PITTSBURGH SYMPHONY, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT THEREON

for the years ended August 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pittsburgh Symphony, Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Pittsburgh Symphony, Inc. (Symphony), which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Pittsburgh Symphony, Inc. as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 15 to the financial statements, the Symphony has adopted a strategic plan to address the operations and financial condition of the Organization. The operation and financial conditions have declined as a result of downward trending ticket sales, rising operational costs, investment losses during prior years and a significant pension liability, which fluctuates greatly based upon the discount rate. Management's plans in regard to these matters are also described in Note 15.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
January 15, 2015

PITTSBURGH SYMPHONY, INC.
STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2014 and 2013 (in thousands)

	2014	2013
ASSETS:		
Cash and cash equivalents	$ 2,021	$ 1,920
Accounts and interest receivable	113	728
Capital pledge and contributions receivable	7,055	10,830
Notes receivable	66	91
Deferred expense and other assets	596	1,231
Property and equipment, net (Note 8)	16,131	16,177
Assets held in trust by others (Note 5)	3,809	3,454
Investments, at market (Note 3)	128,628	115,454
TOTAL ASSETS	$ 158,419	$ 149,885
LIABILITIES AND NET ASSETS:		
Accounts payable	$ 1,008	$ 778
Short-term borrowing (Note 13)	6,856	6,562
Note payable (Note 13)	2,358	2,683
Accrued expenses	62	88
Advance ticket sales and other	5,301	6,202
Pension benefit liability (Note 9)	17,436	11,390
TOTAL LIABILITIES	33,021	27,703
UNRESTRICTED NET ASSETS: (Note 6)		
Operating reserve (accumulated deficit)	(13,365)	(12,516)
General	(8,007)	(1,878)
TOTAL UNRESTRICTED NET ASSETS	(21,372)	(14,394)
TEMPORARILY RESTRICTED NET ASSETS (Note 6)	8,694	11,584
PERMANENTLY RESTRICTED NET ASSETS (Notes 6 and 7)	138,076	124,992
TOTAL NET ASSETS	125,398	122,182
TOTAL LIABILITIES AND NET ASSETS	$ 158,419	$ 149,885

The accompanying notes are an integral part of the financial statements.

PITTSBURGH SYMPHONY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2014 and 2013 (in thousands)

	2014	2013
OPERATING REVENUE AND INVESTMENT ACTIVITIES		
Orchestra and Heinz Hall:		
Orchestra performances	$ 8,640	$ 8,687
Non-orchestra performances	1,273	2,046
Government grants	2,179	1,942
Program advertising	139	142
Other	1,580	1,508
Total Orchestra and Heinz Hall	13,811	14,325
Investment Activities:		
Interest and dividends, net of managers' fees of $320 in 2014 and $329 in 2013	1,975	3,049
Realized gains	7,682	4,385
Unrealized gains	10,511	6,161
Total Investment Activity	20,168	13,595
OPERATING EXPENSES		
Orchestra	17,129	16,209
Production and Heinz Hall	11,229	13,790
General and administrative	5,018	5,290
Total Operating Expenses	33,376	35,289
Income (deficit) before contributions	603	(7,369)
CONTRIBUTIONS		
Annual fund	8,143	11,950
Other operating gifts and capital projects	616	4,766
Endowment	935	775
Fundraising expense - operating	(1,366)	(1,479)
Fundraising expense - endowment	(149)	(288)
Total net contributions	8,179	15,724
Total change in net assets before minimum pension liability adjustment	8,782	8,355
Other changes in pension plan assets and obligations	(5,566)	6,845
TOTAL CHANGE IN NET ASSETS	$ 3,216	$ 15,200
CHANGE IN UNRESTRICTED NET ASSETS (Note 6)		
General	$ (6,129)	$ 7,483
Operating reserve	(849)	(1,223)
Total change in unrestricted net assets	(6,978)	6,260
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS (Note 6)	(2,890)	2,636
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS (Notes 6 and 7)	13,084	6,304
Total change in net assets	3,216	15,200
Net assets, beginning balance	122,182	106,982
Net assets, ending balance	$ 125,398	$ 122,182

The accompanying notes are an integral part of the financial statements.

PITTSBURGH SYMPHONY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2014 and 2013 (in thousands)

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 3,216	$ 15,200
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,198	1,197
Loss on sale of property and equipment	(6)	4
Contributions restricted for long-term investment	(187)	(782)
Realized and unrealized gain on investment activity	(18,193)	(10,546)
Changes in assets and liabilities:		
Receivables	3,480	(830)
Deferred expense and other assets	635	(560)
Accounts payable and accrued expenses	204	(973)
Advance ticket sales and other	(901)	(84)
Pension obligation	6,046	(6,239)
Net cash used in operating activities	(4,508)	(3,613)
Cash flows from investing activities:		
Investment in property and equipment	(1,175)	(311)
Proceeds from sale of property and equipment	29	13
Proceeds from sale of investments	72,127	121,821
Purchase of investments	(67,463)	(116,784)
Net cash provided by investing activities	3,518	4,739
Cash flows from financing activities:		
Proceeds from short-term borrowings	500	-
Contributions restricted for Endowment	1,122	1,557
Payments on notes payable	(531)	(1,156)
Net cash provided by financing activities	1,091	401
Net increase in cash and cash equivalents	101	1,527
Cash and cash equivalents at beginning of year	1,920	393
Cash and cash equivalents at end of year	$ 2,021	$ 1,920
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 275	$ 299

The accompanying notes are an integral part of the financial statements.

PITTSBURGH SYMPHONY, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013
(all amounts in thousands)

1. Organization:

Pittsburgh Symphony, Inc. (PSI), a not-for-profit charitable organization, located in Pittsburgh, Pennsylvania, was formed in 1895 and incorporated in 1935 for the purpose of promoting and fostering a knowledge and love of music by establishing and maintaining a symphony orchestra, by studying and performing the works of great composers, and by other means to encourage a greater appreciation of music. PSI provides a wide range of musical performances in southwestern Pennsylvania and occasional domestic and foreign musical tours.

2. Summary of Significant Accounting Policies:

Basis of Presentation:

The accounting and reporting policies of PSI conform to generally accepted accounting principles in the United States of America. The following is a description of significant accounting policies and practices used by PSI:

PSI classifies resources for accounting and reporting purposes into separate net asset classes based on the absence or existence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories. A description of the net asset categories is as follows:

Unrestricted Net Assets: Net assets not subject to donor-imposed restrictions or stipulations as to use or purpose. Such net assets may be designated by the Board of Directors of PSI for specific purposes or limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of PSI or the passage of time.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed restrictions or stipulations that dictate that they be maintained in perpetuity.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 changes in net assets during the reporting period. Actual results could differ from those estimates.

Continued

2. Summary of Significant Accounting Policies: continued

Deficit Before Contributions:

The statements of activities include deficit before contributions as a performance indicator. PSI transactions deemed by management to be ongoing, major or central to PSI's services are reported as operating revenue. Investment income and income from equity investments are reported as investment activities revenue.

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 included as changes in temporarily restricted or changes in permanently restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Certain temporarily restricted funds were received and expended during the same year. These funds are classified in the statements of activities and changes in net assets as unrestricted funds.

Contributions Receivable, Capital Pledges Receivable and Grants:

Unconditional promises to give cash and other assets to PSI are reported at their estimated fair value at the date the promise is received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met. Contributions, such as certain contributions made by governments, that are conditioned upon PSI incurring qualifying costs, are recognized as those costs are incurred. Decisions to charge-off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. It is reasonably possible that PSI's estimate of the allowance for doubtful accounts will change. The total allowance for doubtful accounts was approximately $82 and $103 as of August 31, 2014 and 2013, respectively.

Continued

(all amounts in thousands)

2. Summary of Significant Accounting Policies, continued

	2014	2013
Operating contributions	$ 1,061	$ 1,000
Contributions restricted to future periods	5,776	9,515
Permanently restricted contributions receivable	369	556
	7,206	11,071
Less: Unamortized discount (at 1.63% in 2014 and 1.62% in 2013)	(151)	(241)
Net unconditional promises to give	$ 7,055	$ 10,830
Contributions receivable due in:		
Less than one year	$ 3,825	$ 5,429
One to five years	3,381	5,642
Total	$ 7,206	$ 11,071

The PSI received a conditional grant from a foundation of $5 million under the capital campaign. Grant funds become available if PSI attains a "repeatable" balanced budget by the fiscal year ended August 31, 2017. Additionally, the PSI has a conditional grant from a director of $12 million, which is contingent upon consecutive balanced budgets in the 2015, 2016 and 2017 fiscal years.

Deferred Expense:

PSI defers costs related to specific productions and expenses such costs in the period in which the related production takes place.

Investments and Investment Activities:

Investments are carried at market value (as determined by quoted market prices), which approximates fair value. Limited partnerships, which may not be readily marketable, are carried at Net Asset Value (NAV) as provided by the investment partnerships. NAV is assessed by PSI to approximate fair value. Accordingly, the change in net unrealized appreciation or depreciation for the year is included in the statements of activities. Investment income (including realized gains and losses on investments, interest and dividends) is included in unrestricted net assets unless the income is restricted by donor or law, as is substantially all income (see also Note 3). The cost of investment securities sold is determined using the specific identification method.

Investment securities are exposed to various risks caused by changes in interest rates, general market volatility and credit risk, etc. Due to the level of risk associated with certain investment securities, it is possible that changes in risks in the near term could materially affect account balances and the

Continued

2. Summary of Significant Accounting Policies, continued

Endowments:

PSI has implemented the provisions of the Codification topic Presentation of Financial Statements for Not-for-Profit Entities, as it relates to the presentation of endowment funds. A portion of PSI's net assets are donor-restricted endowment funds and are governed by the Commonwealth of Pennsylvania's ACT 141 (ACT 141). ACT 141 is a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's investments as income each year. The disclosure provisions are included in Note 3 - Endowment.

Cash and Cash Equivalents:

Cash and cash equivalents include money market funds and investments in highly liquid and marketable debt instruments with an original maturity of three months or less. PSI routinely invests its surplus operating funds in money market mutual funds managed by a local financial institution. The carrying amount reported in the statements of financial position approximates fair value. PSI maintains, at various financial institutions, cash that may exceed federally insured amounts at times.

Income Recognition:

Amounts received in advance from grants and ticket sales are recognized as revenue in the statements of activities during the period in which the performances occur. Related deferred costs are matched with such revenue.

Property and Equipment:

PSI includes gifts of land, buildings and equipment in unrestricted net assets unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets that must be maintained in perpetuity are included in permanently restricted net assets. Absent explicit donor stipulations regarding the time period those long-lived assets must be maintained, PSI reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated assets are recorded at fair market value at the date of gift.

Equipment represents furniture, fixtures and musical instruments and is recorded at lower of cost or market. Expenditures for additions and improvements provided from current operations are capitalized in the period incurred.

Depreciation of these assets is computed using the straight-line method over the estimated useful lives of the assets currently ranging from 5-50 years. Expenditures for maintenance and repairs are expensed as incurred. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operations for the period.

2. Summary of Significant Accounting Policies, continued

In accordance with the provisions of the Codification topic, Property, Plant and Equipment, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value, as defined, of the assets. No impairment was recorded for both fiscal years ended August 31, 2014 and 2013.

Pension Plan:

PSI has adopted the recognition and disclosure provisions of the Codification topic Compensation - Retirement Benefits. This statement requires plan sponsors to recognize the funded status of defined benefit pension and other postretirement obligations as a net asset or liability and to recognize changes in that funded status in the year in which those changes occur, through a change in unrestricted net assets, apart from expenses, to the extent those changes are not included in net periodic benefit cost. PSI's policy is to fund, at a minimum, amounts as are necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

Subsequent Events:

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through January 15, 2015, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements:

In April 2013, FASB issued ASU No. 2013-06 Not-for-Profit Entities (Topic 958) - Services Received from Personnel of an Affiliate (ASU 2013-06), which specifies the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate. ASU 2013-06 requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either: (a) the cost recognized by the affiliate for the personnel providing that service or; (b) the fair value of that service. The amendments in ASU 2013-06 are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. Early adoption is permitted. The PSI does not expect ASU 2013-06 to have a significant impact on its financial statements.

Continued

(all amounts in thousands)

2. Summary of Significant Accounting Policies, continued

In August 2014, the FASB issued new guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The PSI is currently evaluating the impact of adopting this new accounting guidance on its financial statements.

3. Endowment:

Endowment assets are commingled for investment purposes. At August 31, the market and cost values of the investment portfolio, all of which is included in the endowment, are summarized as follows:

	2014		2013	
	Market	Cost	Market	Cost
Equity securities	$ 68,641	$ 55,397	$ 58,564	$ 55,602
Fixed-interest obligations	19,428	19,463	20,249	20,233
Alternative investments	31,878	26,064	28,705	22,618
Real estate funds	4,019	7,615	5,614	9,385
Temporary investments	4,662	4,662	2,322	2,322
	$ 128,628	$ 113,201	$ 115,454	$ 110,160

PSI has committed to fund $70.4 million in alternative investments and real estate funds, of which $57.2 million has been invested as of August 31, 2014. Subsequent to year end, the PSI committed to fund an additional $7.0 million in alternative investments and real estate funds.

The endowment consists of various investment funds established primarily for programming and operating needs of PSI and includes donor-restricted and Board-designated endowment funds. As required by generally accepted accounting principles, 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 PSI Board of Trustees has elected to be governed by the Commonwealth of Pennsylvania's Act 141 (Act 141). Act 141 permits a total return policy that allows a nonprofit to choose to treat a percentage of the average market value of the endowment's investments as income each year.

However, the long-term preservation of the real value of the assets must be taken into consideration when the Board elects the amount and, to that end, PSI has adopted a written endowment fund investment policy. On an annual basis, the Board must elect, in writing, a spending rate of between 2% and 7%. This percentage is applied to the 12-quarter rolling average market value of the investments calculated at March 31 of the previous fiscal year.

Continued

(all amounts in thousands)

3. Endowment, continued

PSI considers the following factors in making a determination to set a spending rate:

1. Restrictive covenants contained in endowment documents limiting spending rates;
2. Preserving the spending power of the assets; and
3. Operational considerations.

Donor-restricted and unrestricted endowment funds are composed of the following net assets as of August 31, 2014 and 2013, respectively:

	Unrestricted	Permanently Restricted	Total
2014	$ (4,522)	$ 133,898	$ 129,376
2013	$ (5,050)	$ 121,141	$ 116,091

The following represents the change in endowment funds by net asset type for the year ended August 31, 2014:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (5,050)	$ 121,141	$ 116,091
Investment return:			
Investment gain	-	2,227	2,227
Net appreciation	-	17,731	17,731
Contributions	-	935	935
Appropriation of endowment assets for expenditures	-	(7,108)	(7,108)
Drawdown of gift loan	-	(701)	(701)
Drawdown of touring loan	-	(402)	(402)
Release from restriction	803	(803)	-
General and administrative expense	-	(295)	(295)
Board member gift loan	(701)	701	-
Touring gift release	(402)	402	-
Repayment of touring loan	828	(828)	-
Touring loan	-	828	828
Other	-	70	70
Endowment net assets, end of year	$ (4,522)	$ 133,898	$ 129,376

Continued

(all amounts in thousands)

3. Endowment, continued

The following represents the change in endowment funds by net asset type for the year ended August 31, 2013:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (3,526)	$ 114,958	$ 111,432
Investment return:			
Investment gain	-	3,311	3,311
Net appreciation	-	10,291	10,291
Contributions	-	775	775
Appropriation of endowment assets for expenditures	-	(7,082)	(7,082)
Drawdown of gift loan	-	(49)	(49)
Drawdown of touring loan	-	(1,023)	(1,023)
Release from restriction	737	(737)	-
General and administrative expense	-	(305)	(305)
Board member gift loan	(49)	49	-
Touring loan	(1,023)	1,023	-
Spend of unrestricted funds	(1,200)		(1,200)
Other	11	(70)	(59)
Endowment net assets, end of year	$ (5,050)	$ 121,141	$ 116,091

During 2012, a board member consented to the limited release of the restrictions of a prior gift of $5 million to the permanently restricted endowment fund of the PSI. Permission was granted to borrow up to the full amount of the gift provided that any and all amounts borrowed are repaid to the endowment at a future date. The outstanding balance borrowed was $5 million and $4.49 million at August 31, 2014 and 2013, respectively.

PSI has adopted investment and spending policies for endowment assets that are designed to provide a stream of funding for programs and initiatives supported by the endowment. The policies are also intended to protect the integrity of the assets and achieve the optimal return possible within the specified risk parameters. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of market indices, which are weighted to equal the allocation target for each broad asset category.

To satisfy its long-term rate-of-return objectives, PSI 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). PSI targets a diversified asset allocation, which features a material commitment to equities and alternative investments while allowing for broad diversification both within and outside the equity markets to permit the endowment to attain its overall return objectives while taking current market conditions into account.

Continued

3. Endowment, continued

In 2014 and 2013, the spendable return from the general endowment totaled 7% or $7,108 and $7,082, respectively. This spending policy is consistent with the Commonwealth of Pennsylvania's guidelines and with PSI's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

4. Fair Value Measurements:

PSI applies the provisions of the Codification topic Fair Value Measurement and Disclosures, which defines fair value as the price that would be received to sell an asset or liability (i.e., exit price) in an orderly transaction between market participants at the measurement date. Fair Value Measurement and Disclosures requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e., inputs) used in the valuation. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The Fair Value Measurements and Disclosures fair value hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in an active market for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

PSI's financial instruments consist primarily of cash and cash equivalents, accounts receivable, contributions receivable, investments, funds held in trust by others, accounts payable and accrued liabilities and notes payable.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2014 and 2013.

The carrying amount of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of such instruments.

The carrying value of PSI's notes payable approximates fair value at August 31, 2014 and 2013, since the interest rates are either market-based and are generally adjusted periodically or represent rates that PSI would be able to obtain in the current market.

Continued

4. Fair Value Measurements, continued

The methods for valuing PSI's investments, by significant category, are as follows:

Common Stocks - Valued at the daily closing price reported on the active market on which the individual securities are traded.

Equity, Fixed-Income and International Equity Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by PSI are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by PSI are deemed to be actively traded.

Corporate Bonds - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value of yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

Real Estate and Other Limited Partnerships - The valuation of PSI's investments in limited partnerships that are not valued using a NAV requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on Level 3 inputs and the long-term nature of such investments. The aforementioned investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments.

Assets Held in Trust by Others - include primarily underlying investments, which are readily quoted in active markets. Since the trusts themselves primarily are not readily tradable, but significant inputs are observable active markets, the trusts use primarily Level 1 and 2 inputs in valuing their own assets. PSI's ownership in these trusts is represented by an undivided interest in these investments, not in the underlying assets themselves. The undivided interests are not traded themselves, and they cannot be valued based on observable direct or indirect inputs as defined by Fair Value Measurements and Disclosure topic. Accordingly, they are reported as Level 3 measurements.

Continued

(all amounts in thousands)

4. Fair Value Measurements, continued

The amounts of PSI's assets carried at fair value according to the fair value hierarchy at August 31 are as follows:

	2014			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Investments:				
Temporary investments	$ 4,662	-	-	$ 4,662
Common stocks	27,835	-	-	27,835
Equity mutual funds	6,855	-	-	6,855
International equity mutual	33,951	-	-	33,951
Fixed-income mutual funds	11,289	-	-	11,289
Fixed-income instruments	-	$ 8,139	-	8,139
Real estate limited	-	-	$ 4,019	4,019
Other limited partnerships	-	-	31,878	31,878
Total investments	84,592	8,139	35,897	128,628
Funds held in trust by others	-	-	3,809	3,809
Total fair value of assets	$ 84,592	$ 8,139	$ 39,706	$ 132,437

	2013			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Investments:				
Temporary investments	$ 2,322	-	-	$ 2,322
Common stocks	24,120	-	-	24,120
Equity mutual funds	6,337	-	-	6,337
International equity mutual	28,107	-	-	28,107
Fixed-income mutual funds	11,203	-		11,203
Fixed-income instruments	-	$ 9,046	-	9,046
Real estate limited	-	-	$ 5,614	5,614
Other limited partnerships	-	-	28,705	28,705
Total investments	72,089	9,046	9,046	115,454
Funds held in trust by others	-	-	3,454	3,454
Total fair value of assets	$ 72,089	$ 9,046	$ 37,773	$ 118,908

Continued

(all amounts in thousands)

4. Fair Value Measurements, continued

The changes in investments and assets held in trust by others measured at fair value for which PSI has used Level 3 inputs to determine fair value are as follows:

	Investments In Real Estate Partnerships	Investments In Other Limited Partnerships	Funds Held In Trust By Others
Balance, August 31, 2012	$ 6,671	$ 29,838	$ 3,397
Purchases	195	2,842	-
Proceeds from dispositions	(2,032)	(6,617)	-
Market gain	780	2,642	57
Balance, August 31, 2013	5,614	28,705	3,454
Purchases	165	3,759	-
Proceeds from dispositions	(2,717)	(5,381)	-
Market gain	957	4,795	355
Balance, August 31, 2014	$ 4,019	$ 31,878	$ 3,809

	Total
Balance, August 31,2012	$ 39,906
Purchases	3,037
Distributions	(8,649)
Market loss	3,479
Balance, August 31,2013	$ 37,773
Purchases	3,924
Distributions	(8,098)
Market gain	6,107
Balance, August 31, 2014	$ 39,706

Continued

4. Fair Value Measurements, continued

Investments included in Level 3 primarily consist of PSI's ownership in alternative investments. The valuation of alternative investments requires significant judgment due to the absence of quoted market prices, inherent lack of liquidity, heavy reliance on Level 3 inputs, and the long-term nature of such investments. These investments are valued initially at their transaction value, and subsequently adjusted to reflect expected exit values at the measurement date by utilizing assumptions that market participants would normally use to estimate a fair market value. These valuation adjustments include, but are not limited to, material changes in an organization's operations and or financial performance, subsequent or anticipated rounds of equity financings, specific rights or terms associated with the investment (e.g., conversion features, liquidation preferences or restrictions), expected exit timing and strategy, industry valuations or comparable public companies, changes in economic conditions, and changes in legal or regulatory environments. PSI's interest in alternative investments contains some liquidity constraints, which are outlined in the table below, depending on the investment, some of them are not easily transferrable and typically achieve liquidity over an extended period of time when and if the fund managers return invested capital or distributive proceeds realized from the underlying assets.

The following redemption table clarifies the nature and risk of PSI's investments and liquidity for investments, including alternative investments, measured using net asset value.

Category	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Real estate limited partnerships (a)	$ 4,019	$ 3,974	None permitted	N/A
Other limited partnerships (b)	31,878	9,247	None permitted	N/A
Funds held in trust by others (c)	3,809	-	None permitted	N/A
Short-term bond fund (d)	8,139	-	Monthly	40 days
	$ 47,845	$ 13,221		

The investment strategies employed by the funds listed above are as follows:

(a) The investment objective is to focus on both opportunistic and high-quality assets while working with local operating partners to source deals and correct asset underperformance.

(b) This fund category contains distressed debt, hedge, private equity, venture capital, international equity and natural resource funds from multiple investment companies.

(c) These funds represent two actively managed portfolios trusts, managed in perpetuity, containing readily tradable securities through public exchanges.

(d) This fund category objective is to generate superior risk-adjusted returns by investing in short-term corporate debt securities, including convertible and non-convertible bonds issued by U.S. and non-U.S. companies.

The PSI does significant due diligence work before investing in any asset class and actively monitors investment performance of all its assets on a quarterly basis.

Continued

(all amounts in thousands)

5. Assets Held in Trust by Others:

The McKelvy and the Pickens Trusts are perpetual trusts created by donors under individual trust agreements. The assets of the McKelvy and Pickens trusts are managed by a national bank's trust department. PSI records its proportionate share of the assets on its balance sheets at fair market value. The fair market value of assets held in trust by others was $3,809 and $3,454 at August 31, 2014 and 2013, respectively. The trustees of both the McKelvy and Pickens trusts have elected to adopt a 4.0% payout rate under Act 141 for the 2014 calendar year. PSI will receive a 25% share from the McKelvy trust and a 33% share from the Pickens trust. The remainder of the payout is distributed to other named beneficiaries.

6. Changes in Net Assets:

The following summarizes the activities within the net asset categories as of August 31:

	Unrestricted					
	General	Operating Reserve (Deficit)	Total	Temporary Restricted	Permanently Restricted	Total
Balance at August 31, 2013	**$(1,878)**	**$(12,516)**	**$(14,394)**	**$ 11,584**	**$124,992**	**$122,182**
Release from restriction	1,972	-	1,972	(1,169)	(803)	-
Major campaign contributions	2,849	-	2,849	(2,233)	935	1,551
Total return	7,159	-	7,159	-	13,009	20,168
Orchestra/Heinz Hall revenue	13,811	-	13,811	-	-	13,811
Operating expense	(33,376)	-	(33,376)	-	-	(33,376)
Annual fund, net	6,116	-	6,116	512	-	6,628
Staff and musician pension Plans	(5,566)	-	(5,566)	-	-	(5,566)
Operating deficit	849	(849)	-	-	-	-
Other	57	-	57	-	(57)	-
Change in net assets	(6,129)	(849)	(6,978)	(2,890)	13,084	3,216
Balance at August 31, 2014	**$(8,007)**	**$(13,365)**	**$(21,372)**	**$8,694**	**$138,076**	**$125,398**

Continued

(all amounts in thousands)

6. Changes in Net Assets, continued

	Unrestricted					
	General	Operating Reserve (Deficit)	Total	Temporary Restricted	Permanently Restricted	Total
Balance at August 31, 2012	**$(9,361)**	**$(11,293)**	**$(20,654)**	**$ 8,948**	**$118,688**	**$106,982**
Release from restriction	1,796	-	1,796	(1,059)	(737)	-
Major campaign contributions	5,599	-	5,599	(833)	775	5,541
Total return	7,082	-	7,082	-	6,513	13,595
Orchestra/Heinz Hall revenue	14,325	-	14,325	-	-	14,325
Operating expense	(35,289)	-	(35,289)	-	-	(35,289)
Annual fund, net	5,655	-	5,655	4,528	-	10,183
Staff and musician pension						6,845
Plans	6,845	-	6,845	-	-	-
Operating deficit	1,223	(1,223)	-	-	-	-
Other	247	-	247	-	(247)	-
Change in net assets	7,483	(1,223)	6,260	2,636	6,304	15,200
Balance at August 31, 2013	**$(1,878)**	**$(12,516)**	**$(14,394)**	**$ 11,584**	**$124,992**	**$122,182**

7. Permanently Restricted Net Assets:

	2014	2013
General Endowment	$ 117,924	$ 106,049
The Pittsburgh Symphony 1963 Endowment	10,611	10,243
Board member gift loan	5,000	4,299
Major Campaign Pledges	364	551
Bessie Morrison McKelvy Trust	3,060	2,793
Pauline Beemer Pickens Trust	784	724
Morrison Fine String Instrument Loan Fund	250	250
Instrument Loan Fund	83	83
	$ 138,076	$ 124,992

The assets of the General Endowment include various permanently restricted funds such as the Repair and Maintenance fund, the Endowed Chairs, and the Education and Outreach fund.

Continued

(all amounts in thousands)

7. Permanently Restricted Net Assets, continued

The Pittsburgh Symphony Endowment established in 1963 (1963) is a perpetual trust created by donors under an individual trust agreement. The 1963 endowment assets are managed by PSI together with other permanently restricted and operating reserve assets. PSI receives the interest and dividends only from the 1963 endowment.

The operating reserve (deficit) is part of the unrestricted net assets of the PSI and is available to fund operations and to support other corporate objectives. The annual withdrawal from the reserve (deficit) is determined by the PSI Board of Directors. Originally, the reserve (deficit) was created from excess interest and dividends earned on endowment assets primarily during the 1970s and early 1980s. From the mid-1980s to the present, no additions have been made to the reserve (deficit) from excess earnings. Only when the draw from endowment to fund operations is less than 6.5% of the beginning market value, will further additions to the reserve (deficit) be made from excess earnings. Direct contributions from donors to the reserve (deficit) have occurred and may continue in the future.

The Morrison Fine String Instrument Loan Fund and the Instrument Loan Fund represent contributions received to provide interest-free and low-interest loans to the musicians of PSI to assist them in purchasing musical instruments. Loans outstanding are included in notes receivable on the accompanying statements of financial position.

8. Property and Equipment:

Property and equipment, which are stated at cost, consisted of the following major classes of assets at August 31:

	2014	2013
Office equipment and furniture and fixtures	$ 1,522	$ 1,516
Musical and concert equipment	925	910
Original site and building	907	907
Site improvements	38,581	38,566
	41,935	41,899
Less: Accumulated Depreciation	(27,017)	(25,828)
	14,918	16,071
Construction-in-process	1,213	106
	$ 16,131	$ 16,177

The construction-in-process at August 31, 2014 relates to a fire alarm system upgrade in Heinz Hall, which is expected to be completed in fiscal year 2015.

Continued

(all amounts in thousands)

9. Pension Plans:

PSI has two noncontributory defined benefit pension plans (one for the staff and one for the musicians) covering substantially all employees. Participant benefits are earned based on salary levels and years of service. Contributions to the pension plans are made to pension trusts administered by PSI. PSI's funding policy for the plans is to make contributions determined by management at or between the maximum and minimum amounts as required by applicable regulations.

The PSI and the Union representing the PSI Musicians are currently in the second year of a three-year contract. This contract established a defined contribution plan for newly hired musicians and those with less than five years of service, freezing their current benefit in the defined benefit plan, effective September 1, 2011. The Musician and Staff Pension Plans contain 79 and 62 active participants, respectively, as of September 1, 2014.

The following sets forth the plans' funded status at August 31, 2014 and 2013:

	Musician Plan		Staff Plan		Total	
	2014	2013	2014	2013	2014	2013
Accumulated benefit obligation	$ 32,877	$ 26,056	$ 12,321	$ 10,053	$ 45,198	$ 36,109
Plan assets at fair value, primarily invested in equity securities	$ 20,623	$ 18,486	$ 8,379	$ 7,371	$ 29,002	$ 25,857
Projected benefit obligation	(33,196)	(26,497)	(13,242)	(10,750)	(46,438)	(37,247)
Total funded position	$ (12,573)	$ (8,011)	$ (4,863)	$ (3,379)	$ (17,436)	$ (11,390)

Included in unrestricted net assets (deficit) at August 31, 2014 and 2013 are:

	Musician Plan		Staff Plan		Total	
	2014	2013	2014	2013	2014	2013
Unrecognized actuarial Loss	$ 17,619	$ 13,489	$ 4,920	$ 3,459	$ 22,539	$ 16,948
Prior service cost	-	26	-	-	-	26
Amounts not yet recognized in net periodic benefit cost	$ 17,619	$ 13,515	$ 4,920	$ 3,459	$ 22,539	$ 16,974

Continued

(all amounts in thousands)

9. Pension Plans, continued

Amounts in unrestricted net assets (deficit) as of August 31, 2014 expected to be recognized as components of net periodic benefit cost in the year ending August 31, 2015 are:

	Musician Plan	Staff Plan	Total
Unrecognized actuarial loss	$ 1,045	$ 491	$ 1,536
Prior service cost	-	-	-
Amounts not yet recognized in net periodic benefit cost	$ 1,045	$ 491	$ 1,536

The components of the net periodic benefit cost for the years ended August 31, 2014 and 2013 are as follows:

	Musician Plan		Staff Plan		Total	
	2014	2013	2014	2013	2014	2013
Service cost	$ 433	$ 136	$ 284	$ 379	$ 717	$ 515
Interest cost	1,327	1,212	530	482	1,857	1,694
Expected return on plan Assets	(1,462)	(1,407)	(595)	(536)	(2,057)	(1,943)
Amortization of prior service cost	26	45	-	1	26	46
Recognized actuarial Loss	820	1,023	320	570	1,140	1,593
Special termination Benefit	-	52	-	-	-	52
Total periodic benefit cost	$ 1,144	$ 1,061	$ 539	$ 896	$ 1,683	$ 1,957

The aggregated amount expected to be recognized in net periodic benefit cost during the period ending August 31, 2015 is $1,995.

Weighted average assumptions used to determine net periodic benefit cost for the plan as of August 31, 2014 and 2013 were as follows:

	Musician Plan		Staff Plan	
	2014	2013	2014	2013
Discount rate	4.30%	5.05%	4.30%	5.05%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase (Staff Plan)	*	*	2.50%	2.50%

* - Musician Plan rate of compensation increase is dictated by their collective bargaining agreement. For collectively bargained compensation, valuations cannot extend past the last year of the contract, August 31, 2016.

Continued

(all amounts in thousands)

9. Pension Plans, continued

The assumed long-term rate of return on assets assumption is 8.0% for the years ended August 31, 2014 and 2013. This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The long-term expected annual rate of return objective is based on a target asset allocation of 60% equity, 38% fixed income, and 2% cash equivalents.

The primary investment objective for the plans' assets is preservation of capital. The second major objective is capital appreciation to ensure that inflation does not erode the real purchasing power of the assets in the plans.

The plans' asset allocations at August 31, 2014 and 2013, by asset category, are as follows:

	Musician Plan		Staff Plan	
	2014	2013	2014	2013
Asset Category:				
Registered investment companies	72%	68%	70%	67%
Corporate bonds	24%	29%	26%	30%
U.S. government securities	-	-	-	-
Cash and other	4%	3%	4%	3%
Total	100%	100%	100%	100%

The following section describes the valuation methodologies used to measure the fair value of pension plan assets, including an indication of the level in the fair value hierarchy in which each type of asset is generally classified.

The fair value of investments categorized as Level 1 includes investments in cash and cash equivalents and registered investment companies, the fair values of which are based on quoted market prices for identical securities traded in active markets that are readily and regularly available to the plans.

The fair value of investments categorized as Level 2 includes investments in corporate debt securities. The fair values are modeled by external pricing vendors using estimated bid prices at which a dealer would pay for a security or in limited cases, an internal trade price, used only when a more reliable price cannot be obtained.

Continued

(all amounts in thousands)

9. Pension Plans, continued

The fair value of the financial assets comprising the plans' investments excluding accrued income, in the amount of $76 and $88, at August 31, 2014 and 2013, respectively, is shown in the following table.

	2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,079	-	-	$ 1,079
Corporate debt instruments	-	$ 7,185	-	7,185
Registered investment company	20,662	-	-	20,662
	$ 21,741	$ 7,185	-	$ 28,926

	2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 745	-	-	$ 745
Corporate debt instruments	-	$ 7,614	-	7,614
Registered investment company	17,410	-	-	17,410
	$ 18,155	$ 7,614	-	$ 25,769

PSI made contributions to the plans and the plans paid benefits as follows during the years ended August 31, 2014 and 2013:

	Musician Plan		Staff Plan		Total	
	2014	2013	2014	2013	2014	2013
Employer contributions	$ 687	$ 752	$ 518	$ 597	$ 1,205	$ 1,349
Benefits paid	852	1,541	347	349	1,199	1,890

PSI expects to make contributions of $3,152 to the Musician Plan and $569 to the Staff Plan during the year ended August 31, 2015.

Continued

(all amounts in thousands)

9. Pension Plans, continued

The following pension benefit payments, which reflect expected future service, are expected to be paid:

	Musician Plan	Staff Plan	Total
2014-15	1,123	456	1,579
2015-16	1,089	510	1,599
2016-17	1,245	568	1,813
2017-18	1,333	566	1,899
2018-19	1,410	598	2,008
2019-2024	9,035	3,310	12,345

The following changes in plan assets and benefit obligations were recognized in unrestricted net assets for the year ended August 31, 2014:

	Musician Plan	Staff Plan	Total
Net actuarial loss/(gain)	$ 4,951	$ 1,781	$ 6,732
Recognized actuarial loss	(820)	(320)	(1,140)
Recognized prior service cost	(26)	-	(26)
Total recognized in net assets (deficit) for 2014	$ (4,105)	$ (1,461)	$ (5,566)

10. Net Fund-Raising:

PSI's policy is to write-off uncollectible pledges of the past fiscal year against current-year revenues. Amounts written-off for 2014 and 2013 were $50 and $66, respectively.

11. Federal Taxes on Income:

No provision for federal taxes on income has been included in the financial statements, since PSI qualifies as a tax-exempt organization, meeting the requirements of Section 501(c)(3) of the Internal Revenue Code. PSI has not identified any material uncertain tax positions requiring an accrual or disclosure in the financial statements. PSI's policy is to accrue interest and penalties related to unrecognized tax benefits in general and administrative expenses. The statutory tax years of 2011, 2012 and 2013 remain open to examination.

Continued

(all amounts in thousands)

12. Related-Party Transactions:

PSI enters into certain transactions with corporations whose officers and/or directors are also directors of PSI. These transactions are for purchases of goods and services, including banking and investment services, at an arm's-length basis, in the ordinary course of business.

13. Term Loans and Bank Line of Credit:

PSI maintains a $6,500 line-of-credit agreement with a Pittsburgh-based commercial bank. This credit line bears interest at the greater of 50 basis points below the bank's prime interest rate or 3%. The outstanding balance on this line of credit for 2014 and 2013 was $6,500 and $6,000, respectively. This line of credit is collateralized by the value of the annual draw from endowment and held as security in a separate trust account of the endowment.

PSI entered into a $3,000 ten-year term loan with a Pittsburgh-based commercial bank in March 2004. This loan bears interest at the greater of 75 basis points below the bank's prime lending rate or 3%. The outstanding balance as of this loan for 2014 and 2013 was $25 and $200, respectively. The proceeds from this loan were used to fund the musician and staff pension plans. This loan was guaranteed by a major contributor to the PSI.

PSI entered into a $3,500 13-year term loan with a Pittsburgh-based commercial bank in June 2009. Payments were for interest only for the first three years. This loan bears interest at the greater of 50 basis points below the bank's prime lending rate or 3%. The proceeds from this loan were used to fund contributions to the musician and staff pension plans. The loan is guaranteed by a major contributor to the PSI. The outstanding balance of this loan for 2014 and 2013 was $2,683 and $3,033, respectively.

The aggregate annual principal payments due subsequent to August 31, 2014 are as follows:

2015	$	375
2016		350
2017		350
2018		350
2019		350
Thereafter		933
Total	$	2,708

Subsequent to year end, PSI entered into a $3,000, twelve-year term loan with a Pittsburgh-based commercial bank in December 2014. Payments are interest only for the first two years with monthly installments of $25,000 payable beginning January 1, 2017, maturing on December 1, 2026. This loan bears interest at the greater of 50 basis points below the bank's prime lending rate or 3%. The proceeds from this loan were used to fund contributions to the musician pension plan. The loan is guaranteed by a major contributor to the PSI.

Continued

14. Contingencies:

PSI is a party to disputes arising in the normal course of business for which no formal legal action has been initiated against PSI. Management believes at this time that the ultimate resolution of these matters will not have a material impact on the financial position, results of activities or cash flows of PSI.

15. Operating Environment:

The PSI operates in an increasingly competitive business environment, which affects both earned and contributed revenue. Substantially all the net assets of the PSI are permanently restricted, largely represented by its investment portfolio, and the total return from these investments has restricted availability.

PSI has adopted an updated strategic plan, which is focused on enhancing the patron experience, improving community relevance and increasing contributed support commensurate with the highest level of artistic achievement.

Continued