

HHS COMMITTEE #1  
February 5, 2018

## MEMORANDUM

February 1, 2018

TO: Health and Human Services Committee  
FROM: Linda Price, <sup>LP</sup>Legislative Analyst  
SUBJECT: Quarterly Update - National Philharmonic

Today, the Committee will receive a quarterly update from the National Philharmonic. Those expected to attend this worksession include:

Leanne Ferfolia, President, National Philharmonic  
Suzan Jenkins, Chief Executive Officer, Arts and Humanities Council of Montgomery County  
Deborah Lambert, Management and Budget Analyst, Office of Management and Budget

### I. Background

A Joint Health and Human Services and Government Operations and Fiscal Policy Committee met in May 2016 to discuss an FY16 \$250,000 Supplemental Appropriation and an additional \$150,000 in FY17 for the National Philharmonic. The Council approved an earmark of \$150,000 for the National Philharmonic in FY18.<sup>1</sup> The Committees agreed the National Philharmonic needed to take the following steps: improve relationships with the Strathmore, hire a consultant to develop a strategic plan, coordinate with the Arts and Humanities Council of Montgomery County (AHCMC), restructure their artistic, administrative, and development, governance and marketing functions to grow new and diverse audiences, raise artistic quality, and balance their budget. The Joint Committee requested that National Philharmonic provide quarterly updates in FY17, which have continued into FY18 with the HHS Committee.

### II. Quarterly Report

A memo dated January 31, 2018, from Leanne Ferfolia, President of the National Philharmonic is attached providing an update on activities and financials from the previous quarter (see © 1). The following are highlights from the quarterly report.

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<sup>1</sup> Language was included in Resolution 18-823 noting the Council's intent to not approve future earmarks for the National Philharmonic.

- *Priorities have been set for the FY18 season, which include managing financial obligations; planning FY19 artistic programs capacity; commencing community engagement activities; executing strategies for earned and contributed revenue; and allowing for measured risk.*
- *Immediate and long-term priorities have been identified.*
  - *FY19 season planned within new budget parameters identified by the Finance Committee and President.*
  - *The Institutional Relationship Manager, Development, and Community Relations Committees have expanded community engagement services for the organization.*
  - *The Summer Strings Institute has been expanded with an additional high school week and newly formed preparatory week for 4<sup>th</sup> – 6<sup>th</sup> graders.*
  - *Solicitations for support will now be more targeted.*
  - *Marketing has increased with online podcasts and more social media.*
  - *Measured Risk, such as the Cosmic Designs concert, will help provide growth opportunities for the organization.*
- *Financial Statement Notes*
  - *Unrestricted Net Assets continue to be positive.*
  - *The subscription goal of 227,000 was achieved in December. There are now 227,532 subscriptions.*
  - *Met private fundraising goal for calendar year-end giving.*
  - *More than \$401,000 was paid to Strathmore to cover rent and fees, not including office rent. This was an increase of 5% over the previous year.*
  - *National Philharmonic has continued its decline in use of the Strathmore due to the costs affecting profit margins.*
  - *The strength of the cash position has allowed National Philharmonic to recently make a \$27,000 payment against their line of credit. Their balance is now down to \$160,000.*
  - *A tight cash position is anticipated this spring season due to heavy programming and expenses, but they anticipate being able to cover expenses through the summer.*
- *Goals for Next Quarter: Monitor measured risk of two upcoming concert opera productions; execute campaign for new FY19 season and remainder of FY18 season; finalize FY19 budget; recruit 3 new board members; offer support to Strathmore during CEO transition; continue to advocate for support from the AHCMC.*

This packet contains:

National Philharmonic Quarterly Report	©
Balance Sheet – December 31, 2017	1
July – December 2017-Statement of Activities - Previous Year Comparison	5
FY18 Concert Subscriptions	7
	8

## MEMORANDUM

**DATE:** January 31, 2018  
**TO:** George Leventhal, Chair of Health and Human Services Committee  
**FROM:** Leanne Ferfolia, President of National Philharmonic  
**RE:** National Philharmonic Quarterly Report

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### Summary Narrative for the Quarter

The National Philharmonic enters the second year of recovery period and with the guidance of the new strategic plan developed with the consultant firm, Partners in Performance, has set priorities for the FY18 season.

- Manage cash, make Line of Credit payment, assess investments
- Plan the FY19 artistic programs capacity given the budgetary framework provided by the Finance Committee and keep within organizational capacity
- Commence community engagement key goal from the strategic plan with the new Institutional Relations Manager position and the new Community Relations Committee formation (Expanded discussion on pg2)
- Execute FY18 strategies for earned and contributed revenue generating programs including the Summer String Institutes expansion, subscriptions sales goal, newly produced 2<sup>nd</sup> grader MCPS student concerts, fundraising goals, increased presence with podcasts and social media feeds, and new partners.
- Allow for measured risk

The Board of Directors has also taken on new vision for overall governance of the organization outlined here:

- A default to action
- Fundraising and thanking
- Building relationships
- Measured risk

### **Immediate and Long-term progress of the priorities outlined above**

Programming future seasons has in the past presented challenges for NP due to the lack of budgetary parameters and advance timing requirements. More frequently than not in the

orchestra field, a future season is planned prior to the correlating future budget. The Finance Committee and the President worked to determine artistic budget parameters in order to maintain the organizational capacity – ability to cover the expenses beyond the profitability margins without surpassing the ability to generate contributions. The FY19 season was finalized within the requested budget parameters and NP anticipates a public announcement of the season in the spring.

Community engagement evolved as a key goal of NP's strategic plan to build organizational awareness, audiences, community networking, and donors. To meet this strategy, NP hired in November an Institutional Relations Manager to cultivate and steward institutional partners and programs. The high-functioning committees of Development and now Community Relations have specific roles that include supporting staff managers and program strategies. Support for the Community Engagement key goal also comes from the newly formed Community Relations Committee. Together, the effort has produced new services for groups needing customer experiences for concerts such as schools from Union Bridge, MD and Columbia, MD; new partners for program participation including an elementary school, middle school, and high school, and a new senior living facility.

FY18 strategies produced the first expansion of the Summer String Institutes with an additional high school week and a newly formed preparatory week for 4<sup>th</sup>-6<sup>th</sup> graders. The expanded program was nearly fully subscribed. NP spent almost a year overhauling the MCPS 2<sup>nd</sup> grade student concerts in order to meet the changing curricula requirements of MCPS. Production of eight concerts were met with strong approval from MCPS. NP has executed its consultant's recommendations for more solicitations. NP's past solicitations were general in scope and have now shifted, with the emphasis of solicitations on more targeted requests. For example, instead of asking for a contribution to generally support the organization, you may receive a request to support the education program affiliated with the upcoming Cosmic Designs concert. Marketing has increased its presence with online podcasts and more social media with video. New partners have been welcomed into the NP family including Lockheed Martin support.

National Philharmonic must find growth opportunities, which is no small feat for an orchestra with only two large revenue stream options – earned revenues from concerts and contributions. An allowance for measured risk is one strategy that NP has inserted into its matrix for programming unique concerts. A successful example this season is NP's collaboration with NASA Goddard for the Cosmic Designs concert and events. This unique program appealed to family audiences in particular, and embodies the nationwide emphasis on STEAM education, incorporating the arts into science and technology curricula that was provided to Takoma Park Middle School 8<sup>th</sup> grade students.

## Financial Statement Notes

### Balance Sheet FY18 Jul to Dec end

- Unrestricted Net Assets continue to be positive with \$39,871 versus (\$132,874). This is the combined year over year profit/loss of the organization. **NP has not realized a positive figure dating back to FY09.**
- The organization continues to make advances in its cash management and financial position. (Expanded information below.)

### Internal highlights

- Met subscription revenue goal earlier in the season this year (December) than previous year (March).
- Met private fundraising goal for calendar year end giving. A goal of \$370K against the total \$597K goal (62%) and realized \$378K from generous contributors.

### Strathmore

In the most recent audit (FY17) that will be approved on Jan31, 2018, the National Philharmonic paid more than \$401K in hall rent, stage fees, and box office fees. This is an increase of 5% over the previous year's paid expenses to Strathmore for concert production and does not include the office rent. NP decreased its concert offerings in FY17 from FY16 and has done so again by one less concert in FY18. NP has continued its decline in the use of the Strathmore facility due to increased costs to produce concerts and profit margins no longer viable for NP. It cannot withstand the annual 3-5% increase in costs to cover the financial model of Strathmore. As one of the main partners of the facility, National Philharmonic is committed to filling the Strathmore facility but not at the risk of losing its profit margin, even if that means producing less concerts in the facility.

### Cash Position

The National Philharmonic continues to manage a positive cash position. Strength of cash early in this season has afforded a small debt repayment to NP's Line of Credit (\$27K made in Jan 2018) not seen in years for the organization. NP anticipates a tight cash position given a heavy spring season of expenses and programs. FY18's strategy is to generate enough cash by season end specifically to cover the upcoming lean summer months (Jul, Aug, Sep). Projection of cash flow is also instrumental in determining FY19 budget goals. This assessment of NP's future cash flow capabilities was not considered in years prior to FY17/current leadership. Newly established procedures and reporting has allowed management and Board to make timely,

proactive, data-based decisions and has contributed to more directed and self-sustaining planning.

#### **Goals (Special Focus) for the Next Quarter**

The National Philharmonic is focused on mid-season assessment and execution of its heavy spring season. Special attention for the organization will be on the following immediate priorities:

- Monitor the measured risk of the upcoming two concert opera productions and their respective sales goals.
- Execute the campaign for NP's new FY19 season and maintain a careful balance to continue promotional strategies for the remainder of the current season.
- Finalize the FY19 budget for the organization
- Board recruitment of three new members
- Offer partner support to Strathmore for their new CEO leadership transition
- Continue to advocate for support from AHCMC

**National Philharmonic**  
**Balance Sheet**  
As of December 31, 2017

	Dec 31, 17	Dec 31, 16
<b>ASSETS</b>		
<b>Current Assets</b>		
<b>Checking/Savings</b>		
1005 · Capital Bank Checking	210,813.31	89,769.91
1006 · Capital Bank Savings	683.25	0.00
1008 · United/Cardinal Checking	0.00	58,528.24
1020 · Cardinal Savings	0.00	10,374.98
1045 · Petty Cash	20.00	20.00
1060 · Raymond James	115,430.14	107,180.98
1090 · NP Endowment Fund	140,782.80	121,077.22
1110 · Certificate of Deposit	113,793.45	113,040.37
<b>Total Checking/Savings</b>	581,522.95	499,991.70
<b>Accounts Receivable</b>		
1200 · Receivables	182,992.64	70,533.85
1210 · Pledges Receivable	26,750.01	126,067.26
1217 · Discount on Pledges Receivable	0.00	(5,353.18)
<b>Total Accounts Receivable</b>	209,742.65	191,247.93
<b>Other Current Assets</b>		
1300 · Prepaid Expense	2,450.00	2,090.84
1499 · Undeposited Funds	12,250.00	(5,000.00)
<b>Total Other Current Assets</b>	14,700.00	(2,909.16)
<b>Total Current Assets</b>	805,965.60	688,330.47
<b>Fixed Assets</b>		
1400 · Fixed Assets	5,075.47	6,915.90
<b>Total Fixed Assets</b>	5,075.47	6,915.90
<b>Other Assets</b>		
1500 · Donated Life Insurance	58,736.93	48,525.23
1700 · Security Deposit	5,500.00	5,500.00
<b>Total Other Assets</b>	64,236.93	54,025.23
<b>TOTAL ASSETS</b>	<b>875,278.00</b>	<b>749,271.60</b>
<b>LIABILITIES &amp; EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	14,615.06	68,192.49
<b>Credit Cards</b>		
2010 · Credit Cards	103.31	4,957.73
<b>Total Credit Cards</b>	103.31	4,957.73
<b>Other Current Liabilities</b>		
2100 · Payroll Liabilities	936.35	1,245.55
2300 · Lines of Credit		
2301 · Bank Line of Credit	187,854.62	185,702.06
2302 · Strathmore Line of Credit	0.00	100,000.00
<b>Total 2300 · Lines of Credit</b>	187,854.62	285,702.06
2400 · Deferred Income		

**National Philharmonic**  
**Balance Sheet**  
As of December 31, 2017

	<u>Dec 31, 17</u>	<u>Dec 31, 16</u>
2401 - Deferred Ticket Income	174,954.25	133,361.29
Total 2400 - Deferred Income	174,954.25	133,361.29
Total Other Current Liabilities	363,745.22	420,308.90
Total Current Liabilities	378,463.59	493,459.12
Total Liabilities	378,463.59	493,459.12
Equity		
3040 - Temp. Restricted Net Assets	5,000.00	10,269.00
3400 - Board-designated Endowment	120,948.00	117,948.00
3500 - Unrestricted Net Assets	39,871.32	(132,263.80)
Net Income	330,995.09	259,859.28
Total Equity	496,814.41	255,812.48
TOTAL LIABILITIES & EQUITY	<u>875,278.00</u>	<u>749,271.60</u>

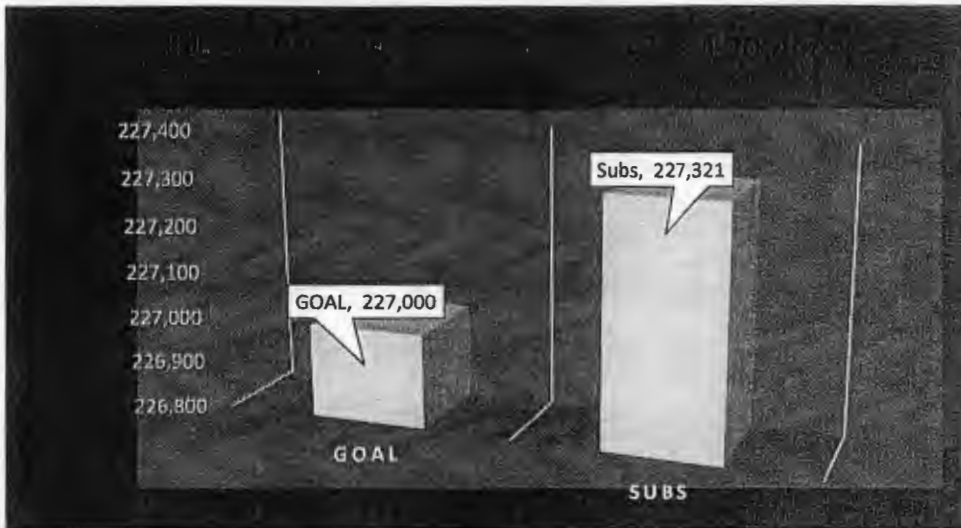


**National Philharmonic**  
**Statement of Activities - Prev Year Comparison**  
July thru December 2017

	Jul - Dec 17	Jul - Dec 16	\$ Change	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
Total 4000 · Earned Revenue	291,449.60	470,639.06	(179,189.46)	(38.07%)
Total 4060 · Education	73,095.00	50,080.00	23,015.00	45.96%
Total 4100 · Other Earned Income	25,465.94	23,951.52	1,514.42	6.32%
<b>4300 · Contributed Income</b>				
Total 4310 · Corporate Contributions	45,000.00	22,150.00	22,850.00	103.16%
4330 · Foundation	57,600.00	63,610.70	(6,010.70)	(9.45%)
Total 4350 · Individual	201,112.33	176,831.22	24,281.11	13.73%
4367 · Special Projects	0.00	3,600.00	(3,600.00)	(100.0%)
Total 4380 · Government Support	415,542.28	348,927.25	66,615.03	19.09%
4500 · Misc. Unearned Revenue	23.40	659.00	(635.60)	(96.45%)
<b>Total 4300 · Contributed Income</b>	<b>719,278.01</b>	<b>615,778.17</b>	<b>103,499.84</b>	<b>16.81%</b>
<b>Total Income</b>	<b>1,109,288.55</b>	<b>1,160,448.75</b>	<b>(51,160.20)</b>	<b>(4.41%)</b>
<b>Gross Profit</b>	<b>1,109,288.55</b>	<b>1,160,448.75</b>	<b>(51,160.20)</b>	<b>(4.41%)</b>
<b>Expense</b>				
<b>5000 · Artistic</b>				
Total 5010 · Artistic Personnel	359,286.38	320,959.14	38,327.24	11.94%
Total 5000 · Artistic	359,286.38	320,959.14	38,327.24	11.94%
Total 5300 · Production	121,015.23	205,765.26	(84,750.03)	(41.19%)
Total 5410 · Marketing	73,095.61	122,137.52	(49,041.91)	(40.15%)
Total 5500 · Development	7,427.10	12,864.54	(5,437.44)	(42.27%)
<b>5600 · Operations</b>				
Total 5610 · Staff	150,128.28	125,535.69	24,592.59	19.59%
Total 5650 · Operating Expenses	91,792.16	113,827.32	(22,035.16)	(19.36%)
<b>Total 5600 · Operations</b>	<b>241,920.44</b>	<b>239,363.01</b>	<b>2,557.43</b>	<b>1.07%</b>
<b>Total Expense</b>	<b>802,744.76</b>	<b>901,089.47</b>	<b>(98,344.71)</b>	<b>(10.91%)</b>
<b>Net Ordinary Income</b>	<b>306,543.79</b>	<b>259,359.28</b>	<b>47,184.51</b>	<b>18.19%</b>
<b>Other Income</b>				
7000 · Temp. Restricted Contributions	24,451.30	500.00	23,951.30	4,790.26%
<b>Total Other Income</b>	<b>24,451.30</b>	<b>500.00</b>	<b>23,951.30</b>	<b>4,790.26%</b>
<b>Net Income</b>	<b>330,995.09</b>	<b>259,859.28</b>	<b>71,135.81</b>	<b>27.38%</b>



NATIONAL PHILHARMONIC  
FY18 Concert Subscriptions



FOOTNOTES

- \*FY18 has 1 concert less than FY17 and 2 concerts less than FY16.
- \*Since FY15, NP has been reducing concerts thus reducing revenues.
- \*Achieved subscription goal in Dec FY18 vs. Mar FY17.

