PITTSBURGH SYMPHONY, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT THEREON

for the years ended August 31, 2016 and 2015

C O N T E N T S

SCHNEIDER DOWNS

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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. (PSI or Organization), which comprise the statements of financial position as of August 31, 2016 and 2015, 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, 2016 and 2015, 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.

Schneider Downs & Co., Inc.
www.schneiderdowns.com
PrimeGlobal
An Association of Independent Accounting Firms

One PPG Place, Suite 1700
Pittsburgh, PA 15222
TEL 412.261.3644
FAX 412.261.4876

65 E. State Street, Suite 2000
Columbus, OH 43215
TEL 614.621.4060
FAX 614.621.4062

Emphasis of Matter

As discussed in Note 15 to the financial statements, PSI has adopted a strategic plan to address the liquidity and financial condition of the Organization. The liquidity and financial condition have declined as a result of downward-trending ticket sales, rising operational costs, a significant pension liability and reduced investment return. Management's plans regarding these matters are also described in Note 15.

Schneider Downs & Co., Inc.

Pittsburgh, Pennsylvania
May 30, 2017

PITTSBURGH SYMPHONY, INC.
STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2016 and 2015 (in thousands)

	2016	2015
ASSETS:		
Cash and cash equivalents	$ 1,152	$ 603
Accounts and interest receivable	81	181
Capital pledges and contributions receivable	18,184	17,920
Notes receivable	81	46
Deferred expense and other assets	508	567
Property and equipment, net (Note 8)	16,945	17,101
Assets held in trust by others (Note 4 and 5)	3,543	3,530
Investments, at market (Note 4)	116,972	119,390
TOTAL ASSETS	$ 157,466	$ 159,338
LIABILITIES AND NET ASSETS:		
Accounts payable	$ 1,633	$ 2,227
Line of credit (Note 13)	7,800	6,500
Notes payable (Note 13)	6,483	5,332
Accrued expenses	282	187
Advance ticket sales and other	5,237	5,613
Pension benefit liability (Note 9)	24,206	16,081
TOTAL LIABILITIES	45,641	35,940
TOTAL UNRESTRICTED NET DEFICIT	(25,096)	(23,434)
TEMPORARILY RESTRICTED NET ASSETS (Note 6)	9,945	12,902
PERMANENTLY RESTRICTED NET ASSETS (Note 7)	126,976	133,930
TOTAL NET ASSETS	111,825	123,398
TOTAL LIABILITIES AND NET ASSETS	$ 157,466	$ 159,338

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

PITTSBURGH SYMPHONY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2016 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Orchestra performances	$ 9,563	-	-	$ 9,563
Non-orchestra performances	2,266	-	-	2,266
Government grants	2,708	-	-	2,708
Program advertising	118	-	-	118
Other	1,737	-	-	1,737
Total Orchestra and Heinz Hall	16,392	-	-	16,392
INVESTMENT ACTIVITIES REVENUE				
Interest and dividends, net of manager's fees of $281	-	-	$ 1,649	1,649
Realized gains	-	-	2,807	2,807
Unrealized gains	-	-	1,297	1,297
Endowment draw	7,440	-	(7,440)	-
Total Investment Activities	7,440	-	(1,687)	5,753
OPERATING EXPENSES				
Orchestra	17,795	-	-	17,795
Production and Heinz Hall	13,499	-	-	13,499
General and administrative	5,149	-	-	5,149
Total Operating Expenses	36,443	-	-	36,443
Deficit before contributions	(12,611)	-	(1,687)	(14,298)
CONTRIBUTIONS				
Annual fund	6,662	$ 140	-	6,802
Other operating gifts and capital projects	2,715	192	-	2,907
Forgiveness of major donor loan	5,000	-	(5,000)	-
Endowment	-	-	980	980
Fundraising expense - operating	(1,777)	-	-	(1,777)
Fundraising expense - endowment	(5)	-	-	(5)
Total Net Contributions	12,595	332	(4,020)	8,907
NET ASSETS RELEASED FROM RESTRICTIONS	4,536	(3,289)	(1,247)	-
Change in net assets before pension adjustment	4,520	(2,957)	(6,954)	(5,391)
Other changes in pension plan obligations	(6,182)	-	-	(6,182)
CHANGE IN NET ASSETS	(1,662)	(2,957)	(6,954)	(11,573)
BEGINNING NET ASSETS	(23,434)	12,902	133,930	123,398
ENDING NET ASSETS	$ (25,096)	$ 9,945	$ 126,976	$ 111,825

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

PITTSBURGH SYMPHONY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2015 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Orchestra performances	$ 7,578	-	-	$ 7,578
Non-orchestra performances	1,447	-	-	1,447
Government grants	2,585	-	-	2,585
Program advertising	143	-	-	143
Other	1,843	-	-	1,843
Total Orchestra and Heinz Hall	13,596	-	-	13,596
INVESTMENT ACTIVITIES REVENUE				
Interest and dividends, net of manager's fees of $320	-	-	$ 1,881	1,881
Realized gains	-	-	4,987	4,987
Unrealized losses	-	-	(10,198)	(10,198)
Endowment draw	7,222	-	(7,222)	-
Total Investment Activities	7,222	-	(10,552)	(3,330)
OPERATING EXPENSES				
Orchestra	17,398	-	-	17,398
Production and Heinz Hall	10,407	-	-	10,407
General and administrative	5,230	-	-	5,230
Transfer	106	-	(106)	-
Total Operating Expenses	33,141	-	(106)	33,035
Deficit before contributions	(12,323)	-	(10,446)	(22,769)
CONTRIBUTIONS				
Annual fund	6,999	$ 6,115	-	13,114
Other operating gifts and capital projects	613	2,213	-	2,826
Endowment	-	-	7,009	7,009
Fundraising expense - operating	(1,737)	-	-	(1,737)
Fundraising expense - endowment	(18)	-	-	(18)
Total Net Contributions	5,857	8,328	7,009	21,194
NET ASSETS RELEASED FROM RESTRICTIONS	4,829	(4,120)	(709)	-
Change in net assets before pension adjustment	(1,637)	4,208	(4,146)	(1,575)
Other changes in pension plan obligations	(425)	-	-	(425)
CHANGE IN NET ASSETS	(2,062)	4,208	(4,146)	(2,000)
BEGINNING NET ASSETS	(21,372)	8,694	138,076	125,398
ENDING NET ASSETS	$ (23,434)	$ 12,902	$ 133,930	$ 123,398

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

PITTSBURGH SYMPHONY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 and 2015 (in thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (11,573)	$ (2,000)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,235	1,263
Contributions restricted for long-term investment	(12)	(8,776)
Realized and unrealized (gain) loss on investment activity	(4,104)	5,211
Changes in assets and liabilities:		
Receivables	(963)	(4,050)
Deferred expense and other assets	59	29
Accounts payable and accrued expenses	(499)	1,344
Advance ticket sales and other	(376)	312
Pension obligation	8,125	(1,355)
Net cash used in operating activities	(8,108)	(8,022)
Cash flows from investing activities:		
Investment in property and equipment	(1,079)	(2,233)
Proceeds from sale of investments	54,988	44,906
Purchase of investments	(48,479)	(40,600)
Net cash provided by investing activities	5,430	2,073
Cash flows from financing activities:		
Contributions restricted for endowment	776	1,913
Proceeds from line of credit	2,000	-
Payments on line of credit	(700)	-
Proceeds from notes payable	1,500	3,000
Payments on notes payable	(349)	(382)
Net cash provided by financing activities	3,227	4,531
Net increase (decrease) in cash and cash equivalents	549	(1,418)
Cash and cash equivalents at beginning of year	603	2,021
Cash and cash equivalents at end of year	$ 1,152	$ 603
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 388	$ 336

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

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 and changes in net assets 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 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 and changes in net assets 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 $56 and $59 as of August 31, 2016 and 2015, respectively.

Continued

(all amounts in thousands)

2. Summary of Significant Accounting Policies, continued

	2016	2015
Operating contributions	$ 2,681	$ 1,526
Contributions restricted to future periods and capital projects	10,373	11,732
Permanently restricted contributions receivable	6,168	6,180
	19,222	19,438
Less: Unamortized discount (at 1.19% in 2016 and 1.54% in 2015)	(1,038)	(1,518)
Net unconditional promises to give	$ 18,184	$ 17,920
Contributions receivable due in:		
Less than one year	$ 6,217	$ 5,471
One to five years	6,768	7,149
More than five years	6,237	6,818
Total	$ 19,222	$ 19,438

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. Contributions receivable from this director represented 68% and 76% of total receivables at August 31, 2016 and 2015, respectively.

The PSI received a conditional grant from a foundation of $5 million under the capital campaign. Grant funds were to become available if PSI attained a “repeatable” balanced budget by the fiscal year ending August 31, 2017. Subsequent to year end, the donor repurposed their gift to be part operating support and part contingent on fundraising challenges. (See Note 15.)

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 and changes in net assets. 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.

2. Summary of Significant Accounting Policies, continued

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.

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 and changes in net assets 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.

Continued

2. Summary of Significant Accounting Policies, continued

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.

In accordance with the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (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, 2016 and 2015.

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 May 30, 2017 which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements:

In August 2014, the 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. The amendments are effective for annual periods ending after December 15, 2016. PSI is assessing the impact that ASU 2014-15 will have on its financial statements and corresponding disclosures.

Continued

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 August 2016, the FASB issued ASU No. 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted. PSI is assessing the impact the ASU 2016-02 will have on its financial statements and corresponding disclosures.

In March 2017, the FASB issued ASU No. 2017-07 Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07). The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments in ASU 2017-07 also allow only the service cost component to be eligible for capitalization when applicable. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018 and should be applied retrospectively. Early adoption is permitted. PSI is currently evaluating the impact that ASU 2017-07 will have on its financial statements.

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.

Continued

(all amounts in thousands)

3. Endowment, continued

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, 2016 and 2015, respectively:

	Unrestricted	Permanently Restricted	Total
2016	$ (102)	$ 123,035	$ 122,933
2015	$ (5,102)	$ 130,007	$ 124,905

The following represents the change in endowment funds by net asset type for the year ended August 31, 2016:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (5,102)	$ 130,007	$ 124,905
Investment return:			
Investment gain	-	1,888	1,888
Net appreciation	-	3,926	3,926
Contributions	-	980	980
Appropriation of endowment assets for expenditures	-	(7,440)	(7,440)
Release from restriction	-	(1,069)	(1,069)
General and administrative expense	-	(257)	(257)
Loan forgiveness	5,000	(5,000)	-
Endowment net assets, end of year	$ (102)	$ 123,035	$ 122,933

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, 2015:

	Unrestricted	Permanently Restricted	Total
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	$ (5,102)	$ 130,007	$ 124,905

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. During 2016, this borrowing from the endowment was forgiven by the consenting board member and at August 31, 2016, there was no outstanding balance as it relates to this borrowing.

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.

3. Endowment, continued

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 2016 and 2015, the spendable return totaled 7% or $7,440 and $7,222, 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 Measurement:

PSI applies the provisions of the Codification topic Fair Value Measurement, 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 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 Measurement 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 and interest receivable, contributions receivable, investments, assets held in trust by others, accounts payable and accrued expenses and line of credit and notes payable.

Continued

4. Fair Value Measurement, continued

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, 2016 and 2015.

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

The carrying value of PSI's line of credit and notes payable approximates fair value at August 31, 2016 and 2015, 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 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.

Fixed Income Instruments and Real Estate and Other Limited Partnerships - The fair value of investments measured at NAV includes investments in limited partnerships. As a practical expedient, the Institute relies on the NAV of certain investments in limited partnerships as their fair value. The net asset values that have been provided by the investment manager are derived from the fair values of the underlying investments as of the reporting date.

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 Level 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 Measurement topic. Accordingly, they are reported as Level 3 measurements.

Continued

(all amounts in thousands)

4. Fair Value Measurement, continued

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

	2016			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Investments:				
Endowment receivable	$ 260	-	-	$ 260
Temporary investments	2,615	-	-	2,615
Common stocks	24,938	-	-	24,938
Domestic equity mutual funds	6,611	-	-	6,611
International equity mutual funds	29,491	-	-	29,491
Assets held in trust by others	-	-	$ 3,543	3,543
Endowment assets in hierarchy	$ 63,915	-	$ 3,543	67,458
Fixed income instruments (a)				17,748
Real estate limited partnerships (a)				3,768
Other limited partnerships (a)				31,541
Total fair value of assets				$ 120,515

	2015			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Investments:				
Temporary investments	$ 4,585	-	-	$ 4,585
Common stocks	26,500	-	-	26,500
Domestic equity mutual funds	6,877	-	-	6,877
International equity mutual funds	28,141	-	-	28,141
Assets held in trust by others	-	-	3,530	3,530
Endowment assets in hierarchy	$ 66,103	-	$ 3,530	69,633
Fixed income instruments (a)				18,910
Real estate limited partnership (a)				3,113
Other limited partnerships (a)				31,264
Total fair value of assets				$ 122,920

(a) In accordance with PSI's adoption of ASU 2015-07 and Codification Subtopic 820-10, certain investments measured at NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of fair value hierarchy line items presented in the statements of financial position.

Continued

(all amounts in thousands)

4. Fair Value Measurement, 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:

		Assets Held In Trust By Others
Balance, August 31, 2014	$	3,809
Market loss		(279)
Balance, August 31, 2015		3,530
Market gain		13
Balance, August 31, 2016	$	3,543

The valuation of PSI's investments measured at NAV per share (or its equivalent) as a practical expedient and its investment in trusts held by others 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 these 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 8/31/16		Fair Value At 8/31/15		Unfunded Commitments At 8/31/16	Redemption Frequency	Redemption Notice Period
Real estate limited partnerships (a)	$	3,768	$	3,113	$	4,733	None permitted	N/A
Other limited partnerships (b)		31,541		31,264		14,289	None permitted	N/A
Funds held in trust by others (c)		3,543		3,530		-	None permitted	N/A
Fixed income instruments (d)		17,748		18,910		-	Monthly	40-60 days
	$	56,600	$	56,817	$	19,022		

(all amounts in thousands)

4. Fair Value Measurement, 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 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 statements of financial position at fair market value. The fair market value of assets held in trust by others was $3,543 and $3,530 at August 31, 2016 and 2015, respectively. The trustees of both the McKelvy and Pickens Trusts have elected to adopt a 4.0% payout rate under Act 141 for the 2016 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. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are composed of the following:

	2016	2015
Future periods	$ 7,305	$ 9,261
Programming	1,785	1,539
Capital	855	2,102
	$ 9,945	$ 12,902

Net assets were released from donor restrictions during the years ended August 31, 2016 and 2015 by incurring expenses satisfying the restricted purposes, passage of time, or by occurrence of other events specified by donors and grantors.

Continued

(all amounts in thousands)

7. Permanently Restricted Net Assets:

	2016	2015
General Endowment	$ 107,001	$ 109,556
The Pittsburgh Symphony 1963 Endowment	10,406	9,995
Board member gift loan	-	5,000
Major Campaign Pledges	5,625	5,455
Bessie Morrison McKelvy Trust	2,893	2,864
Pauline Beemer Pickens Trust	714	723
Morrison Fine String Instrument Loan Fund	254	254
Instrument Loan Fund	83	83
	$ 126,976	$ 133,930

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 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:

	2016	2015
Office equipment and furniture and fixtures	$ 1,711	$ 1,711
Musical and concert equipment	925	925
Original site and building	907	907
Site improvements	42,293	39,665
	45,836	43,208
Less: Accumulated depreciation	(29,516)	(28,282)
	16,320	14,926
Construction-in-process	625	2,175
	$ 16,945	$ 17,101

Continued

(all amounts in thousands)

8. Property and Equipment, continued

The construction-in-process at August 31, 2015 relates to the backstage and Grand Tier Lounge renovation, which was completed during the 2016 fiscal year. The construction-in-process at August 31, 2016 relates to the carpeting for Heinz Hall and the installation of the hearing loop, which were completed in fiscal year 2017.

9. Pension Plans:

PSI has two noncontributory defined benefit pension plans. The Staff Pension Plan covers substantially all staff. The Musicians' Pension Plan covers musicians hired on or before March 1, 2011 who had more than 5 years of service as of September 5, 2011. (Musicians not eligible for the defined benefit plan are participants in a noncontributory defined contribution plan.) 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 Musicians' and Staff Pension Plans contain 78 and 64 active participants, respectively, as of September 1, 2016.

Subsequent to year end, the PSI and the union representing the musicians entered into a new five-year contract that expires on September 5, 2021. This contract established a Pension Task Force to evaluate if and when to freeze the Musicians' Pension Plan and enroll all musicians in the defined contribution plan at 8% of the musicians' base scale. (See Note 15.)

The following sets forth the plans' funded status at August 31, 2016 and 2015:

	Musician Plan		Staff Plan		Total	
	2016	2015	2016	2015	2016	2015
Accumulated benefit obligation	$ 39,177	$ 32,895	$ 14,162	$ 12,087	$ 53,339	$ 44,982
Plan assets at fair value, primarily invested in equity securities	$ 21,289	$ 21,619	$ 8,393	$ 8,423	$ 29,682	$ 30,042
Projected benefit obligation	(39,187)	(33,208)	(14,701)	(12,915)	(53,888)	(46,123)
Total funded position	$ (17,898)	$ (11,589)	$ (6,308)	$ (4,492)	$ (24,206)	$ (16,081)

(all amounts in thousands)

9. Pension Plans, continued

Included in unrestricted net assets (deficit) at August 31, 2016 and 2015 are:

	Musician Plan		Staff Plan		Total	
	2016	2015	2016	2015	2016	2015
Unrecognized Actuarial Loss	$ 23,359	$ 18,486	$ 5,787	$ 4,478	$ 29,146	$ 22,964

Amounts in unrestricted net assets (deficit) as of August 31, 2016 expected to be recognized as components of net periodic benefit cost in the year ending August 31, 2017 are:

	Musician Plan	Staff Plan	Total
Unrecognized actuarial loss	$ 1,616	$ 601	$ 2,217
Prior service cost	-	-	-
Amounts not yet recognized in net periodic benefit cost	$ 1,616	$ 601	$ 2,217

The components of the net periodic benefit cost for the years ended August 31, 2016 and 2015 are as follows:

	Musician Plan		Staff Plan		Total	
	2016	2015	2016	2015	2016	2015
Service cost	$ 503	$ 535	$ 304	$ 367	$ 807	$ 902
Interest cost	1,487	1,441	577	549	2,064	1,990
Expected return on plan assets	(1,676)	(1,773)	(656)	(681)	(2,332)	(2,454)
Amortization of prior service cost	-	-	-	-	-	-
Recognized actuarial loss	1,122	1,098	425	451	1,547	1,549
Total periodic benefit cost	$ 1,436	$ 1,301	$ 650	$ 686	$ 2,086	$ 1,987

The aggregated amount expected to be recognized in net periodic benefit cost during the period ending August 31, 2017 is $3,315.

Continued

(all amounts in thousands)

9. Pension Plans, continued

Weighted average assumptions used to determine net periodic benefit cost for the plan as of August 31, 2016 and 2015 were as follows:

	Musician Plan		Staff Plan	
	2016	2015	2016	2015
Discount rate	3.75%	4.60%	3.75%	4.60%
Expected return on plan assets	6.50%	8.00%	6.50%	8.00%
Rate of compensation increase (Staff Plan)	*	*	1.00%	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 and 40% fixed income.

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, 2016 and 2015, by asset category, are as follows:

	Musician Plan		Staff Plan	
	2016	2015	2016	2015
Asset Category:				
Registered investment companies	70%	68%	70%	66%
Corporate bonds	28%	28%	29%	30%
Cash and other	2%	4%	1%	4%
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.

Continued

(all amounts in thousands)

9. Pension Plans, continued

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.

The fair value of the financial assets comprising the plans' investments excluding accrued income, in the amount of $55 and $65, at August 31, 2016 and 2015, respectively, is shown in the following table:

	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 484	-	-	$ 484
Corporate debt instruments	-	$ 8,458	-	8,458
Registered investment companies	20,685	-	-	20,685
	$ 21,169	$ 8,458	-	$ 29,627

	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

PSI made contributions to the plans and the plans paid benefits as follows during the years ended August 31, 2016 and 2015:

	Musician Plan		Staff Plan		Total	
	2016	2015	2016	2015	2016	2015
Employer contributions	-	$ 3,152	$ 144	$ 614	$ 144	$ 3,766
Benefits paid	$ 1,120	1,477	434	348	1,554	1,825

Continued

(all amounts in thousands)

9. Pension Plans, continued

PSI expects to make contributions to the Musician Plan and Staff Plan of $1,124 and $346, respectively, during the year ending August 31, 2016.

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

	Musician Plan	Staff Plan	Total
2016-17	$1,393	$523	$1,916
2017-18	1,472	518	1,990
2018-19	1,574	552	2,126
2019-20	1,759	617	2,376
2020-21	1,825	643	2,468
2021-2026	11,114	3,460	14,574

The following changes in plan assets and benefit obligations were recognized in unrestricted net assets for the year ended August 31, 2016:

	Musician Plan	Staff Plan	Total
Net actuarial gain	$ 5,995	$ 1,734	$ 7,729
Recognized actuarial gain	(1,122)	(425)	(1,547)
Total recognized in net assets (deficit) for 2016	$ 4,873	$ 1,309	$ 6,182

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 2016 and 2015 were $22 and $24, 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 2013, 2014 and 2015 remain open to examination.

Continued

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. On June 30, 2016, PSI entered into an agreement with this bank to increase the capacity on the credit line to $7,800. 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 2016 and 2015 was $7,800 and $6,500, respectively. This line of credit is collateralized by the value of the annual draw from the 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 2016 and 2015 was $1,983 and $2,332, 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 2016 and 2015 was $3,000.

PSI entered into a $1,500, 2-year term loan with a Pittsburgh-based commercial bank in December 2015. Payments were for interest only for the first two years. This loan bears interest at a rate of 50 basis points below the bank's prime lending rate. The proceeds from this loan were used to fund capital expenditures pursuant to the Urban Redevelopment Authority Grant Contract No. 300-1438, FC #4100069914. 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.

Continued

(all amounts in thousands)

13. Term Loans and Bank Line of Credit, continued

The aggregate annual principal payments due subsequent to August 31, 2016 are as follows:

2017	$	2,050
2018		650
2019		650
2020		650
2021		650
Thereafter		1,833
Total	$	6,483

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 of 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.

To address the liquidity and financial condition of the PSI, an updated strategic plan was adopted, 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 strategic imperatives of the plan are artistic excellence, audience engagement, community relevance, and financial sustainability.

After operating for a short period under an expired contract, a work stoppage began on September 30, 2016. The parties reached a tentative agreement on November 23, 2016, after the cancellation of numerous subscription concerts, specials, and rentals over a 55-day period.

To facilitate the settlement, a major donor repurposed and accelerated an existing multi-year gift, reducing the musicians' initial pay cut from 10.5% to 7.5% in fiscal year 2017. The parties agreed to a pay freeze in fiscal 2018, followed by raises of approximately 3.5%, 2%, and 6.5% in fiscal years 2019, 2020, and 2021, respectively. Additionally, as discussed in Note 2, a foundation repurposed its gift, previously contingent on a "repeatable" balanced budget, to be a combination of operating support and funding contingent on fundraising challenges.

Continued

15. Operating Environment, continued

PSI understands there are many components in the calculation of the pension liability that may result in volatility and are actively managing these assumptions to reduce such volatility. As a part of the settlement, and as a result of the Pension Task Force, the musicians' defined benefit pension will be frozen during fiscal year 2020, and all musicians will be enrolled in the defined contribution plan at the rate of 8% of each musicians' base scale wage. PSI will make supplemental retirement contributions to those musicians most affected by the pension plan freeze.