

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

The Philadelphia Orchestra Association

August 31, 2023 and 2022

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated statements of financial position	6
Consolidated statements of activities	7
Consolidated statements of cash flows	9
Notes to the consolidated financial statements	10
Supplementary Information	
The Academy of Music of Philadelphia, Inc. statements of financial position	37
The Academy of Music of Philadelphia, Inc. statements of activities	38

GRANT THORNTON LLP

Two Commerce Square
2001 Market Street, Suite 700
Philadelphia, PA 19103

D +1 215 561 4200

F +1 215 561 1066

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Philadelphia Orchestra Association

Opinion

We have audited the 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, 2023 and 2022, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of August 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. 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, 2023 and 2022 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 such 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 US GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania
February 8, 2024

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31,
(Dollars in thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 18,576	\$ 22,046
Trade accounts receivable, net	4,016	3,806
Prepaid expenses and other assets	2,077	2,231
Pledges receivable, net	20,857	17,891
Notes receivable	380	500
Investments	201,778	186,754
Beneficial interests in trusts	7,005	6,629
Right-of-use asset, net	7,467	-
Property and equipment, net	28,138	30,008
	<u>290,294</u>	<u>269,865</u>
Total assets	<u>\$ 290,294</u>	<u>\$ 269,865</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,268	\$ 2,175
Accrued expenses and other liabilities	1,671	2,075
Deferred revenue	5,740	4,571
Annuities payable	1,187	1,216
Lease liability	7,623	-
Accrued postretirement benefit obligation	7,254	7,502
	<u>24,743</u>	<u>17,539</u>
Total liabilities	<u>24,743</u>	<u>17,539</u>
Net assets		
Without donor restrictions	39,300	40,028
With donor restrictions	226,251	212,298
	<u>265,551</u>	<u>252,326</u>
Total net assets	<u>265,551</u>	<u>252,326</u>
Total liabilities and net assets	<u>\$ 290,294</u>	<u>\$ 269,865</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, 2023
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Performance revenue			
Philadelphia concerts	\$ 6,077	\$ -	\$ 6,077
Other concerts	6,752	-	6,752
Tours	1,884	-	1,884
Recording, radio and television	282	-	282
Total performance revenue	14,995	-	14,995
Performance expense			
Orchestra and concert production	37,898	-	37,898
Concert promotion expenses	1,446	-	1,446
Recording, radio and television	603	-	603
Total performance expense	39,947	-	39,947
Performance deficit	(24,952)	-	(24,952)
Other operating revenue			
Annual public support	15,088	6,849	21,937
Volunteer project revenue	287	697	984
Spending policy draw, designated for current operations	12,741	-	12,741
Income from beneficial interests in trusts	264	-	264
Other revenues	2,854	-	2,854
Gifts in kind	159	-	159
Equity gain in joint venture	204	-	204
Academy event revenue, net	86	-	86
Net assets released from restrictions			
Satisfaction of program restrictions	2,514	(2,514)	-
Satisfaction of time restrictions	8,663	(8,663)	-
Total other operating revenue	42,860	(3,631)	39,229
Other operating expense			
Fundraising expenses			
Annual fundraising	2,193	-	2,193
Global initiatives and government relations	244	-	244
Volunteer project	303	-	303
Total fundraising expenses	2,740	-	2,740
Management and general			
Administrative expense	14,520	-	14,520
Bad debt expense	70	-	70
Depreciation	578	-	578
Total management and general	15,168	-	15,168
Total other operating expense	17,908	-	17,908
Transfer to POKC - administrative expenses of subsidiary (see Note O)	3,211	-	3,211
Transfer from POKC - income allocation to cover expenses (see Note O)	(3,211)	-	(3,211)
Change in net assets from operating activities	-	(3,631)	(3,631)
Nonoperating activity			
Endowment contributions	-	10,288	10,288
Investment return, net of spending policy draw	305	8,204	8,509
Spending policy draw, designated for Academy of Music	848	-	848
Academy of Music revenue	1,461	-	1,461
Academy of Music expense, including depreciation of \$2,414	(3,970)	-	(3,970)
Net assets released from restrictions - Academy of Music	406	(406)	-
Endowment campaign expenses	-	(502)	(502)
Other changes in postretirement benefit obligation	222	-	222
Total nonoperating (expense) revenue	(728)	17,584	16,856
CHANGE IN NET ASSETS	(728)	13,953	13,225
Net assets, beginning	40,028	212,298	252,326
Net assets, ending	\$ 39,300	\$ 226,251	\$ 265,551

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

The Philadelphia Orchestra Association
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2022
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Performance revenue			
Philadelphia concerts	\$ 5,124	\$ -	\$ 5,124
Other concerts	5,306	-	5,306
Tours	1,752	-	1,752
Recording, radio and television	254	-	254
Total performance revenue	12,436	-	12,436
Performance expense			
Orchestra and concert production	36,439	-	36,439
Concert promotion expenses	893	-	893
Recording, radio and television	776	-	776
Total performance expense	38,108	-	38,108
Performance deficit	(25,672)	-	(25,672)
Other operating revenue			
Annual public support	15,291	11,875	27,166
Volunteer project revenue	169	529	698
COVID-19 related grants and other income	8,025	-	8,025
Spending policy draw, designated for current operations	12,165	-	12,165
Income from beneficial interests in trusts	264	-	264
Other revenues	1,929	-	1,929
Gifts in kind	2	-	2
Equity gain in joint venture	225	-	225
Academy event revenue, net	289	-	289
Net assets released from restrictions			
Satisfaction of program restrictions	2,509	(2,509)	-
Satisfaction of time restrictions	1,139	(1,139)	-
Total other operating revenue	42,007	8,756	50,763
Other operating expense			
Fundraising expenses			
Annual fundraising	2,209	-	2,209
Global initiatives and government relations	222	-	222
Volunteer project	78	-	78
Total fundraising expenses	2,509	-	2,509
Management and general			
Administrative expense	11,940	-	11,940
Bad debt expense	22	-	22
Depreciation	673	-	673
Total management and general	12,635	-	12,635
Total other operating expense	15,144	-	15,144
Transfer to POKC - administrative expenses of subsidiary (see Note O)	2,218	-	2,218
Transfer from POKC - income allocation to cover expenses (see Note O)	(2,218)	-	(2,218)
Change in net assets from operating activities	1,191	8,756	9,947
Nonoperating activity			
Endowment contributions	-	17,411	17,411
Investment return, net of spending policy draw	(1,014)	(43,542)	(44,556)
Spending policy draw, designated for Academy of Music	994	-	994
Academy of Music revenue	1,349	185	1,534
Academy of Music expense, including depreciation of \$2,515	(4,100)	-	(4,100)
Net assets released from restrictions - Academy of Music	715	(715)	-
Endowment campaign expenses	-	(408)	(408)
Other changes in postretirement benefit obligation	2,796	-	2,796
Total nonoperating revenue (expense)	740	(27,069)	(26,329)
CHANGE IN NET ASSETS	1,931	(18,313)	(16,382)
Net assets, beginning	38,097	230,611	268,708
Net assets, ending	\$ 40,028	\$ 212,298	\$ 252,326

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)**

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 13,225	\$ (16,382)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,992	3,188
Provision for bad debt expense	73	24
Change in investment in joint venture	(204)	(225)
Endowment contributions received	(10,288)	(17,411)
Net realized and unrealized (gain) loss on investments	(16,453)	35,607
Change in beneficial interests in trusts	(376)	948
Other changes in postretirement benefit obligation	222	2,796
Changes in assets and liabilities:		
Trade accounts receivable	(210)	(2,049)
Prepaid expenses and other assets	359	(712)
Pledges receivable	(3,039)	(13,515)
Right-of-use asset, net	(7,467)	-
Accounts payable, accrued expenses and other liabilities	(1,154)	(1,730)
Deferred revenue	1,169	(4,940)
Annuities payable	(29)	(337)
Lease liability	7,623	-
Accrued postretirement benefit obligation	(628)	(5,567)
Net cash used in operating activities	(14,185)	(20,305)
Cash flows from investing activities:		
Purchases of investments	(24,508)	(31,726)
Proceeds from sales of investments	25,937	28,021
Purchases of property, plant and equipment	(1,122)	(1,473)
Loan disbursements to employees	-	(400)
Repayments of employee loans	120	50
Net cash provided by (used in) investing activities	427	(5,528)
Cash flows from financing activities:		
Endowment contributions received	10,288	17,411
Net cash provided by financing activities	10,288	17,411
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,470)	(8,422)
Cash and cash equivalents, beginning of year	22,046	30,468
Cash and cash equivalents, end of year	<u>\$ 18,576</u>	<u>\$ 22,046</u>
Supplemental cash flow data:		
Noncash investing activities		
Change in accrued construction expenses	<u>\$ (21)</u>	<u>\$ (99)</u>

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

The Philadelphia Orchestra Association
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2023 and 2022

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 subsidiary, 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”), 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 method investment.

The Orchestra and 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 the Orchestra and KCI to operate in a strategically aligned and coordinated manner to create a more powerful and expansive artistic footprint by establishing a new 501(c)(3) organization: The Philadelphia Orchestra and Kimmel Center, Inc. (“POKC”). POKC serves as the common controlling member/parent of the Orchestra and KCI, with full representation from the original Orchestra and KCI boards. The transaction was closed on December 2, 2021, and the associated filings were made on December 3, 2021.

The Orchestra 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.

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 return, net of spending policy draw and changes in postretirement benefit obligation. In addition, all activities of the Academy are included in nonoperating revenue (expense).

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.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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 \$4,556,000 and \$4,251,000 of the Association's net assets without donor restrictions as of August 31, 2023 and 2022, respectively, have been designated by the Board of Directors to function as endowment.
- 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 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.

Cash equivalents in the Association's endowment are considered long-term investments. Cash equivalents that are part of endowment investments are shown therewith, as such funds are utilized for endowment purposes rather than Association operating needs and, therefore, are not included in cash and cash equivalents for purposes of preparing the statement of cash flows.

Investments

The Association records its investments at fair value. Debt securities, equity securities and mutual funds are valued at quoted market prices. The estimated fair value of alternative investments for which quoted market prices are not available is based upon net asset value ("NAV") as a practical expedient, which is provided by external investment managers as of August 31, 2023 and 2022. Because such investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

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

The principal objective of 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,

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

and the employment of outside experts. At August 31, 2023 and 2022, 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;
- 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

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 repayable over five years. As of August 31, 2023 and 2022, the outstanding balance on the loan was \$80,000 and \$100,000, respectively. During the year ended August 31, 2022, the Association provided a housing relocation loan to the music director in the amount of \$400,000. The loan is secured, interest-bearing at 1.26%, and repayable over four years. As of August 31, 2023, the outstanding balance on the loan was \$300,000.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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, 2023 and 2022 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

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.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Performance and Other Earned Revenue

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.

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.

In the following table, performance and other earned revenue is disaggregated by major type as of August 31, 2023 and 2022 (in thousands):

	2023	2022
Philadelphia concerts	\$ 6,077	\$ 5,124
Education series	117	-
Other Philadelphia concerts	2,164	1,553
Contracted services in Philadelphia	879	179
Contracted services - runouts	1,896	1,928
Residencies and touring	3,580	3,398
Recording, radio and television	282	254
Shared services and other	2,854	1,929
Total earned revenue	<u>\$ 17,849</u>	<u>\$ 14,365</u>

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 Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

the related program or supporting service category when identifiable and possible. Certain operating expenses are allocated based on estimates of time and effort.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. The new standard, as amended, was effective for fiscal years beginning after December 15, 2021, and established a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities.

The Association adopted the new standard effective September 1, 2022 and elected the option to apply the transition requirements in the standard. Consequently, financial information will not be updated, and the disclosures required under the standard will not be provided, for dates and periods before September 1, 2022. The new standard provides several optional practical expedients in transition. The Association has elected the "package of practical expedients," which permits entities to not reassess conclusions prior to the implementation of the new standard about lease identification, lease classification, and initial direct costs.

The most significant effects on the consolidated financial statements relate to: (1) the recognition of new ROU assets and lease liabilities on the statements of financial position for existing operating leases; and (2) providing significant new disclosures about leasing activities. The impact on the September 1, 2022, statement of financial position is the recognition of ROU assets and corresponding lease liability of \$8,210,000 based on the present value of the remaining minimum rental payments for existing operating leases. The new standard also provides practical expedients for an entity's ongoing accounting. The Association has elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Association will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases.

Recently Issued Accounting Pronouncements

ASU 2016-13, *Financial Instruments - Credit Losses*, will be effective for the Association for the year ending August 31, 2024. This ASU addresses measurement of credit losses on financial instruments and replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of information to inform credit loss estimates. The Association is currently evaluating the ASU, but it is not expected to have a significant impact on the Association's consolidated financial statements.

Impact of COVID-19

The Association has resumed pre-pandemic operations including in-person office work and resumption of in-person concert performances. The Association took measures to mitigate the impact of the pandemic, including application and receipt of government assistance in the form of grants and tax credits in both 2023 and 2022. The Association will continue to monitor the effects of the pandemic going forward.

The Orchestra 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 ("ARP") Act. Eligible applicants qualified for grants equal to a certain percentage of their gross earned revenue, with the maximum amount available for a single grant award of \$10 million.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

The Orchestra's initial SVOG grant in the amount of \$7,250,000 was awarded and received in June 2021 and reflected as deferred revenue as of August 31, 2021 as the conditions for revenue recognition (incurrence of qualified expenditures) had not yet occurred. The Orchestra received a supplemental grant in the amount of \$750,000 which was awarded and received in November 2021. The SVOG grants are reflected in fiscal year 2022 operations within the consolidated statement of activities because of the timing and nature of the related, qualified expenditures incurred during the year ended August 31, 2022.

NOTE C - PLEDGES RECEIVABLE

Pledges receivable at August 31, 2023 and 2022 were expected to be collected as follows (in thousands):

	2023			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	\$ 8,289	\$ 100	\$ 1,867	\$ 10,256
Two to five years	5,074	100	6,420	11,594
Total pledges receivable	13,363	200	8,287	21,850
Less: allowance for uncollectible pledges	(42)	(10)	(10)	(62)
Subtotal	13,321	190	8,277	21,788
Less: unamortized discount	(282)	(8)	(641)	(931)
Net present value of pledges receivable	\$ 13,039	\$ 182	\$ 7,636	\$ 20,857
Activity during year				
Balance, beginning of year	\$ 11,814	\$ 570	\$ 5,507	\$ 17,891
Cash received	(9,287)	(830)	(4,598)	(14,715)
New pledges received	10,382	438	7,000	17,820
Bad debt expense	(7)	(3)	-	(10)
Amortization of discount	137	7	(273)	(129)
Balance, end of year	\$ 13,039	\$ 182	\$ 7,636	\$ 20,857

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

	2022			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	\$ 5,710	\$ 445	\$ 2,055	\$ 8,210
Two to five years	6,565	150	3,831	10,546
Total pledges receivable	12,275	595	5,886	18,756
Less: allowance for uncollectible pledges	(42)	(10)	(10)	(62)
Subtotal	12,233	585	5,876	18,694
Less: unamortized discount	(419)	(15)	(369)	(803)
Net present value of pledges receivable	\$ 11,814	\$ 570	\$ 5,507	\$ 17,891
Activity during year				
Balance, beginning of year	\$ 3,383	\$ 593	\$ 424	\$ 4,400
Cash received	(8,968)	(721)	(5,000)	(14,689)
New pledges received	17,815	713	10,400	28,928
Bad debt expense	(12)	-	-	(12)
Amortization of discount	(404)	(15)	(317)	(736)
Balance, end of year	\$ 11,814	\$ 570	\$ 5,507	\$ 17,891

The Association uses fair value rates ranging from 3.06% - 6.54% to discount its pledges receivable.

NOTE D - INVESTMENTS

At August 31, 2023 and 2022, the fair value of investments was as follows (in thousands):

	2023	2022
Cash equivalents	\$ 1,236	\$ 659
Mutual funds - fixed income	30,685	29,400
Mutual funds - equities	90,055	83,592
Limited partnership - real estate	197	224
Limited partnership - global equity	72,361	67,510
Private equity	7,244	5,369
Total fair value of investments	\$ 201,778	\$ 186,754

The above amounts include approximately \$25,325,000 and \$21,135,000 of endowment funds for the benefit of the Academy at August 31, 2023 and 2022, respectively.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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 \$7,005,000 and \$6,629,000 on August 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023					
	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 equivalents	\$ 1,236	\$ -	\$ -	\$ -	\$ 1,236
Mutual funds - fixed income	30,685	-	-	-	30,685
Mutual funds - equities	90,055	-	-	-	90,055
Limited partnership - real estate	-	-	-	197	197
Limited partnership - global equity	-	-	-	72,361	72,361
Private equity	-	-	-	7,244	7,244
Total investments	121,976	-	-	79,802	201,778
Beneficial interests in trusts	-	-	7,005	-	7,005
Total assets	<u>\$ 121,976</u>	<u>\$ -</u>	<u>\$ 7,005</u>	<u>\$ 79,802</u>	<u>\$ 208,783</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Assets at Fair Value at August 31, 2022					
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at NAV	Total
Investments					
Cash equivalents	\$ 659	\$ -	\$ -	\$ -	\$ 659
Mutual funds - fixed income	29,400	-	-	-	29,400
Mutual funds - equities	83,592	-	-	-	83,592
Limited partnership - real estate	-	-	-	224	224
Limited partnership - global equity	-	-	-	67,510	67,510
Private equity	-	-	-	5,369	5,369
Total investments	113,651	-	-	73,103	186,754
Beneficial interests in trusts	-	-	6,629	-	6,629
Total assets	<u>\$ 113,651</u>	<u>\$ -</u>	<u>\$ 6,629</u>	<u>\$ 73,103</u>	<u>\$ 193,383</u>

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, 2023 and 2022 (in thousands):

	Beneficial Interests in Trusts	
	2023	2022
Balance, beginning of year	\$ 6,629	\$ 7,577
Unrealized gains (losses)	376	(948)
Balance, end of year	<u>\$ 7,005</u>	<u>\$ 6,629</u>

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

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

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

Limited Partnerships: As a “fund-of-funds,” the partnership’s investments consist of underlying funds that invest in office, apartment, retail, industrial or other commercial real estate, or in real estate-related

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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. Beneficial interests in trusts 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, 2023 and 2022 are as follows (in thousands):

	Fair Value		Unfunded	Redemption	Redemption
	2023	2022	Commitments	Frequency	Notice Period
Limited partnerships ^(a)	\$ 72,558	\$ 67,734	\$ 301	(a)	(a)
Private equity ^(b)	7,244	5,369	6,184	(b)	(b)
	<u>\$ 79,802</u>	<u>\$ 73,103</u>	<u>\$ 6,485</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 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.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

NOTE E - ENDOWMENTS

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

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

Interpretation of Relevant Law

The Board of Directors 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, 2023, there were no funds with deficiencies. As of August 31, 2022, there were 27 funds, which together had an original gift value of approximately \$64,157,000, a current fair value of approximately \$63,867,000, and a deficiency of approximately \$290,000. These deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new donor-restricted contributions. Over time, these may reverse due to appreciation of the underlying investments. The funds affected include those designated for artistic or education purposes, such as endowed musician chairs and education activities.

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 Committee of the POKC 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.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Endowment Spending Policy

The Association determines its spending policy on an annual basis. As approved by the POKC Investment 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 2023 and 2022. 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, 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 2023 and 2022 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 POKC Investment 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 \$212,000 and \$231,000 at August 31, 2023 and 2022, 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Endowment Fund Activity

Endowment Fund Activity as of August 31, 2023 is as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year ended August 31, 2023</u>			
Net assets, beginning of year	\$ 4,251	\$ 192,458	\$ 196,709
Net investment return	444	18,928	19,372
Contributions	-	10,288	10,288
Appropriation of endowment assets for operations	(139)	(10,721)	(10,860)
Other changes			
Endowment campaign expenses	-	(502)	(502)
Change in estimate for annuities payable	-	(4)	(4)
Total other changes	-	(506)	(506)
Net assets, end of year	<u>\$ 4,556</u>	<u>\$ 210,447</u>	<u>\$ 215,003</u>

Endowment net asset composition by type of fund as of August 31, 2023 is as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 210,447	\$ 210,447
Board-designated funds	<u>4,556</u>	<u>-</u>	<u>4,556</u>
	<u>\$ 4,556</u>	<u>\$ 210,447</u>	<u>\$ 215,003</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Endowment Fund Activity

Endowment Fund Activity as of August 31, 2022 is as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year ended August 31, 2022</u>			
Net assets, beginning of year	\$ 5,266	\$ 218,996	\$ 224,262
Net investment return	(773)	(33,435)	(34,208)
Contributions	-	17,411	17,411
Appropriation of endowment assets for operations	(242)	(10,300)	(10,542)
Other changes			
Endowment campaign expenses	-	(408)	(408)
Change in estimate for annuities payable	-	194	194
Total other changes	-	(214)	(214)
Net assets, end of year	<u>\$ 4,251</u>	<u>\$ 192,458</u>	<u>\$ 196,709</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 192,458	\$ 192,458
Board-designated funds	4,251	-	4,251
	<u>\$ 4,251</u>	<u>\$ 192,458</u>	<u>\$ 196,709</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 recorded the fair value of its interest in these trusts at approximately \$7,005,000 and \$6,629,000 at August 31, 2023 and 2022, respectively, in the accompanying consolidated statements of financial position. Distributions received from these trusts (approximately \$264,000 in both 2023 and 2022) are reported in the consolidated statements of activities. Changes in the 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 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.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

as either investments or beneficial interests in trusts. A spending rate of 5.5% was applied for both the years ended August 31, 2023 and 2022. This draw from the Annenberg Endowment funds amounted to approximately \$2,734,000 for 2023 and \$2,625,000 for 2022 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 \$46,868,000 for August 31, 2023 and \$45,938,000 for August 31, 2022.

NOTE G - PROPERTY AND EQUIPMENT

The components of property and equipment at August 31, 2023 and 2022 were as follows (in thousands):

	2023	2022
Philadelphia Orchestra		
Office condominium	\$ 1,735	\$ 1,735
Building improvements	591	591
Equipment and other	10,421	9,943
Fine instruments	295	295
	<hr/>	<hr/>
Total	13,042	12,564
Less: accumulated depreciation	<hr/> (8,967)	<hr/> (8,389)
Total Philadelphia Orchestra	<hr/> 4,075	<hr/> 4,175
Academy of Music		
Land	630	630
Building and building improvements	86,712	86,068
Office equipment	995	995
	<hr/>	<hr/>
Total	88,337	87,693
Less: accumulated depreciation	<hr/> (64,274)	<hr/> (61,860)
Total Academy of Music	<hr/> 24,063	<hr/> 25,833
Total property and equipment, net	<hr/> \$ 28,138	<hr/> \$ 30,008

Depreciation expense related to the Orchestra was \$578,000 and \$673,000 for the years ended August 31, 2023 and 2022, 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 \$2,414,000 and \$2,515,000 for the years ended August 31, 2023 and 2022, respectively.

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.

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,

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

generally for employees who retire after age 62 and with 30 years of service. For the year ended August 31, 2023, premiums paid by the Association for these benefits amounted to \$8,000 per person.

The Association's actuary has performed the computations for the postretirement health care obligation as of August 31, 2023 and 2022. 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):

	2023			
	Orchestra	Administrative	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 7,164	\$ 290	\$ 48	\$ 7,502
Service cost	41	-	-	41
Interest cost	341	14	3	358
Actuarial (gain) loss	(347)	9	4	(334)
Benefits paid	(269)	(36)	(8)	(312)
Benefit obligation at end of year	<u>6,930</u>	<u>277</u>	<u>47</u>	<u>7,254</u>
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	269	36	8	313
Benefits paid	(269)	(36)	(8)	(313)
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Funded status at year end	<u>\$ (6,930)</u>	<u>\$ (277)</u>	<u>\$ (47)</u>	<u>\$ (7,254)</u>
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	<u>\$ (6,930)</u>	<u>\$ (277)</u>	<u>\$ (47)</u>	<u>\$ (7,254)</u>
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated gain	\$ 1,733	\$ 96	\$ 11	\$ 1,840
Cumulative employer contributions in excess of net periodic benefit cost	(8,663)	(373)	(58)	(9,094)
	<u>\$ (6,930)</u>	<u>\$ (277)</u>	<u>\$ (47)</u>	<u>\$ (7,254)</u>
Components of net periodic benefit cost				
Service cost	\$ 41	\$ -	\$ -	\$ 41
Interest cost	341	14	3	358
Actuarial gain	(99)	(12)	(1)	(112)
Net periodic benefit cost	<u>\$ 283</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 287</u>
Other changes recognized in other nonoperating revenue (expense)				
Net (gain) loss arising during period	\$ (347)	\$ 9	\$ 4	\$ (334)
Actuarial gain	99	12	1	112
Total recognized in other nonoperating (expense) revenue	<u>\$ (248)</u>	<u>\$ 21</u>	<u>\$ 5</u>	<u>\$ (222)</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

	2023		
	Orchestra	Administrative	Academy
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	4.72%	4.72%	4.72%
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	5.37%	5.37%	5.37%
Measurement date	8/31/23	8/31/23	8/31/23
	2022		
	Orchestra	Administrative	Academy
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	2.63%	2.63%	2.63%
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	4.72%	4.72%	4.72%
Measurement date	8/31/22	8/31/22	8/31/22

For measurement purposes, a 6.13% and 5.56% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2023 and 2022, respectively. The rate was assumed to decrease to a rate of 4.00% in 2046 by various percentage points annually.

Estimated future benefit payments for years ending after August 31, 2023 are as follows (in thousands):

Year Ending August 31,	Orchestra	Administrative	Academy
2024	\$ 360	\$ 43	\$ 9
2025	376	45	9
2026	387	46	9
2027	419	50	10
2028	429	51	10
Next 5 years	2,438	289	59

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
2024	\$ 322	\$ 38	\$ 8

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

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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 5%- 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, 2023 and 2022 were approximately \$1,827,000 and \$1,695,000, 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 5.25% for 2023 and 2022. 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, 2023 and was extended through October 31, 2024. The Association had no borrowings during the year and no amounts outstanding on this line of credit at August 31, 2023 and 2022 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, 2023 and 2022 (in thousands):

	2023	2022
Program expenditure for a specific time	\$ 2,569	\$ 9,618
Program expenditure for Orchestra activities	13,235	10,223
Endowment funds subject to appropriation and spending	11,367	3,535
Endowment funds to be held in perpetuity	184,439	176,786
Beneficial interests in trusts	7,005	6,629
Pledges related to endowment	7,636	5,507
	<u>\$ 226,251</u>	<u>\$ 212,298</u>

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, 2023 and 2022, the Association recorded a gain of \$204,000 and \$225,000, respectively, from Ticket Philadelphia for its share of gains and losses from Ticket Philadelphia's operations.

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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.

NOTE N - COMMITMENTS

The Association has several commitments under contract for renovations of the Academy. Portions of these contracts not completed at year end are not reflected in the consolidated financial statements. These unrecorded commitments totaled \$1,825,000 and \$674,000 at August 31, 2023 and 2022, respectively.

Leases

The Orchestra and the Academy are parties to a Master Lease between the Academy and Regional Performing Arts Center, Inc. (now KCI) and a Sublease dated as of February 11, 2001 between Regional Performing Arts Center, Inc. and the Orchestra, which govern the Orchestra's use of Verizon Hall at the Kimmel Center and KCI's use of the Academy of Music. The 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.

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.

Rent paid was \$1,710,000 and \$1,604,000 for the years ended August 31, 2023 and 2022, respectively.

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.

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 lease was renewed through July 31, 2025.

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

<u>Fiscal Year</u>	<u>Minimum Rent Per Annum</u>
2024	\$ 403,475
2025	\$ 369,852

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

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.

As disclosed in Note B, the Association adopted new leasing guidance effective September 1, 2022 on a modified retrospective basis. As a result, the lease disclosures as of and for the year ended August 31, 2023, are reported under the new leasing standard. Comparative financial information for the prior period has not been restated and continues to be reported under the old leasing standard.

Lease costs recorded in the statement of activities for the year ended August 31, 2023, are as follows:

	<u>2023</u>
Operating lease costs	<u>\$ 2,033,000</u>
Supplemental cash flow information related to leases:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows related to operating leases	<u>\$ 1,878,000</u>

The lease assets and liabilities included in the statement of financial position as of June 30, 2023 are as follows:

	<u>2023</u>
Operating leases right-of-use assets	\$ 9,094,000
Accumulated amortization	<u>(1,627,000)</u>
Operating leases right-of-use assets, net	<u>\$ 7,467,000</u>
Operating lease liability	<u>\$ 7,623,000</u>

Weighted-average lease term and discount rate as of August 31, 2023 are as follows:

Weighted-average remaining lease term	3.81 years
Weighted-average discount rate	5.25%

The leases have remaining lease terms of up to 4 years, inclusive of renewal options that are reasonably certain to be exercised. The following table summarizes the maturity of lease liabilities under operating leases as of August 31, 2023:

2024	\$ 2,223,000
2025	2,245,000
2026	1,932,000
2027	<u>1,991,000</u>
	8,391,000
Less: effects of discounting	<u>(768,000)</u>
	<u>\$ 7,623,000</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Prior to the adoption of ASU 2016-02 and through August 31, 2022, the Association accounted for leases under ASU 2016-02. Operating lease expense of \$2,003,000 was recognized in the consolidated statement of activities for the year ended August 31, 2022.

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.

For the years ended August 31, 2023 and 2022, the Orchestra received payments from the Kimmel Center and Ticket Philadelphia totaling approximately \$1,730,000 and \$1,499,000, 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, 2023 and 2022.

Contribution revenue recorded from members of the Association's Board of Directors was \$7,575,000 and \$17,367,000 for the years ended August 31, 2023 and 2022, respectively.

The Orchestra has allocated certain administrative expenses to POKC, its parent company, that have been determined to benefit POKC and its subsidiaries as a whole. The Orchestra has also allocated income to POKC which will offset the administrative expenses. The expenses consist of a portion of compensation and other administrative expenses related to POKC's executive, finance, human resources, and development departments. The amount allocated for the years ended August 31, 2023 and 2022 was \$3,211,000 and \$2,218,000, respectively.

NOTE P - COLLECTIVE BARGAINING AGREEMENTS

The Orchestra had 168 full-time employees as of August 31, 2023, 90 of which were musicians and three 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 2023 and covers the period September 2023 through September 2026. The most recent agreement covered 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.

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 statements 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 Fund amounted to \$0 and \$500,000 in fiscal years 2023 and 2022, 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, 2023 and 2022

NOTE Q - FUNCTIONAL EXPENSES

Expenses by functional and natural classification for the years ended August 31, 2023 and 2022 are as follows (in thousands):

	2023								
	Orchestra				Academy				
	Orchestra Activities	Management and General	Fundraising	Total Orchestra	Academy Event	Management and General	Fundraising	Total Academy	Total Expenses
Salaries and wages	\$ 20,767	\$ 5,704	\$ 1,004	\$ 27,475	\$ -	\$ 330	\$ 230	\$ 560	\$ 28,035
Benefits and taxes	4,742	1,846	528	7,116	-	2	-	2	7,118
Performing artists	4,783	-	-	4,783	226	-	-	226	5,009
Facilities and office expenses	1,918	1,105	169	3,192	42	-	8	50	3,242
Cultivation and special events	-	-	383	383	203	-	8	211	594
Professional fees	783	1,321	-	2,104	-	31	1	32	2,136
Other fees for service	-	820	1,081	1,901	-	54	8	62	1,963
Production and education program	2,260	-	-	2,260	84	-	-	84	2,344
Travel	3,202	236	29	3,467	7	-	-	7	3,474
Advertising and promotion	1,298	290	-	1,588	15	-	-	15	1,603
Information technology	-	1,967	-	1,967	-	-	-	-	1,967
Insurance	165	194	-	359	-	1	-	1	360
Other expenses	29	878	48	955	49	-	60	109	1,064
Bad debt expense	-	70	-	70	-	3	-	3	73
Gift in-kind expense	-	159	-	159	23	-	-	23	182
Depreciation	-	578	-	578	-	2,414	-	2,414	2,992
	<u>\$ 39,947</u>	<u>\$ 15,168</u>	<u>\$ 3,242</u>	<u>\$ 58,357</u>	<u>\$ 649</u>	<u>\$ 2,835</u>	<u>\$ 315</u>	<u>\$ 3,799</u>	<u>\$ 62,156</u>

	2022								
	Orchestra				Academy				
	Orchestra Activities	Management and General	Fundraising	Total Orchestra	Academy Event	Management and General	Fundraising	Total Academy	Total Expenses
Salaries and wages	\$ 20,083	\$ 5,123	\$ 1,006	\$ 26,212	\$ -	\$ 330	\$ 230	\$ 560	\$ 26,772
Benefits and taxes	4,810	1,494	654	6,958	-	1	-	1	6,959
Performing artists	4,101	-	-	4,101	221	-	-	221	4,322
Facilities and office expenses	1,883	1,139	166	3,188	18	239	6	263	3,451
Cultivation and special events	-	-	131	131	65	-	-	65	196
Professional fees	658	413	9	1,080	-	42	-	42	1,122
Other fees for service	-	742	896	1,638	-	50	15	65	1,703
Production and education program	2,284	-	-	2,284	9	-	-	9	2,293
Travel	3,296	180	14	3,490	-	-	-	-	3,490
Advertising and promotion	785	240	-	1,025	1	-	-	1	1,026
Information technology	-	1,751	-	1,751	-	-	-	-	1,751
Insurance	120	250	-	370	-	1	-	1	371
Other expenses	88	606	41	735	15	-	53	68	803
Bad debt expense	-	22	-	22	-	-	-	-	22
Gift in-kind expense	-	2	-	2	-	-	-	-	2
Depreciation	-	673	-	673	-	2,515	-	2,515	3,188
	<u>\$ 38,108</u>	<u>\$ 12,635</u>	<u>\$ 2,917</u>	<u>\$ 53,660</u>	<u>\$ 329</u>	<u>\$ 3,178</u>	<u>\$ 304</u>	<u>\$ 3,811</u>	<u>\$ 57,471</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

NOTE R - LIQUIDITY AND FUNDS AVAILABLE

As of August 31, 2023, 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	\$ 14,928	\$ 3,263	\$ 18,191
Notes and accounts receivable, net	4,839	5	4,844
Pledge payments available for operations	8,246	182	8,428
Board designations			
Funds functioning as endowment available for operations	815	3,616	4,431
Estimated endowment payout within one year	10,200	843	11,043
Estimated third-party trust payments within one year	2,937	-	2,937
	<hr/>	<hr/>	<hr/>
Total financial assets available within one year	41,965	7,909	49,874
Liquidity resources			
Bank line of credit	3,100	-	3,100
	<hr/>	<hr/>	<hr/>
Total financial assets and liquidity resources available within one year	<u>\$ 45,065</u>	<u>\$ 7,909</u>	<u>\$ 52,974</u>

As of August 31, 2022, 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	\$ 18,971	\$ 2,695	\$ 21,666
Notes and accounts receivable, net	3,899	5	3,904
Pledge payments available for operations	5,667	570	6,237
Board designations			
Funds functioning as endowment available for operations	787	3,398	4,185
Estimated endowment payout within one year	10,511	885	11,396
Estimated third-party trust payments within one year	2,996	-	2,996
	<hr/>	<hr/>	<hr/>
Total financial assets available within one year	42,831	7,553	50,384
Liquidity resources			
Bank line of credit	3,100	-	3,100
	<hr/>	<hr/>	<hr/>
Total financial assets and liquidity resources available within one year	<u>\$ 45,931</u>	<u>\$ 7,553</u>	<u>\$ 53,484</u>

The Philadelphia Orchestra Association

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

NOTE S - SUBSEQUENT EVENTS

The Association evaluated its August 31, 2023 consolidated financial statements for subsequent events through February 8, 2024, the date the consolidated financial statements were available to be issued. Except as disclosed within Note J and Note P, the Association is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

SUPPLEMENTARY INFORMATION

The Academy of Music of Philadelphia, Inc.

STATEMENTS OF FINANCIAL POSITION

August 31,
(Dollars in thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 3,263	\$ 2,695
Trade accounts receivable	5	5
Pledges receivable, net	182	570
Investments	25,325	21,135
Property and equipment, net	24,063	25,833
Total assets	<u>\$ 52,838</u>	<u>\$ 50,238</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3	\$ 40
Accrued expenses	86	10
Due to The Philadelphia Orchestra Association	139	98
Accrued postretirement benefit obligation	47	48
Total liabilities	275	196
Net assets		
Without donor restrictions	30,749	31,735
With donor restrictions	21,814	18,307
Total net assets	<u>52,563</u>	<u>50,042</u>
Total liabilities and net assets	<u>\$ 52,838</u>	<u>\$ 50,238</u>

The Academy of Music of Philadelphia, Inc.

STATEMENT OF ACTIVITIES

Year ended August 31, 2023
(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Academy Event revenue	\$ 883	\$ -	\$ 883
Academy Event expense	(649)	-	(649)
Transfer of Academy Event proceeds to The Philadelphia Orchestra Association	(171)	-	(171)
Academy Event revenue, net	63	-	63
Annual public support	577	-	577
Spending policy draw	1,060	-	1,060
Net assets released for the Academy Concert and Ball	406	(406)	-
Total other revenue	2,043	(406)	1,637
Total revenue	2,106	(406)	1,700
Expenses			
Administrative expenses	421	-	421
Fundraising expenses	315	-	315
Total expenses	736	-	736
Change in net assets from operations	1,370	(406)	964
Nonoperating activity			
Depreciation	(2,414)	-	(2,414)
Investment return, net of spending policy	267	906	1,173
Transfer of endowment earnings to The Philadelphia Orchestra Association for Academy of Music base rent	(212)	-	(212)
Endowment contributions	-	3,007	3,007
Other changes in postretirement benefit obligation	3	-	3
	(2,356)	3,913	1,557
CHANGE IN NET ASSETS	(986)	3,507	2,521
Net assets, beginning of year	31,735	18,307	50,042
Net assets, end of year	\$ 30,749	\$ 21,814	\$ 52,563

The Academy of Music of Philadelphia, Inc.

STATEMENT OF ACTIVITIES

Year ended August 31, 2022

(Dollars in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Academy Event revenue	\$ 901	\$ -	\$ 901
Academy Event expense	(328)	-	(328)
Transfer of Academy Event proceeds to The Philadelphia Orchestra Association	(289)	-	(289)
Academy Event revenue, net	284	-	284
Annual public support	448	185	633
Spending policy draw	1,226	-	1,226
Net assets released for the Academy Concert and Ball	715	(715)	-
Total other revenue	2,389	(530)	1,859
Total revenue	2,673	(530)	2,143
Expenses			
Administrative expenses	664	-	664
Fundraising expenses	304	-	304
Total expenses	968	-	968
Change in net assets from operations	1,705	(530)	1,175
Nonoperating activity			
Depreciation	(2,515)	-	(2,515)
Investment return, net of spending policy	(811)	(4,259)	(5,070)
Transfer of endowment earnings to The Philadelphia Orchestra Association for Academy of Music base rent	(231)	-	(231)
Other changes in postretirement benefit obligation	11	-	11
	(3,546)	(4,259)	(7,805)
CHANGE IN NET ASSETS	(1,841)	(4,789)	(6,630)
Net assets, beginning of year	33,576	23,096	56,672
Net assets, end of year	\$ 31,735	\$ 18,307	\$ 50,042