Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Philadelphia Orchestra Association

August 31, 2019 and 2018

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Philadelphia Orchestra Association

We have audited the accompanying consolidated financial statements of The Philadelphia Orchestra Association and its wholly-owned subsidiary (collectively, the "Association"), which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, 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.

Grant Thornton

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, 2019 and 2018, 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.

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, 2019 and 2018 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, 2019 and 2018 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.

Grant Thornton LLP

Philadelphia, Pennsylvania
February 7, 2020

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31,

(Dollars in thousands)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 16,846	$ 12,997
Trade accounts receivable, net	1,007	1,051
Prepaid expenses and other assets	2,904	2,686
Pledges receivable, net	8,069	11,766
Notes receivable	254	259
Investments	158,129	113,590
Beneficial interests in trusts	5,854	5,917
Investment in joint venture	567	668
Property and equipment, net	34,518	35,327
Total assets	$ 228,148	$ 184,261
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 669	$ 538
Accrued expenses and other liabilities	1,699	1,124
Deferred revenue	7,191	6,862
Annuities payable	1,572	1,577
Accrued postretirement benefit obligation	10,596	9,210
Total liabilities	21,727	19,311
NET ASSETS		
Without donor restrictions	35,987	39,067
With donor restrictions	170,434	125,883
Total net assets	206,421	164,950
Total liabilities and net assets	$ 228,148	$ 184,261

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

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2019

	Without donor restrictions	With donor restrictions	Total
		(Dollars in thousands)	
Performance revenue			
Philadelphia concerts	$ 9,075	$ -	$ 9,075
Summer concerts	2,025	-	2,025
Other concerts	3,776	-	3,776
Tours	2,519	-	2,519
Recording, radio and television	220	-	220
	17,615	-	17,615
Performance expense			
Orchestra and concert production	34,274	-	34,274
Concert promotion expenses	2,681	-	2,681
Recording, radio and television	397	-	397
	37,352	-	37,352
Performance deficit	(19,737)	-	(19,737)
Other operating revenue			
Annual public support	16,198	5,135	21,333
Volunteer project revenue	496	573	1,069
Spending policy draw, designated for current operations	8,969	-	8,969
Income from beneficial interests in trusts	242	-	242
Other revenues	2,118	-	2,118
Gifts in kind	36	11	47
Equity earnings in joint venture	105	-	105
Academy Ball revenue, net	84	-	84
Net assets released from restrictions			
Satisfaction of program restrictions	3,663	(3,663)	-
Satisfaction of time restrictions	2,313	(2,313)	-
Total other operating revenue	34,224	(257)	33,967
Other operating expense			
Fundraising expenses			
Annual fundraising	2,488	-	2,488
Global initiatives and government relations	557	-	557
Volunteer project	290	-	290
	3,335	-	3,335
Management and general			
Administrative expense	10,629	-	10,629
Bad debt	108	10	118
Depreciation	399	-	399
Total other operating expense	14,471	10	14,481
Changes in net assets from operating activities	16	(267)	(251)
Nonoperating revenue (expense)			
Endowment contributions	-	51,632	51,632
Investment return, net of spending policy	(119)	(6,561)	(6,680)
Spending policy draw, designated for Academy of Music	773	-	773
Academy of Music revenue	2,215	130	2,345
Academy of Music expense, including depreciation of $2,476	(5,233)	-	(5,233)
Net assets released from restrictions - Academy of Music	383	(383)	-
Other changes in postretirement benefit obligation	(1,115)	-	(1,115)
Total nonoperating revenue (expense)	(3,096)	44,818	41,722
CHANGE IN NET ASSETS	(3,080)	44,551	41,471
Net assets, beginning	39,067	125,883	164,950
Net assets, ending	$ 35,987	$ 170,434	$ 206,421

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

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2018

	Without donor restrictions	With donor restrictions	Total
		(Dollars in thousands)	
Performance revenue			
Philadelphia concerts	$ 8,971	$ -	$ 8,971
Summer concerts	1,818	-	1,818
Other concerts	3,680	-	3,680
Tours	1,304	-	1,304
Recording, radio and television	210	-	210
	15,983	-	15,983
Performance expense			
Orchestra and concert production	35,410	-	35,410
Concert promotion expenses	2,455	-	2,455
Recording, radio and television	345	-	345
	38,210	-	38,210
Performance deficit	(22,227)	-	(22,227)
Other operating revenue			
Annual public support	17,318	3,763	21,081
Volunteer project revenue	506	474	980
Spending policy draw, designated for current operations	7,554	-	7,554
Income from beneficial interests in trusts	231	-	231
Other revenues	2,104	-	2,104
Gifts in kind	9	11	20
Equity earnings in joint venture	206	-	206
Academy Ball revenue, net	147	-	147
Net assets released from restrictions			
Satisfaction of program restrictions	5,197	(5,197)	-
Satisfaction of time restrictions	3,584	(3,584)	-
Total other operating revenue	36,856	(4,533)	32,323
Other operating expense			
Fundraising expenses			
Annual fundraising	2,538	-	2,538
Global initiatives and government relations	523	-	523
Volunteer project	304	-	304
	3,365	-	3,365
Management and general			
Administrative expense	10,662	-	10,662
Bad debt	169	9	178
Depreciation	383	-	383
Total other operating expense	14,579	9	14,588
Changes in net assets from operating activities	50	(4,542)	(4,492)
Nonoperating revenue (expense)			
Endowment contributions	-	1,700	1,700
Investment return, net of spending policy	42	881	923
Spending policy draw, designated for Academy of Music	777	-	777
Academy of Music revenue	4,049	383	4,432
Academy of Music expense, including depreciation of $2,460	(5,137)	-	(5,137)
Net assets released from restrictions - Academy of Music	112	(112)	-
Other changes in postretirement benefit obligation	253	-	253
Total nonoperating revenue	96	2,852	2,948
CHANGE IN NET ASSETS	146	(1,690)	(1,544)
Net assets, beginning	38,921	127,573	166,494
Net assets, ending	$ 39,067	$ 125,883	$ 164,950

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

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31,

(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 41,471	$ (1,544)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,875	2,843
Provision for bad debt expense	121	143
Change in equity earnings in joint venture	101	(61)
Endowment contributions received	(51,632)	(1,700)
Net realized and unrealized loss on investments	5,257	5,705
Change in beneficial interests in trusts	63	(302)
Other changes in postretirement benefit obligation	(1,115)	253
Changes in assets and liabilities		
Trade accounts receivable	44	931
Prepaid expenses and other assets	(218)	(311)
Pledges receivable	3,576	4,017
Accounts payable, accrued expenses and other liabilities	706	(442)
Deferred revenue	329	(586)
Annuities payable	(5)	621
Accrued postretirement benefit obligation	2,501	47
Net cash provided by operating activities	4,074	9,614
Cash flows from investing activities:		
Purchases of investments	(168,441)	(10,983)
Proceeds from sales of investments	118,645	1,493
Purchase of property, plant and equipment	(2,066)	(1,436)
Loan disbursements to employees	-	(250)
Repayments of employee loans	5	15
Net cash used in investing activities	(51,857)	(11,161)
Cash flows from financing activities:		
Endowment contributions received	51,632	1,700
Net cash provided by financing activities	51,632	1,700
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,849	153
Cash and cash equivalents, beginning of year	12,997	12,844
Cash and cash equivalents, end of year	$ 16,846	$ 12,997
Supplemental cash flow data:		
Noncash investing activities		
Change in accrued construction expenses	$ 268	$ 24

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

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 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 $4,107,000 and $4,225,000 of the Association's net assets without donor restrictions as of August 31, 2019 and 2018, 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 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.

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.

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, 2019 and 2018. 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 (including on-site visitations by an investment consultant engaged by the Association), limitation of exposure to any investment strategy or manager, and the employment of outside experts. At August 31, 2019 and 2018, the alternative investment exposure to any product and/or manager was less than 1.0% of total long-term investments.

During the year ended August 31, 2019, the Association withdrew from the TIFF Multi-Asset Fund ("MAF") and rolled a large portion of the proceeds into the TIFF Global Equity Fund ("GEF"). Upon redemption from the MAF, the Association paid an exit fee applicable to the total MAF redemption. The ongoing management fee for the GEF will be reduced by 20% of the portion of the MAF exit fee attributable to the new GEF investment annually, until the reductions made equal the exit fee on the portion of the MAF investment that was reinvested in the GEF. As of August 31, 2019, the Association has a significant position in the GEF described in footnote D which is valued at NAV as reported by TIFF. The MAF is considered to be valued based upon Level 2 inputs and the GEF at Level 3 inputs using NAV of the fund as a practical expedient to other valuation techniques.

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.

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

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.

Notes Receivable

The Association makes loans to members of the Orchestra for the purpose of acquiring instruments to be used when performing with the Orchestra. The Association makes individual loans for amounts up to $15,000, which are non-interest-bearing for a maximum term of 5 years. The total outstanding amount of these loans must not exceed $125,000. The Association also makes individual loans, which bear interest at the ten-year Treasury note rate plus 1% for amounts up to $125,000 with a maximum term of 10 years. The ten-year Treasury note rate was 1.50% and 2.86% at August 31, 2019 and 2018, respectively. The total outstanding amount of these loans must not exceed $500,000. In addition, 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 and is repayable over five years. As of August 31, 2019 and 2018, the outstanding balance on the loan was $250,000. A principal payment in the amount of $50,000 was made in October 2019.

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, 2019 and 2018 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

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.

Tax Status

Under provisions of the Internal Revenue Code, 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 financial statements include any material uncertain tax positions. Treasury Regulations stipulate tax years are open for three years from the date of filing and remain subject to examination.

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 on the basis of estimates of time and effort.

Adoption of New Accounting Standard

In August 2016, the Financial Accounting Standards Board (“FASB”) issued a new standard related to the presentation of financial statements of not-for-profit entities. This standard intends to make certain improvements to the reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the previously required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017. The Association adopted the new standard during the year ended August 31, 2019 including terminology used to describe categories of net assets throughout the financial statements, disclosures regarding liquidity and the availability of resources, and the presentation of expenses by both their natural and functional classification.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. 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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early application is permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening net assets at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change. Due to the nature of its revenue sources, the Association believes that the standard will have minimal impact on its consolidated financial statements but continues to evaluate the impact of ASU 2014-09.

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 is effective for fiscal years beginning after December 15, 2020. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The Association does not anticipate that the adoption of ASU 2016-02 will have a significant effect on the consolidated financial statements.

In July 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that employers report service cost component in the same line item as other compensation costs arising from services rendered by the related employees during the period; and the other components of net benefit cost to be presented in the statement of activities separately from the service cost component and outside of the subtotal of operating measure, if one is presented. The amendments should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic benefit cost. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. Disclosure that the practical expedient was used is also required. The new standard is effective for annual periods beginning after December 15, 2018. The Association does not anticipate that the adoption of ASU 2017-07 will have a significant effect on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-08, *Not-for-profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which intends to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendment 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. Guidance applies to both recipients and resource providers. For contributions received, the new standard is effective for annual financial statements beginning after December 15, 2018. The Association does not anticipate that the adoption of ASU 2018-08 will have a significant effect on the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results.

NOTE C - PLEDGES RECEIVABLE

Pledges receivable at August 31, 2019 and 2018 were expected to be collected as follows (in thousands):

	2019			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	$ 4,533	$ 231	$ 633	$ 5,397
Two to five years	1,489	-	990	2,479
After five years	-	-	395	395
Total pledges receivable	6,022	231	2,018	8,271
Less allowance for uncollectible pledges	(39)	-	(10)	(49)
Subtotal	5,983	231	2,008	8,222
Less unamortized discount	(36)	-	(117)	(153)
Net present value of pledges receivable	$ 5,947	$ 231	$ 1,891	$ 8,069
Activity during year				
Balance, beginning of year	$ 9,876	$ 252	$ 1,638	$ 11,766
Cash received	(10,744)	(540)	(1,207)	(12,491)
New pledges received	6,812	518	1,510	8,840
Bad debt (expense) recovery	(107)	1	(10)	(116)
Amortization of discount	110	-	(40)	70
Balance, end of year	$ 5,947	$ 231	$ 1,891	$ 8,069

	2018			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	$ 6,133	$ 256	$ 558	$ 6,947
Two to five years	4,023	-	1,100	5,123
After five years	-	-	68	68
Total pledges receivable	10,156	256	1,726	12,138
Less allowance for uncollectible pledges	(135)	(4)	(10)	(149)
Subtotal	10,021	252	1,716	11,989
Less unamortized discount	(145)	-	(78)	(223)
Net present value of pledges receivable	$ 9,876	$ 252	$ 1,638	$ 11,766
Activity during year				
Balance, beginning of year	$ 13,402	$ 178	$ 2,346	$ 15,926
Cash received	(10,836)	(2,121)	(1,410)	(14,367)
New pledges received	7,225	2,158	612	9,995
Bad debt (expense) recovery	(101)	37	(9)	(73)
Amortization of discount	186	-	99	285
Balance, end of year	$ 9,876	$ 252	$ 1,638	$ 11,766

The Association used fair value rates ranging from 1% - 5% to discount pledges receivable for the years ended August 31, 2019 and 2018.

NOTE D - INVESTMENTS

At August 31, 2019 and 2018, the fair value of investments was as follows (in thousands):

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 2,166	$ 2,166	$ 5,774	$ 5,774
Mutual funds - fixed income	35,537	34,894	1,033	1,057
Mutual funds - inflation hedges	45	44	43	44
Mutual funds - equities	64,519	62,210	105,924	104,381
Limited partnership - real estate	451	3,197	798	3,189
Limited partnership - global equity	54,657	54,000	-	-
Private equity	742	729	-	-
Multi-strategy	12	1	18	2
Total fair value of investments	$ 158,129	$ 157,241	$ 113,590	$ 114,447

The above amounts include approximately $20,012,000 and $21,032,000 of endowment funds for the benefit of the Academy of Music at August 31, 2019 and 2018, 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 $5,854,000 and $5,917,000 on August 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019				
	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	$ 2,166	$ -	$ -	$ -	$ 2,166
Mutual funds - fixed income	35,537	-	-	-	35,537
Mutual funds - inflation hedges	45	-	-	-	45
Mutual funds - equities	64,519	-	-	-	64,519
Limited partnership - real estate	-	-	-	451	451
Limited partnership - global equity	-	-	-	54,657	54,657
Private equity	-	-	-	742	742
Multi-strategy	-	-	-	12	12
Total investments	102,267	-	-	55,862	158,129
Beneficial interests in trusts	-	-	5,854	-	5,854
Total recurring financial assets	$ 102,267	$ -	$ 5,854	$ 55,862	$ 163,983

	Assets at Fair Value at August 31, 2018				
	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	$ 5,774	$ -	$ -	$ -	$ 5,774
Mutual funds - fixed income	983	50	-	-	1,033
Mutual funds - inflation hedges	43	-	-	-	43
Mutual funds - equities	27,895	78,029	-	-	105,924
Limited partnership - real estate	-	-	-	798	798
Multi-strategy	-	-	-	18	18
Total investments	34,695	78,079	-	816	113,590
Beneficial interests in trusts	-	-	5,917	-	5,917
Total recurring financial assets	$ 34,695	$ 78,079	$ 5,917	$ 816	$ 119,507

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, 2019 and 2018 (in thousands):

	Beneficial Interests in Trusts	
	2019	2018
Balance, beginning of year	$ 5,917	$ 5,615
Unrealized (losses) gains	(63)	302
Balance, end of year	$ 5,854	$ 5,917

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 and 2 inputs.

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 to be valued using a market approach with 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 and 2 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 considered to be 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, 2019 and 2018 are as follows (in thousands):

	Fair Value		Unfunded	Redemption	Redemption Notice
	2019	2018	Commitments	Frequency	Period
Limited partnerships [a]	$ 55,108	$ 798	$ 307	(a)	(a)
Private equity [b]	742	-	6,271	(b)	(b)
Multi-strategy	12	18	-	-	-
	$ 55,862	$ 816	$ 6,578		

(a) Limited Partnerships - Global Equity Fund, L.P. ("GEF") of The Investment Fund for Foundations ("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.

Limited Partnerships - Metropolitan Real Estate Partners Global II ("MREP II") was formed on November 19, 2007. This fund is a Delaware limited partnership that invests in certain private real estate funds; these funds invest primarily in office, apartment, industrial or other commercial real estate, or in real estate securities. The fair values have been estimated using the NAV per share of the investments.

(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.

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 quasi-endowments, held in investments, plus the following where the assets have been designated for endowment: pledges receivable, split-interest agreements, accounts payable related to endowment and other net assets.

Interpretation of Relevant Law

The Board of Trustees of the Association follows the interpretation of Commonwealth of Pennsylvania 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" 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, 2019, there were twenty-five funds, which together have an original gift value of $57,689,000, a current fair value of $54,590,000 and a deficiency of $3,099,000. There were no such deficiencies as of August 31, 2018. 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 concerts.

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 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 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 Commonwealth of Pennsylvania Act 141 ("PA Act 141"), the amount is calculated based on the average of the preceding thirteen quarter unit values for each endowment pool multiplied by the average number of units for the preceding twelve 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 2019 and 2018. 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 2019 and 2018 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. Commonwealth of Pennsylvania law permits organizations to allocate to income each year a portion of donor-restricted investment net gains under a total return spending rate policy. The Association authorized a spending rate of 5.5% for both 2019 and 2018 for both its Board-designated and donor-restricted endowment investments unless the donor agreement differs.

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 $209,000 and $238,000 at August 31, 2019 and 2018, 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.

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	Total
		(in thousands)	
September 1, 2018			
Net assets, beginning of year	$ 4,225	$ 114,873	$ 119,098
Investment return			
Investment income	215	5,683	5,898
Net realized losses	(400)	(6,193)	(6,593)
Net unrealized gains	212	1,062	1,274
Net investment return	27	552	579
Contributions	-	51,632	51,632
Appropriation of endowment assets for operations (draw)	(145)	(7,031)	(7,176)
Other changes			
Change in estimate for annuities payable	-	(82)	(82)
Provision for bad debt on contributions receivable	-	(10)	(10)
Total other changes	-	(92)	(92)
Net assets, end of year	$ 4,107	$ 159,934	$ 164,041

Endowment net asset composition by type of fund as of August 31, 2019 is as follows:

	Without donor restrictions	With donor restrictions	Total
		(in thousands)	
Donor-restricted endowment funds	$ -	$ 159,934	$ 159,934
Board-designated funds	4,107	-	4,107
	$ 4,107	$ 159,934	$ 164,041

	Without donor restrictions	With donor restrictions	Total
		(in thousands)	
September 1, 2017			
Net assets, beginning of year	$ 4,183	$ 112,303	$ 116,486
Investment return			
Investment income	490	11,765	12,255
Net realized (losses) gains	(1)	164	163
Net unrealized losses	(287)	(5,302)	(5,589)
Net investment return	202	6,627	6,829
Contributions	-	1,700	1,700
Appropriation of endowment assets for operations (draw)	(160)	(5,603)	(5,763)
Other changes			
Change in estimate for annuities payable	-	(145)	(145)
Provision for bad debt on contributions receivable	-	(9)	(9)
Total other changes	-	(154)	(154)
Net assets, end of year	$ 4,225	$ 114,873	$ 119,098

Endowment net asset composition by type of fund as of August 31, 2018 is as follows:

	Without donor restrictions	With donor restrictions	Total
		(in thousands)	
Donor-restricted endowment funds	$ -	$ 114,873	$ 114,873
Board-designated funds	4,225	-	4,225
	$ 4,225	$ 114,873	$ 119,098

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 $5,854,000 and $5,917,000 at August 31, 2019 and 2018, respectively, in the accompanying consolidated statements of financial position. Distributions received from these trusts (approximately $242,000 and $231,000 in 2019 and 2018, 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 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 statement of financial position as either investments or beneficial interest in trust. A spending rate of 5.5% was applied for both the years ended August 31, 2019 and 2018. This draw from the Annenberg Endowment funds amounted to approximately $2,572,000 for 2019 and $2,574,000 for 2018 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 $47,835,000 for August 31, 2019 and $50,366,000 for August 31, 2018.

NOTE G - PROPERTY AND EQUIPMENT

The components of property and equipment at August 31, 2019 and 2018 were as follows (in thousands):

	2019	2018
Philadelphia Orchestra		
Office condominium	$ 1,698	$ 1,590
Building improvements	591	591
Equipment and other	8,048	7,600
Fine instruments	295	295
Total	10,632	10,076
Less accumulated depreciation	(6,755)	(6,356)
Total Philadelphia Orchestra	3,877	3,720
Academy of Music		
Land	630	630
Building and building improvements	83,355	81,845
Office equipment	995	995
Total	84,980	83,470
Less accumulated depreciation	(54,339)	(51,863)
Total Academy of Music	30,641	31,607
Total property and equipment, net	$ 34,518	$ 35,327

Depreciation expense related to the Orchestra was approximately $399,000 and $383,000 for the years ended August 31, 2019 and 2018, 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 $2,476,000 and $2,460,000 for the years ended August 31, 2019 and 2018, 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, 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 or amount of severance. At August 31, 2019 and 2018, the total severance pay benefit obligation was approximately $97,000 and $93,000, respectively.

The Association's actuary has performed the computations for the postretirement health care obligation as of August 31, 2019 and 2018. 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 "change in postretirement benefit obligation." The calculation is as follows (in thousands):

	2019			
	Orchestra	Admin	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	$ 8,752	$ 388	$ 70	$ 9,210
Service cost	173	-	-	173
Interest cost	342	15	3	360
Actuarial loss	1,091	21	3	1,115
Benefits paid	(218)	(36)	(8)	(262)
Benefit obligation at end of year	10,140	388	68	10,596
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	218	36	8	262
Benefits paid	(218)	(36)	(8)	(262)
Fair value of plan assets at end of year	-	-	-	-
Funded status at year end	$ (10,140)	$ (388)	$ (68)	$ (10,596)
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	$ (10,140)	$ (388)	$ (68)	$ (10,596)
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated (loss) gain	$ (2,349)	$ 142	$ 15	$ (2,192)
Cumulative employer contributions in excess of net periodic benefit cost	(7,791)	(529)	(84)	(8,404)
	$ (10,140)	$ (387)	$ (69)	$ (10,596)
Components of net periodic benefit cost				
Service cost	$ 173	$ -	$ -	$ 173
Interest cost	342	15	3	360
Net periodic benefit cost	$ 515	$ 15	$ 3	$ 533
Other changes recognized in other comprehensive income				
Net loss arising during period	$ 1,091	$ 21	$ 3	$ 1,115
Total recognized in other comprehensive income	$ 1,091	$ 21	$ 3	$ 1,115

	2018			
	Orchestra	Admin	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	$ 8,445	$ 398	$ 67	$ 8,910
Service cost	283	-	-	283
Interest cost	336	15	3	354
Actuarial (gain) loss	(129)	7	7	(115)
Benefits paid	(183)	(32)	(7)	(222)
Benefit obligation at end of year	8,752	388	70	9,210
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	183	32	7	222
Benefits paid	(183)	(32)	(7)	(222)
Fair value of plan assets at end of year	-	-	-	-
Funded status at year end	$ (8,752)	$ (388)	$ (70)	$ (9,210)
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	$ (8,752)	$ (388)	$ (70)	$ (9,210)
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated (loss) gain	$ (1,258)	$ 163	$ 18	$ (1,077)
Cumulative employer contributions in excess of net periodic benefit cost	(7,494)	(551)	(88)	(8,133)
	$ (8,752)	$ (388)	$ (70)	$ (9,210)
Components of net periodic benefit cost				
Service cost	$ 283	$ -	$ -	$ 283
Interest cost	336	15	3	354
Actuarial loss (gain)	155	(16)	(1)	138
Net periodic benefit cost	$ 774	$ (1)	$ 2	$ 775
Other changes recognized in other comprehensive income				
Net (gain) loss arising during period	$ (129)	$ 7	$ 7	$ (115)
Actuarial (gain) loss	(155)	16	1	(138)
Total recognized in other comprehensive income	$ (284)	$ 23	$ 8	$ (253)

	2019		
	Orchestra	Admin	Academy
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	4.16%	4.16%	4.16%
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	3.02%	3.02%	3.02%
Measurement date	8/31/19	8/31/19	8/31/19

	2018		
	Orchestra	Admin	Academy
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	3.77%	3.77%	3.77%
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	4.16%	4.16%	4.16%
Measurement date	8/31/18	8/31/18	8/31/18

A one-percentage point change in amended healthcare cost trend rates would have the following effects for 2019 and 2018 (in thousands):

	2019	
	1% point increase	1% point decrease
Effect on total service cost and interest cost	$ 104	(83)
Effect on benefit obligation	1,863	(1,516)

	2018	
	1% point increase	1% point decrease
Effect on total service cost and interest cost	$ 137	(109)
Effect on benefit obligation	1,560	(1,276)

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

Actuarial loss	$ 161,000

For measurement purposes, a 6.77% and 7.18% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019 and 2018, 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, 2019 are as follows (in thousands):

Postretirement

Year ending August 31,	Orchestra	Administrative	Academy
2020	$ 295	$ 43	$ 8
2021	313	45	8
2022	332	48	9
2023	344	50	9
2024	363	52	10
Next 5 years	2,207	319	59

Contributions

For postretirement plans, the expected contributions for the next fiscal year are as follows:

Year ending August 31,	Orchestra	Administrative	Academy
2020	$ 252	$ 37	$ 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 Internal Revenue Code 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 contribution to the Retirement Plan for the years ended August 31, 2019 and 2018 was approximately $1,696,000 and $1,667,000, respectively.

NOTE J - LINE OF CREDIT

The Association had available a $3,100,000 revolving credit facility. Under the agreement with the bank, the interest rate is 5.00% for both 2019 and 2018. 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, 2019 and was extended through October 31, 2020. The Association had no borrowings during the year and had $0 outstanding on this line of credit at August 31, 2019 and 2018.

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods at August 31, 2019 and 2018 (in thousands):

	2019	2018
Program expenditure for a specific time or purpose	$ 9,776	10,395
Endowment funds subject to appropriation and spending	819	4,029
Endowment funds to be held in perpetuity	152,094	104,004
Third Party trust assets	5,854	5,917
Pledges related to endowment	1,891	1,538
	$ 170,434	125,883

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. At August 31, 2019 and 2018, the Association’s interest in the net assets of the joint venture was approximately $567,000 and $668,000, respectively. During the years ended August 31, 2019 and 2018, the Association recorded revenue of approximately $105,000 and $206,000, respectively, from Ticket Philadelphia for its share of profits 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.

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.

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 - For Orchestra Seasons 2013 through 2017, inclusive, the Annual Rent before any stagehand credit shall be $1,580,000, $1,620,000, $1,660,000, $1,700,000 and $1,740,000, respectively. 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) sixteen percent (16%) of the Orchestra's ticket revenue from Verizon Hall concerts and Perelman Theater concerts.

For the year ended August 31, 2019, Annual Rent expense before stagehand credit was $1,839,000, of which $1,800,000 was equivalent to sixteen percent (16%) of the Orchestra's ticket revenue from Verizon Hall concerts and Perelman Theater concerts (the greater of the two aforementioned Revenue Sharing options).

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 $281,000 at August 31, 2019.

On December 26, 2012, the Association simultaneously entered into a Sublease Agreement (the "Sublease") with PNC Bank, National Association (the "Sublessor") and an Office Lease (the "Lease") with Broad One, L.P. (the "Prime Landlord") for 16,139 square feet of administrative office space on the 14^{th} floor of One South Broad Street in Philadelphia, Pennsylvania (the "Premises").

The Prime Landlord and Sublessor are currently landlord and tenant, respectively, under a certain lease agreement dated as of November 30, 1999, as amended by a first amendment of lease dated January 27, 2004 (collectively, the "Prime Lease"), pursuant to which Sublessor is leasing 16,139 rentable square feet of office space in the Premises.

The term of the Sublease commenced on December 1, 2012 (the "Commencement Date") and terminated on March 31, 2014.

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

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

Fiscal year	Minimum Rent Per Annum
2020	$ 382,629
2021	390,698
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.

For the years ended August 31, 2019 and 2018, the Orchestra received payments from the Kimmel Center and Ticket Philadelphia totaling approximately $1,366,000 and $1,335,000, 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, 2019 and 2018.

Contribution revenue recorded from members of the Association's Board of Directors was approximately $7,175,000 and $9,602,000 for the years ended August 31, 2019 and 2018, respectively.

NOTE P - COLLECTIVE BARGAINING AGREEMENTS

The Orchestra had 168 full-time employees as of August 31, 2019, 95 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.

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 financial statements (the "Base"), to the Fund. The allocation to the Fund for a fiscal year shall be equal to (i) 50 percent of the Base for such fiscal year or (ii) $500,000. In fiscal years 2019 and 2018, 50 percent of the Base amounted to approximately $16,000 and $50,000, respectively, which has been recorded as an expense in the consolidated statements of activities.

NOTE Q - FUNCTIONAL EXPENSES

Expenses by functional and natural classification for the years ended August 31, 2019 and 2018 are as follows:

2019	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	$ 18,880	$ 4,836	$ 1,456	$ 25,172	$ 168	$ 291	$ 116	$ 575	$ 25,747
Benefits and taxes	4,988	1,433	490	6,911	59	3	20	82	6,993
Performing artists	4,238	-	-	4,238	325	-	-	325	4,563
Facilities and office expenses	1,957	1,227	182	3,366	96	-	27	123	3,489
Cultivation and special events	-	-	556	556	477	-	43	520	1,076
Professional fees	48	263	9	320	-	40	-	40	360
Other fees for service	-	986	555	1,541	199	63	25	287	1,828
Production and education program	1,744	-	-	1,744	135	-	-	135	1,879
Travel	2,870	150	47	3,067	15	-	-	15	3,082
Advertising and promotion	2,396	273	1	2,670	3	-	-	3	2,673
Information technology	-	924	-	924	21	-	-	21	945
Insurance	149	177	-	326	-	1	-	1	327
Other expenses	80	309	39	428	112	13	6	131	559
Bad debt expense	-	118	-	118	3	-	1	4	122
Gift in kind expense	2	51	-	53	411	-	-	411	464
Depreciation	-	399	-	399	-	2,476	-	2,476	2,875
	$ 37,352	$ 11,146	$ 3,335	$ 51,833	$ 2,024	$ 2,887	$ 238	$ 5,149	$ 56,982

2018	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	$ 18,535	$ 4,912	$ 1,465	$ 24,912	$ 151	$ 291	$ 110	$ 552	$ 25,464
Benefits and taxes	5,168	1,570	540	7,278	61	2	20	83	7,361
Performing artists	4,404	-	-	4,404	359	-	-	359	4,763
Facilities and office expenses	2,059	1,216	144	3,419	72	-	16	88	3,507
Cultivation and special events	-	-	492	492	507	-	44	551	1,043
Professional fees	54	513	-	567	-	39	-	39	606
Other fees for service	-	652	638	1,290	208	27	62	297	1,587
Production and education program	1,817	-	-	1,817	160	-	-	160	1,977
Travel	3,777	131	36	3,944	16	-	1	17	3,961
Advertising and promotion	2,143	224	16	2,383	-	-	-	-	2,383
Information technology	-	901	-	901	4	-	-	4	905
Insurance	144	184	-	328	-	1	-	1	329
Other expenses	80	316	34	430	26	15	7	48	478
Bad debt expense	-	178	-	178	12	(46)	-	(34)	144
Gift in kind expense	29	43	-	72	367	-	-	367	439
Depreciation	-	383	-	383	-	2,460	-	2,460	2,843
	$ 38,210	$ 11,223	$ 3,365	$ 52,798	$ 1,943	$ 2,789	$ 260	$ 4,992	$ 57,790

NOTE R - LIQUIDITY AND FUNDS AVAILABLE

As of August 31, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, and capital construction costs not financed with debt, were as follows (in thousands):

	Orchestra	Academy	Total
Financial Assets			
Cash and cash equivalents	$ 14,420	$ 2,066	$ 16,486
Notes and accounts receivable, net	947	110	1,057
Pledge payments available for operations	4,463	231	4,694
Board designations:			
Funds functioning as endowment available for operations	735	3,179	3,914
Estimated endowment payout within one year	5,158	780	5,938
Estimated third party trust payments within one year	2,841	-	2,841
Total financial assets available within one year	28,564	6,366	34,930
Liquidity resources:			
Bank line of credit	3,100	-	3,100
Total financial assets and liquidity resources available within one year	$ 31,664	$ 6,366	$ 38,030

The Association's cash flows have seasonal variations during the year attributable to the annual cash receipts for subscriptions and a concentration of contributions received near calendar year end. To manage liquidity, the Association holds its deferred subscriptions in a separate bank account and releases the cash for operating needs once the concerts are performed. The Association also maintains a line of credit of $3.1 million with a bank that is drawn upon as needed during the year to manage cash flow and is then repaid in full by the end of the fiscal year. See Note J for further description of this line of credit.

NOTE S - SUBSEQUENT EVENTS

The Association evaluated its August 31, 2019 consolidated financial statements for subsequent events through February 7, 2020, the date the consolidated financial statements were available to be issued. Except as disclosed within Note J, the Association is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

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)

	2019	2018
Performance revenue		
Philadelphia concerts	$ 9,075	$ 8,971
Summer concerts	2,025	1,818
Other concerts	3,776	3,680
Tours	2,519	1,304
Recording, radio and television	220	210
	17,615	15,983
Performance expense		
Orchestra and concert production	34,274	35,410
Concert promotion expenses	2,681	2,455
Recording, radio and television	397	345
	37,352	38,210
Performance deficit	(19,737)	(22,227)
Other operating revenue		
Annual public support	16,198	17,318
Volunteer project revenue	496	506
Spending policy draw, designated for current operations	8,969	7,554
Income from beneficial interests in trusts	242	231
Other revenues	2,118	2,104
Gifts in kind	36	9
Equity earnings in joint venture	105	206
Academy Ball revenue, net	84	147
Net assets released from restrictions	5,976	8,781
Total other operating revenue	34,224	36,856
Other operating expense		
Fundraising expenses		
Annual fundraising	2,488	2,538
Global initiatives and government relations	557	523
Volunteer project	290	304
	3,335	3,365
Management and general		
Administrative expense	10,629	10,662
Bad debt	108	169
Depreciation	399	383
Total other operating expense	14,471	14,579
Changes in net assets from operating activities	$ 16	$ 50

The Academy of Music of Philadelphia, Inc.

STATEMENTS OF FINANCIAL POSITION

August 31,

(Dollars in thousands)

ASSETS	2019	2018
Cash and cash equivalents	$ 2,066	$ 2,994
Trade accounts receivable	110	63
Pledges receivable, net	231	252
Prepaid expenses and other assets	321	284
Investments	20,012	21,032
Property and equipment, net	30,641	31,607
Total assets	$ 53,381	$ 56,232
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 173	$ 62
Accrued expenses	222	51
Due to The Philadelphia Orchestra Association	66	46
Deferred revenue	41	49
Accrued postretirement benefit obligation	69	70
Total liabilities	571	278
NET ASSETS		
Without donor restrictions	35,948	37,882
With donor restrictions	16,862	18,072
Total net assets	52,810	55,954
Total liabilities and net assets	$ 53,381	$ 56,232

The Academy of Music of Philadelphia, Inc.

STATEMENT OF ACTIVITIES

Year ended August 31, 2019

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Revenue			
Academy Concert and Ball revenue	$ 1,847	$ 126	$ 1,973
Academy Concert and Ball expense	(2,024)	-	(2,024)
Transfer of Academy Concert and Ball proceeds to The Philadelphia Orchestra Association	(84)	-	(84)
Net assets released for the Academy Concert and Ball	345	(345)	-
Academy Concert and Ball revenue (expense), net	84	(219)	(135)
Annual public support	367	4	371
Spending policy draw	983	-	983
Net assets released from restrictions	38	(38)	-
Total other revenue	1,388	(34)	1,354
Expenses			
Administrative expenses	411	-	411
Fundraising expenses	238	-	238
Total expenses	649	-	649
Change in net assets from operations	823	(253)	570
Nonoperating (expense) revenue			
Depreciation	(2,476)	-	(2,476)
Investment return, net of spending policy	(76)	(957)	(1,033)
Transfer of endowment earnings to The Philadelphia Orchestra Association for Academy of Music base rent	(209)	-	(209)
Other changes in postretirement benefit obligation	4	-	4
	(2,757)	(957)	(3,714)
CHANGE IN NET ASSETS	(1,934)	(1,210)	(3,144)
Net assets, beginning of year	37,882	18,072	55,954
Net assets, end of year	$ 35,948	$ 16,862	$ 52,810

The Academy of Music of Philadelphia, Inc.

STATEMENT OF ACTIVITIES

Year ended August 31, 2018

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Revenue			
Academy Concert and Ball revenue	$ 2,127	$ 346	$ 2,473
Academy Concert and Ball expense	(1,943)	-	(1,943)
Transfer of Academy Concert and Ball proceeds to The Philadelphia Orchestra Association	(147)	-	(147)
Net assets released for the Academy Concert and Ball	110	(110)	-
Academy Concert and Ball revenue, net	147	236	383
Annual public support	1,922	38	1,960
Spending policy draw	1,014	-	1,014
Net assets released from restrictions	2	(2)	-
Total other revenue	2,938	36	2,974
Expenses			
Administrative expenses	327	-	327
Fundraising expenses	260	-	260
Total expenses	587	-	587
Change in net assets from operations	2,498	272	2,770
Nonoperating (expense) revenue			
Depreciation	(2,460)	-	(2,460)
Investment return, net of spending policy	32	141	173
Transfer of endowment earnings to The Philadelphia Orchestra Association for Academy of Music base rent	(238)	-	(238)
Other changes in postretirement benefit obligation	(2)	-	(2)
	(2,668)	141	(2,527)
CHANGE IN NET ASSETS	(170)	413	243
Net assets, beginning of year	38,052	17,659	55,711
Net assets, end of year	$ 37,882	$ 18,072	$ 55,954