative expenses of subsidiary (see Note P)	3,281	-	3,281
Transfer from POKC - income allocation to cover expenses (see Note P)	(3,281)	-	(3,281)
<b>Change in net assets from operating activities</b>	<b>(6,522)</b>	<b>28,041</b>	<b>21,519</b>
<b>Nonoperating activity</b>			
Endowment contributions	-	14,319	14,319
Investment return, net of spending policy	(1,040)	(49,188)	(50,228)
Endowment campaign expenses	-	(309)	(309)
Other changes in postretirement benefit obligation	2,796	-	2,796
<b>Total nonoperating revenue (expense)</b>	<b>1,756</b>	<b>(35,178)</b>	<b>(33,422)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(4,766)</b>	<b>(7,137)</b>	<b>(11,903)</b>
<b>Net assets, beginning December 3, 2021 (inception)</b>	<b>194,154</b>	<b>311,247</b>	<b>505,401</b>
<b>Net assets, ending August 31, 2022</b>	<b>\$ 189,388</b>	<b>\$ 304,110</b>	<b>\$ 493,498</b>

The accompanying notes are an integral part of this consolidated financial statement.

The Philadelphia Orchestra and Kimmel Center, Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

August 31, 2022  
(Dollars in thousands)

**Cash flows from operating activities:**

Change in net assets	\$ (11,903)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	9,527
Provision for bad debt expense	23
Change in investment in joint venture	(1,429)
Endowment contributions received	(14,319)
Net realized and unrealized loss on investments	39,391
Change in beneficial interests in trusts	1,858
Other changes in postretirement benefit obligation	2,796
Changes in assets and liabilities:	
Trade accounts receivable	(2,430)
Prepaid expenses and other assets	(1,028)
Pledges receivable	(25,372)
Accounts payable, accrued expenses and other liabilities	(1,716)
Deferred revenue	(8,914)
Annuities payable	(301)
Accrued postretirement benefit obligation	(5,459)
Net cash used in operating activities	<u>(19,276)</u>

**Cash flows from investing activities:**

Purchases of investments	(24,197)
Proceeds from sales of investments	24,253
Purchase of property, plant and equipment	(3,663)
Repayments of employee loans	(400)
Net cash used in investing activities	<u>(4,007)</u>

**Cash flows from financing activities:**

Endowment contributions received	14,319
Payments on notes payable	(177)
Net cash provided by financing activities	<u>14,142</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (9,141)

**Cash and cash equivalents, beginning December 3, 2021 (inception)** 60,799

**Cash and cash equivalents, ending August 31, 2022** \$ 51,658

**Supplemental cash flow data:**

Noncash investing activities:	
Interest paid	\$ 316
Change in accrued construction expenses	<u><u>\$ (99)</u></u>

The accompanying notes are an integral part of this consolidated financial statement.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Period from December 3, 2021 (inception) through August 31, 2022**

**NOTE A - NATURE OF OPERATIONS**

***Nature of Organization and Description of Merger***

The Philadelphia Orchestra Association ("POA") and Kimmel Center, Inc. ("KCI"), after receiving a No Objection Letter from the Pennsylvania Attorney General dated October 15, 2021, entered into a Partnership and Affiliation Agreement on October 21, 2021, that enables POA and KCI to operate in a strategically aligned and coordinated manner to create a more powerful and expansive artistic footprint by establishing a new 501(c)(3) organization: The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC"). POKC serves as the common controlling member/parent of the POA and KCI, with full representation from the existing POA and KCI boards. The transaction was closed on December 2, 2021, and the associated filings were made on December 3, 2021.

POA and KCI will remain separate legal entities each operating as tax-exempt organizations and shall continue to operate in accordance with and to further their respective tax-exempt missions and purposes.

POA is one of the world's preeminent orchestras. It shares the transformative power of music with the widest possible audience, and creates joy, connection, and excitement through music in the Philadelphia region, across the country and around the world. Through innovative programming, robust educational initiatives and commitment to the community, the ensemble is creating an expansive future for classical music and furthering the place of the arts in an open and democratic society. POA's wholly owned subordinate entity, The Academy of Music of Philadelphia, Inc. (the "Academy") was organized to operate, manage, and maintain the Academy of Music, a concert hall. POA has contracted with KCI since 2001 to manage the operations of the Academy.

KCI is a nonprofit corporation established to operate the Kimmel Center located at Broad and Spruce Streets in Philadelphia, Pennsylvania, which opened in December 2001. The Kimmel Center consists of a concert hall ("Verizon Hall") and a smaller recital theater ("Perelman Theater") that are rented to POA and several other Resident Companies. In addition, KCI operates the Academy of Music, which is home to Opera Philadelphia ("Opera") and The Pennsylvania Ballet ("Ballet"), and the Miller Theater. The venues of the Kimmel Center, the Academy and the Miller Theater are also rented to third-party customers for various types of performances and events.

In addition, POA and KCI invested (50% each) in a nonprofit joint venture which provides ticket sales and servicing operations for events held in the Academy of Music, Kimmel Center, and other venues ("Ticket Philadelphia"). This venture is accounted for as an equity method investment.

These consolidated financial statements include the accounts of POA and its wholly owned subordinate entity, the Academy as well as KCI (collectively, the "POKC") from its inception since the merger completion on December 3, 2021 through August 31, 2022. All significant intercompany balances and transactions have been eliminated.

Refer to Note C for details of the major classes of assets, liabilities, and net assets related to the merger.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The consolidated financial statements of POKC have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP requires that net assets and revenues, gains, expenses, and losses be classified based on the existence or absence of donor-imposed restrictions as follows:

- Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. \$7,487,000 of POKC's net assets without donor restrictions as of August 31, 2022 have been designated by the Board of Directors to function as endowment.
- Net assets with donor restrictions - Net assets whose use by POKC is subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that can be met by the passage of time or programmatic purposes specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity or are permanently maintained in the control of third-party trustees. Net assets in this category are primarily comprised of endowment gifts and accumulated endowment gains.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as releases between the applicable classes of net assets.

***Cash and Cash Equivalents***

Cash and cash equivalents include short-term investments with original maturities of three months or less. POKC maintains cash accounts which, at times, may exceed federally insured limits and has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes that it is not exposed to any significant credit risk on its cash accounts.

***Investments***

POKC records its investments at fair value. Debt securities, equity securities and mutual funds are valued at quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of alternative investments is based upon net asset value ("NAV") as a practical expedient, which is provided by external investment managers as of August 31, 2022. Because such investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Gains and losses are based on the trade date for investments.

The principal objective of POKC's alternative investment selection is to enhance the risk-adjusted returns of its total asset portfolio. POKC manages this investment exposure through a process of careful selection of experienced external fund managers, detailed initial due diligence, continuing periodic diligence and monitoring, limitation of exposure to any investment strategy or manager, and the employment of outside experts. At August 31, 2022, the alternative investment exposure to any product and/or manager was approximately 7% of total long-term investments.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

***Fair Value Measurements***

POKC has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the hierarchy are described below:

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Financial assets and liabilities whose values are based on one or more of the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3 - Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. POKC's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Both observable and unobservable inputs may be used to determine the fair value of positions that POKC has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

A review of the fair value hierarchy classifications is conducted on an annual basis. Changes in the type of inputs may result in a reclassification for certain financial assets or liabilities.

***Notes Receivable***

POA has granted loans to members of the Orchestra for the purpose of acquiring instruments to be used when performing with the Orchestra. POA granted individual loans for amounts up to \$15,000, which are non-interest-bearing for a maximum term of five years. The total outstanding amount of these loans must not exceed \$125,000.

POA also makes individual loans, which bear interest at the 10-year Treasury note rate plus 1% for amounts up to \$125,000, with a maximum term of 10 years. The 10-year Treasury note rate was 3.15% at August 31,

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

2022. The total outstanding amount of these loans must not exceed \$500,000. There were no instrument loans outstanding as of August 31, 2022.

During the year ended August 31, 2018, POA provided a housing relocation loan to an officer in the amount of \$250,000. The loan is secured, interest-bearing at 2.69%, and is repayable over five years. As of August 31, 2022, the outstanding balance on the loan was \$100,000. During the period ended August 31, 2022, POA provided a housing relocation loan to the music director in the amount of \$400,000. The loan is secured, interest-bearing at 1.26%, and is repayable over four years. As of August 31, 2022, the outstanding balance on the loan was \$400,000.

***Property and Equipment, Net***

Property and equipment, net is recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of gifts. Depreciation is recorded as an expense using the straight-line method over the estimated useful lives of the respective assets. The useful lives are as follows:

Office condominium, building and building improvements	30 - 40 years
Equipment and other	5 - 10 years
Office equipment	3 - 10 years

The cost and accumulated depreciation of property sold or retired is removed from the related asset, and accumulated depreciation amounts, and any resulting gain or loss, is recorded in the period of disposal.

Renewals and improvements, which extend the useful lives of assets, are capitalized at cost. Maintenance and repairs are included as expenses in the consolidated statement of activities.

POA's fine instruments have been recognized at their estimated fair value based upon appraisals or similar valuations at the date of acquisition or donation. Fine instruments are not depreciated. The aggregate carrying value of such assets at August 31, 2022 was approximately \$295,000.

KCI's land and land rights are stated at cost. Land rights were recorded at cost at the time acquired and are being amortized on a straight-line basis over the remaining life of the lease associated with the land rights.

KCI's pieces of fine art are recorded at cost and not depreciated and are included in property and equipment, net in the consolidated statement of financial position.

***Annuities Payable***

Liabilities related to charitable gift annuities received by POA are recorded at the present value of the future interest payments based on the donor's life expectancy. Amounts donated in excess of the liability are recorded as restricted donations in the consolidated statement of activities. The present value of the annuities, discounted at the respective rate under Internal Revenue Code ("IRC") Section 7520(a), is calculated at the time of the donation.

***Revenue Recognition***

**Trade Accounts Receivable**

Trade accounts receivable are reported at their net realizable value and consist of performance-related receivables, royalties, and other amounts.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based upon management's judgment, including such factors as prior collection history and type of receivable. POKC writes off receivables when they become uncollectible, and payments subsequently received on such receivables, if any, are credited to the allowance for doubtful accounts.

Pledges Receivable and Contribution Revenue

Contributions received, including unconditional promises to give, are recognized as revenues when the donor's commitment has been received. Unconditional promises to give are recognized at the established present value of the future cash flows, net of allowances. Contributions, which are received subject to restrictions imposed by donors, are reported as net assets with donor restrictions in the accompanying consolidated financial statements. Contributions for which the restrictions expire with the passage of time or occurrence of specific events are also classified as net assets with donor restrictions. When the restriction expires with the passage of time or upon occurrence of the specified event, the net assets are reclassified to net assets without donor restrictions and reported as net assets released from restrictions. Donor-restricted funds expended in the fiscal year in which received are recorded as net assets without donor restrictions. Conditional promises are recorded when donor conditions are substantially met.

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributions of donated services of professional fees totaled \$17,000 for the period from December 3, 2021 (inception) through August 31, 2022.

Performance and Other Earned Revenue

Revenues from performances, concerts, recordings, touring and rental activities are recognized as earned using the accrual method of accounting. Revenue from sales of subscriptions and single tickets for the upcoming concert season is deferred until the performance of the related concerts.

POA recognizes revenue from subscription and ticket sales for both live and digital formats for its main classical series, education series and special concerts performed in Philadelphia. In addition, POA recognizes revenue for fees it receives for services performed at locations regionally and through domestic and foreign touring and recognizes revenue for media income from royalties and other recording activities.

KCI recognizes revenue from performance admissions, ticket surcharges, third-party and Resident Company rentals and charges are recorded at the established rates in the period the performance occurs, which is the performance obligation. Any tickets purchased in advance of a future performance are classified as advanced ticket sales, which is separately shown as a current liability on the consolidated statement of financial position.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

In the following table, performance and other earned revenue is disaggregated by major type for the period from December 3, 2021 (inception) through August 31, 2022 (in thousands):

	December 3, 2021 (inception) through August 31, 2022
Campus services	\$ 16,156
Broadway performances	10,686
Residencies and touring	5,139
Orchestra concerts	5,036
Kimmel Center presents	3,383
Media and other	2,723
Ticketing fees	1,970
Total earned revenue	<u>\$ 45,093</u>

***Tax Status***

Under provisions of the IRC Section 501(c)(3), and the applicable income tax regulations of Pennsylvania, POKC is exempt from taxes on income other than unrelated business income.

POKC recognizes or derecognizes a tax position based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. POKC does not believe its consolidated financial statements include any material uncertain tax positions.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and utilize assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful trade accounts, pledges and notes receivable, discounts on pledges receivable and annuities, alternative investment values, useful lives of fixed assets, assumptions related to the accrued benefit obligation, assumptions related to the annuities payable, functional allocation of expenses, and the reported fair values of certain of POKC's assets and liabilities. Actual results could differ from those estimates.

***Allocation of Expenses***

Certain categories of expenses are attributed to more than one program or supporting function; therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs are directly applied to the related program or supporting service category when identifiable and possible. Certain operating expenses are allocated based on estimates of time and effort.

***Recently Adopted Accounting Pronouncements***

During the period from inception (December 3, 2021) through August 31, 2022, POKC adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which increases the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The guidance

**The Philadelphia Orchestra and Kimmel Center, Inc. (“POKC”)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

requires contributed nonfinancial assets to be presented as a separate line item on the consolidated statement of activities, apart from cash and other financial asset contributions. The guidance also requires disclosure of the types of contributed nonfinancial assets and, for each category, information about whether the assets were monetized or utilized, a description of the policies to monetize or utilize such assets, a description of donor-imposed restrictions associated with the contributions, and a description of the valuation techniques and principal market used to arrive at a fair value measure at initial recognition. The adoption of this standard did not have a material impact on the consolidated financial statements. There are no contributed nonfinancial assets which are monetized nor any with donor-imposed restrictions.

During the period from inception (December 3, 2021) through August 31, 2022, POKC adopted FASB ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. This guidance intends to improve the effectiveness of disclosures in the consolidated notes to the financial statements by modifying disclosure requirements for employers that sponsor defined benefit pensions or other postretirement plans. The adoption of this guidance did not have a material impact on the consolidated financial statements.

***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021. POKC is evaluating the impact the adoption of ASU 2016-02 will have on the consolidated financial statements.

***Impact of COVID-19***

The continued impact of the COVID-19 pandemic on POKC's operational and financial performance will depend on further developments that cannot reasonably be estimated at this time.

POA and KCI received Shuttered Venue Operator Grants (“SVOG”) totaling \$18,000,000 through a program administered by the Small Business Administration, which was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan (“ARP”) Act. Eligible applicants qualified for grants equal to a certain percentage of their gross earned revenue, with the maximum amount available for a single grant award of \$10 million. The SVOG grants totaling \$14,638,000 are reflected in fiscal year 2022 operations within the consolidated statement of activities.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

**NOTE C - MAJOR CLASSES OF ASSETS, LIABILITIES, AND NET ASSETS OF POKC MERGER**

The major classes of assets, liabilities, and net assets as of the POKC merger date, December 3, 2021, were as follows (in thousands):

	POA	KCI	AOM	Total POKC
<b>Assets</b>				
Cash and short-term investments	\$ 28,914	\$ 29,366	\$ 2,519	\$ 60,799
Trade accounts receivable, net	796	4,813	-	5,609
Prepaid expenses and other assets	1,203	(155)	(1)	1,047
Pledges receivable, net	3,281	2,507	333	6,121
Long-term investments	199,433	77,557	25,791	302,781
Property and equipment, net	4,128	156,591	28,093	188,812
<b>Total assets</b>	<b>\$ 237,755</b>	<b>\$ 270,679</b>	<b>\$ 56,735</b>	<b>\$ 565,169</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 4,735	\$ 6,605	\$ 208	\$ 11,548
Deferred revenue	11,582	14,307	-	25,889
Note payable and other liabilities	-	10,491	-	10,491
Annuities payable	1,517	-	-	1,517
Accrued postretirement benefit obligations	10,266	-	57	10,323
<b>Total liabilities</b>	<b>28,100</b>	<b>31,403</b>	<b>265</b>	<b>59,768</b>
<b>Net assets</b>				
Without donor restrictions	5,870	153,465	34,819	194,154
With donor restrictions	203,785	85,811	21,651	311,247
<b>Total net assets</b>	<b>\$ 209,655</b>	<b>\$ 239,276</b>	<b>\$ 56,470</b>	<b>\$ 505,401</b>

**NOTE D - PLEDGES RECEIVABLE**

POKC has received unconditional promises to give which are receivable over the next five years and thereafter. These receivables have been discounted at rates ranging from 2.50% - 5.46%.

Pledges receivable at August 31, 2022 were expected to be collected as follows (in thousands):

	August 31, 2022
<b>Due within</b>	
One year	\$ 13,482
Two to five years	19,846
Thereafter	100
<b>Total pledges receivable</b>	<b>33,428</b>
Less: allowance for doubtful accounts	(519)
Less: discount to net present value	(1,439)
<b>Pledges receivable, net</b>	<b>\$ 31,470</b>

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

**NOTE E - INVESTMENTS**

At August 31, 2022, the fair value of investments was as follows (in thousands):

	August 31, 2022
Cash and cash equivalents	\$ 1,943
Mutual funds - fixed income	34,020
Mutual funds - equities	127,600
Limited partnerships - real estate	224
Limited partnerships - global equity	67,510
REITs	586
Private equity	16,804
	<hr/>
Total fair value of investments	\$ 248,687

Investment income is stated net of investment expenses of \$546,000 for the period from December 3, 2021 (inception) through August 31, 2022.

Certain of POKC's investments are valued using NAV (or its equivalent unit) as a practical expedient of fair value. This applies to investments (i) which do not have a readily determinable fair value, and (ii) the financial statements of which were prepared by the respective investment managers in a manner consistent with the measurement principles applied in the preparation of the consolidated financial statements of the investment company. Investments that are valued using NAV per share (or its equivalent unit) are not required to be categorized within the fair value hierarchy.

The following tables present information about POKC's assets measured at fair value on a recurring basis, as described in Note B, as of August 31, 2022, and indicate the fair value hierarchy of the valuation techniques utilized by POKC to determine such fair value (in thousands):

	Assets at Fair Value at August 31, 2022				
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV	Total
Investments					
Cash and cash equivalents	\$ 1,943	\$ -	\$ -	\$ -	\$ 1,943
Mutual funds - fixed income	34,020	-	-	-	34,020
Mutual funds - equities	127,600	-	-	-	127,600
Limited partnerships - real estate	-	-	-	224	224
Limited partnerships - global equity	-	-	-	67,510	67,510
REITs	586	-	-	-	586
Private equity	-	-	-	16,804	16,804
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	164,149	-	-	84,538	248,687
Beneficial interests in trusts	-	-	12,772	-	12,772
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 164,149	\$ -	\$ 12,772	\$ 84,538	\$ 261,459

**The Philadelphia Orchestra and Kimmel Center, Inc. (“POKC”)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

In reference to the investments and other financial instruments held by POKC, the following provides a brief description of the types of financial instruments, the methodology for estimating fair value, and the level within the hierarchy of the estimate.

***Investments***

Cash and Cash Equivalents: Cash and cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents are reported using a market approach and are considered Level 1 inputs.

Mutual Funds - Fixed Income: Mutual funds investing in high yielding, non-investment grade publicly traded fixed income securities with quoted prices in active markets. Fixed income mutual funds are valued using a market approach and considered Level 1 inputs.

Mutual Funds - Equities: Mutual funds investing in domestic and/or foreign equity securities with quoted prices in active markets. Equity mutual funds are valued using a market approach and are considered Level 1 inputs.

Limited Partnerships: As a “fund-of-funds,” the partnership’s investments consist of underlying funds that invest in office, apartment, retail, industrial or other commercial real estate, or in real estate-related securities within the U.S., Europe, and Asia. These partnerships are valued using NAV per share (or its equivalent unit) as determined by the fund managers.

Private Equity: The fund invests in a diversified portfolio of sub-private equity funds managed by private equity managers that have historically provided risk-adjusted returns within their strategy, while at the same time seeking to dampen overall portfolio volatility. The primary investment objective is to generate attractive risk-adjusted returns through the careful selection of broad and varied private equity portfolios that provide access to attractive markets traditionally only available to the largest institutional investors at a significantly lower cost than otherwise possible. The fund is valued using NAV per share (or its equivalent unit) as determined by the fund managers.

***Beneficial Interests in Trusts***

The underlying investments of the POA beneficial interests in trusts include money market funds, equity securities, fixed income securities, and mortgage securities.

KCI is the beneficiary of two charitable remainder trusts and holds a beneficial interest in a perpetual fund. The trusts and the fund are held by third parties and contain restrictions as to the use of the income derived from the trusts, which include maintenance of the facility and support for education and community programs.

The interests in the trusts are valued using a market approach. Beneficial interests in trusts are Level 3 in the fair value hierarchy.

The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Period from December 3, 2021 (inception) through August 31, 2022

The following table presents additional information about assets measured at fair value on a recurring basis and for which POKC has utilized Level 3 inputs to determine fair value for the period ended August 31, 2022 (in thousands):

	August 31, 2022
Balance, beginning of year	\$ 14,630
Unrealized losses	(1,858)
Balance, end of year	<u>\$ 12,772</u>

**Fair Value Measurements of Investments That Calculate NAV per Share**

Fair value measurements of investments in certain entities that calculate NAV per share as of August 31, 2022 are as follows (in thousands):

	Fair Value August 31, 2022	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnerships <sup>(a)</sup>	\$ 67,734	\$ 301	(a)	(a)
Private equity <sup>(b)</sup>	16,804	5,423	(b)	(b)
	<u>\$ 84,538</u>	<u>\$ 5,724</u>		

(a) Limited partnerships - GEF of TIFF is a Delaware limited partnership employing a multi-manager, specialized strategy with exposure to primarily marketable global equity-oriented investments whose objective is to achieve a total return net of fees and expenses that exceeds the MSCI All Country World Index. The GEF invests globally, primarily via a carefully selected group of external managers to take advantage of the Fund's broad latitude opportunistically allocating assets to investments appropriate for non-profits. The GEF expects to make cash distributions, which will be made quarterly or annually at the election of each limited partner. A limited partner generally has the right to withdraw, all or any portion of a capital contribution, as adjusted for net capital appreciation and net capital depreciation on such amount, upon providing the general partner at least 65 days prior written notice.

(b) Private equity - Includes several private equity funds and limited liability partnerships that have diversified programs of U.S. and global private equity, venture capital, hedge funds and natural resources. The three largest funds comprise 70% of the total value. These investments are not redeemable. Distributions are received through the liquidation of the underlying assets in the fund.

**NOTE F - ENDOWMENTS**

As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

POKC's endowment consists of a portfolio of actively managed funds established to provide both a source of operating funds as well as long-term financial stability. The endowment includes donor-restricted endowment funds and endowment funds designated by the Board of Directors to function as endowments,

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

held in investments, plus the following where the assets have been designated for endowment: pledges receivable and split-interest agreements.

***Interpretation of Relevant Law***

The Board of Directors follows the interpretation of Commonwealth of Pennsylvania Act 141 ("PA Act 141") as requiring the preservation of the original gift as a fund of permanent duration as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, except as described below. As a result of this interpretation, POKC classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is regarded as "net appreciation" and is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by POKC in a manner consistent with its spending policy.

***Funds with Deficiencies***

From time to time, the fair value of assets associated with individual donor-designated endowment funds may fall below the "historic dollar value." As of August 31, 2022, there were 33 funds, which together have an original gift value of \$135,595,000, a current fair value of \$131,762,000 and a deficiency of \$3,833,000. These deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new donor-restricted contributions. Over time, these may reverse due to appreciation of the underlying investments.

***Endowment Spending Policy***

In accordance with Pennsylvania law, POKC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to its programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. POKC's spending and investment policies are aligned to achieve this objective.

The investment policy establishes an achievable return objective through diversification of asset classes which are subject to market conditions. To satisfy its long-term rate-of-return objectives, POKC allocates capital into diverse asset classes to obtain consolidated investment returns which are the combination of investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The diversified asset selection is evaluated against prudent risk parameters.

POKC determines its spending policy on an annual basis. As approved by the POKC Investment Committee and in accordance with PA Act 141, the amount for POA and KCI is applied to each pool and, pursuant to PA Act 141, shall not be less than 2.0% or more than 7.0%. On July 23, 2020, Pennsylvania Governor Tom Wolf approved 2020 Act 71, enacting House Bill 2484, which included a provision to increase endowment spending limits. The PA General Assembly enacted this temporary increase in spending limits to provide nonprofit corporations with financial flexibility to respond to the COVID-19 pandemic. The amendment permits nonprofit corporations to increase the maximum distribution from 7% to 10% during fiscal years ending in 2020 to 2022. The Board has approved a spending percentage of 5.5% and 10% for 2022 for POA and KCI, respectively.

To the extent that actual income from donor-restricted investments is less than the predetermined amount, accumulated gains are made available for operations to fund the difference. For financial statement purposes, any excess accumulated gains or accumulated losses are recorded as net assets with donor restrictions. When accumulated gains are less than the calculated spending rate, funds are made available

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

from net assets with donor restrictions. Investment return in excess of or less than the spending distribution is reported as a component of nonoperating revenue.

For Board-designated endowment, investment return in excess of or less than the spending distribution is reported as a component of nonoperating revenue.

**Endowment Fund Activity**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> <i>(in thousands)</i>	<u>Total</u>
<u>December 3, 2021</u>			
Net assets, beginning of period, December 3, 2021 (inception)	\$ 6,704	\$ 294,190	\$ 300,894
Net investment loss	(1,220)	(38,238)	(39,458)
Contributions	-	14,319	14,319
Appropriation of endowment assets for operations	(241)	(10,461)	(10,702)
Other changes			
Endowment campaign expenses	-	(309)	(309)
Reclassification of endowment funds	2,244	(2,244)	-
Change in estimate for annuities payable	-	194	194
Total other changes	2,244	(2,359)	(115)
Net assets, end of period, August 31, 2022	<u>\$ 7,487</u>	<u>\$ 257,451</u>	<u>\$ 264,938</u>

Endowment net asset composition by type of fund as of August 31, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u> <i>(in thousands)</i>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 257,451	\$ 257,451
Board-designated funds	7,487	-	7,487
	<u>\$ 7,487</u>	<u>\$ 257,451</u>	<u>\$ 264,938</u>

**NOTE G - ENDOWMENT ASSETS HELD BY OTHERS**

POKC is the beneficiary of a number of irrevocable perpetual trusts held by third parties. POKC recorded the fair value of its interest in these trusts at \$12,772,000 at August 31, 2022 in the accompanying consolidated statement of financial position. Distributions received from these trusts (\$440,000 from December 3, 2021 (inception) through August 31, 2022) are reported in the consolidated statement of

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

activities. Changes in the fair value of the trusts are reported as increases or decreases in net assets with donor restrictions.

POA also is the beneficiary of a grant from the Annenberg Foundation contributed in 2003. This grant is restricted to establish funds for Education, Touring, Media & Technology and Artistic Endeavors. During 2012, the Foundation and POA collaborated on a new trust agreement to redefine the parameters and reiterate the restrictions on those endowment funds, which provided for the transfer of these grant assets to The Northern Trust Company, as trustee, for the continued use and benefit of POA, on terms and conditions set forth in the Trust Agreement. The Trust Agreement contains conditional terms that preclude POA from recording these assets on the consolidated statement of financial position as either investments or beneficial interests in trusts. A spending rate of 5.5% was applied for the period from December 3, 2021 (inception) through August 31, 2022. This draw from the Annenberg Endowment funds amounted to approximately \$1,968,000 for 2022 and is included in spending policy draw, designated for current operations in the consolidated statement of activities. The fair value of the Foundation assets held by The Northern Trust Company was approximately \$45,938,000 at August 31, 2022.

**NOTE H - PROPERTY AND EQUIPMENT, NET**

The components of property and equipment at August 31, 2022 were as follows (in thousands):

	August 31, 2022
Land	\$ 630
Building and building improvements	333,011
Equipment	31,109
Leasehold improvements	4,996
Fine instruments	295
Construction in progress	7,345
Total	377,386
Less: accumulated depreciation	(212,844)
Property and equipment, net	\$ 164,542

Depreciation expense was \$9,355,000 for the period from December 3, 2021 (inception) through August 31, 2022.

The City of Philadelphia ("City"), through the Philadelphia Authority for Industrial Development ("Authority"), acquired land for KCI to construct the concert hall. Land rights are recorded at their total acquisition cost of \$23,143,000 and are presented in the consolidated statement of financial position, net of accumulated amortization of \$4,739,000 for the period from December 3, 2021 (inception) through August 31, 2022. Land rights are being amortized on a straight-line basis over the 74-year remaining life of the lease which commenced when the building was placed into service in December 2001. Amortization expense was \$172,000 for the period from December 3, 2021 (inception) through August 31, 2022. KCI has an agreement to lease the land from the Authority for 90 years with three 99-year options to renew at \$10 per year.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

**NOTE I - POSTRETIREMENT BENEFIT OBLIGATION**

POA provides its employees with postretirement health care and, for former employees of the Academy who were union members, severance pay based on the number of years of employment.

Postretirement health insurance is provided to POA's musician employees who retire generally with 10 years of service after age 50. Postretirement health insurance is provided to former Academy employees who are members of the International Association of Theatrical Stage Employees Union, generally for employees who retire after age 62 and with 30 years of service. For the year ended August 31, 2022, premiums paid by POA for these benefits amounted to \$8,000 per person.

The Academy also provides a severance benefit based on years of employment to retiring unionized box office employees, ranging up to 15 or 20 years of service. The total severance pay benefit obligation was \$66,000 at August 31, 2022 and 2021.

POA's actuary has performed the computations for the postretirement health care obligation as of August 31, 2022.

The calculation is as follows (in thousands):

	August 31, 2022			
	Orchestra	Administrative	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 9,892	\$ 323	\$ 58	\$ 10,273
Service cost	81	-	-	81
Interest cost	240	9	1	250
Actuarial gain	(2,791)	(2)	(3)	(2,796)
Benefits paid	(258)	(40)	(8)	(306)
Benefit obligation at end of year	<u>7,164</u>	<u>290</u>	<u>48</u>	<u>7,502</u>
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	258	40	8	306
Benefits paid	(258)	(40)	(8)	(306)
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funded status at year end	<u>\$ 7,164</u>	<u>\$ 290</u>	<u>\$ 48</u>	<u>\$ 7,502</u>
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	<u>\$ 7,164</u>	<u>\$ 290</u>	<u>\$ 48</u>	<u>\$ 7,502</u>
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated gain	\$ 1,485	\$ 118	\$ 15	\$ 1,618
Cumulative employer contributions in excess of net periodic benefit cost	(8,649)	(408)	(63)	(9,120)
	<u>\$ (7,164)</u>	<u>\$ (290)</u>	<u>\$ (48)</u>	<u>\$ (7,502)</u>
Components of net periodic benefit cost				
Service cost	\$ 81	\$ -	\$ -	\$ 81
Interest cost	240	9	1	250
Net periodic benefit cost	<u>\$ 321</u>	<u>\$ 9</u>	<u>\$ 1</u>	<u>\$ 331</u>
Other changes recognized in other nonoperating revenue (expense)				
Net gain arising during period	<u>\$ (2,791)</u>	<u>\$ (2)</u>	<u>\$ (3)</u>	<u>\$ (2,796)</u>
Total recognized in other comprehensive income	<u>\$ (2,791)</u>	<u>\$ (2)</u>	<u>\$ (3)</u>	<u>\$ (2,796)</u>

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

	August 31, 2022		
	<u>Orchestra</u>	<u>Administrative</u>	<u>Academy</u>
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	2.63%	2.63%	2.63%
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	4.72%	4.72%	4.72%
Measurement date	8/31/22	8/31/22	8/31/22

For measurement purposes, a 5.56% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2022. The rate was assumed to decrease to a rate of 4.00% in 2046 by various percentage points annually.

Estimated future benefit payments for years ending after August 31, 2022 are as follows (in thousands):

<u>Year Ending August 31,</u>	<u>Orchestra</u>	<u>Administrative</u>	<u>Academy</u>
2023	\$ 308	\$ 42	\$ 8
2024	319	43	9
2025	335	45	9
2026	364	49	10
2027	394	54	11
Next 5 years	2,239	304	61

**Contributions**

For postretirement plans, the expected contributions for the next fiscal year are shown as follows (in thousands):

<u>Year Ending August 31,</u>	<u>Orchestra</u>	<u>Administrative</u>	<u>Academy</u>
2023	\$ 273	\$ 37	\$ 7

**NOTE J - DEFINED CONTRIBUTION RETIREMENT SAVINGS PLAN**

POA has a retirement savings plan (the "Retirement Plan") which was established in 2011 under the provisions of IRC Section 403(b) and which is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. The Retirement Plan is a non-contributory, defined contribution pension plan covering all staff and musicians of the Association, the Plan Sponsor. All staff and musicians are eligible to participate in the Retirement Plan upon hire. POA contributes 8% of compensation each pay period to employees classified as staff. Musicians receive Association contributions of 8 - 10.5% depending on their age on December 1, 2011. Participants direct the investment of their contributions into various investment options offered by the Retirement Plan. A staff participant is 100% vested after one year of service, if hired on or after November 1, 2011. A staff participant hired before November 1, 2011 and musicians are 100% vested at all times. POA's contributions to the Retirement Plan for the period from December 3, 2021 (inception) through August 31, 2022 were \$1,291,000.

KCI maintains a defined contribution plan for all full-time employees who are not covered by a collective bargaining agreement and have been employed for more than three months. This plan provides for employee contributions up to specified limits and various levels of discretionary employer matching

**The Philadelphia Orchestra and Kimmel Center, Inc. (“POKC”)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

contributions. KCI’s contributions to this plan for the period from December 3, 2021 (inception) through August 31, 2022 were \$51,000.

KCI’s ticket sellers, ushers, stagehands, receiving personnel and wardrobe attendants are subject to various union contracts expiring through June 2024. KCI contributes to a multiemployer benefit plan for its union employees at rates determined by a collective bargaining agreement. The plan’s trustees determine the eligibility and allocations of contributions and benefit amounts, determine the types of benefits, and administer the plan.

KCI contributed \$484,000 to the multiemployer pension plan for the period from inception December 3, 2021 through August 31, 2022.

For KCI, the financial risks of participating in a multiemployer plan are different from a single employer plan in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If a participating employer chooses to stop participating in the plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

Under U.S. legislation regarding multiemployer pension plans, a company is required to pay an amount representing its proportionate share of a plan’s unfunded vested benefits in the event of withdrawal (as defined by the legislation) from a plan or upon plan termination.

KCI only participates in one multiemployer pension plan; however, the potential withdrawal obligation may be significant. Any withdrawal liability would be recorded when it is probable that a liability exists and can be reasonably estimated, in accordance with U.S. GAAP. KCI has no plans to withdraw from this plan.

During the period from December 3, 2021 (inception) through August 31, 2022, KCI made annual contributions to one pension plan, covering approximately 89% of KCI’s employees. KCI was not listed in the plan’s Form 5500 as providing more than 5% of the plan’s total contributions. KCI’s participation in the multiemployer plan is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employer Identification Number (“EIN”) and the three-digit plan number. The “Pension Protection Act Zone Status” column is based on the latest information that we received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented. The “Surcharge Imposed” column includes plans in a red zone status that require a payment of a surcharge in excess of regular contributions. The “Collective Bargaining Agreement Expiration Date” column lists the expiration date of the collective bargaining agreement to which the plan is subject.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

Union plan information for KCI as of August 31, 2022, is as follows:

<u>Union Name</u>	<u># of Plan</u>	<u>Pension Protection Act Zone Status</u>	<u>FIP/RP Status Pending or implemented</u>	<u>Surcharge imposed</u>	<u>Collective Bargaining Agreement Expiration Date</u>	<u>Contribution of KCI</u>
I.A.T.S.E National Pension Fund	13-1849172 /001	Green as of 12/31/2021	No	No	June 2024	\$ 1,090,115

KCI also participates in a multi-employer health and welfare plan, and the expense was \$672,765 from December 3, 2021 (inception) through August 31, 2022.

**NOTE K - LINES OF CREDIT AND NOTES PAYABLE**

POA has available a \$3,100,000 revolving credit facility. Under the agreement with the bank, the interest rate is 5.25% for 2022. The facility is available for working capital and general operating and capital expenditures in the ordinary course of business. This agreement also requires POA to maintain \$350,000 in a deposit account with the lender, and among other things, limits additional indebtedness and the disposition of certain property. This line of credit extends through October 31, 2023. POA had no borrowings during the period from inception of POKC through August 31, 2022 and no amounts outstanding on this line of credit at August 31, 2022 and through the date of financial statement issuance. The line of credit is collateralized by POA's business assets, owned instruments, and music library.

In December 2020, KCI entered into a \$5,000,000 term loan. The loan bears interest at 3% above one-month Libor (3.09% at August 31, 2022). Interest accrues monthly and will be capitalized as additional principal. On the 3<sup>rd</sup> and 4<sup>th</sup> year anniversary of the loan, KCI will repay 15% of the outstanding principal and accrued interest. A final installment payment of total outstanding principal and interest is due on December 11, 2025. Interest expense on this loan was \$219,000 for the period from December 3, 2021 (inception) through August 31, 2022. The loan is collateralized by substantially all of KCI's assets, excluding the endowment, and is subject to certain financial covenants. As of August 31, 2022, the balance outstanding on the loan was \$5,156,262. In October 2022, this loan was repaid in its entirety.

KCI had a \$5,000,000 revolving loan agreement ("Line of Credit") for working capital purposes which expired January 31, 2023. The interest rate on the Line of Credit is One-Month LIBOR plus 2.25% (2.34% at August 31, 2022). The loan is collateralized by substantially all of KCI's assets, excluding real estate and the endowment. There were no outstanding balances under the Line of Credit at August 31, 2022 nor any interest expense incurred for the period from December 3, 2021 (inception) through August 31, 2022. As of the date of consolidated financial statement issuance, this line of credit is in the process of being renewed.

In November 2016, KCI entered into a \$5,000,000 mortgage payable for the purchase of the Miller Theater. Interest only payments of 3.58% are to be made monthly for the first 60 months of the note; after 60 months, consecutive level monthly installments of \$25,246, with one balloon payment of \$4,383,604 payable in November 2026. Interest expense incurred on the note for the period from December 3, 2021 (inception) through August 31, 2022 was \$90,000.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

The following is a summary of principal maturities of the mortgage during the next five years (in thousands):

For the Years Ending August 31,

2023	\$	129
2024		134
2025		151
2026		144
2027		4,345
		<hr/>
Total	\$	4,903
		<hr/>

**NOTE L - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes or periods at August 31, 2022 (in thousands):

	August 31, 2022
	<hr/>
Program expenditure for a specific time or purpose	\$ 46,659
Endowment funds subject to appropriation and spending	239,019
Beneficial interests in trusts	12,772
Pledges related to endowment	5,660
	<hr/>
	\$ 304,110
	<hr/>

**NOTE M - JOINT VENTURE**

On July 1, 2001, the joint venture ("Ticket Philadelphia") was entered into by POA and KCI to handle all aspects of the ticketing function for all events held at the Academy of Music, Kimmel Center, and other venues in the Philadelphia area. Operating results are to be shared in accordance with a formula agreed to by the parties. POA and KCI are using the equity method of accounting to account for their respective share of the joint venture's activity.

The investment in Ticket Philadelphia totaled \$777,000 at August 31, 2022. POKC's share of Ticket Philadelphia's net income was \$1,429,000 from December 3, 2021 (inception) through August 31, 2022.

**NOTE N - CONTINGENCIES**

POKC is subject to various claims and legal proceedings arising out of the ordinary course of business. Management believes the resolution of claims and pending litigation will not have a material effect, individually or in the aggregate, on the consolidated financial position of POKC.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

**NOTE O - COMMITMENTS**

***Operating Leases***

The Orchestra and the Academy are parties to a Master Lease between the Academy and Regional Performing Arts Center, Inc. (now KCI) and a Sublease dated as of February 11, 2001 between Regional Performing Arts Center, Inc. and the Orchestra, which govern the Orchestra's use of Verizon Hall at the Kimmel Center and KCI's use of the Academy of Music. The lease expired in June 2012 and was automatically renewed for the first two renewal periods which extends to June 15, 2026: the second renewal period extends the lease to June 15, 2031. As part of the agreement, KCI operates, manages, licenses, schedules and maintains and repairs the Academy. KCI rents the Academy to Resident Companies and third-party renters and earns rental and cost recovery fees and ticket surcharges in connection with performances. Additionally, KCI also earns revenue from theatrical performances it presents at the Academy.

The Association has several commitments under contract for renovations of the Academy of Music. Portions of these contracts not completed at year end are not reflected in the consolidated financial statements. These unrecorded commitments totaled \$674,000 at August 31, 2022.

On December 26, 2012, the Association entered into an Office Lease (the "Lease") with Broad One, L.P. (the "Prime Landlord") for 16,139 square feet of administrative office space on the 14th floor of One South Broad Street in Philadelphia, Pennsylvania (the "Premises"). The term of the Lease, as amended, commenced on April 1, 2014 and continues through July 31, 2025. The rent payments total \$403,475 per year.

KCI leased office space which required a monthly payment of \$23,222. This lease was to expire in February 2023; however, KCI paid a termination fee of \$77,000 to end the lease in February 2022. Total rent expense from December 3, 2021 (inception) through August 31, 2022 for POKC was \$417,000.

***Capital Leases***

KCI leases office equipment under a capital lease which expires in July 2024. The leased equipment is included in property and equipment, net within the consolidated statement of financial position.

The following is a summary of property held under capital leases (in thousands):

	August 31, 2022
Office equipment	\$ 322
Accumulated amortization	(265)
Net office equipment	<u>\$ 57</u>

At August 31, 2022, total future minimum annual lease payments under KCI's capital lease obligations with an initial or remaining lease term of one year or more were as follows (in thousands):

Total minimum lease payments for the year ending August 31, 2023	\$ 63
Less: amounts representing interest at 4.18%	(1)
Present value of net minimum lease payments	<u>\$ 62</u>

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

***Resident Company Agreements***

KCI has agreements with eight Philadelphia performing arts groups referred to as the "Resident Companies." The groups include the Orchestra, Ballet, Opera, Encore Series, Inc., Philadanco, the Philadelphia Chamber Music Society, the Chamber Orchestra of Philadelphia and the Curtis Institute. These agreements have expiration dates between 2023 and 2027. KCI receives ticket surcharges, rental and various other revenues from the Resident Companies in exchange for use of the venues managed by KCI, which includes Verizon Hall, Perelman Theater, the Academy and Miller Theater. The revenues from these agreements are based on the number of performances held at KCI's venues and, in some cases, the attendance at each performance.

Future minimum annual rental payments to be received under the Resident Company agreements are as follows (in thousands):

For the Years Ending August 31,

2023	\$ 1,931
2024	1,960
2025	1,989
2026	2,020
2027	2,050
	<hr/>
	\$ 9,950

Total rental income was 3,276,000 from December 3, 2021 (inception) through August 31, 2022.

***Parking Agreement***

KCI had an agreement with a third party to manage an underground parking garage with approximately 135 spaces located beneath the Center through August 2025. Pursuant to this agreement, KCI paid a base management fee of \$2,060 per month, with a 3% per year increase for the duration of the agreement. Additional incentive management fees are payable upon reaching a required net operating income level. For the period from December 3, 2021 (inception) through August 31, 2022, no incentive management fees were incurred.

***Concessionary Agreements***

KCI has an agreement with a concessionaire for the operation of all food and beverage services within KCI and the Academy through March 2027. KCI receives concession fees based on a percentage of the concessionaire's gross receipts each year. Under the terms of the agreement, the concessionaire will make a lump sum payment to KCI, a portion of which may have to be repaid by KCI in future years if the concession agreement is terminated by either party.

**NOTE P - RELATED PARTIES**

POA and KCI, in an effort to leverage economies of scale to capitalize on the strength inherent in a larger information technology service model, have entered into an agreement whereby a single information technology staff provides technology services to each organization according to their respective business needs. Allocable costs are charged to KCI by POA pursuant to the aforementioned agreement.

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

For the period from December 3, 2021 (inception) through August 31, 2022, POA received payments from KCI and Ticket Philadelphia totaling approximately \$1,255,000 for these services, which are recorded in the consolidated statement of activities.

Contribution revenue recorded from members of POKC's Board of Directors was \$13,040,000 from December 3, 2021 (inception) through August 31, 2022.

POA and KCI have allocated certain administrative expenses to POKC, their parent company, that have been determined to benefit the entire organization and its subsidiaries. POA and KCI also allocated income to POKC which will offset expenses. The expenses consist of a portion of compensation and office expenses of the Executive Office, Finance, Human Resources and Development departments. The amount allocated to POKC for revenues and expenses for the period from December 3, 2021 (inception) through August 31, 2022 was \$2,218,000 and \$1,063,000, respectively, from POA and KCI.

**NOTE Q - COLLECTIVE BARGAINING AGREEMENTS**

The Orchestra had 155 full-time employees as of August 31, 2022, 94 of which were musicians and two of which were stagehands. One hundred percent (100%) of the musicians and stagehands were represented by the American Federation of Musicians, Local 77 ("AFM") and the International Alliance of Theatrical Stage Employees, Local 8 ("IATSE"), respectively. The current collective bargaining agreement with the AFM was renewed in 2019 and covers the period September 2019 through September 2023. The collective bargaining agreement with IATSE expired in September 2019 and automatically renews from year to year thereafter unless either party gives written notice of its desire to terminate or amend the agreement. No other full-time employees of the Orchestra are represented by a union.

KCI's ticket sellers, ushers, stagehands, receiving personnel and wardrobe attendants are subject to various union contracts expiring through June 2024.

**NOTE R - FUNCTIONAL EXPENSES**

Expenses by functional and natural classification for the period from December 3, 2021 (inception) through August 31, 2022 are as follows (in thousands):

	Program Services	Event Facilities	Management and General	Fundraising	Total
Salaries and benefits	\$ 27,603	\$ 3,863	\$ 10,192	\$ 2,202	\$ 43,860
Performing artists	3,638	-	-	-	3,638
Facilities and office expenses	2,204	1,006	3,801	152	7,163
Professional and other fees for service	3,252	3,836	1,697	787	9,572
Production and education program	12,933	-	59	202	13,194
Travel	3,166	-	167	3	3,336
Advertising and promotion	3,048	249	188	9	3,494
Other expenses	247	851	700	83	1,881
Maintenance and repairs	-	2,121	-	-	2,121
Interest expense	-	316	-	-	316
Depreciation	-	6,293	3,234	-	9,527
	<u>\$ 56,091</u>	<u>\$ 18,535</u>	<u>\$ 20,038</u>	<u>\$ 3,438</u>	<u>\$ 98,102</u>

**The Philadelphia Orchestra and Kimmel Center, Inc. ("POKC")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**Period from December 3, 2021 (inception) through August 31, 2022**

**NOTE S - LIQUIDITY AND FUNDS AVAILABLE**

As of August 31, 2022, financial assets and liquidity resources available within one year for general expenditure were as follows (in thousands):

Financial assets	
Cash and cash equivalents	\$ 39,905
Notes and trade accounts receivable, net	4,440
Pledge payments available for operations	6,706
Board designations	
Funds functioning as endowment available for operations	7,487
Estimated endowment payout within one year	14,963
Estimated third-party trust payments within one year	<u>3,201</u>
Total financial assets available within one year	76,702
Liquidity resources	
Bank line of credit	<u>8,100</u>
Total financial assets and liquidity resources available within one year	<u><u>\$ 84,802</u></u>

In addition to its financial assets available in one year, POKC relies on proceeds from performances, events and rent from resident companies to cover its general expenditures, which includes the costs of producing such performances and events. While these proceeds are designed to offset most of its general expenditures, fundraising and endowment draws are used to supplement these resources when necessary. As part of POKC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE T - MAJOR CONTRIBUTORS**

Approximately 30% of POKC's total contributions were provided by one donor in the period from December 3, 2021 (inception) through August 31, 2022.

**NOTE U - SUBSEQUENT EVENTS**

POKC evaluated its August 31, 2022 consolidated financial statements for subsequent events through August 18, 2023, the date the consolidated financial statements were available to be issued. Except as disclosed within Note K, Note O, and below, POKC is not aware of any other subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

In January 2023, Encore Series, Inc. ("ESI"), d/b/a Philly Pops, was suspended as a resident company of POKC due to its continued non-payment of rental and ticket surcharge fees. ESI filed a lawsuit against POKC in April 2023 and the case is ongoing. POKC's accounts receivable from ESI are \$1,021,000 as of the date of financial statement issuance and are almost fully reserved for.

## SUPPLEMENTARY INFORMATION

**The Philadelphia Orchestra and Kimmel Center, Inc.**

**Supplementary Pro Forma Information (Unaudited)**

**August 31, 2022**  
**(Dollars in thousands)**

POKC's revenue and changes in net assets without donor restrictions and net assets with donor restrictions for the year ending August 31, 2022, as if the merger had occurred at September 1, 2021 are:

	<b>Revenue</b>	<b>Change in Net Assets without Donor Restrictions</b>	<b>Change in Net Assets with Donor Restrictions</b>
Supplemental pro forma information for: 9/1/2021 - 8/31/2022	\$ 111,817	\$ 1,124	\$ (5,372)