

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

The Philadelphia Orchestra Association

August 31, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Philadelphia Orchestra Association

Report on the financial statements

We have audited the accompanying consolidated financial statements of The Philadelphia Orchestra Association and its wholly owned subsidiary The Academy of Music of Philadelphia, Inc. (collectively, the "Association"), which comprise the consolidated statements of financial position as of August 31, 2021 and 2020, and the related consolidated statements of activities 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 accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Orchestra Association and its wholly owned subsidiary as of August 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters*Supplementary information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information contained in the schedules of changes in net assets without donor restrictions from operating activities for the years ended August 31, 2021 and 2020 and The Academy of Music of Philadelphia, Inc.'s statements of financial position and statements of activities as of and for the years ended August 31, 2021 and 2020 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Philadelphia, Pennsylvania
February 4, 2022

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31,
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 30,468	\$ 18,758
Trade accounts receivable, net	1,757	475
Prepaid expenses and other assets	1,294	1,745
Pledges receivable, net	4,400	5,063
Notes receivable	150	200
Investments	218,656	175,851
Beneficial interests in trusts	7,577	6,447
Property and equipment, net	<u>31,723</u>	<u>32,588</u>
Total assets	<u><u>\$ 296,025</u></u>	<u><u>\$ 241,127</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,941	\$ 1,294
Accrued expenses and other liabilities	2,039	1,423
Deferred revenue	9,511	4,143
Annuities payable	1,553	1,820
Accrued postretirement benefit obligation	<u>10,273</u>	<u>11,999</u>
Total liabilities	<u>27,317</u>	<u>20,679</u>
Net assets		
Without donor restrictions	38,097	33,762
With donor restrictions	<u>230,611</u>	<u>186,686</u>
Total net assets	<u>268,708</u>	<u>220,448</u>
Total liabilities and net assets	<u><u>\$ 296,025</u></u>	<u><u>\$ 241,127</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2021
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Performance revenue			
Philadelphia concerts	\$ 434	\$ -	\$ 434
Other concerts	1,344	-	1,344
Recording, radio and television	312	-	312
	<u>2,090</u>	<u>-</u>	<u>2,090</u>
Performance expense			
Orchestra and concert production	21,432	-	21,432
Concert promotion expenses	484	-	484
Recording, radio and television	863	-	863
	<u>22,779</u>	<u>-</u>	<u>22,779</u>
Performance deficit	(20,689)	-	(20,689)
Other operating revenue			
Annual public support	12,820	3,986	16,806
Volunteer project revenue	328	582	910
CARES Act related grants and other income	5,916	-	5,916
Spending policy draw, designated for current operations	10,853	-	10,853
Income from beneficial interests in trusts	263	-	263
Other revenues	1,105	-	1,105
Gifts in kind	441	-	441
Equity loss in joint venture	(298)	-	(298)
Academy Event revenue, net	157	-	157
Net assets released from restrictions			
Satisfaction of program restrictions	2,016	(2,016)	-
Satisfaction of time restrictions	1,675	(1,675)	-
Total other operating revenue	<u>35,276</u>	<u>877</u>	<u>36,153</u>
Other operating expense			
Fundraising expenses			
Annual fundraising	2,331	-	2,331
Global initiatives and government relations	252	-	252
Volunteer project	86	-	86
	<u>2,669</u>	<u>-</u>	<u>2,669</u>
Management and general			
Administrative expense	8,569	-	8,569
Bad debt expense	28	-	28
Depreciation	514	-	514
Total other operating expense	<u>11,780</u>	<u>-</u>	<u>11,780</u>
Change in net assets from operating activities	2,807	877	3,684
Nonoperating revenue (expense)			
Endowment contributions	-	6,275	6,275
Investment return, net of spending policy	826	35,993	36,819
Spending policy draw, designated for Academy of Music	1,145	-	1,145
Academy of Music revenue	1,337	1,071	2,408
Academy of Music expense, including depreciation of \$2,503	(3,697)	-	(3,697)
Endowment campaign expenses	-	(291)	(291)
Other changes in postretirement benefit obligation	1,917	-	1,917
Total nonoperating revenue	<u>1,528</u>	<u>43,048</u>	<u>44,576</u>
CHANGE IN NET ASSETS	<u>4,335</u>	<u>43,925</u>	<u>48,260</u>
Net assets, beginning	<u>33,762</u>	<u>186,686</u>	<u>220,448</u>
Net assets, ending	<u>\$ 38,097</u>	<u>\$ 230,611</u>	<u>\$ 268,708</u>

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

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2020
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Performance revenue			
Philadelphia concerts	\$ 4,933	\$ -	\$ 4,933
Other concerts	1,763	-	1,763
Tours	1,876	-	1,876
Recording, radio and television	210	-	210
	8,782	-	8,782
Performance expense			
Orchestra and concert production	29,576	-	29,576
Concert promotion expenses	1,587	-	1,587
Recording, radio and television	443	-	443
	31,606	-	31,606
Performance deficit	(22,824)	-	(22,824)
Other operating revenue			
Annual public support	13,859	4,198	18,057
Volunteer project revenue	330	357	687
CARES Act related grants and other income	5,486	-	5,486
Spending policy draw, designated for current operations	10,529	-	10,529
Income from beneficial interests in trusts	250	-	250
Other revenues	1,862	-	1,862
Gifts in kind	826	20	846
Equity loss in joint venture	(270)	-	(270)
Academy Ball revenue, net	7	-	7
Net assets released from restrictions			
Satisfaction of program restrictions	3,262	(3,262)	-
Satisfaction of time restrictions	1,276	(1,276)	-
Total other operating revenue	37,417	37	37,454
Other operating expense			
Fundraising expenses			
Annual fundraising	2,747	-	2,747
Global initiatives and government relations	575	-	575
Volunteer project	248	-	248
	3,570	-	3,570
Management and general			
Administrative expense	10,496	-	10,496
Bad debt expense	60	-	60
Depreciation	447	-	447
Total other operating expense	14,573	-	14,573
Change in net assets from operating activities	20	37	57
Nonoperating revenue (expense)			
Endowment contributions	-	2,235	2,235
Investment return, net of spending policy	477	14,402	14,879
Spending policy draw, designated for Academy of Music	775	-	775
Academy of Music revenue	2,328	-	2,328
Academy of Music expense, including depreciation of \$2,503	(5,344)	-	(5,344)
Redesignation of net assets	292	(292)	-
Net assets released from restrictions - Academy of Music	130	(130)	-
Other changes in postretirement benefit obligation	(903)	-	(903)
Total nonoperating (expense) revenue	(2,245)	16,215	13,970
CHANGE IN NET ASSETS	(2,225)	16,252	14,027
Net assets, beginning	35,987	170,434	206,421
Net assets, ending	\$ 33,762	\$ 186,686	\$ 220,448

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

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31,
(Dollars in thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 48,260	\$ 14,027
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,017	2,950
Provision for bad debt expense	93	167
Change in investment in joint venture	296	376
Endowment contributions received	(6,275)	(2,235)
Net realized and unrealized gain on investments	(42,859)	(20,971)
Change in beneficial interests in trusts	(1,130)	(593)
Other changes in postretirement benefit obligation	1,917	(903)
Changes in assets and liabilities:		
Trade accounts receivable	(1,282)	532
Prepaid expenses and other assets	155	1,350
Pledges receivable	570	2,839
Accounts payable, accrued expenses and other liabilities	3,263	349
Deferred revenue	5,368	(3,048)
Annuities payable	(267)	248
Accrued postretirement benefit obligation	(3,643)	2,306
Net cash provided by (used in) operating activities	7,483	(2,606)
Cash flows from investing activities:		
Purchases of investments	(25,326)	(13,574)
Proceeds from sales of investments	25,380	16,823
Purchase of property, plant and equipment	(2,152)	(1,020)
Repayments of employee loans	50	54
Net cash (used in) provided by investing activities	(2,048)	2,283
Cash flows from financing activities:		
Endowment contributions received	6,275	2,235
Net cash provided by financing activities	6,275	2,235
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,710	1,912
Cash and cash equivalents, beginning of year	18,758	16,846
Cash and cash equivalents, end of year	\$ 30,468	\$ 18,758
Supplemental cash flow data:		
Noncash investing activities		
Change in accrued construction expenses	\$ 86	\$ (305)

The accompanying notes are an integral part of these consolidated financial statements.

The Philadelphia Orchestra Association
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE A - NATURE OF OPERATIONS

Organization

The Philadelphia Orchestra Association (the “Orchestra”) 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.

These consolidated financial statements include the accounts of the Orchestra and its wholly-owned subordinate entity, The Academy of Music of Philadelphia, Inc. (the “Academy”) (collectively, the “Association”). All significant intercompany balances and transactions have been eliminated. The Academy was organized to operate, manage and maintain the Academy of Music, a concert hall. The Association has contracted with the Kimmel Center, Inc. (“KCI”), an unaffiliated organization, to manage the operations of the Academy. In addition, the Association has invested 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 investment.

Definition of Operating Activities

The operations of the Orchestra, including all concerts, recording, and touring activities, are presented in the operating activities section of the consolidated statements of activities. Also included with operating activities are all Orchestra annual fundraising activities and investment income designated for operations.

Included in nonoperating revenue and expense are endowment contributions, investment income, net of spending policy and changes in postretirement benefit obligation. In addition, all activities of the Academy are included in nonoperating.

Operating results for activities such as concerts and other events that take place at the Academy of Music building under the auspices of KCI are not included in these consolidated financial statements as they are part of KCI’s operations. KCI leases the property of the Academy for a dollar per year through 2031. The lease contains various options to extend at current market rates through 2090.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Association 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. Approximately \$5,266,000 and \$4,440,000 of the Association’s net assets without donor restrictions as of August 31, 2021 and 2020, respectively, have been designated by the Board of Directors to function as endowment.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

- Net assets with donor restrictions - Net assets whose use by the Association 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 that 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. The Association maintains cash accounts which, at times, may exceed federally insured limits. The Association 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

The Association 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, 2021 and 2020. 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 the Association's alternative investment selection is to enhance the risk-adjusted returns of the Association's total asset portfolio. The Association 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, 2021 and 2020, the alternative investment exposure to any product and/or manager was less than 1% of total long-term investments.

Fair Value Measurements

The Association 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;

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

- 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. The Association'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 the Association 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

The Association has granted loans to members of the Orchestra for the purpose of acquiring instruments to be used when performing with the Orchestra. The Association 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. The Association 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 1.30% and 0.72% at August 31, 2021 and 2020, respectively. The total outstanding amount of these loans must not exceed \$500,000. There were no instrument loans outstanding as of August 31, 2021. During the year ended August 31, 2018, the Association 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, 2021, and 2020, the outstanding balance on the loan was \$150,000 and \$200,000, respectively.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

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 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 statements of activities.

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 both August 31, 2021 and 2020 was approximately \$295,000.

Annuities Payable

Liabilities related to charitable gift annuities received by the Association 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 statements 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, Academy Ball program receivables and other amounts.

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. The Association 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

The Association follows Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The standard provides: (1) a framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction, including how to evaluate whether a resource provider is receiving commensurate value in an exchange transaction and (2) guidance to assist entities in determining whether a contribution is either conditional or unconditional.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

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.

Performance and Other Earned Revenue

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. The Association adopted the guidance during the year ended August 31, 2021 and has determined that there is no effect on net assets in connection with the adoption of ASU 2014-09.

Revenues from concert, recording, 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. Revenues related to advertising for the annual Academy Ball fundraising event are deferred until earned.

The Orchestra 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, The Orchestra recognizes revenue for fees it receives for services performed at locations regionally and through domestic and foreign touring. The Orchestra also recognizes revenue for Media income from royalties and other recording activities.

The Orchestra did not have any impairment or credit losses on any receivables arising from transactions with customers. There are also no incremental costs of obtaining earned revenues and no financing offered to customers. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

In the following table, performance and other earned revenue is disaggregated by major type as of August 31, 2021 and 2020:

	2021	2020
Philadelphia concerts	\$ 434,000	\$ 4,933,000
Education series	25,000	234,000
Other Philadelphia concerts	61,000	1,112,000
Contracted services in Philadelphia	148,000	283,000
Contracted services - runouts	652,000	134,000
Residencies and touring	458,000	1,876,000
Recording, radio and television	312,000	210,000
Shared services and other	1,105,000	1,862,000
Total earned revenue	<u>\$ 3,195,000</u>	<u>\$ 10,644,000</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

Tax Status

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

The Association 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. The Association 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 the Association’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 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. The Association does not anticipate that the adoption of ASU 2016-02 will have a significant effect on the consolidated financial statements.

Impact of COVID-19

The continued impact of the COVID-19 Pandemic on the Association’s operational and financial performance will depend on further developments that cannot reasonably be estimated at this time. However, the Association anticipates a continued material impact on its financial position, results of operations and cash flows for the year ending August 31, 2022. During the year ended August 31, 2021, the Association has resumed pre-pandemic operations including in-person office work and resumption of in-person concert performances, but with significant safety related protocols in place. The Association has taken measures to mitigate the impact of the pandemic, including temporary salary reductions and the application and receipt of government assistance in the form of grants and tax credits described more fully below. The Association will continue to monitor the effects of the pandemic going forward.

The Orchestra received a Paycheck Protection Program (“PPP”) loan of \$4,937,000 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which is reflected in CARES Act related grants and other income in the statement of activities as of August 31, 2020. The Orchestra subsequently received a second-draw PPP (“PPP-2”) loan in the amount of \$2,000,000, which is reflected in CARES Act related grants and other income in the statement of activities as of August 31, 2021. PPP loans are considered conditional contributions, with a right-of return in the form

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following receipt of the funds. The Orchestra recognized the amount received as grant revenue as qualified expenses occurred and barriers to entitlement were met. Application for forgiveness for both PPP and PPP-2 loans was approved by the lender in June 2021 and November 2021, respectively.

The Families First Coronavirus Response Act ("FFCRA") requires certain employers to provide their employees with paid sick leave or expanded family and medical leave for specified reasons related to COVID-19, including the inability of an employee to work due to being quarantined pursuant to a Federal, State, or local government order. Covered employers qualify for a reimbursement through tax credits for qualifying wages. For the year ended August 31, 2020, the Orchestra claimed credits for two weeks of qualified wages in the amount of \$549,000 which is reflected in CARES Act related grants and other income in the consolidated statement of activities. For the year ended August 31, 2021, the Orchestra claimed credits for the first three quarters of 2021 as well as the third quarter of 2020 of qualified wages in the amount of \$3,916,000 which is reflected in CARES Act related grants and other income in the consolidated statement of activities.

The Orchestra also received two Shuttered Venue Operator Grants ("SVOG") 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 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 Orchestra's initial SVOG grant in the amount of \$7,250,000 was awarded and received in June 2021 and a supplemental grant in the amount of \$750,000 ("SVOG-Sup") was awarded and received in November 2021. Although these funds were received by the time of issuance of the financial statements, both SVOG and SVOG-Sup will be reflected in fiscal year 2022 operations because of the timing and nature of the related, qualified expenses. As of August 31, 2021, the initial SVOG grant in the amount of \$7,250,000 is recorded as deferred revenue within the consolidated statement of financial position.

The Philadelphia Orchestra Association

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August 31, 2021 and 2020

NOTE C - PLEDGES RECEIVABLE

Pledges receivable at August 31, 2021 and 2020 were expected to be collected as follows (in thousands):

	2021			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	\$ 2,752	\$ 603	\$ 23	\$ 3,378
Two to five years	685	-	440	1,125
After five years	-	-	22	22
Total pledges receivable	3,437	603	485	4,525
Less: allowance for uncollectible pledges	(42)	(10)	(9)	(61)
Subtotal	3,395	593	476	4,464
Less: unamortized discount	(12)	-	(52)	(64)
Net present value of pledges receivable	<u>\$ 3,383</u>	<u>\$ 593</u>	<u>\$ 424</u>	<u>\$ 4,400</u>
Activity during year				
Balance, beginning of year	\$ 4,059	\$ 48	\$ 956	\$ 5,063
Cash received	(7,905)	(677)	(550)	(9,132)
New pledges received	7,430	1,224	-	8,654
Bad debt expense	(209)	(2)	-	(211)
Amortization of discount	8	-	18	26
Balance, end of year	<u>\$ 3,383</u>	<u>\$ 593</u>	<u>\$ 424</u>	<u>\$ 4,400</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

	2020			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	\$ 2,939	\$ 58	\$ 323	\$ 3,320
Two to five years	1,190	-	340	1,530
After five years	-	-	372	372
Total pledges receivable	4,129	58	1,035	5,222
Less: allowance for uncollectible pledges	(50)	(10)	(9)	(69)
Subtotal	4,079	48	1,026	5,153
Less: unamortized discount	(20)	-	(70)	(90)
Net present value of pledges receivable	<u>\$ 4,059</u>	<u>\$ 48</u>	<u>\$ 956</u>	<u>\$ 5,063</u>
Activity during year				
Balance, beginning of year	\$ 5,947	\$ 231	\$ 1,891	\$ 8,069
Cash received	(8,325)	(670)	(1,260)	(10,255)
New pledges received	6,505	550	278	7,333
Bad debt expense	(84)	(63)	-	(147)
Amortization of discount	16	-	47	63
Balance, end of year	<u>\$ 4,059</u>	<u>\$ 48</u>	<u>\$ 956</u>	<u>\$ 5,063</u>

The Association used fair value rates ranging from 1% - 5% to discount pledges receivable for the years ended August 31, 2021 and 2020.

NOTE D - INVESTMENTS

At August 31, 2021 and 2020, the fair value of investments was as follows (in thousands):

	2021		2020	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 230	\$ 230	\$ 316	\$ 316
Mutual funds - fixed income	36,333	35,458	29,308	28,175
Mutual funds - inflation hedges	67	52	42	41
Mutual funds - equities	93,620	62,199	79,634	66,938
Limited partnership - real estate	225	3,203	315	3,203
Limited partnership - global equity	84,672	54,000	64,668	54,000
Private equity	3,500	2,704	1,559	1,578
Multi-strategy	9	1	9	1
Total fair value of investments	<u>\$ 218,656</u>	<u>\$ 157,847</u>	<u>\$ 175,851</u>	<u>\$ 154,252</u>

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August 31, 2021 and 2020

The above amounts include approximately \$26,198,000 and \$21,926,000 of endowment funds for the benefit of the Academy of Music at August 31, 2021 and 2020, respectively.

The accompanying consolidated financial statements also include assets held in trust that are under the control of outside trustees. The fair value of the investments held in the trusts was approximately \$7,577,000 and \$6,447,000 on August 31, 2021 and 2020, respectively.

Certain of the Orchestra'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 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 the Association's assets measured at fair value on a recurring basis, as described in Note B, as of August 31, 2021 and 2020, and indicate the fair value hierarchy of the valuation techniques utilized by the Association to determine such fair value (in thousands):

Assets at Fair Value at August 31, 2021					
	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	\$ 230	\$ -	\$ -	\$ -	\$ 230
Mutual funds - fixed income	36,333	-	-	-	36,333
Mutual funds - inflation hedges	67	-	-	-	67
Mutual funds - equities	93,620	-	-	-	93,620
Limited partnership - real estate	-	-	-	225	225
Limited partnership - global equity	-	-	-	84,672	84,672
Private equity	-	-	-	3,500	3,500
Multi-strategy	-	-	-	9	9
Total investments	130,250	-	-	88,406	218,656
Beneficial interests in trusts	-	-	7,577	-	7,577
Total recurring financial assets	<u>\$ 130,250</u>	<u>\$ -</u>	<u>\$ 7,577</u>	<u>\$ 88,406</u>	<u>\$ 226,233</u>

The Philadelphia Orchestra Association

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August 31, 2021 and 2020

	Assets at Fair Value at August 31, 2020				
	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	\$ 316	\$ -	\$ -	\$ -	\$ 316
Mutual funds - fixed income	29,308	-	-	-	29,308
Mutual funds - inflation hedges	42	-	-	-	42
Mutual funds - equities	79,634	-	-	-	79,634
Limited partnership - real estate	-	-	-	315	315
Limited partnership - global equity	-	-	-	64,668	64,668
Private equity	-	-	-	1,559	1,559
Multi-strategy	-	-	-	9	9
Total investments	109,300	-	-	66,551	175,851
Beneficial interests in trusts	-	-	6,447	-	6,447
Total recurring financial assets	\$ 109,300	\$ -	\$ 6,447	\$ 66,551	\$ 182,298

The following table presents additional information about assets measured at fair value on a recurring basis and for which the Association has utilized Level 3 inputs to determine fair value for the years ended August 31, 2021 and 2020 (in thousands):

	Beneficial Interests in Trusts	
	2021	2020
Balance, beginning of year	\$ 6,447	\$ 5,854
Unrealized gains	1,130	593
Balance, end of year	\$ 7,577	\$ 6,447

In reference to the investments and other financial instruments held by the Association, 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.

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August 31, 2021 and 2020

Mutual Funds - Inflation Hedges: Mutual funds investing in a combination of commodity-linked derivative instruments (such as commodity-linked notes) and fixed income securities, index funds which measure the performance of inflation-protected public obligations of the U.S. Treasury, otherwise known as “TIPS,” and in funds that invest at least 80% of their assets in inflation-indexed bonds issued by the U.S. Government, its agencies and instrumentalities, and corporations. These financial instruments, valued using the market approach, are 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 trusts include money market funds, equity securities, fixed income securities, and mortgage securities. The interests in the trusts are valued using a market approach. These financial instruments are Level 3 in the fair value hierarchy.

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, 2021 and 2020 are as follows (in thousands):

	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2021	2020			
Limited partnerships ^(a)	\$ 84,897	\$ 64,983	\$ 301	(a)	(a)
Private equity ^(b)	3,500	1,559	4,296	(b)	(b)
Multi-strategy	9	9	-		
	<u>\$ 88,406</u>	<u>\$ 66,551</u>	<u>\$ 4,597</u>		

- ^(a) Limited Partnerships - GEF of TIFF was formed on May 10, 2017. GEF 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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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 - Millcreek Private Equity Fund V, L.P. ("MCPEF V") was formed on December 4, 2017. MCPEF V is a Delaware limited partnership formed as a fund of funds to provide an opportunity for qualified individuals and institutional investors to invest in a diversified portfolio of sub funds. The Fund's primary investment objective is to generate attractive risk-adjusted returns through the careful selection of broad and varied private equity portfolios. The Fund endeavors to maintain adequate levels of portfolio diversification by seeking to build a portfolio of approximately five to twenty investments and intending to limit allocation to one sub fund investment manager to 20% of the NAV of the Fund. An investor in the fund has no redemption rights and should anticipate holding its investment over the entire life of the fund. The general partner may, at any time, in its sole discretion, redeem all or any portion of an investor's interests on 30 business days prior written notice.

NOTE E - ENDOWMENTS

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

The Association'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 Trustees to function as endowments, held in investments, plus the following where the assets have been designated for endowment: pledges receivable, split-interest agreements, and other net assets.

Interpretation of Relevant Law

The Board of Trustees of the Association 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, the Association 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 the Association in a manner consistent with the Association's 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, 2021 and 2020, there were no funds with deficiencies.

Endowment Investment Guidelines

The Association's Investment Guidelines are to invest the Association's endowment assets in a generally accepted prudential manner and produce an average annual total return on investments over a five-year period of at least the sum of the spending formula distribution rate plus the direct cost of investing these funds (investment advisor, brokerage, investment manager, custodial fees, etc.) plus the current rate of inflation as measured by the U.S. Department of Labor's Consumer Price Index. The Investment and

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

Endowment Committee of the Board of Trustees is responsible for the oversight of the Association's endowment and pension assets.

The intent of the guidelines is to provide a predictable stream of funding to the Association's programs from its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity, board-designated funds, plus the following assets which have been designated for endowment: pledges receivable, split-interest agreements, and other net assets.

Endowment Spending Policy

The Association determines its spending policy on an annual basis. As approved by the Investment and Endowment Committee and in accordance with PA Act 141, the amount is calculated based on the average of the preceding 13-quarter unit values for each endowment pool multiplied by the average number of units for the preceding 12 months. The approved spending percentage is applied to each pool and, pursuant to PA Act 141, shall not be less than 2.0% or more than 7.0%. The Board has approved a spending percentage of 5.5% for both 2021 and 2020. This policy is applied to all endowments absent donor stipulations to the contrary.

The Association has an endowment agreement with the Annenberg Foundation (the "Foundation") for capital improvements to the Academy of Music, which caps the spending rate at 5.5% annually.

The Association has a separate endowment agreement with the Foundation for Orchestra activities, which also caps the spending rate at 5.5% after June 30, 2008. The Association applied a 5.5% spending rate in both 2021 and 2020 to these and all other endowment pools.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Management of the investments is provided on a fully discretionary basis by competent external money management firms selected by the Investment and Endowment Committee with the guidance of third-party investment advisors. Different investment managers have been employed over the years and have included a wide range of investments, including alternative strategies. The rationale for including alternative strategy managers for the Association's portfolio is to reduce some volatility, consistent with a goal of generating absolute return.

The Association has adopted an endowment spending policy which designates a portion of the cumulative investment return for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines and is classified within net assets with donor restrictions. This policy provides for spending a percentage of the average market value of the funds (as of August 31) for the prior thirteen quarters immediately preceding the fiscal year.

The spending amount calculated on the Academy's endowment that is transferred to the Orchestra is capped at 12.4% of the value of the rent agreement with KCI, which amounted to approximately \$16,000 and \$154,000 at August 31, 2021 and 2020, 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 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.

The Philadelphia Orchestra Association

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August 31, 2021 and 2020

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

	Without Donor Restrictions	With Donor Restrictions <i>(in thousands)</i>	Total
<u>September 1, 2020</u>			
Net assets, beginning of year	\$ 4,440	\$ 177,019	\$ 181,459
Investment return			
Investment income	45	2,032	2,077
Net realized gains	101	3,597	3,698
Net unrealized gains	907	39,322	40,229
Net investment return	1,053	44,951	46,004
Contributions	-	6,275	6,275
Appropriation of endowment assets for operations	(227)	(9,102)	(9,329)
Other changes			
Endowment campaign expenses	-	(291)	(291)
Change in estimate for annuities payable	-	144	144
Total other changes	-	(147)	(147)
Net assets, end of year	<u>\$ 5,266</u>	<u>\$ 218,996</u>	<u>\$ 224,262</u>

Endowment net asset composition by type of fund as of August 31, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions <i>(in thousands)</i>	Total
Donor-restricted endowment funds	\$ -	\$ 218,996	\$ 218,996
Board-designated funds	5,266	-	5,266
	<u>\$ 5,266</u>	<u>\$ 218,996</u>	<u>\$ 224,262</u>

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August 31, 2021 and 2020

Endowment Fund Activity

	Without Donor Restrictions	With Donor Restrictions <i>(in thousands)</i>	Total
<u>September 1, 2019</u>			
Net assets, beginning of year	\$ 4,107	\$ 159,934	\$ 164,041
Investment return			
Investment income	55	2,307	2,362
Net realized gains	4	282	286
Net unrealized gains	536	20,740	21,276
Net investment return	595	23,329	23,924
Contributions	-	2,235	2,235
Appropriation of endowment assets for operations	(118)	(8,578)	(8,696)
Other changes			
Redesignation of net assets	(144)	449	305
Change in estimate for annuities payable	-	(350)	(350)
Total other changes	(144)	99	(45)
Net assets, end of year	<u>\$ 4,440</u>	<u>\$ 177,019</u>	<u>\$ 181,459</u>

Endowment net asset composition by type of fund as of August 31, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions <i>(in thousands)</i>	Total
Donor-restricted endowment funds	\$ -	\$ 177,019	\$ 177,019
Board-designated funds	4,440	-	4,440
	<u>\$ 4,440</u>	<u>\$ 177,019</u>	<u>\$ 181,459</u>

NOTE F - ENDOWMENT ASSETS HELD BY OTHERS

The Association is the beneficiary of a number of irrevocable perpetual trusts held by third parties. The Association records the fair value of its interest in these trusts at approximately \$7,577,000 and \$6,447,000 at August 31, 2021 and 2020, respectively, in the accompanying consolidated statements of financial position. Distributions received from these trusts (approximately \$263,000 and \$250,000 in 2021 and 2020, respectively) are reported in the consolidated statements of activities. Changes in fair value of the trusts are reported as increases or decreases in net assets with donor restrictions.

The Association also is the beneficiary of a grant from the Foundation contributed in 2003. This grant is restricted to establish funds for Education, Touring, Media & Technology and Artistic Endeavors. During 2012, the Foundation and the Association collaborated on a new trust agreement to redefine the parameters

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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 the Association, on terms and conditions set forth in the Trust Agreement. The Trust Agreement contains conditional terms that preclude the Association from recording these assets on the consolidated statements of financial position as either investments or beneficial interests in trusts. A spending rate of 5.5% was applied for both the years ended August 31, 2021 and 2020. This draw from the Annenberg Endowment funds amounted to approximately \$2,671,000 for 2021 and \$2,610,000 for 2020 and is included in spending policy draw, designated for current operations in the consolidated statements of activities. The fair value of the Foundation assets held by The Northern Trust Company was approximately \$56,187,000 for August 31, 2021 and \$48,881,000 for August 31, 2020.

NOTE G - PROPERTY AND EQUIPMENT

The components of property and equipment at August 31, 2021 and 2020 were as follows (in thousands):

	2021	2020
Philadelphia Orchestra		
Office condominium	\$ 1,724	\$ 1,711
Building improvements	591	591
Equipment and other	9,096	8,593
Fine instruments	295	295
	<hr/>	<hr/>
Total	11,706	11,190
Less: accumulated depreciation	<hr/> (7,716)	<hr/> (7,202)
Total Philadelphia Orchestra	<hr/> 3,990	<hr/> 3,988
Academy of Music		
Land	630	630
Building and building improvements	85,453	83,817
Office equipment	995	995
	<hr/>	<hr/>
Total	87,078	85,442
Less: accumulated depreciation	<hr/> (59,345)	<hr/> (56,842)
Total Academy of Music	<hr/> 27,733	<hr/> 28,600
Total property and equipment, net	<hr/> \$ 31,723	<hr/> \$ 32,588

Depreciation expense related to the Orchestra was approximately \$514,000 and \$447,000 for the years ended August 31, 2021 and 2020, respectively. Depreciation expense related to the Academy is reflected in the Academy of Music expense on the consolidated statements of activities in the amount of approximately \$2,503,000 for both of the years ended August 31, 2021, and 2020.

NOTE H - POSTRETIREMENT BENEFIT OBLIGATION

The Association 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.

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Postretirement health insurance is provided to the Association'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. Premiums to be paid by the Association for these benefits are generally limited to \$2,000 per year for musicians and \$1,600 per year for all others.

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 approximately \$66,000 at both August 31, 2021 and 2020.

The Association's actuary has performed the computations for the postretirement health care obligation as of August 31, 2021 and 2020. Other changes recognized in other comprehensive income shown in the following tables is presented on the consolidated statements of activities in nonoperating revenue (expense) as other changes in postretirement benefit obligation. The calculation is as follows (in thousands):

	2021			
	Orchestra	Administrative	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 11,533	\$ 397	\$ 69	\$ 11,999
Service cost	136	-	-	136
Interest cost	255	9	2	266
Actuarial gain	(1,780)	(38)	(5)	(1,823)
Benefits paid	(252)	(45)	(8)	(305)
	<u>9,892</u>	<u>323</u>	<u>58</u>	<u>10,273</u>
Benefit obligation at end of year				
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	252	45	8	305
Benefits paid	(252)	(45)	(8)	(305)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fair value of plan assets at end of year				
Funded status at year end	<u>\$ 9,892</u>	<u>\$ 323</u>	<u>\$ 58</u>	<u>\$ 10,273</u>
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	<u>\$ 9,892</u>	<u>\$ 323</u>	<u>\$ 58</u>	<u>\$ 10,273</u>
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated (loss) gain	\$ (1,306)	\$ 116	\$ 11	\$ (1,179)
Cumulative employer contributions in excess of net periodic benefit cost	(8,586)	(439)	(69)	(9,094)
	<u>\$ (9,892)</u>	<u>\$ (323)</u>	<u>\$ (58)</u>	<u>\$ (10,273)</u>
Components of net periodic benefit cost				
Service cost	\$ 136	\$ -	\$ -	\$ 136
Interest cost	255	9	2	266
Actuarial loss (gain)	111	(17)	(1)	93
	<u>502</u>	<u>(8)</u>	<u>1</u>	<u>495</u>
Net periodic benefit cost				
Other changes recognized in other comprehensive income				
Net gain arising during period	\$ (1,780)	\$ (38)	\$ (5)	\$ (1,823)
Actuarial (gain) loss	(111)	16	1	(94)
	<u>(1,891)</u>	<u>(22)</u>	<u>(4)</u>	<u>(1,917)</u>
Total recognized in other comprehensive income				
	<u>\$ (1,891)</u>	<u>\$ (22)</u>	<u>\$ (4)</u>	<u>\$ (1,917)</u>

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August 31, 2021 and 2020

	2020			
	Orchestra	Administrative	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 10,140	\$ 388	\$ 68	\$ 10,596
Service cost	220	-	-	220
Interest cost	317	12	2	331
Actuarial loss	1,113	38	7	1,158
Benefits paid	(257)	(41)	(8)	(306)
Benefit obligation at end of year	<u>11,533</u>	<u>397</u>	<u>69</u>	<u>11,999</u>
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	257	41	8	306
Benefits paid	(257)	(41)	(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>\$ (11,533)</u>	<u>\$ (397)</u>	<u>\$ (69)</u>	<u>\$ (11,999)</u>
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	<u>\$ (11,533)</u>	<u>\$ (397)</u>	<u>\$ (69)</u>	<u>\$ (11,999)</u>
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated (loss) gain	\$ (3,197)	\$ 93	\$ 9	\$ (3,095)
Cumulative employer contributions in excess of net periodic benefit cost	(8,336)	(490)	(78)	(8,904)
	<u>\$ (11,533)</u>	<u>\$ (397)</u>	<u>\$ (69)</u>	<u>\$ 11,999</u>
Components of net periodic benefit cost				
Service cost	\$ 220	\$ -	\$ -	\$ 220
Interest cost	317	12	2	331
Actuarial loss (gain)	264	(9)	-	255
Net periodic benefit cost	<u>\$ 801</u>	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 806</u>
Other changes recognized in other comprehensive income				
Net loss arising during period	\$ 1,113	\$ 38	\$ 7	\$ 1,158
Actuarial (gain) loss	(264)	9	-	(255)
Total recognized in other comprehensive income	<u>\$ 849</u>	<u>\$ 47</u>	<u>\$ 7</u>	<u>\$ 903</u>

	2021		
	Orchestra	Administrative	Academy
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	2.56%	2.56%	2.56%
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	2.63%	2.63%	2.63%
Measurement date	8/31/21	8/31/21	8/31/21

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

	2020		
	<u>Orchestra</u>	<u>Administrative</u>	<u>Academy</u>
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	3.02%	3.02%	3.02%
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	2.56%	2.56%	2.56%
Measurement date	8/31/20	8/31/20	8/31/20

A one-percentage point change in amended healthcare cost trend rates would have the following effects for 2021 and 2020 (in thousands):

	2021	
	<u>1%-point Increase</u>	<u>1%-point Decrease</u>
Effect on total service cost and interest cost	\$ 80	\$ (64)
Effect on benefit obligation	1,684	(1,389)
	2020	
	<u>1%-point Increase</u>	<u>1%-point Decrease</u>
Effect on total service cost and interest cost	\$ 114	\$ (91)
Effect on benefit obligation	2,086	(1,703)

The following amounts will be amortized from accumulated other comprehensive income (which is part of accrued postretirement benefit obligation on the consolidated statements of financial position) into net periodic benefit cost over the next fiscal year:

Actuarial loss	\$ 28,000
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For measurement purposes, a 5.90% and 6.34% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2021 and 2020, respectively. The rate was assumed to decrease to a rate of 4.50% in 2038 by various percentage points annually.

Estimated future benefit payments for years ending after August 31, 2021 are as follows (in thousands):

<u>Year Ending August 31,</u>	<u>Orchestra</u>	<u>Administrative</u>	<u>Academy</u>
2022	\$ 304	\$ 43	\$ 8
2023	313	45	9
2024	329	47	9
2025	344	49	10
2026	375	53	10
Next 5 years	2,220	317	62

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

Contributions

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

Year Ending August 31,	Orchestra	Administrative	Academy
2022	\$ 267	\$ 38	\$ 7

NOTE I - DEFINED CONTRIBUTION RETIREMENT SAVINGS PLAN

The Association 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. The Association 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. The Association's contributions to the Retirement Plan for the years ended August 31, 2021 and 2020 were approximately \$1,275,000 and \$1,616,000, respectively.

NOTE J - LINE OF CREDIT

The Association has available a \$3,100,000 revolving credit facility. Under the agreement with the bank, the interest rate is 4.25% for 2021 and 2020. The facility is available for working capital and general operating and capital expenditures in the ordinary course of business. This agreement also requires the Association 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 expired on October 31, 2021 and was extended through October 31, 2022. The Association had no borrowings during the year and no amounts outstanding on this line of credit at August 31, 2021 and 2020 and through the date of financial statement issuance. The line of credit is collateralized by the Association's business assets, owned instruments, and music library.

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods at August 31, 2021 and 2020 (in thousands):

	2021	2020
Program expenditure for a specific time or purpose	\$ 11,615	\$ 9,667
Endowment funds subject to appropriation and spending	46,323	11,606
Endowment funds to be held in perpetuity	164,672	158,010
Beneficial interests in trusts	7,577	6,447
Pledges related to endowment	424	956
	<u>\$ 230,611</u>	<u>\$ 186,686</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

NOTE L - JOINT VENTURE

On July 1, 2001, the Association invested \$70,000 in a nonprofit joint venture. The joint venture ("Ticket Philadelphia") was entered into along with 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. This venture replaced the Association's ticketing operations. Operating results are to be shared in accordance with a formula agreed to by the parties. The Association is using the equity method of accounting to account for its share of the joint venture's activity. During the years ended August 31, 2021 and 2020, the Association recorded a loss of approximately \$298,000 and \$270,000, respectively, from Ticket Philadelphia for its share of losses from Ticket Philadelphia's operations.

NOTE M - CONTINGENCIES

The Association 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 the Association.

In March 2020, in response to the outbreak of COVID-19, the City of Philadelphia issued executive orders that there be no gatherings of over 250 people and subsequently ordered the closure of all non-essential businesses. In response to these executive orders, The Kimmel Center closed Verizon Hall. As is more fully described in Note N below, the Orchestra is party to a Sublease which governs the Orchestra's use of Verizon Hall. Upon the closing of Verizon Hall in March 2020, the Orchestra notified the Kimmel Center that pursuant to certain subsections of the Sublease, rent would be abated for that period in which Verizon Hall was unavailable. For the year ended August 31, 2020, the total abated rent amounted to \$355,000 and the Orchestra and the Kimmel Center continue to negotiate the exact amount of rent that will be due during the period in which Verizon Hall was unavailable for the year ended August 31, 2020. The Kimmel Center formally suspended the assessment of rent pursuant to the Sublease beginning 9/1/2020 through 8/31/2021. As such, there is no abatement amount or negotiation regarding rent for the year ended August 31, 2021 as Verizon Hall was closed for normal operations during this period. To the extent that Verizon Hall was used during the year ended August 31, 2021 for recording activities, or activities not involving in-person patron attendance, fees were assessed on a mutually agreeable, per-service rate and are reflected in the consolidated financial statements within Orchestra and Concert production expenses. Rent incurred was \$125,000 and \$1,247,000 for the years ended August 31, 2021 and 2020 respectively.

NOTE N - COMMITMENTS

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 Orchestra, the Academy and KCI (collectively, the "Parties") executed an Agreement and Modification of Sublease on May 21, 2012 and a Memorandum of Understanding on January 26, 2016 (collectively, the "Lease Modifications"), which are designed to improve and make more efficient the working relationship between the Parties and resolve certain claims that had arisen among them as a result of the Orchestra's bankruptcy in 2011.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

Commencing with the 2013 Orchestra Season through and including the 2027 Orchestra Season, Annual Rent under the Sublease as modified by the Lease Modifications shall be as follows:

- a. Fixed Component - Commencing with the 2018 Orchestra Season and annually thereafter through and including the 2027 Orchestra Season, Annual Rent (in the amount of \$1,740,000) shall increase or decrease by an amount equal to the increase or decrease in the Consumer Price Index.
- b. Revenue Sharing - Commencing with the 2018 Orchestra Season and annually thereafter through and including the 2027 Orchestra Season, Annual Rent shall be the greater of: (i) the Annual Rent then in effect or (ii) 16% of the Orchestra's ticket revenue from Verizon Hall concerts and Perelman Theater concerts.

Due to the impact of COVID-19 and related concert cancellations and the inability to utilize the hall, rent was reduced, and a fixed component was paid for both of the years ended August 31, 2021 and 2020 as noted above.

The Lease Modifications also call for certain additional performance fees to be paid by the Orchestra under the Sublease and provide for modification to the scheduling protocol of the Sublease.

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 approximately \$1,432,000 and \$1,255,000 at August 31, 2021 and 2020, respectively.

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 (the "Lease Term") commenced on April 1, 2014 and shall continue until March 31, 2023.

The minimum remaining rent per annum under the Lease shall be as follows:

<u>Fiscal Year</u>	<u>Minimum Rent per Annum</u>
2022	\$ 398,768
2023	235,360

Minimum rent shall be payable in equal monthly installments commencing on the first day of each month during the Lease Term without demand deduction or set-off, provided that the Association is not in default of its obligations under the Lease Term.

NOTE O - RELATED PARTIES

The Orchestra and the Kimmel Center, 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 the Kimmel Center by the Orchestra pursuant to the aforementioned agreement.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

For the years ended August 31, 2021 and 2020, the Orchestra received payments from the Kimmel Center and Ticket Philadelphia totaling approximately \$735,000 and \$1,256,000, respectively, for these services, which are recorded in the consolidated statements of activities.

From time to time, the Orchestra may purchase services from organizations that members of the Board of Directors have an ownership interest in or are employed by. There were no services purchased from organizations that Board members have an ownership interest in for the years ended August 31, 2021 and 2020.

Contribution revenue recorded from members of the Association's Board of Directors was approximately \$11,684,000 and \$5,382,000 for the years ended August 31, 2021, and 2020, respectively.

NOTE P - COLLECTIVE BARGAINING AGREEMENTS

The Orchestra had 161 full-time employees as of August 31, 2021, 93 of which were musicians and 3 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.

In April 2020, in response to the outbreak of COVID-19 and its negative impact on the Orchestra's earned revenue, the members of the AFM entered into a Memorandum of Agreement (the "April 2020 MOA"). The April 2020 MOA was effective March 30, 2020 through September 13, 2020 and reduced the compensation of the members pursuant to certain terms and conditions. In October 2020, the AFM entered into an additional COVID-19 related Memorandum of Agreement (the "October 2020 MOA") that amends the collective bargaining agreement between the Orchestra and AFM, which originally covered the period September 2019 through September 2023 (the "2019-2023 Trade Agreement"). The changes made to the 2019-2023 Trade Agreement in the October 2020 MOA were effective from September 14, 2020 through September 12, 2021 and modified certain terms and conditions related to the employment of personnel, compensation, and service/work rules. Beginning September 13, 2021, terms reverted to the original Trade agreement.

The aforementioned collective bargaining agreement with the AFM provides for the continuation of a Musicians' Appreciation Fund (the "Fund"), originally established in the prior AFM collective bargaining agreement, to which certain amounts may be credited by the Association to demonstrate its intention to commit to the future success of the Orchestra. During the term of the agreement, the Association will annually allocate a portion of the positive Change in Net Assets Without Donor Restrictions from Operating Activities in each fiscal year, as presented in the consolidated statement of activities of the Association's audited consolidated financial statements (the "Base"), to the Fund. The allocation to the Fund for a fiscal year shall be equal to 50% of the Base for such fiscal year up to a Fund maximum of \$500,000. The October 2020 MOA increased the maximum to \$750,000. The Fund amounted to \$750,000 and \$10,000 in fiscal years 2021 and 2020, respectively, which has been recorded as an expense in the consolidated statements of activities.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

NOTE Q - FUNCTIONAL EXPENSES

Expenses by functional and natural classification for the years ended August 31, 2021 and 2020 are as follows (in thousands):

	2021								
	Orchestra				Academy				
	Orchestra Activities	Management and General	Fundraising	Total Orchestra	Academy Event	Management and General	Fundraising	Total Academy	Total Expenses
Salaries and wages	\$ 13,929	\$ 3,450	\$ 1,304	\$ 18,683	\$ -	\$ 330	\$ 215	\$ 545	\$ 19,228
Benefits and taxes	4,216	1,269	430	5,915	-	-	9	9	5,924
Performing artists	1,247	-	-	1,247	50	-	-	50	1,297
Facilities and office expenses	383	914	149	1,446	28	-	9	37	1,483
Cultivation and special events	-	-	51	51	-	-	-	-	51
Professional fees	325	293	11	629	-	41	-	41	670
Other fees for service	-	666	675	1,341	43	55	2	100	1,441
Production and education program	934	-	-	934	97	-	4	101	1,035
Travel	1,195	41	14	1,250	-	-	-	-	1,250
Advertising and promotion	414	155	6	575	12	-	-	12	587
Information technology	-	852	-	852	-	-	-	-	852
Insurance	131	163	-	294	-	1	-	1	295
Other expenses	4	305	29	338	1	18	49	68	406
Bad debt expense	-	28	-	28	63	2	-	65	93
Gift in-kind expense	1	461	-	462	8	-	-	8	470
Depreciation	-	514	-	514	-	2,503	-	2,503	3,017
	<u>\$ 22,779</u>	<u>\$ 9,111</u>	<u>\$ 2,669</u>	<u>\$ 34,559</u>	<u>\$ 302</u>	<u>\$ 2,950</u>	<u>\$ 288</u>	<u>\$ 3,540</u>	<u>\$ 38,099</u>

	2020								
	Orchestra				Academy				
	Orchestra Activities	Management and General	Fundraising	Total Orchestra	Academy Concert and Ball	Management and General	Fundraising	Total Academy	Total Expenses
Salaries and wages	\$ 17,228	\$ 4,578	\$ 1,587	\$ 23,393	\$ 124	\$ 291	\$ 200	\$ 615	\$ 24,008
Benefits and taxes	5,046	1,431	522	6,999	84	2	28	114	7,113
Performing artists	2,887	-	-	2,887	321	-	-	321	3,208
Facilities and office expenses	1,533	1,089	209	2,831	99	-	18	117	2,948
Cultivation and special events	-	-	552	552	490	-	44	534	1,086
Professional fees	249	218	4	471	-	41	-	41	512
Other fees for service	-	658	624	1,282	184	66	88	338	1,620
Production and education program	1,055	-	-	1,055	158	-	-	158	1,213
Travel	1,950	79	20	2,049	11	-	1	12	2,061
Advertising and promotion	1,408	174	1	1,583	-	-	-	-	1,583
Information technology	-	1,014	-	1,014	-	-	-	-	1,014
Insurance	143	175	-	318	-	2	-	2	320
Other expenses	101	250	51	402	47	8	32	87	489
Bad debt expense	-	60	-	60	97	10	-	107	167
Gift in-kind expense	6	830	-	836	388	-	-	388	1,224
Depreciation	-	447	-	447	-	2,503	-	2,503	2,950
	<u>\$ 31,606</u>	<u>\$ 11,003</u>	<u>\$ 3,570</u>	<u>\$ 46,179</u>	<u>\$ 2,003</u>	<u>\$ 2,923</u>	<u>\$ 411</u>	<u>\$ 5,337</u>	<u>\$ 51,516</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

NOTE R - LIQUIDITY AND FUNDS AVAILABLE

As of August 31, 2021, financial assets and liquidity resources available within one year for general expenditure were as follows (in thousands):

	Orchestra	Academy	Total
Financial assets			
Cash and cash equivalents	\$ 27,655	\$ 2,438	\$ 30,093
Notes and accounts receivable, net	1,804	4	1,808
Pledge payments available for operations	2,712	593	3,305
Board designations			
Funds functioning as endowment available for operations	1,079	4,187	5,266
Estimated endowment payout within one year	8,945	1,008	9,953
Estimated third-party trust payments within one year	2,886	-	2,886
	<hr/>	<hr/>	<hr/>
Total financial assets available within one year	45,081	8,230	53,311
Liquidity resources			
Bank line of credit	3,100	-	3,100
	<hr/>	<hr/>	<hr/>
Total financial assets and liquidity resources available within one year	<u>\$ 48,181</u>	<u>\$ 8,230</u>	<u>\$ 56,411</u>

As of August 31, 2020, financial assets and liquidity resources available within one year for general expenditure were as follows (in thousands):

	Orchestra	Academy	Total
Financial assets			
Cash and cash equivalents	\$ 16,506	\$ 1,884	\$ 18,390
Notes and accounts receivable, net	386	139	525
Pledge payments available for operations	2,855	48	2,903
Board designations			
Funds functioning as endowment available for operations	897	3,543	4,440
Estimated endowment payout within one year	7,838	751	8,589
Estimated third-party trust payments within one year	2,920	-	2,920
	<hr/>	<hr/>	<hr/>
Total financial assets available within one year	31,402	6,365	37,767
Liquidity resources			
Bank line of credit	3,100	-	3,100
	<hr/>	<hr/>	<hr/>
Total financial assets and liquidity resources available within one year	<u>\$ 34,502</u>	<u>\$ 6,365</u>	<u>\$ 40,867</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2021 and 2020

NOTE S - SUBSEQUENT EVENTS

The Association evaluated its August 31, 2021 consolidated financial statements for subsequent events through February 4, 2022, the date the consolidated financial statements were available to be issued. Except as disclosed below and within Notes B and J, the Association is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

The Philadelphia Orchestra Association ("POA") and the 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 will enable POA and KCI to operate in a strategically aligned and coordinated manner in order 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") — to serve as the common controlling member/parent of POA and KCI, with full representation from the existing POA and KCI boards. The transaction was closed on December 2, 2021, and associated filings were made on December 3, 2021.

The 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 its respective tax-exempt mission and purposes. Each will maintain separate financial statements and perform an annual audit, notwithstanding that the parties' financial statements may be consolidated with POKC's. Each of the Orchestra and the Kimmel Center shall continue to hold, manage, and use its endowed and otherwise donor-restricted assets (including those held by its respective subordinate organizations) consistent with the restrictions that apply to such assets and pursuant to the terms of their respective gift instruments.

SUPPLEMENTARY INFORMATION

The Philadelphia Orchestra Association

**SCHEDULES OF CHANGES IN NET ASSETS
WITHOUT DONOR RESTRICTIONS FROM OPERATING ACTIVITIES**

Years ended August 31,
(Dollars in thousands)

	2021	2020
Performance revenue		
Philadelphia concerts	\$ 434	\$ 4,933
Other concerts	1,344	1,763
Tours	-	1,876
Recording, radio and television	312	210
	<u>2,090</u>	<u>8,782</u>
Performance expense		
Orchestra and concert production	21,432	29,576
Concert promotion expenses	484	1,587
Recording, radio and television	863	443
	<u>22,779</u>	<u>31,606</u>
Performance deficit	(20,689)	(22,824)
Other operating revenue		
Annual public support	12,820	13,859
Volunteer project revenue	328	330
CARES Act related grants and other income	5,916	5,486
Spending policy draw, designated for current operations	10,853	10,529
Income from beneficial interests in trusts	263	250
Other revenues	1,105	1,862
Gifts in kind	441	826
Equity loss in joint venture	(298)	(270)
Academy Event revenue, net	157	7
Net assets released from restrictions	3,691	4,538
	<u>35,276</u>	<u>37,417</u>
Total other operating revenue		
Other operating expense		
Fundraising expenses		
Annual fundraising	2,331	2,747
Global initiatives and government relations	252	575
Volunteer project	86	248
	<u>2,669</u>	<u>3,570</u>
Management and general		
Administrative expense	8,569	10,496
Bad debt expense	28	60
Depreciation	514	447
	<u>11,780</u>	<u>14,573</u>
Total other operating expense		
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	<u>\$ 2,807</u>	<u>\$ 20</u>

The Academy of Music of Philadelphia, Inc.

STATEMENTS OF FINANCIAL POSITION

August 31,
(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,438	\$ 1,884
Trade accounts receivable	4	139
Due from The Philadelphia Orchestra Association	142	82
Pledges receivable, net	593	48
Prepaid expenses and other assets	-	1
Investments	26,198	21,926
Property and equipment, net	<u>27,733</u>	<u>28,601</u>
Total assets	<u>\$ 57,108</u>	<u>\$ 52,681</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 289	\$ 7
Accrued expenses	90	43
Accrued postretirement benefit obligation	<u>57</u>	<u>70</u>
Total liabilities	436	120
Net assets		
Without donor restrictions	33,576	34,134
With donor restrictions	<u>23,096</u>	<u>18,427</u>
Total net assets	<u>56,672</u>	<u>52,561</u>
Total liabilities and net assets	<u>\$ 57,108</u>	<u>\$ 52,681</u>

The Academy of Music of Philadelphia, Inc.

STATEMENT OF ACTIVITIES

Year ended August 31, 2021
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Academy Event revenue	\$ 616	\$ -	\$ 616
Academy Event expense	(302)	-	(302)
Transfer of Academy Event proceeds to The Philadelphia Orchestra Association	(157)	-	(157)
Academy Event revenue, net	157	-	157
Annual public support	706	1,071	1,777
Spending policy draw	1,161	-	1,161
Other revenue	15	-	15
Total other revenue	1,882	1,071	2,953
Expenses			
Administrative expenses	447	-	447
Fundraising expenses	288	-	288
Total expenses	735	-	735
Change in net assets from operations	1,304	1,071	2,375
Nonoperating (expense) revenue			
Depreciation	(2,503)	-	(2,503)
Investment return, net of spending policy	644	3,598	4,242
Transfer of endowment earnings to The Philadelphia Orchestra Association for Academy of Music base rent	(16)	-	(16)
Other changes in postretirement benefit obligation	13	-	13
	(1,862)	3,598	1,736
CHANGE IN NET ASSETS	(558)	4,669	4,111
Net assets, beginning of year	34,134	18,427	52,561
Net assets, end of year	\$ 33,576	\$ 23,096	\$ 56,672

The Academy of Music of Philadelphia, Inc.

STATEMENT OF ACTIVITIES

Year ended August 31, 2020
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Academy Concert and Ball revenue	\$ 1,891	\$ -	\$ 1,891
Academy Concert and Ball expense	(2,003)	-	(2,003)
Transfer of Academy Concert and Ball proceeds to The Philadelphia Orchestra Association	(7)	-	(7)
Net assets released for the Academy Concert and Ball	126	(126)	-
Academy Concert and Ball revenue (expense), net	7	(126)	(119)
Annual public support	438	-	438
Spending policy draw	929	-	929
Net assets released from restrictions	4	(4)	-
Total other revenue	1,371	(4)	1,367
Expenses			
Administrative expenses	420	-	420
Fundraising expenses	411	-	411
Total expenses	831	-	831
Change in net assets from operations	547	(130)	417
Nonoperating (expense) revenue			
Depreciation	(2,503)	-	(2,503)
Investment return, net of spending policy	402	1,588	1,990
Transfer of endowment earnings to The Philadelphia Orchestra Association for Academy of Music base rent	(154)	-	(154)
Redesignation of net assets	(107)	107	-
Other changes in postretirement benefit obligation	1	-	1
	(2,361)	1,695	(666)
CHANGE IN NET ASSETS	(1,814)	1,565	(249)
Net assets, beginning of year	35,948	16,862	52,810
Net assets, end of year	\$ 34,134	\$ 18,427	\$ 52,561