

**PITTSBURGH SYMPHONY, INC.**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT THEREON**  
**for the years ended August 31, 2015 and 2014**



Big Thinking. Personal Focus.

[www.schneiderdowns.com](http://www.schneiderdowns.com)

## C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position as of August 31, 2015 and 2014	3
Statements of Activities and Changes in Net Assets for the years ended August 31, 2015 and 2014	4
Statements of Cash Flows for the years ended August 31, 2015 and 2014	5
Notes to Financial Statements	6

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Pittsburgh Symphony, Inc.  
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the Pittsburgh Symphony, Inc. (Symphony or Organization), which comprise the statements of financial position as of August 31, 2015 and 2014, 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 audits 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, 2015 and 2014, 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.

***Emphasis of Matter***

As discussed in Note 15 to the financial statements, the Symphony has adopted a strategic plan to address the liquidity and financial condition of the Organization. The liquidity and financial conditions have declined as a result of downward trending ticket sales, rising operational costs, a significant pension liability and reduced investment return. Additionally, the Symphony musicians are covered by a collective bargaining agreement that expires September 4, 2016. Management's plans in regard to these matters are also described in Note 15.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
January 6, 2016

**PITTSBURGH SYMPHONY, INC.****STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2015 and 2014 (in thousands)**

	<u>2015</u>	<u>2014</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 603	\$ 2,021
Accounts and interest receivable	181	113
Capital pledge and contributions receivable	17,920	7,055
Notes receivable	46	66
Deferred expense and other assets	567	596
Property and equipment, net (Note 8)	17,101	16,131
Assets held in trust by others (Note 5)	3,530	3,809
Investments, at market (Note 3)	<u>119,390</u>	<u>128,628</u>
<b>TOTAL ASSETS</b>	<u>\$ 159,338</u>	<u>\$ 158,419</u>
<b>LIABILITIES AND NET ASSETS:</b>		
Accounts payable	\$ 2,227	\$ 1,008
Short-term borrowing (Note 13)	6,849	6,856
Notes payable (Note 13)	4,983	2,358
Accrued expenses	187	62
Advance ticket sales and other	5,613	5,301
Pension benefit liability (Note 9)	<u>16,081</u>	<u>17,436</u>
<b>TOTAL LIABILITIES</b>	<u>35,940</u>	<u>33,021</u>
<b>UNRESTRICTED NET DEFICIT:</b> (Note 6)		
Operating reserve (accumulated deficit)	(14,800)	(13,365)
General	<u>(8,634)</u>	<u>(8,007)</u>
<b>TOTAL UNRESTRICTED NET DEFICIT</b>	<u>(23,434)</u>	<u>(21,372)</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b> (Note 6)	12,902	8,694
<b>PERMANENTLY RESTRICTED NET ASSETS</b> (Notes 6 and 7)	<u>133,930</u>	<u>138,076</u>
<b>TOTAL NET ASSETS</b>	<u>123,398</u>	<u>125,398</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 159,338</u>	<u>\$ 158,419</u>

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, 2015 and 2014 (in thousands)**

	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUE AND INVESTMENT ACTIVITIES</b>		
<u>Orchestra and Heinz Hall:</u>		
Orchestra performances	\$ 7,578	\$ 8,640
Non-orchestra performances	1,447	1,273
Government grants	2,585	2,179
Program advertising	143	139
Other	<u>1,843</u>	<u>1,540</u>
Total Orchestra and Heinz Hall	13,596	13,771
<u>Investment Activities:</u>		
Interest and dividends, net of managers' fees of \$320 in 2015 and 2014	1,881	1,975
Realized gains	4,987	7,682
Unrealized (losses) gains	<u>(10,198)</u>	<u>10,511</u>
Total Investment Activity	(3,330)	20,168
<b>OPERATING EXPENSES</b>		
Orchestra	17,398	17,129
Production and Heinz Hall	10,407	11,669
General and administrative	5,230	4,538
Total Operating Expenses	<u>33,035</u>	<u>33,336</u>
(Deficit) income before contributions	(22,769)	603
<b>CONTRIBUTIONS</b>		
Annual fund	13,081	8,143
Other operating gifts and capital projects	2,859	616
Endowment	7,009	935
Fundraising expense - operating	(1,737)	(1,366)
Fundraising expense - endowment	<u>(18)</u>	<u>(149)</u>
Total Net Contributions	<u>21,194</u>	<u>8,179</u>
Total change in net assets before minimum pension liability adjustment	(1,575)	8,782
Other changes in pension plan assets and obligations	<u>(425)</u>	<u>(5,566)</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	<u>\$ (2,000)</u>	<u>\$ 3,216</u>
<b>CHANGE IN UNRESTRICTED NET DEFICIT (Note 6)</b>		
General	\$ (627)	\$ (6,129)
Operating reserve	<u>(1,435)</u>	<u>(849)</u>
Total change in unrestricted net assets	(2,062)	(6,978)
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS (Note 6)</b>	4,208	(2,890)
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS (Notes 6 and 7)</b>	<u>(4,146)</u>	<u>13,084</u>
Total change in net assets	(2,000)	3,216
Net assets, beginning balance	125,398	122,182
Net assets, ending balance	<u>\$ 123,398</u>	<u>\$ 125,398</u>

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

**PITTSBURGH SYMPHONY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2015 and 2014 (in thousands)**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,000)	\$ 3,216
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,263	1,198
Gain on sale of property and equipment	-	(6)
Contributions restricted for long-term investment	(8,776)	(187)
Realized and unrealized loss (gain) on investment activity	5,211	(18,193)
Changes in assets and liabilities:		
Receivables	(4,050)	3,480
Deferred expense and other assets	29	635
Accounts payable and accrued expenses	1,344	204
Advance ticket sales and other	312	(901)
Pension obligation	(1,355)	6,046
Net cash used in operating activities	<u>(8,022)</u>	<u>(4,508)</u>
Cash flows from investing activities:		
Investment in property and equipment	(2,233)	(1,175)
Proceeds from sale of property and equipment	-	29
Proceeds from sale of investments	44,906	72,127
Purchase of investments	(40,600)	(67,463)
Net cash provided by investing activities	<u>2,073</u>	<u>3,518</u>
Cash flows from financing activities:		
Contributions restricted for endowment	1,913	1,122
Proceeds from short-term borrowings	-	500
Proceeds from notes payable	3,000	-
Payments on notes payable	(382)	(531)
Net cash provided by financing activities	<u>4,531</u>	<u>1,091</u>
Net (decrease) increase in cash and cash equivalents	(1,418)	101
Cash and cash equivalents at beginning of year	<u>2,021</u>	<u>1,920</u>
Cash and cash equivalents at end of year	<u>\$ 603</u>	<u>\$ 2,021</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 336</u>	<u>\$ 275</u>

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

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(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.



**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

2. Summary of Significant Accounting Policies, continued

(Deficit) Income Before Contributions:

The statements of activities include (deficit) income 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 net (depreciation)/appreciation in fair value from 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 \$59 and \$82 of August 31, 2015 and 2014, respectively.

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

2. Summary of Significant Accounting Policies, continued

	<u>2015</u>	<u>2014</u>
Operating contributions	\$ 1,526	\$ 1,061
Contributions restricted to future periods	11,732	5,776
Permanently restricted contributions receivable	<u>6,180</u>	<u>369</u>
	19,438	7,206
Less: Unamortized discount (at 1.54% in 2015 and 1.63% in 2014)	<u>(1,518)</u>	<u>(151)</u>
Net unconditional promises to give	<u>\$ 17,920</u>	<u>\$ 7,055</u>
Contributions receivable due in:		
Less than one year	\$ 5,471	\$ 3,825
One to five years	<u>13,967</u>	<u>3,381</u>
Total	<u>\$ 19,438</u>	<u>\$ 7,206</u>

During 2015, a director revised the conditions on a \$12 million pledge. As a result, the PSI recognized \$12 million in contribution revenue during the year ended August 31, 2015. At the discretion of the Executive Committee of the Board of Directors, a portion of up to \$500,000 annually over the 12 years of the pledge can be used for operations. As such, \$6 million of the pledge has been restricted for future periods with the remaining \$6 million permanently restricted.

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 ending August 31, 2017.

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 amounts reported in the statements of financial position and activities and changes in net assets.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

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.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

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, 2015 and 2014.

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 6, 2016, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements:

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Currently, U.S. GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. PSI is assessing the impact that ASU 2014-15 will have on its financial statements and corresponding disclosures.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

2. Summary of Significant Accounting Policies, continued

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This update requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the update (1) specifies the accounting for some costs to obtain or fulfill a contract with a customer and (2) expands disclosure requirements related to revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and permits the use of either the retrospective or cumulative effect transition method. PSI is assessing the impact that ASU 2014-09 will have on its financial statements and corresponding disclosures.

In May 2015, the FASB issued ASU 2015-07 Fair Value Measurements: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or Its Equivalent). The pronouncement removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using NAV per share practical expedient. The pronouncement also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to the investments for which the entity has not elected to measure the fair value using that practical expedient. PSI is assessing the impact that ASU 2015-07 will have on its financial statements and corresponding disclosures.

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

3. Endowment:

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 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 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.

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, 2015 and 2014, respectively:

		<u>Unrestricted</u>		<u>Permanently Restricted</u>		<u>Total</u>
2015	\$	<u>(5,102)</u>	\$	<u>130,007</u>	\$	<u>124,905</u>
2014	\$	<u>(5,169)</u>	\$	<u>133,898</u>	\$	<u>128,729</u>

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(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, 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (5,169)	\$ 133,898	\$ 128,729
Investment return:			
Investment gain	-	2,130	2,130
Net depreciation	-	(5,083)	(5,083)
Contributions	-	7,009	7,009
Appropriation of endowment assets for expenditures	-	(7,222)	(7,222)
Release from restriction	8	(525)	(517)
General and administrative expense	-	(294)	(294)
Spend of unrestricted funds	(156)	-	(156)
Other	215	94	309
Endowment net assets, end of year	\$ <u>(5,102)</u>	\$ <u>130,007</u>	\$ <u>124,905</u>

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

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	156	(803)	(647)
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	\$ <u>(5,169)</u>	\$ <u>133,898</u>	\$ <u>128,729</u>

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

3. Endowment, continued

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 noninterest bearing balance borrowed was \$5 million at August 31, 2015 and 2014.

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.

In 2015 and 2014, the spendable return totaled 7% or \$7,222 and \$7,108, 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 Measurements 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 Measurements 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:



**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

4. Fair Value Measurements, continued

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 short-term borrowings 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, 2015 and 2014.

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 short-term borrowings and notes payable approximates fair value at August 31, 2015 and 2014, 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.

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 net asset value (NAV) and to transact at that price. The mutual funds held by PSI are deemed to be actively traded.

Fixed Income Instruments - 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.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

4. Fair Value Measurements, continued

Real Estate and Other Limited Partnerships - The valuation of PSI's investments in limited partnerships 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.

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

	2015			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Investments:				
Temporary investments	\$ 4,585	-	-	\$ 4,585
Common stocks	26,500	-	-	26,500
Equity mutual funds	6,877	-	-	6,877
International equity mutual funds	28,141	-	-	28,141
Fixed-income mutual funds	8,391	-	-	8,391
Fixed-income instruments	-	\$ 10,519	-	10,519
Real estate limited partnerships	-	-	\$ 3,113	3,113
Other limited partnerships	-	-	31,264	31,264
Total investments	<u>74,494</u>	<u>10,519</u>	<u>34,377</u>	<u>119,390</u>
Funds held in trust by others	-	-	3,530	3,530
Total fair value of assets	<u>\$ 74,494</u>	<u>\$ 10,519</u>	<u>\$ 37,907</u>	<u>\$ 122,920</u>

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

4. Fair Value Measurements, continued

	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 funds	33,951	-	-	33,951
Fixed-income mutual funds	11,289	-	-	11,289
Fixed-income instruments	-	\$ 8,139	-	8,139
Real estate limited partnerships	-	-	\$ 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

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			Investments			Funds Held	
	In Real Estate Partnerships			In Other Partnerships			In Trust By Others	
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	\$		
Purchases	1,521		3,937		-			
Proceeds from dispositions	(3,071)		(3,645)		-			
Market gain	644		(906)		(279)			
Balance, August 31, 2015	\$ 3,113	\$	31,264	\$	3,530	\$		

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

4. Fair Value Measurements, continued

Balance, August 31, 2013	\$	37,773
Purchases		3,924
Distributions		(8,098)
Market loss		<u>6,107</u>
Balance, August 31, 2014	\$	39,706
Purchases		5,458
Distributions		(6,716)
Market gain		<u>(541)</u>
Balance, August 31, 2015	\$	<u><u>37,907</u></u>

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 At 8/31/15	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate limited partnerships (a)	\$ 3,113	\$ 6,208	None permitted	N/A
Other limited partnerships (b)	31,264	15,545	None permitted	N/A
Funds held in trust by others (c)	3,530	-	None permitted	N/A
Short-term bond funds (d)	<u>10,519</u>	<u>-</u>	Monthly	40-60 days
	<u>\$ 48,426</u>	<u>\$ 21,753</u>		

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

4. Fair Value Measurements, continued

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.

Subsequent to year-end, the PSI committed to fund an additional \$3.5 million in alternative investments.

5. Assets Held in Trust by Others:

The McKelvy and the Pickens Trusts are perpetual trusts created by donors under individual trust agreements, which 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 \$3,530 and \$3,809 at August 31, 2015 and 2014, respectively. The trustees of both the McKelvy and Pickens Trusts have elected to adopt a 4.0% payout rate under Act 141 for the 2015 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.

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

6. Changes in Net Assets:

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

	Unrestricted			Temporary Restricted	Permanently Restricted	Total
	General	Operating Reserve (Deficit)	Total			
<b>Balance at August 31, 2014</b>	<b>\$(8,007)</b>	<b>\$(13,365)</b>	<b>\$(21,372)</b>	<b>\$8,694</b>	<b>\$138,076</b>	<b>\$125,398</b>
Release from restriction	2,529	-	2,529	(1,820)	(709)	-
Release from restriction, major campaign	2,300	-	2,300	(2,300)	-	-
Major campaign contributions	646	-	646	2,213	7,009	9,868
Total return	7,222	-	7,222	-	(10,552)	(3,330)
Orchestra/Heinz Hall revenue	13,596	-	13,596	-	-	13,596
Operating expense	(33,035)	-	(33,035)	-	-	(33,035)
Annual fund, net	5,211	-	5,211	6,115	-	11,326
Staff and musician pension						
Plans	(425)	-	(425)	-	-	(425)
Operating deficit	1,435	(1,435)	-	-	-	-
Other	(106)	-	(106)	-	106	-
<b>Change in net assets</b>	<b>(627)</b>	<b>(1,435)</b>	<b>(2,062)</b>	<b>4,208</b>	<b>(4,146)</b>	<b>(2,000)</b>
<b>Balance at August 31, 2015</b>	<b>\$(8,634)</b>	<b>\$(14,800)</b>	<b>\$(23,434)</b>	<b>\$12,902</b>	<b>\$133,930</b>	<b>\$123,398</b>

	Unrestricted			Temporary Restricted	Permanently Restricted	Total
	General	Operating Reserve (Deficit)	Total			
<b>Balance at August 31, 2013</b>	<b>\$(1,878)</b>	<b>\$(12,516)</b>	<b>\$(14,394)</b>	<b>\$ 11,584</b>	<b>\$124,992</b>	<b>\$122,182</b>
Release from restriction	1,972	-	1,972	(1,169)	(803)	-
Major campaign contributions, net	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)	-
<b>Change in net assets</b>	<b>(6,129)</b>	<b>(849)</b>	<b>(6,978)</b>	<b>(2,890)</b>	<b>13,084</b>	<b>3,216</b>
<b>Balance at August 31, 2014</b>	<b>\$(8,007)</b>	<b>\$(13,365)</b>	<b>\$(21,372)</b>	<b>\$8,694</b>	<b>\$138,076</b>	<b>\$125,398</b>

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

7. Permanently Restricted Net Assets

	2015	2014
General Endowment	\$ 109,556	\$ 117,924
The Pittsburgh Symphony 1963 Endowment	9,995	10,611
Board member gift loan	5,000	5,000
Major Campaign Pledges	5,455	364
Bessie Morrison McKelvy Trust	2,864	3,060
Pauline Beemer Pickens Trust	723	784
Morrison Fine String Instrument Loan Fund	254	250
Instrument Loan Fund	83	83
	\$ 133,930	\$ 138,076

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.

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.

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

8. Property and Equipment:

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

	2015	2014
Office equipment and furniture and fixtures	\$ 1,711	\$ 1,522
Musical and concert equipment	925	925
Original site and building	907	907
Site improvements	39,665	38,581
	43,208	41,935
Less: Accumulated depreciation	(28,282)	(27,017)
	14,926	14,918
Construction-in-process	2,175	1,213
	\$ 17,101	\$ 16,131

The construction-in-process at August 31, 2014 related to a fire alarm system upgrade at Heinz Hall which was placed in service during the year ended August 31, 2015. The construction-in-process at August 31, 2015 relates to the backstage and Grand Tier Lounge renovations, which are expected to be completed in fiscal year 2016. PSI has committed approximately \$2.3 million relative to construction-in-process, of which approximately \$1.9 million was funded as of August 31, 2015.

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 entering the final 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 58 active participants, respectively, as of September 1, 2015.



**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

9. Pension Plans, continued

The following sets forth the plans' funded status at August 31, 2015 and 2014:

	<u>Musician Plan</u>		<u>Staff Plan</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Accumulated benefit Obligation	\$ <u>32,895</u>	\$ <u>32,877</u>	\$ <u>12,087</u>	\$ <u>12,321</u>	\$ <u>44,982</u>	\$ <u>45,198</u>
Plan assets at fair value, primarily invested in equity securities	\$ 21,619	\$ 20,623	\$ 8,423	\$ 8,379	\$ 30,042	\$ 29,002
Projected benefit obligation	<u>(33,208)</u>	<u>(33,196)</u>	<u>(12,915)</u>	<u>(13,242)</u>	<u>(46,123)</u>	<u>(46,438)</u>
Total funded position	\$ <u>(11,589)</u>	\$ <u>(12,573)</u>	\$ <u>(4,492)</u>	\$ <u>(4,863)</u>	\$ <u>(16,081)</u>	\$ <u>(17,436)</u>

Included in unrestricted net assets (deficit) at August 31, 2015 and 2014 are:

	<u>Musician Plan</u>		<u>Staff Plan</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Unrecognized actuarial loss	\$ <u>18,486</u>	\$ <u>17,619</u>	\$ <u>4,478</u>	\$ <u>4,920</u>	\$ <u>22,964</u>	\$ <u>22,539</u>

Amounts in unrestricted net assets (deficit) as of August 31, 2015 expected to be recognized as components of net periodic benefit cost in the year ending August 31, 2016 are:

	<u>Musician Plan</u>	<u>Staff Plan</u>	<u>Total</u>
Unrecognized actuarial loss	\$ 1,092	\$ 431	\$ 1,523
Prior service cost	<u>-</u>	<u>-</u>	<u>-</u>
Amounts not yet recognized in net periodic benefit cost	\$ <u>1,092</u>	\$ <u>431</u>	\$ <u>1,523</u>

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

9. Pension Plans, continued

The components of the net periodic benefit cost for the years ended August 31, 2015 and 2014 are as follows:

	Musician Plan		Staff Plan		Total	
	2015	2014	2015	2014	2015	2014
Service cost	\$ 535	\$ 433	\$ 367	\$ 284	\$ 902	\$ 717
Interest cost	1,441	1,327	549	530	1,990	1,857
Expected return on plan assets	(1,773)	(1,462)	(681)	(595)	(2,454)	(2,057)
Amortization of prior service cost	-	26	-	-	-	26
Recognized actuarial loss	1,098	820	451	320	1,549	1,140
<b>Total periodic benefit cost</b>	<b>\$ 1,301</b>	<b>\$ 1,144</b>	<b>\$ 686</b>	<b>\$ 539</b>	<b>\$ 1,987</b>	<b>\$ 1,683</b>

The aggregated amount expected to be recognized in net periodic benefit cost during the period ending August 31, 2016 is \$2,139.

Weighted average assumptions used to determine net periodic benefit cost for the plan as of August 31, 2015 and 2014 were as follows:

	Musician Plan		Staff Plan	
	2015	2014	2015	2014
Discount rate	4.60%	4.30%	4.60%	4.30%
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.

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.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

9. Pension Plans, continued

The mortality tables utilized to calculate the projected benefit obligation were updated for the year ended August 31, 2015. The change in the mortality tables resulted in an approximate \$377,000 and \$25,000 decrease in the projected benefit obligation of the Musician and Staff Pension Plans, respectively, as of August 31, 2015.

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, 2015 and 2014, by asset category, are as follows:

	Musician Plan		Staff Plan	
	2015	2014	2015	2014
<u>Asset Category:</u>				
Registered investment companies	68%	72%	66%	70%
Corporate bonds	28%	24%	30%	26%
Cash and other	<u>4%</u>	<u>4%</u>	<u>4%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 bonds. 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.

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(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 \$65 and \$76, at August 31, 2015 and 2014, respectively, is shown in the following table:

	2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,133	-	-	\$ 1,133
Corporate debt instruments	-	\$ 8,692	-	8,692
Registered investment companies	20,152	-	-	20,152
	\$ 21,285	\$ 8,692	-	\$ 29,977
	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 companies	20,662	-	-	20,662
	\$ 21,741	\$ 7,185	-	\$ 28,926

PSI made contributions to the plans and the plans paid benefits as follows during the years ended August 31, 2015 and 2014:

	Musician Plan		Staff Plan		Total	
	2015	2014	2015	2014	2015	2014
Employer contributions	\$ 3,152	\$ 687	\$ 614	\$ 518	\$ 3,766	\$ 1,205
Benefits paid	1,477	852	348	347	1,825	1,199

PSI expects to make no contributions to the Musician Plan or the Staff Plan during the year ending August 31, 2016.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
(all amounts in thousands)

9. Pension Plans, continued

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

	<u>Musician Plan</u>	<u>Staff Plan</u>	<u>Total</u>
2015-16	\$1,251	\$481	\$1,732
2016-17	1,324	545	1,869
2017-18	1,371	544	1,915
2018-19	1,427	579	2,006
2019-20	1,575	619	2,194
2020-2025	9,946	3,347	13,293

The following changes in plan assets and benefit obligations were recognized in unrestricted net assets for the year ended August 31, 2015:

	<u>Musician Plan</u>	<u>Staff Plan</u>	<u>Total</u>
Net actuarial loss	\$ (1,964)	\$ (9)	\$ (1,973)
Recognized actuarial loss	<u>1,098</u>	<u>450</u>	<u>1,548</u>
Total recognized in net assets (deficit) for 2015	\$ <u>(866)</u>	\$ <u>441</u>	\$ <u>(425)</u>

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 2015 and 2014 were \$24 and \$50, 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 2012, 2013 and 2014 remain open to examination.

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(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, which is due on demand. 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 2015 and 2014 was \$6,500. 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 \$3,500 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 2015 and 2014 was \$2,332 and \$2,683, respectively.

PSI entered into a \$3,000 12-year term loan with a Pittsburgh-based commercial bank in December 2014. Payments were for interest only for the first two 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 pension plan. The loan is guaranteed by a major contributor to the PSI. The outstanding balance of this loan for 2015 was \$3,000.

The aggregate annual principal payments due subsequent to August 31, 2015 are as follows:

2016	\$	350
2017		550
2018		650
2019		650
2020		650
Thereafter		<u>2,482</u>
Total	\$	<u><u>5,332</u></u>

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2015 AND 2014**  
**(all amounts in thousands)**

13. Term Loans and Bank Line of Credit, continued

On December 21, 2015, PSI entered into a credit agreement with a Pittsburgh-based commercial bank for a \$1.5 million term loan related to the Redevelopment Assistance Capital Program Grant made by the Commonwealth of Pennsylvania, acting through the Office of the Budget, to the Urban Redevelopment Authority pursuant to Grant Contract No. 300-1438, FC #4100069914. The annual interest rate associated with the loan is prime rate minus one-half of one percent, and the maturity date is December 1, 2017. All proceeds from the loan will be used to pay construction costs associated with the above grant, and the PSI will repay the bank the grant proceeds immediately upon receipt.

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.

The PSI has adopted an updated strategic plan, which is focused on improving the financial performance of the PSI by growing earned and contributed revenue through an enhanced patron experience and improved community relevance. The primary objective of the plan is to create a growing and thriving organization commensurate with the highest levels of community engagement and artistic achievement.

[This Page Intentionally Left Blank]