Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Philadelphia Orchestra Association

August 31, 2015 and 2014

Contents

Grant Thornton

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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, 2015 and 2014, 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Orchestra Association and its wholly-owned subsidiary as of August 31, 2015 and 2014, 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 schedule of changes in unrestricted net assets from operating activities for the years ended August 31, 2015 and 2014 is presented for purposes of additional analysis and is 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 11, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31,

(Dollars in thousands)

ASSETS	2015	2014
Cash and cash equivalents	$ 13,939	$ 11,940
Trade accounts receivable, net	1,685	1,332
Prepaid expenses and other assets	1,888	1,832
Pledges receivable, net	8,210	11,674
Notes receivable	67	97
Investments	101,559	99,607
Beneficial interests in trusts	5,181	5,604
Investment in joint venture	793	838
Property and equipment, net	39,312	40,169
Total assets	$ 172,634	$ 173,093
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 1,908	$ 1,083
Accrued expenses and other liabilities	1,280	1,130
Deferred revenue	9,001	7,093
Annuities payable	842	931
Accrued postretirement benefit obligation	8,572	6,626
Total liabilities	21,603	16,863
NET ASSETS		
Unrestricted	41,992	49,425
Temporarily restricted	6,126	12,256
Permanently restricted	102,913	94,549
Total net assets	151,031	156,230
Total liabilities and net assets	$ 172,634	$ 173,093

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

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	2015 total
		(Dollars in thousands)		
PERFORMANCE REVENUE				
Philadelphia concerts	$ 9,518	$ -	$ -	$ 9,518
Summer concerts	1,706	-	-	1,706
Other concerts	2,981	-	-	2,981
Tours	2,301	-	-	2,301
Recording, radio and television	223	-	-	223
	16,729	-	-	16,729
PERFORMANCE EXPENSE				
Orchestra and concert production	32,755	-	-	32,755
Recording, radio and television	275	-	-	275
	33,030	-	-	33,030
PERFORMANCE DEFICIT	(16,301)	-	-	(16,301)
OTHER OPERATING REVENUE				
Annual public support	12,174	3,160	-	15,334
Campaign contributions - special funding	3,905	-	-	3,905
Volunteer project revenue	539	409	-	948
Spending policy draw, designated for current operations	6,471	-	-	6,471
Income from beneficial interests in trusts	297	-	-	297
Other revenues	1,993	-	-	1,993
Gifts in kind	5	35	-	40
Equity earnings in joint venture	331	-	-	331
Academy Ball revenue	361	-	-	361
Net assets released from restrictions	3,290	(3,290)	-	-
TOTAL OTHER OPERATING REVENUE	29,366	314	-	29,680
OTHER OPERATING EXPENSE				
Fundraising expenses				
Annual fundraising	2,081	-	-	2,081
Volunteer project	297	-	-	297
	2,378	-	-	2,378
Management and general				
Administrative expense	12,042	-	-	12,042
Global initiatives and government relations	1,330	-	-	1,330
Bad debt	127	-	-	127
Depreciation	352	-	-	352
TOTAL OTHER OPERATING EXPENSE	16,229	-	-	16,229
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE REORGANIZATION ACTIVITIES	(3,164)	314	-	(2,850)
Reorganization expenses	(811)	-	-	(811)
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	(3,975)	314	-	(3,661)
NONOPERATING REVENUE (EXPENSE)				
Endowment contributions	-	-	10,838	10,838
Investment loss net of spending policy	(301)	(8,574)	(443)	(9,318)
Spending policy draw, designated for Academy of Music	783	-	-	783
Academy of Music revenue	2,328	196	-	2,524
Academy of Music expense, including depreciation of $2,383	(4,918)	-	-	(4,918)
Funds with deficiencies	-	2,031	(2,031)	-
Net assets released from restrictions - Academy of Music	97	(97)	-	-
Change in postretirement benefit obligation	(1,447)	-	-	(1,447)
TOTAL NONOPERATING REVENUE (EXPENSE)	(3,458)	(6,444)	8,364	(1,538)
CHANGES IN NET ASSETS	(7,433)	(6,130)	8,364	(5,199)
NET ASSETS, BEGINNING	49,425	12,256	94,549	156,230
NET ASSETS, ENDING	$ 41,992	$ 6,126	$ 102,913	$ 151,031

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

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2014

	Unrestricted	Temporarily restricted	Permanently restricted	2014 total
		(Dollars in thousands)		
PERFORMANCE REVENUE				
Philadelphia concerts	$ 9,612	$ -	$ -	$ 9,612
Summer concerts	1,714	-	-	1,714
Other concerts	2,830	-	-	2,830
Tours	2,095	-	-	2,095
Recording, radio and television	130	-	-	130
	16,381	-	-	16,381
PERFORMANCE EXPENSE				
Orchestra and concert production	29,870	-	-	29,870
Recording, radio and television	125	-	-	125
	29,995	-	-	29,995
PERFORMANCE DEFICIT	(13,614)	-	-	(13,614)
OTHER OPERATING REVENUE				
Annual public support	12,615	3,445	-	16,060
Campaign contributions - special funding	6,245	-	-	6,245
Volunteer project revenue	566	399	-	965
Spending policy draw, designated for current operations	6,233	-	-	6,233
Income from beneficial interests in trusts	402	-	-	402
Other revenues	1,788	-	-	1,788
Gifts in kind	123	-	-	123
Equity earnings in joint venture	263	-	-	263
Academy Ball revenue	350	-	-	350
Net assets released from restrictions	1,242	(1,242)	-	-
TOTAL OTHER OPERATING REVENUE	29,827	2,602	-	32,429
OTHER OPERATING EXPENSE				
Fundraising expenses				
Annual fundraising	1,690	-	-	1,690
Volunteer project	292	-	-	292
	1,982	-	-	1,982
Management and general				
Administrative expense	11,172	-	-	11,172
Global initiatives and government relations	1,134	-	-	1,134
Bad debt	17	-	11	28
Depreciation	343	-	-	343
TOTAL OTHER OPERATING EXPENSE	14,648	-	11	14,659
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE REORGANIZATION ACTIVITIES	1,565	2,602	(11)	4,156
Reorganization expenses	(1,112)	-	-	(1,112)
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	453	2,602	(11)	3,044
NONOPERATING REVENUE (EXPENSE)				
Endowment contributions	-	-	1,128	1,128
Investment gain, net of spending policy	319	5,343	258	5,920
Spending policy draw, designated for Academy of Music	763	-	-	763
Academy of Music revenue	2,172	96	-	2,268
Academy of Music expense, including depreciation of $2,390	(4,581)	-	-	(4,581)
Redesignation of net assets	-	(979)	979	-
Net assets released from restrictions - Academy of Music	176	(176)	-	-
Change in postretirement benefit obligation	655	-	-	655
TOTAL NONOPERATING REVENUE (EXPENSE)	(496)	4,284	2,365	6,153
CHANGES IN NET ASSETS	(43)	6,886	2,354	9,197
NET ASSETS, BEGINNING	49,468	5,370	92,195	147,033
NET ASSETS, ENDING	$ 49,425	$ 12,256	$ 94,549	$ 156,230

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

The Philadelphia Orchestra Association

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended August 31,

(Dollars in thousands)

	2015	2014
Cash flows from operating activities		
Changes in net assets	$ (5,199)	$ 9,197
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	2,735	2,733
Gain from sale of property, plant and equipment	-	(270)
Provision for bad debt expense	133	28
Change in equity earnings in joint venture	45	25
Permanently restricted contributions received	(10,744)	(805)
Net realized and unrealized loss (gain) on investments	6,006	(7,903)
Change in beneficial interests in trusts	423	(961)
Change in postretirement benefit obligation	(1,447)	659
Changes in assets and liabilities		
Trade accounts receivable	(353)	270
Pledges receivable	3,331	(1,698)
Prepaid expenses and other assets	(56)	3
Accounts payable and accrued expenses	975	(211)
Deferred revenues	1,908	162
Annuities payable	(89)	(59)
Accrued postretirement benefit obligation	3,393	(972)
Net cash provided by operating activities	1,061	198
Cash flows from investing activities		
Purchases of investments	(15,749)	(13,531)
Proceeds from sales of investments	7,791	14,015
Purchase of property, plant and equipment	(1,878)	(1,246)
Proceeds from sale of property, plant and equipment	-	979
Repayments of employee loans	30	31
Net cash (used in) provided by investing activities	(9,806)	248
Cash flows from financing activities		
Permanently restricted contributions received	10,744	805
Payment of line of credit	-	(3,100)
Net cash provided by (used in) financing activities	10,744	(2,295)
Net increase (decrease) in cash and cash equivalents	1,999	(1,849)
Cash and cash equivalents		
Beginning of year	11,940	13,789
End of year	$ 13,939	$ 11,940
Supplemental cash flow data		
Noncash investing activities		
Change in accrued construction expenses	$ 46	$ (51)
Interest paid	$ -	$ 99

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

NOTE A - NATURE OF OPERATIONS

1. Organization

These consolidated financial statements include the accounts of The Philadelphia Orchestra Association (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.

2. 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. Reorganization expenses are also included in nonoperating expenses.

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 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

1. 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 as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Approximately $3,950,000 and $4,251,000 of the Association's unrestricted net assets as of August 31, 2015 and 2014, respectively, has been designated by the Board of Directors to function as endowment.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Temporarily Restricted - Net assets whose use by the Association is subject to donor-imposed restrictions that can be fulfilled by actions of the Association pursuant to those restrictions or that expire by the passage of time. Temporarily restricted net assets consist primarily of contributions receivable and accumulated endowment gains which can be expended, but for which restrictions have not yet been met.

- Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Association or are permanently maintained in the control of third-party trustees or administrators. Permanently restricted net assets are primarily comprised of original endowment gifts given to the Association by donors. Generally, the donors of these assets permit the Association to use all or part of the income on these assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. 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.

2. 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.

3. 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.

4. 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, 2015 and 2014. 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. The Association, in conjunction with an investment consultant engaged by the Association, reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of alternative investments.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Gains and losses on investments are determined using an average cost method for securities and the specific identification method for other investments. 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, 2015, the largest alternative investment exposure to any product and/or manager was 1.7% of total long-term investments, which reflected a real estate partnership investment.

Within the asset allocation category classified as alternative investments, a majority of the underlying investments were publicly traded stocks, debt instruments, preferred securities, and other instruments for which a ready market quote exists. The investments have been classified as alternative investments because the investment managers engaged by the Association to manage said investments may not be registered pursuant to the Investment Company Act of 1940 and because the investment instruments are limited partnerships.

5. 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, unrestricted assets or liabilities.

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

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in non-active markets;
3. Pricing models whose inputs are observable for substantially the full term of the asset or liability; or
4. 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.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the year in which reclassifications occur.

6. 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.

7. 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 either permanently restricted or temporarily restricted net assets in the accompanying consolidated financial statements. Contributions for which the restrictions expire with the passage of time or occurrence of specific events are classified as temporarily restricted. When the restriction expires with the passage of time or upon occurrence of the specified event, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Temporarily restricted funds expended in the fiscal year in which received are recorded as unrestricted.

8. 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 2.21% and 2.35% at August 31, 2015 and 2014, respectively. The total outstanding amount of these loans must not exceed $500,000.

(Continued)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. 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, 2015 and 2014 was approximately $295,000.

10. 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.

11. 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.

12. 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.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Any interest and penalties, if applicable, would be recorded in administrative expenses. The Association is no longer subject to U.S. federal and state tax examinations for years prior to the year ended August 31, 2012.

13. 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, and the reported fair values of certain of the Association's assets and liabilities. Actual results could differ from those estimates.

NOTE C - PLEDGES RECEIVABLE

Pledges receivable at August 31, 2015 and 2014 were expected to be collected as follows (in thousands):

	2015			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	$ 5,659	$ 195	$ 584	$ 6,438
Two to five years	891	-	1,086	1,977
After five years	-	-	140	140
Total pledges receivable	6,550	195	1,810	8,555
Less allowance for uncollectible pledges	(60)	-	(154)	(214)
Subtotal	6,490	195	1,656	8,341
Less unamortized discount	(24)	-	(107)	(131)
Net present value of pledges receivable	$ 6,466	$ 195	$ 1,549	$ 8,210
Activity during year				
Balance, beginning of year	$ 9,478	$ 338	$ 1,858	$ 11,674
Cash received	(10,727)	(579)	(694)	(12,000)
New pledges received	7,830	442	340	8,612
Bad debt expense	(127)	(6)	-	(133)
Change in discount	12	-	45	57
Balance, end of year	$ 6,466	$ 195	$ 1,549	$ 8,210

(Continued)

NOTE C - PLEDGES RECEIVABLE - Continued

	2014			
	Operating Fund	Academy of Music	Endowment Fund	Total
Due within				
One year	$ 8,155	$ 338	$ 737	$ 9,230
Two to five years	1,546	-	1,505	3,051
After five years	-	-	190	190
Total pledges receivable	9,701	338	2,432	12,471
Less allowance for uncollectible pledges	(187)	-	(422)	(609)
Subtotal	9,514	338	2,010	11,862
Less unamortized discount	(36)	-	(152)	(188)
Net present value of pledges receivable	$ 9,478	$ 338	$ 1,858	$ 11,674
Activity during year				
Balance, beginning of year	$ 7,305	$ 126	$ 2,573	$ 10,004
Cash received	(7,825)	(276)	(806)	(8,907)
New pledges received	9,845	488	-	10,333
Bad debt expense	(17)	-	(11)	(28)
Change in discount	170	-	102	272
Balance, end of year	$ 9,478	$ 338	$ 1,858	$ 11,674

The Association used rates ranging from 1% - 5% to discount pledges receivable for the years ended August 31, 2015 and 2014.

NOTE D - INVESTMENTS

At August 31, 2015 and 2014, the fair value of investments was as follows (in thousands):

	2015		2014	
	Fair value	Cost	Fair value	Cost
Cash and cash equivalents	$ 2,945	$ 2,945	$ 53	$ 53
Mutual funds				
Fixed income	4,944	4,967	3,719	3,711
Real assets	-	-	7	5
Commodities	-	-	6	4
Inflation hedges	66	67	69	67
Equities	91,698	94,224	93,292	85,507
Total mutual funds	96,708	99,258	97,093	89,294
Alternative investments				
Limited partnerships	1,772	3,072	2,129	2,853
Multi-strategy/absolute return	134	92	332	125
Total alternative investments	1,906	3,164	2,461	2,978
Total fair value of investments	$ 101,559	$ 105,367	$ 99,607	$ 92,325

The above amounts include approximately $20,036,000 and $21,925,000 of endowment funds for the benefit of the Academy of Music at August 31, 2015 and 2014, 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 $5,181,000 and $5,604,000 on August 31, 2015 and 2014, respectively.

(Continued)

NOTE D - INVESTMENTS - Continued

Components of investment return for the year ended August 31, 2015 were as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net realized gains	$ 221	$ 4,947	$ -	$ 5,168
Change in unrealized gains and losses	(449)	(10,731)	(426)	(11,606)
	(228)	(5,784)	(426)	(6,438)
Change in charitable gift annuity	-	-	(17)	(17)
Dividends and interest received	50	1,817	-	1,867
Total	$ (178)	$ (3,967)	$ (443)	$ (4,588)

The change in unrealized gains and losses is net of investment expenses of approximately $120,000.

Components of investment return for the year ended August 31, 2014 were as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net realized gains	$ 343	$ 7,794	$ -	$ 8,137
Change in unrealized gains and losses	10	(256)	292	46
	353	7,538	292	8,183
Change in charitable gift annuity	-	-	(34)	(34)
Dividends and interest received	104	2,205	-	2,309
Total	$ 457	$ 9,743	$ 258	$ 10,458

The change in unrealized gains and losses is net of investment expenses of approximately $175,000.

(Continued)

NOTE D - INVESTMENTS - Continued

The following tables present information about the Association's assets measured at fair value on a recurring basis, as described in Note B.5, as of August 31, 2015 and 2014 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, 2015			
Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash surrender value of life insurance	$ -	$ 151	$ -	$ 151
Investments				
Cash and cash equivalents	2,945	-	-	2,945
Mutual funds - fixed income	436	4,508	-	4,944
Mutual funds - inflation hedges	66	-	-	66
Mutual funds - equities	9,223	82,475	-	91,698
Limited partnerships	-	-	1,772	1,772
Multi-strategy/absolute return	-	-	134	134
Total investments	12,670	86,983	1,906	101,559
Beneficial interests in trusts	-	-	5,181	5,181
Total recurring financial assets	$ 12,670	$ 87,134	$ 7,087	$ 106,891

(Continued)

NOTE D - INVESTMENTS - Continued

Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	Assets at fair value at August 31, 2014			
Cash surrender value of life insurance	$ -	$ 136	$ -	$ 136
Investments				
Cash and cash equivalents	53	-	-	53
Mutual funds - fixed income	521	3,198	-	3,719
Mutual funds - real assets	7	-	-	7
Mutual funds - commodities	6	-	-	6
Mutual funds - inflation hedges	69	-	-	69
Mutual funds - equities	998	92,294	-	93,292
Limited partnerships	-	-	2,129	2,129
Multi-strategy/absolute return	-	-	332	332
Total investments	1,654	95,492	2,461	99,607
Beneficial interests in trusts	-	-	5,604	5,604
Total recurring financial assets	$ 1,654	$ 95,628	$ 8,065	$ 105,347

The following tables present 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, 2015 and 2014 (in thousands):

	Limited Partnerships	Multi-Strategy/ Absolute Return	Beneficial Interests in Trusts	Fair value measurements total (Level 3)
	August 31, 2015			
Balance, beginning of fiscal year	$ 2,129	$ 332	$ 5,604	$ 8,065
Purchases/additions	923	-	-	923
Sales	(703)	(122)	-	(825)
Unrealized losses	(577)	(76)	(423)	(1,076)
Balance, end of fiscal year	$ 1,772	$ 134	$ 5,181	$ 7,087

(Continued)

NOTE D - INVESTMENTS - Continued

	August 31, 2014			
	Limited Partnerships	Multi-Strategy/ Absolute Return	Beneficial Interests in Trusts	Fair value measurements total (Level 3)
Balance, beginning of fiscal year	$ 2,341	$ 450	$ 4,643	$ 7,434
Purchases/additions	833	-	-	833
Sales	(577)	(106)	-	(683)
Unrealized (losses) gains	(468)	(12)	961	481
Balance, end of fiscal year	$ 2,129	$ 332	$ 5,604	$ 8,065

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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.

The following are financial assets that are valued on a recurring basis:

1. Cash Surrender Value of Life Insurance

   The cash surrender value of life insurance policy is valued at the cash value quoted by the insurance carrier, which is generally a function of policy premiums paid and dividends declared. The Association considers this a market approach. These financial instruments are considered to be Level 2 in the fair value hierarchy.

2. 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. These financial instruments are considered to be Level 1 in the fair value hierarchy.

   Mutual Funds - Fixed Income: Mutual funds (open to the general public with quoted prices in active markets) 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. These financial instruments are considered to be Level 1 and Level 2 in the fair value hierarchy.

(Continued)

NOTE D - INVESTMENTS - Continued

Mutual Funds - Real Assets: Mutual funds (open to the general public with quoted prices in active markets) investing in real estate related securities, inflation-protected debt securities, and commodity/natural resource related securities that are publicly traded with quoted prices in active markets. Real estate mutual funds are valued using a market approach. These financial instruments are considered to be Level 1 in the fair value hierarchy.

Mutual Funds - Commodities: Mutual funds (open to the general public with quoted prices in active markets) investing in things that come from the earth or that are grown. This includes grains, minerals and metals, livestock, cotton, oils, sugar, coffee, and cocoa. Commodities are used as a hedge against inflation. These financial instruments, valued using the market approach, are considered to be Level 1 in the fair value hierarchy.

Mutual Funds - Inflation Hedges: Mutual funds (open to the general public with quoted prices in active markets) 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 in the fair value hierarchy.

Mutual Funds - Equities: Mutual funds (open to the general public with quoted prices in active markets) investing in domestic and/or foreign equity securities with quoted prices in active markets. Equity mutual funds are valued using a market approach. These financial instruments are considered to be Level 1 and Level 2 in the fair value hierarchy.

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. A second partnership invests in a variety of vehicles, which include: private equity securities, long/short equities - both domestic and international - and fixed income securities. These partnerships are valued using an income approach. These financial instruments are considered to be Level 3 in the fair value hierarchy.

Multi-Strategy/Absolute Return: These funds invest in a variety of vehicles, which include: equity securities, private equity funds, common stocks, limited partnerships, derivatives, and fixed income securities. The investment is valued using a market approach. These financial instruments are considered to be Level 3 in the fair value hierarchy.

3. Beneficial Interests in Trusts

The underlying investments of the trust include: money market funds, equity securities, fixed income securities, and mortgage securities. The interest in the trust is valued using a market approach. These financial instruments are considered to be Level 3 in the fair value hierarchy.

(Continued)

NOTE D - INVESTMENTS - Continued

Fair Value Measurements of Investments That Calculate Net Asset Value Per Share

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

	Fair value		Unfunded	Redemption	Redemption notice
	2015	2014	commitments	frequency	period
Limited Partnerships [a]	$ 1,772	$ 2,129	$ 432	[a]	[a]
Multi-Strategy/Absolute Return [b]	134	332	-	[b]	[b]
Short-Term Fixed Income [c]	4,508	3,198	-	Daily	Daily
Multi-Asset [d]	82,475	92,294	-	Daily	Daily
	$ 88,889	$ 97,953	$ 432		

[a] Limited Partnerships - Metropolitan Real Estate Partners Global II ("MREP II") was formed on November 19, 2007. MREP II will invest 60% of its capital commitments in Metropolitan Real Estate Partners VI, L.P. ("MREP VI") and 40% of its capital commitments in Metropolitan Real Estate Partners International III, L.P. ("MREP International III"). MREP VI 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, primarily within the United States. MREP International III 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, primarily within Europe and secondarily within Asia. The fair values have been estimated using NAV per share of the investments. The investment period for MREP VI ended on September 30, 2009 and for MREP International III on June 30, 2011. The partnerships will end on the later of 1) December 31, 2015, or 2) the time it takes to reasonably wind down the affairs of the partnerships after the partnership assets have been liquidated.

[b] Angelo Gordon L.P. - This limited partnership invests in various investment strategies, including special situations, financially distressed issuers, convertible hedging, and real estate, including securities which may not be readily marketable or may be subject to restrictions. The portfolio consists of cash equivalent instruments, equity securities, fixed income securities, derivative instruments, and partnerships/companies. The Association redeemed in full its investment in Angelo Gordon L.P. on December 31, 2010. At August 31, 2015, there is a remaining balance of approximately $92,000, which is pending liquidation.

SC Fundamental Value Fund L.P. - This limited partnership's investment objective is to achieve capital appreciation through investments in undervalued securities and other similar instruments. It may invest up to 15% of its capital in illiquid securities and loans. The partnership's investments include cash and cash equivalents, common stocks, preferred stocks, common stocks sold short, and a limited partnership which invests in long and short equity positions. The fair values have been estimated using the NAV per share of the investments. The Association redeemed in full its investment in SC Fundamental Value Fund L.P. At August 31, 2015, there is no remaining balance.

(Continued)

NOTE D - INVESTMENTS - Continued

Quellos Alpha Engine Fund L.P. - This limited partnership's investment strategies include relative value (investing to profit from the mispricing of related financial instruments) and event-driven (investing in securities of companies that are subject to extraordinary corporate events such as restructurings, takeovers, mergers, liquidations and bankruptcies). The Quellos Alpha Engine Fund L.P. was terminated by the investment manager effective March 31, 2009. The Association has a remaining investment of approximately $42,000 pending liquidation.

(c) The Short-Term Fund of The Investment Fund for Foundations ("TIFF") - The Short-Term Fund is a registered mutual fund; the fund's investment objective is to attain as high a rate of current income as is consistent with ensuring that the fund's risk of principal loss does not exceed that of a portfolio invested in U.S. 6-month Treasury bills. The fund invests principally in securities issued by the U.S. Government, its agencies, or its instrumentalities. The investment advisor, TIFF Advisory Services, Inc. ("TAS"), focuses on duration, maturity, relative valuations, and security selection. The fund typically maintains an overall quality rating of AAA by Standard & Poor's Corporation (or deemed equivalent). The Association is able to redeem full and fractional shares in TIFF's Short-Term Fund on any business day.

(d) The Multi-Asset Fund of TIFF - The Multi-Asset Fund is a registered mutual fund. Its investment objective is to achieve a total return (price appreciation plus dividends) that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index ("CPI") plus 5% per annum. The fund's strategy is to invest in a comprehensive asset allocation that includes cash, global stocks, fixed income securities and high yield bonds, inflation hedges, including commodities and REITs, and all-purpose hedges, including inflation-linked bonds. The Association is able to redeem full and fractional shares of the fund on any business day.

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.

(Continued)

NOTE E - ENDOWMENTS - Continued

1. 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 in Note E.2 below. As a result of this interpretation, the Association classifies as permanently restricted net assets (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 that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the Association's spending policy.

2. Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the "historic dollar value." Deficiencies of this nature are reported by a charge to permanently restricted net assets and a corresponding increase to temporarily restricted net assets. On a cumulative basis, these charges totaled approximately $2,031,000 and $-0- as of August 31, 2015 and 2014, respectively. These deficiencies may result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions. Over time, these may reverse due to appreciation of the underlying investments.

3. 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.

(Continued)

NOTE E - ENDOWMENTS - Continued

4. 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 fiscal years 2015 and 2014. 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 fiscal years 2015 and 2014 to these and all other endowment pools.

5. 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 temporarily restricted net assets. 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 permanently restricted investment net gains under a total return spending rate policy. The Association authorized a spending rate of 5.5% for fiscal years 2015 and 2014 for both its unrestricted and permanently 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 $173,000 and $201,000 at August 31, 2015 and 2014, respectively.

(Continued)

NOTE E - ENDOWMENTS - Continued

To the extent that actual income from permanently 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 temporarily restricted net assets. When accumulated gains are less than the calculated spending rate, funds are made available from permanently restricted net assets. Investment return in excess of or less than the spending distribution is reported as a component of nonoperating revenue.

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

6. Endowment Fund Activity

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(in thousands)		
August 31, 2015				
Donor-restricted endowment funds	$ -	$ 825	$ 102,913	$ 103,738
Board-designated funds	3,950	-	-	3,950
	$ 3,950	$ 825	$ 102,913	$ 107,688
September 1, 2014				
Net assets, beginning of year	$ 4,251	$ 7,368	$ 94,549	$ 106,168
Investment return				
Investment income	50	1,817	-	1,867
Net realized gains	221	4,947	-	5,168
Net unrealized losses	(449)	(10,731)	(426)	(11,606)
Net investment losses	(178)	(3,967)	(426)	(4,571)
Contributions	-	-	10,838	10,838
Appropriation of endowment assets for operations (draw)	(123)	(4,607)	-	(4,730)

(Continued)

NOTE E - ENDOWMENTS - Continued

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(in thousands)		
Other changes				
Change in estimate for annuities payable	$ -	$ -	$ (17)	$ (17)
Provision for bad debt on contributions receivable	-	-	-	-
Deficiencies in historical values	-	2,031	(2,031)	-
Total other changes	-	2,031	(2,048)	(17)
Net assets, end of year	$ 3,950	$ 825	$ 102,913	$ 107,688

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(in thousands)		
August 31, 2014				
Donor-restricted endowment funds	$ -	$ 7,368	$ 94,549	$ 101,917
Board-designated funds	4,251	-	-	4,251
	$ 4,251	$ 7,368	$ 94,549	$ 106,168
September 1, 2013				
Net assets, beginning of year	$ 3,931	$ 2,025	$ 92,195	$ 98,151
Investment return				
Investment income	104	2,205	-	2,309
Net realized gains	343	7,794	-	8,137
Net unrealized gains (losses)	10	(256)	292	46
Net investment gains	457	9,743	292	10,492
Contributions	-	-	1,128	1,128
Appropriation of endowment assets for operations (draw)	(137)	(4,400)	-	(4,537)
Other changes				
Change in estimate for annuities payable	-	-	(34)	(34)
Provision for bad debt on contributions receivable	-	-	(11)	(11)
Redesignation of assets	-	-	979	979
Total other changes	-	-	934	934
Net assets, end of year	$ 4,251	$ 7,368	$ 94,549	$ 106,168

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 $5,181,000 at August 31, 2015 and $5,604,000 at August 31, 2014 in the accompanying consolidated statements of financial position. Distributions received from these trusts (approximately $297,000 and $402,000 in 2015 and 2014, respectively) are reported in the consolidated statements of activities. Changes in fair value of the trusts are reported as increases or decreases in permanently restricted net assets.

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 provides 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 fiscal years 2015 and 2014. This draw from the Annenberg Endowment funds amounted to approximately $2,524,000 for 2015 and $2,459,000 for 2014 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 $45,684,000 for August 31, 2015 and $50,496,000 at August 31, 2014.

NOTE G - PROPERTY AND EQUIPMENT

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

	2015	2014
Philadelphia Orchestra		
Office condominium	$ 1,259	$ 1,209
Building improvements	586	556
Equipment and other	6,508	5,871
Fine instruments	295	295
Total	8,648	7,931
Less accumulated depreciation	(5,137)	(4,785)
Total Philadelphia Orchestra	3,511	3,146

(Continued)

NOTE G - PROPERTY AND EQUIPMENT - Continued

	2015	2014
Academy of Music		
Land	$ 630	$ 630
Building and building improvements	77,221	77,093
Office equipment	992	990
Construction in progress	1,573	542
Total	80,416	79,255
Less accumulated depreciation	(44,615)	(42,232)
Total Academy of Music	35,801	37,023
Total property and equipment, net	$ 39,312	$ 40,169

Depreciation expense related to the Philadelphia Orchestra was approximately $352,000 and $343,000 for the years ended August 31, 2015 and 2014, respectively. Depreciation expense related to the Academy of Music is reflected in the Academy of Music expense on the consolidated statements of activities in the amount of approximately $2,383,000 and $2,390,000 for the years ended August 31, 2015 and 2014, 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 Association employees who retire generally with 10 years of service after age 50 for musicians and age 55 for staff. 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, 2015 and 2014, the total severance pay benefit obligation was approximately $83,000 and $80,000, respectively.

(Continued)

NOTE H - POSTRETIREMENT BENEFIT OBLIGATION - Continued

The Association's actuary has performed the computations for the postretirement health care obligation as of August 31, 2015 and 2014. Other changes recognized in other comprehensive income is shown on the consolidated statements of activities in nonoperating revenue (expense) as "change in postretirement benefit obligation." The calculation is as follows:

	2015			
	Postretirement Plans			
	Orchestra	Admin	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	$ 6,175	$ 391	$ 60	$ 6,626
Service cost	343	-	-	343
Interest cost	264	16	2	282
Actuarial loss	1,420	69	19	1,508
Benefits paid	(158)	(24)	(5)	(187)
Expected expenses	-	-	-	-
Benefit obligation at end of year	8,044	452	76	8,572
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	159	24	5	188
Benefits paid	(159)	(24)	(5)	(188)
Fair value of plan assets at end of year	-	-	-	-
Funded status at year-end	$ (8,044)	$ (452)	$ (76)	$ (8,572)
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	$ (8,044)	$ (452)	$ (76)	$ (8,572)
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated (loss) gain	$ (2,443)	$ 185	$ 27	$ (2,231)
Cumulative employer contributions in excess of net periodic benefit cost	(5,601)	(637)	(103)	(6,341)
	$ (8,044)	$ (452)	$ (76)	$ (8,572)
Components of net periodic benefit cost				
Service cost	$ 343	$ -	$ -	$ 343
Interest cost	264	16	2	282
Actuarial loss (gain)	87	(22)	(4)	61
Net periodic benefit cost	$ 694	$ (6)	$ (2)	$ 686
Other changes recognized in other comprehensive income				
Net loss arising during period	$ 1,420	$ 69	$ 19	$ 1,508
Actuarial (loss) gain	(87)	22	4	(61)
Total recognized in other comprehensive income	$ 1,333	$ 91	$ 23	$ 1,447

(Continued)

NOTE H - POSTRETIREMENT BENEFIT OBLIGATION - Continued

	2014			
	Postretirement Plans			
	Orchestra	Admin	Academy	Total
Change in benefit obligation				
Benefit obligation at beginning of year	$ 6,222	$ 528	$ 189	$ 6,939
Service cost	271	-	-	271
Interest cost	235	17	3	255
Actuarial gain	(399)	(129)	(127)	(655)
Benefits paid	(154)	(25)	(5)	(184)
Expected expenses	-	-	-	-
Benefit obligation at end of year	6,175	391	60	6,626
Change in plan assets				
Fair value of plan assets at beginning of year	-	-	-	-
Contributions by the Association	154	25	5	184
Benefits paid	(154)	(25)	(5)	(184)
Fair value of plan assets at end of year	-	-	-	-
Funded status at year-end	$ (6,175)	$ (391)	$ (60)	$ (6,626)
Net amounts recognized in the consolidated statement of financial position consist of:				
Accrued postretirement benefit obligation	$ (6,175)	$ (391)	$ (60)	$ (6,626)
Amounts recognized in net assets but not yet recognized in net periodic benefit costs consist of:				
Accumulated (loss) gain	$ (1,110)	$ 275	$ 49	$ (786)
Cumulative employer contributions in excess of net periodic benefit cost	(5,065)	(666)	(109)	(5,840)
	$ (6,175)	$ (391)	$ (60)	$ (6,626)
Components of net periodic benefit cost				
Service cost	$ 271	$ -	$ -	$ 271
Interest cost	235	17	3	255
Net periodic benefit cost	$ 506	$ 17	$ 3	$ 526
Other changes recognized in other comprehensive income				
Net gain arising during period	$ (399)	$ (129)	$ (127)	$ (655)
Total recognized in other comprehensive income	$ (399)	$ (129)	$ (127)	$ (655)

(Continued)

NOTE H - POSTRETIREMENT BENEFIT OBLIGATION - Continued

	2015		
	Postretirement Plans		
	Orchestra	Admin	Academy
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	4.03%	4.03%	4.03%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	4.41%	4.41%	4.41%
Rate of compensation increase	N/A	N/A	N/A
Measurement date	8/31/15	8/31/15	8/31/15

	2014		
	Postretirement Plans		
	Orchestra	Admin	Academy
Weighted-average assumptions used to determine net periodic benefit cost were:			
Discount rate	4.66%	4.66%	4.66%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A
Weighted-average assumptions used to determine benefit obligations were:			
Discount rate	4.03%	4.03%	4.03%
Rate of compensation increase	N/A	N/A	N/A
Measurement date	8/31/14	8/31/14	8/31/14

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:

	Other Postretirement Plans
Actuarial loss	$ 143,000

(Continued)

NOTE H - POSTRETIREMENT BENEFIT OBLIGATION - Continued

For measurement purposes, a 6.97% and 7.14% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015 and 2014, respectively. The rate was assumed to decrease to a rate of 4.50% (in 2029) by various percentage points annually.

Estimated future benefit payments for years ending after August 31, 2015 are as follows (in thousands):

Postretirement:

Years ending August 31,	Orchestra	Administrative	Academy
2016	$ 260,000	$ 32,000	$ 6,000
2017	274,000	34,000	6,000
2018	289,000	36,000	7,000
2019	315,000	39,000	7,000
2020	323,000	40,000	7,000
Next 5 years	1,947,000	244,000	44,000

Contributions

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

	Orchestra	Administrative	Academy
2016	$ 260,000	$ 32,000	$ 6,000

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"). 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, 2015 and 2014 was approximately $1,533,000 and $1,385,000, 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%. 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 September 30, 2015 and was extended through September 30, 2016. The Association had $-0- outstanding on this line of credit at August 31, 2015 and 2014.

NOTE K - NET ASSETS

Temporarily restricted net assets consisted of the following at August 31 (in thousands):

	2015	2014
Time and purpose restricted contributions	$ 4,555	$ 4,153
Cumulative unspent investment gains, net	1,568	8,103
	$ 6,123	$ 12,256

Permanently restricted net assets consisted of the following at August 31 (in thousands):

	2015	2014
Third-party trust assets	$ 5,181	$ 5,604
Pledges related to the endowment	1,549	1,858
Investments restricted in perpetuity	96,183	87,087
	$ 102,913	$ 94,549

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, 2015 and 2014, the Association's interest in the net assets of the joint venture was approximately $793,000 and $838,000, respectively. During the years ended August 31, 2015 and 2014, the Association recorded revenue of approximately $331,000 and $263,000, respectively, from Ticket Philadelphia for its share of profits from Ticket Philadelphia's fiscal year 2015 and 2014 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 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 $427,000 at August 31, 2015.

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 14th 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.

Minimum rent under this agreement ("Sublease Rent") was $14,122. This amount included real estate taxes and operating expenses under the Prime Lease. The Sublease Rent for the Sublet Premises was net of rent to the Sublessor.

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 before abatement of 50% through November 1, 2015 under the Lease, commencing on April 1, 2015 for the Premises, shall be as follows:

Fiscal year	Minimum rent per annum
2016	$ 306,977
2017	358,420
2018	366,490
2019	374,559
2020	382,629
2021	390,698
2022	398,768
2023	235,360

(Continued)

NOTE N - COMMITMENTS - Continued

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 Terms, an abatement of minimum rent for the period commencing on the Lease commencement date and ending on November 30, 2015 (the "Abatement Period") shall be as follows: (a) minimum rent shall be fully abated for the months of April and May 2014, and (b) one-half of the monthly minimum rent shall be abated for the months of June 2014 through and including November 2015.

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, 2015 and 2014, the Orchestra received payments from the Kimmel Center and Ticket Philadelphia totaling approximately $1,086,000 and $989,000, 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, 2015 and 2014.

Contribution revenue recorded from members of the Association's Board of Directors was approximately $12,748,000 and $3,944,000 for the years ended August 31, 2015 and 2014, respectively.

NOTE P - SUBSEQUENT EVENTS

The Association evaluated its August 31, 2015 consolidated financial statements for subsequent events through February 11, 2016, the date the consolidated financial statements were available to be issued. The Association is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

SUPPLEMENTAL INFORMATION

SCHEDULE OF CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING ACTIVITIES

Year ended August 31,

(Dollars in thousands)

	2015	2014
PERFORMANCE REVENUE		
Philadelphia concerts	$ 9,518	$ 9,612
Summer concerts	1,706	1,714
Other concerts	2,981	2,830
Tours	2,301	2,095
Recording, radio and television	223	130
	16,729	16,381
PERFORMANCE EXPENSE		
Orchestra and concert production	32,755	29,870
Recording, radio and television	275	125
	33,030	29,995
PERFORMANCE DEFICIT	(16,301)	(13,614)
OTHER OPERATING REVENUE		
Annual public support	12,174	12,615
Campaign contributions - special funding	3,905	6,245
Volunteer project revenue	539	566
Spending policy draw, designated for current operations	6,471	6,233
Income from beneficial interests in trusts	297	402
Other revenues	1,993	1,788
Gifts in kind	5	123
Equity earnings in joint venture	331	263
Academy Ball revenue	361	350
Net assets released from restrictions	3,290	1,242
TOTAL OTHER OPERATING REVENUE	29,366	29,827
OTHER OPERATING EXPENSE		
Fundraising expenses		
Annual fundraising	2,081	1,690
Volunteer project	297	292
	2,378	1,982
Management and general		
Administrative expense	12,042	11,172
Global initiatives and government relations	1,330	1,134
Bad debt	127	17
Depreciation	352	343
TOTAL OTHER OPERATING EXPENSE	16,229	14,648
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES BEFORE REORGANIZATION ACTIVITIES	(3,164)	1,565
Reorganization expenses	(811)	(1,112)
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	$ (3,975)	$ 453