

THE CHICAGO PHILHARMONIC SOCIETY

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2023 AND 2022

THE CHICAGO PHILHARMONIC SOCIETY

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS.....	6
NOTES TO FINANCIAL STATEMENTS	7-19



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Chicago Philharmonic Society
226 S Wabash Ave, Floor 10
Chicago, IL 60604

Opinion

We have audited the accompanying financial statements of The Chicago Philharmonic Society, which comprise the statements of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chicago Philharmonic Society as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Chicago Philharmonic Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Report on Summarized Comparative Information

The 2022 financial statements of The Chicago Philharmonic Society were audited by Ostrow Reisin Berk & Abrams, Ltd. (ORBA) whose report dated May 12, 2023, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

PORTE BROWN LLC
Certified Public Accountants



Elk Grove Village, Illinois
May 2, 2024

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

ASSETS	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 140,652	\$ 756,156
Grants and contributions receivable	10,000	66,587
Accounts receivable	7,990	273,840
Prepaid expenses	18,905	6,454
Other receivable	41,286	-
	<u>218,833</u>	<u>1,103,037</u>
FIXED ASSETS		
Property and equipment	61,378	54,718
Less: Accumulated depreciation	(29,406)	(17,223)
	<u>31,972</u>	<u>37,495</u>
OTHER ASSETS		
Deposits	9,000	9,500
Investments	646,204	595,316
Operating lease right-of-use-assets	89,249	-
	<u>744,453</u>	<u>604,816</u>
TOTAL ASSETS	<u><u>\$ 995,258</u></u>	<u><u>\$ 1,745,348</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 9,509	\$ 61,972
Accrued expenses	103,129	188,256
Contract liability, concert admissions	2,183	21,700
Deferred grant revenue, conditional grant	-	25,000
Current portion of operating lease liabilities	51,133	-
Current portion of long-term debt	13,777	13,008
	<u>179,731</u>	<u>309,936</u>
LONG-TERM OBLIGATIONS		
Long-term debt, net of current portion included above	23,926	37,703
Operating lease liabilities, net of current portion	38,032	-
	<u>61,958</u>	<u>37,703</u>
NET ASSETS		
Without donor restrictions	385,505	1,008,878
With donor restrictions	368,064	388,831
	<u>753,569</u>	<u>1,397,709</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 995,258</u></u>	<u><u>\$ 1,745,348</u></u>

The accompanying notes are an integral part of these financial statements

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

(with summarized information for the year ended June 30, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES AND SUPPORT				
Program service revenue - orchestral services	\$ 1,732,270	\$ -	\$ 1,732,270	\$ 1,651,401
Program service revenue - concert admissions	201,969	-	201,969	278,181
Grants and contributions	403,953	-	403,953	1,236,164
In-kind contributions	1,300	-	1,300	70,625
Investment income (loss), net	50,964	-	50,964	(49,159)
Net assets released from restriction	20,767	(20,767)	-	-
	<u>2,411,223</u>	<u>(20,767)</u>	<u>2,390,456</u>	<u>3,187,212</u>
EXPENSES				
Program services	2,549,696	-	2,549,696	2,545,200
Management and general	281,942	-	281,942	179,478
Fundraising services	202,958	-	202,958	142,973
	<u>3,034,596</u>	<u>-</u>	<u>3,034,596</u>	<u>2,867,651</u>
CHANGE IN NET ASSETS				
	(623,373)	(20,767)	(644,140)	319,561
NET ASSETS, BEGINNING OF YEAR	<u>1,008,878</u>	<u>388,831</u>	<u>1,397,709</u>	<u>1,078,148</u>
NET ASSETS, END OF YEAR	<u>\$ 385,505</u>	<u>\$ 368,064</u>	<u>\$ 753,569</u>	<u>\$ 1,397,709</u>

The accompanying notes are an integral part of these financial statements

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023

(with summarized information for the year ended June 30, 2022)

EXPENSES	Program Services	Management and General	Fundraising Services	2023 Total	2022 Total
Personnel	\$ 2,216,138	\$ 129,894	\$ 146,365	\$ 2,492,397	\$ 2,144,123
Advertising and marketing	71,744	17,936	17,950	107,630	185,489
Concert production costs	206,246	-	-	206,246	335,014
Depreciation and amortization	11,464	314	405	12,183	6,040
Insurance	-	5,300	-	5,300	4,989
Occupancy	35,317	12,827	16,575	64,719	56,445
Office	8,787	4,248	17,663	30,698	32,394
Professional development	-	110,348	4,000	114,348	-
Professional fees	-	1,075	-	1,075	103,157
TOTAL EXPENSES	\$ 2,549,696	\$ 281,942	\$ 202,958	\$ 3,034,596	\$ 2,867,651

The accompanying notes are an integral part of these financial statements

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING ACTIVITIES		
Change in net assets:	\$ (644,140)	\$ 319,561
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	12,183	6,040
(Gain) loss on investments	(50,887)	49,348
Reduction of right-of-use-assets	(49,308)	-
Changes in:		
Grants and contributions receivable	56,587	402,016
Accounts receivable	265,850	(273,840)
Prepaid expenses	(12,451)	(3,447)
Other receivable	(41,286)	-
Deposits	500	(8,167)
Accounts payable	(52,463)	43,856
Accrued expenses	(85,128)	134,929
Contract liability, concert admissions	(19,517)	16,944
Deferred grant revenue, conditional grant	(25,000)	25,000
Deferred grant revenue, PPP loan	-	(149,354)
Operating lease liabilities	<u>49,224</u>	<u>-</u>
Net cash (used) provided by operating activities	<u>(595,836)</u>	<u>562,886</u>
INVESTING ACTIVITIES		
Purchase of fixed assets	(6,660)	(42,126)
Purchase of investments	<u>-</u>	<u>(35,000)</u>
Net cash used by investing activities	<u>(6,660)</u>	<u>(77,126)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	<u>(13,008)</u>	<u>-</u>
Net cash used by financing activities	<u>(13,008)</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(615,504)	485,760
BEGINNING CASH AND CASH EQUIVALENTS	756,156	270,396
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 140,652</u>	<u>\$ 756,156</u>
SUPPLEMENTAL INFORMATION TO CASH FLOWS		
Cash paid during the year for:		
Income taxes	\$ -	\$ -
Interest	1,075	-
Non-cash activities:		
Operating lease assets obtained in exchange for lease liabilities	\$ 139,646	\$ -

The accompanying notes are an integral part of these financial statements

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF OPERATIONS

The Chicago Philharmonic Society (the “Society”) is an Illinois nonprofit organization that operates orchestral and chamber music ensembles based in Chicago, Illinois. The Society’s primary purpose is the promotion and appreciation of orchestral and chamber music among the general public. Revenues are primarily derived from contract services, ticket sales and contributions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies is presented to assist in understanding the Society’s financial statements. The financial statements and notes are representations of the Society’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

BASIS OF ACCOUNTING

The Society maintains records on the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the obligation is incurred.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FINANCIAL STATEMENT PRESENTATION

In accordance with FASB ASC 958-205, "Not-for-Profit Entities Presentation of Financial Statements," the Society reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions and providing services less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net Assets with Donor Restrictions – These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of donated assets, either temporarily or permanently, until the donor restriction expires, the net assets are restricted.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional allocation. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society’s financial statements for the year ended June 30, 2022 from which the summarized information was derived.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

The Society derives its revenue primarily from contributions. In accordance with FASB ASC 958-605-25 “Not-for-Profit Entities Revenue Recognition” contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair market values. Conditional promises to give, whether received or made, are recognized when they become unconditional, that is, when the conditions are substantially met. In addition, FASB ASC 958-605 requires not-for-profit organizations to distinguish between contributions received that increase net assets without donor restrictions and net assets with donor restrictions. It also requires recognition of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

Orchestral services represent fees for orchestral support to local, national and international arts organizations and businesses. Each performance represents a distinct performance obligation and revenue is recognized at a point in time upon completion of the performance. Invoices for orchestral services revenue are billed immediately following the performance.

Concert admission revenue represents ticket revenue for performances put on by the Society. Each concert represents a distinct performance obligation and revenue is recognized at a point in time upon completion of the concert. Tickets are typically sold in advance of performances and recorded as contract liability, concert admissions until completion of the concert.

The following table disaggregates the Society’s revenue from contracts with customers and noncontractual revenue for the years ended June 30, 2023 and 2022:

	2023	2022
Contracts with customers	\$ 1,934,239	\$ 1,929,582
Noncontractual revenues with customers	<u>456,217</u>	<u>1,257,630</u>
	<u>\$ 2,390,456</u>	<u>\$ 3,187,212</u>

All revenues resulting from contracts with customers are revenue from performance obligations satisfied at a point in time.

The balances of contract receivables and liabilities from contracts with customers are as follows:

	June 30, 2023	June 30, 2022	July 1, 2022
Accounts receivable	\$ 7,990	\$ 273,840	\$ -
Contract liability, concert admissions	2,183	21,700	4,756

No impairment losses were incurred in the years ended June 30, 2023 and 2022 with respect to contract assets arising from contracts with customers.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROMISES TO GIVE

Contributions are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

NET ASSETS WITHOUT DONOR IMPOSED RESTRICTIONS

Net assets without donor restrictions are those funds presently available for use by or on behalf of the Society, including amounts available for general and administrative expenses. These net assets without donor restrictions may also include board-designated amounts.

Board designated amounts consist of:

	2023	2022
Endowment funds	<u>\$ 281,204</u>	<u>\$ 230,316</u>

DONOR IMPOSED RESTRICTIONS

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions which increases that net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Society reports the support as without donor restrictions.

Net assets with donor restrictions are available for the following:

	2023	2022
Purpose restrictions, available for spending:		
AMP program	\$ 3,064	\$ 7,266
Intern program	-	16,565
	<u>3,064</u>	<u>23,831</u>
Endowment funds		
Endowment not subject to spending policy or appropriation	<u>365,000</u>	<u>365,000</u>
	<u>\$ 368,064</u>	<u>\$ 388,831</u>

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DONOR IMPOSED RESTRICTIONS (Continued)

Net assets released from restriction due the years ended June 30, 2023 and 2022 were as follows:

	2023	2022
AMP program	\$ 4,202	\$ 5,234
Intern program	16,565	3,435
Youth empowerment	-	5,760
	<u>\$ 20,767</u>	<u>\$ 14,429</u>

IN-KIND CONTRIBUTIONS

The Society receives significant in-kind contributions of advertising services and concert production costs related to program operations. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society. The Society recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

The Society received the following contributions of nonfinancial assets for the years ended June 30, 2023 and 2022:

	2023	2022
Program services:		
Advertising	\$ 1,300	\$ 67,500
Concert production costs	-	3,125
	<u>\$ 1,300</u>	<u>\$ 70,625</u>

EXPENSE RECOGNITION AND ALLOCATION

The Society allocates its expenses on a functional basis among its various programs and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their natural expenditure classification. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are personnel, related expenses, depreciation and amortization, insurance, occupancy, office, and professional development expenses which are allocated on the basis of estimates of time and effort.

CASH AND CASH EQUIVALENTS

The Society considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONCENTRATION OF CREDIT RISK

The Society has cash and cash equivalents in excess of federally insured limits of \$250,000 at one banking institution. These amounts potentially subject the Society to credit risk if the banking institution fails. It is of the opinion of management that the solvency of the referenced financial institutions is not of a particular concern at this time.

GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consists of payments due from various Corporations and Foundations. The Society considers grants receivable to be fully collectible. Grants receivable are valued at management's estimate of the amount that will ultimately be collected.

ACCOUNTS RECEIVABLE

The Society extends trade credit to its customers. Management believes these receivables are fully collectible. The receivables are valued at management's estimate of the amount that will ultimately be collected.

FIXED ASSETS

Fixed assets are stated at cost. Depreciation is calculated on a straight-line basis over the estimated lives of the related assets. The Society has adopted a policy to capitalize assets using a \$1,000 threshold. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Major classifications of property and equipment and their respective lives are summarized below:

	<u>Lives in Years</u>	<u>2023</u>	<u>2022</u>
Equipment	3 - 7	\$ 5,165	\$ 5,165
Website	5	56,213	49,553
		<u>\$ 61,378</u>	<u>\$ 54,718</u>

Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains and losses on dispositions of property and equipment are included in income.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

Investment securities are stated at fair value based on quoted market prices or market prices for similar securities. Unrealized gains and losses are recognized based on the change in fair value and are reported as a component of investment income. Realized gains and losses are recognized using the average cost method and are reported as a component of investment income. In addition, external and direct internal expenses relating to investment activities have been netted against investment income.

Investment income (loss) includes the following for the years ended June 30, 2023 and 2022:

	2023	2022
Interest and dividends	\$ 3,223	\$ 2,852
Realized gain/(loss) on sale of investments	11,446	41,858
Unrealized gain/(loss) on investments	38,452	(91,648)
Investment management expenses	<u>(2,157)</u>	<u>(2,221)</u>
	<u><u>\$ 50,964</u></u>	<u><u>\$ (49,159)</u></u>

INCOME TAXES

The Society is generally exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state statutes. Accordingly, no provision for income tax expense is included in the accompanying financial statements. The Society has adopted the provision of ASC Topic 740, Income Taxes, relating to the accounting for uncertainty in income taxes. The Society files information returns in the U.S. federal jurisdiction, and the State of Illinois. Management is not aware of any uncertain tax positions.

SUBSEQUENT EVENTS

The Society has evaluated subsequent events through May 2, 2024, the date which the financial statements were available to be issued.

NOTE C – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Society considers all expenditures related to its ongoing program activities, as well as the services undertaken to support those activities to be general expenditures. The Society regularly monitors liquidity required to meet its operation needs and other contractual commitments, while also striving to maximize the investment of its available funds. In addition to the financial assets available to meet general expenditures over the next year, the Society operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE C – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

The following table show the total financial assets held by the Society and the amounts of which could readily be made available within one year of June 30, 2023 and 2022 to meet general expenditures:

	2023	2022
Cash and cash equivalents	\$ 140,652	\$ 756,156
Grants and contributions receivable	10,000	66,587
Accounts receivable	7,990	273,840
Other receivable	41,286	-
Endowment investments	<u>646,204</u>	<u>595,316</u>
 Total financial assets	 846,132	 1,691,899
 Less those unavailable for general expenditures within one year due to:		
Contractual or donor imposed restrictions	(368,064)	(388,831)
Board designations	<u>(281,204)</u>	<u>(230,316)</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 196,864</u>	 <u>\$ 1,072,752</u>

The Society's Board-designated endowment is subject to an annual spending rate of 4% to 5% as determined by the Board. Although management does not intend to spend from this Board-designated endowment, other than amounts appropriated for operating expenditure as part of the Board's annual budget approval and appropriation, these amounts could be available if necessary.

NOTE D – FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Society's investment in the Fund represents its allocable share in the Fund and is measured at fair value using the net asset value per share (NAV) practical expedient and has not been categorized in the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient:

Investment	June 30, 2023	June 30, 2022	Unfunded commitment	Redemption frequency	Redemption notice period
Jewish Federation					
Pooled Endowment Fund	\$ 646,204	\$ 595,316	N/A	Monthly	15-30 days

The Fund combines the Society's investment with the holdings of other entities, and then invests in the pooled amount. The Fund's investments consists of the following categories as of June 30, 2023 and 2022:

	2023	2022
Cash	3%	6%
Fixed income	11	7
Global equity	42	34
Hedge funds	14	21
Private equity	30	32
	100%	100%

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE E – LONG-TERM DEBT

Long-term debt consists of the following:

	2023	2022
In March 2021, the Society applied for and received a second PPP loan in the amount of \$300,000 (PPP 2). The Society elected to account for PPP 2 under the government grant model and recognized \$149,354 and \$99,935 of PPP 2 as grant revenue related to qualifying expenses incurred during the years ended June 30, 2022 and 2021, respectively. The Society received notice from the SBA in July 2022 that \$249,289 of the loan was forgiven. The balance of \$50,711 is outstanding at June 30, 2022. PPP2 has a maturity date of March 25, 2026 and bears interest at a rate of 1% per year.	\$ 37,703	\$ 50,711
Less current portion	<u>(13,777)</u>	<u>(13,008)</u>
Long-term portion	<u><u>\$ 23,926</u></u>	<u><u>\$ 37,703</u></u>

The total debt maturing in years subsequent to June 30, 2023 is as follows:

Year-ending June 30,

2024	\$ 13,777
2025	13,918
2026	<u>10,008</u>
	<u><u>\$ 37,703</u></u>

NOTE F – MULTIEMPLOYER PENSION PLAN

The Society is a participating employer in a multiemployer, defined-benefit pension plan for musicians. Contributions of \$186,087 and \$179,456 for the years ended June 30, 2023 and 2022, respectively, were charged to operations for the Society's ongoing participation in this defined-benefit plan. The inherent risk of participating in this defined-benefit plan is that under current law regarding the multiemployer benefit plans, a plan's termination, the Society's voluntary withdrawal or mass withdrawal of all contributing employers from any under-funded, multiemployer pension plan would require the Society to make payments to the plan for the Society's proportionate share of the multiemployer plan's unfunded vested liabilities.

The Society's participation in this multiemployer plan for the years ended June 30, 2023 and 2022 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2023 is for the plan's year ended December 31, 2022. The zone status is based on information that the Society received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE F – MULTIEMPLOYER PENSION PLAN (Continued)

The “FIP/RP Status Pending/Implemented” column indicates plans for which financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented.

Pension Fund Name/ EIN and Plan Number	Plan Year Ended/ PPA Zone Status	FIP/RP Status	Company Contributions 2023	Company Contributions 2022	Expiration Date of Collective Bargaining Agreement
American Federation of Musicians and Employers' Pension Plan 51-6120204-001	12/31/2022 Red	Yes - Implemented	\$ 186,087	\$ 179,456	11/13/2026

NOTE G – LEASE COMMITMENTS

The Society has entered into a lease commitment on a building used for its activities. The current terms of the lease provide for annual rents of \$49,500 payable monthly, increasing to \$52,514 throughout the life of the lease. The Society may also be responsible for operating expenses and real estate taxes, which exceed the base year defined in the lease. The expiration date of the lease is March 31, 2025. The lease contains an option to renew with renewal terms that can extend the lease term for an additional two years. The exercise of the lease renewal option is at Society's sole discretion. The financial statements do not include operating lease payments related to the option to extend the lease term because it is not reasonably certain that the option will be exercised. Lease expense was \$44,431 for the year ended June 30, 2022. Operating lease expense included in the statement of functional expense was \$51,485 for the year ended June 30, 2023. The Society has lease agreements with lease and non-lease components, which beginning in 2022, are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices.

Beginning in 2022, the operating lease assets and liabilities were calculated using the risk-free discount rate according to the Society's elected policy for all lease agreements.

The following summarizes the weighted average remaining lease term and discount rate as of June 30:

	<u>Operating</u>
Weighted Average Remaining Lease Term	1.75 Years
Weighted Average Discount Rate	1.04%

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE G – LEASE COMMITMENTS (Continued)

The maturities of lease liabilities as of June 30, 2023 are as follows:

2024	\$ 51,821
2025	<u>38,193</u>
Total lease payments	90,014
Less: Interest	<u>(849)</u>
Present value of lease liabilities	<u>\$ 89,165</u>

NOTE H – ENDOWMENT

The Society's endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The governing body has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Society 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. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Society and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Society
- (7) The investment policies of the Society.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted and Board-designated funds that the Society must hold in perpetuity or for a specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to conserve corpus while assuming a minimal level of investment risk.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

NOTE H – ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Society relies on a total return strategy to which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society's policy is to invest 100% of the endowment cash assets in the pooled endowment portfolio of the Fund.

Spending Policy

The Society's current spending policy is limited to earnings on the endowment funds. As such, the investment objectives require disciplined and consistent management philosophies that accommodate all those events which are relevant, reasonable and probable. Therefore, periodic review of total rate of return and spending rate objectives is required. Extreme positions or variations in management style are not consistent with these objectives. The Society's spending rate is limited to a maximum spending rate of 5% as determined by the Board.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of the Society has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

Changes in endowment net assets and net asset composition for the years ending June 30, 2023 and 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, July 01, 2021	\$ 279,664	\$ 330,000	\$ 609,664
Investment income	(49,348)	-	(49,348)
Contributions	-	35,000	35,000
June 30, 2022	230,316	365,000	595,316
Investment income	50,888	-	50,888
June 30, 2023	<u>\$ 281,204</u>	<u>\$ 365,000</u>	<u>\$ 646,204</u>

NOTE I – CONCENTRATION IN SUPPORT RECEIVED

The Society received approximately 51% and 37% of its revenues from Joffrey Ballet for the years ended June 30, 2023 and 2022, respectively. In the event that this revenue were to be eliminated, it is likely that the Society would need to restructure its current operations and overall business.

THE CHICAGO PHILHARMONIC SOCIETY
NOTES TO FINANCIAL STATEMENTS

NOTE J – ACCOUNTING CHANGE

LEASES

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) and subsequently issued additional ASUs to amend and clarify Topic 842. As of July 1, 2022, the Society elected to adopt these ASUs using a modified retrospective approach and utilized all of the available practical expedients. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases. The accounting for finance leases remained substantially unchanged. As a result of adopting the new standards, the Society recorded additional net lease assets and lease liabilities of approximately \$139,600 and \$138,400, respectively. Adoption of the new standard did not materially impact the Society's net income and had no impact on cash flows.

NOTE K – RECENT ACCOUNTING PRONOUNCEMENTS

MEASUREMENT OF CREDIT LOSSES ON FINANCIAL INSTRUMENTS

ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments becomes effective for fiscal years beginning after December 15, 2022, including interim periods with those fiscal years, for non-public entities, but early adoption is permitted at any time. The standard requires entities to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The Chicago Philharmonic Society is currently evaluating the impact this standard will have on the financial statements when adopted.