

**PITTSBURGH SYMPHONY, INC.**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT THEREON**  
**for the years ended August 31, 2017 and 2016**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
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, 2017 and 2016, 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, 2017 and 2016, 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, 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, and a significant pension liability. Management's plans regarding these matters are also described in Note 15.

*Schneider Downs & Co., Inc.*

Pittsburgh, Pennsylvania  
March 28, 2018

**PITTSBURGH SYMPHONY, INC.****STATEMENTS OF FINANCIAL POSITION AS OF AUGUST 31, 2017 and 2016 (in thousands)**

	<u>2017</u>	<u>2016</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 990	\$ 1,152
Accounts and interest receivable, net	640	81
Capital pledges and contributions receivable, net	13,265	18,184
Notes receivable	75	81
Deferred expense and other assets	1,122	508
Property and equipment, net (Note 8)	15,888	16,945
Assets held in trust by others (Note 4 and 5)	3,743	3,543
Investments, at market (Note 4)	<u>127,664</u>	<u>116,972</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 163,387</u></u>	<u><u>\$ 157,466</u></u>
<b>LIABILITIES AND NET ASSETS:</b>		
Accounts payable	\$ 955	\$ 1,633
Line of credit (Note 13)	6,161	7,800
Notes payable (Note 13)	5,963	6,483
Accrued expenses	378	282
Advance ticket sales and other	4,414	5,237
Pension benefit liability (Note 9)	<u>21,075</u>	<u>24,206</u>
<b>TOTAL LIABILITIES</b>	<u>38,946</u>	<u>45,641</u>
<b>UNRESTRICTED NET DEFICIT</b>	(20,053)	(25,096)
<b>TEMPORARILY RESTRICTED NET ASSETS (Note 6)</b>	7,802	9,945
<b>PERMANENTLY RESTRICTED NET ASSETS (Note 7)</b>	<u>136,692</u>	<u>126,976</u>
<b>TOTAL NET ASSETS</b>	<u>124,441</u>	<u>111,825</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 163,387</u></u>	<u><u>\$ 157,466</u></u>

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

**PITTSBURGH SYMPHONY, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED AUGUST 31, 2017 (in thousands)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Orchestra performances	\$ 5,776	-	-	\$ 5,776
Non-orchestra performances	1,308	-	-	1,308
Government grants	2,899	-	-	2,899
Program advertising	108	-	-	108
Other	1,181	-	-	1,181
Total Orchestra and Heinz Hall	<u>11,272</u>	<u>-</u>	<u>-</u>	<u>11,272</u>
<b>INVESTMENT ACTIVITIES REVENUE</b>				
Interest and dividends, net of manager's fees of \$367	-	-	\$ 1,357	1,357
Realized gains	-	-	6,700	6,700
Unrealized gains	-	-	10,552	10,552
Endowment draw	7,875	-	(7,875)	-
Total Investment Activities	<u>7,875</u>	<u>-</u>	<u>10,734</u>	<u>18,609</u>
<b>OPERATING EXPENSES</b>				
Orchestra	16,325	-	-	16,325
Production and Heinz Hall	9,302	-	-	9,302
General and administrative	5,262	-	-	5,262
Total Operating Expenses	<u>30,889</u>	<u>-</u>	<u>-</u>	<u>30,889</u>
Deficit before contributions	(11,742)	-	10,734	(1,008)
<b>CONTRIBUTIONS</b>				
Annual fund	7,392	\$ 1,190	-	8,582
Other operating gifts and capital projects	555	35	-	590
Release of restricted gift	1,848	(924)	(924)	-
Endowment	-	-	279	279
Settlement and strategic initiatives	1,252	-	-	1,252
Other	(1)	(28)	97	68
Fundraising expense - operating	(2,094)	-	-	(2,094)
Fundraising expense - endowment	(40)	-	-	(40)
Total Net Contributions	<u>8,912</u>	<u>273</u>	<u>(548)</u>	<u>8,637</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>2,886</u>	<u>(2,416)</u>	<u>(470)</u>	<u>-</u>
Change in net assets before pension adjustment	56	(2,143)	9,716	7,629
Other changes in pension plan obligations	4,987	-	-	4,987
<b>CHANGE IN NET ASSETS</b>	<u>5,043</u>	<u>(2,143)</u>	<u>9,716</u>	<u>12,616</u>
<b>BEGINNING NET ASSETS</b>	<u>(25,096)</u>	<u>9,945</u>	<u>126,976</u>	<u>111,825</u>
<b>ENDING NET ASSETS</b>	<u>\$ (20,053)</u>	<u>\$ 7,802</u>	<u>\$ 136,692</u>	<u>\$ 124,441</u>

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
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	<u>16,392</u>	<u>-</u>	<u>-</u>	<u>16,392</u>
<b>INVESTMENT ACTIVITIES REVENUE</b>				
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	<u>7,440</u>	<u>-</u>	<u>(1,687)</u>	<u>5,753</u>
<b>OPERATING EXPENSES</b>				
Orchestra	17,795	-	-	17,795
Production and Heinz Hall	13,499	-	-	13,499
General and administrative	5,149	-	-	5,149
Total Operating Expenses	<u>36,443</u>	<u>-</u>	<u>-</u>	<u>36,443</u>
Deficit before contributions	(12,611)	-	(1,687)	(14,298)
<b>CONTRIBUTIONS</b>				
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	<u>12,595</u>	<u>332</u>	<u>(4,020)</u>	<u>8,907</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>4,536</u>	<u>(3,289)</u>	<u>(1,247)</u>	<u>-</u>
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)
<b>CHANGE IN NET ASSETS</b>	<u>(1,662)</u>	<u>(2,957)</u>	<u>(6,954)</u>	<u>(11,573)</u>
<b>BEGINNING NET ASSETS</b>	<u>(23,434)</u>	<u>12,902</u>	<u>133,930</u>	<u>123,398</u>
<b>ENDING NET ASSETS</b>	<u>\$ (25,096)</u>	<u>\$ 9,945</u>	<u>\$ 126,976</u>	<u>\$ 111,825</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, 2017 and 2016 (in thousands)**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 12,616	\$ (11,573)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,278	1,235
Contributions restricted for long-term investment	1,042	(12)
Realized and unrealized gain on investment activity	(17,252)	(4,104)
Changes in assets and liabilities:		
Receivables	3,004	(963)
Deferred expense and other assets	(614)	59
Accounts payable and accrued expenses	(582)	(499)
Advance ticket sales and other	(823)	(376)
Pension obligation	(3,131)	8,125
Net cash used in operating activities	<u>(4,462)</u>	<u>(8,108)</u>
Cash flows from investing activities:		
Investment in property and equipment	(221)	(1,079)
Proceeds from sale of investments	35,492	54,988
Purchase of investments	(29,133)	(48,479)
Net cash provided by investing activities	<u>6,138</u>	<u>5,430</u>
Cash flows from financing activities:		
Contributions restricted for endowment	321	776
Proceeds from line of credit	2,027	2,000
Payments on line of credit	(3,666)	(700)
Proceeds from notes payable	-	1,500
Payments on notes payable	(520)	(349)
Net cash (used in) provided by financing activities	<u>(1,838)</u>	<u>3,227</u>
Net (decrease) increase in cash and cash equivalents	(162)	549
Cash and cash equivalents at beginning of year	<u>1,152</u>	<u>603</u>
Cash and cash equivalents at end of year	<u>\$ 990</u>	<u>\$ 1,152</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 385</u>	<u>\$ 388</u>

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



**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**  
**(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 consistently 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 (Board) 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, 2017 AND 2016**  
**(all amounts in thousands)**

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 appreciation/(depreciation) 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 \$42 and \$56 as of August 31, 2017 and 2016, respectively.

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**  
(all amounts in thousands)

2. Summary of Significant Accounting Policies, continued

	<u>2017</u>	<u>2016</u>
Operating contributions	\$ 1,298	\$ 2,681
Contributions restricted to future periods and capital projects	7,724	10,373
Permanently restricted contributions receivable	<u>5,126</u>	<u>6,168</u>
	14,148	19,222
Less: Unamortized discount (at 1.70% in 2017 and 1.19% in 2016)	<u>(883)</u>	<u>(1,038)</u>
Net unconditional promises to give	<u>\$ 13,265</u>	<u>\$ 18,184</u>
Contributions receivable due in:		
Less than one year	\$ 4,758	\$ 6,217
One to five years	4,361	6,768
More than five years	<u>5,029</u>	<u>6,237</u>
Total	<u>\$ 14,148</u>	<u>\$ 19,222</u>

During a prior year, the PSI received a \$12 million pledge from a director. At the discretion of the Executive Committee of the Board, 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 had been restricted for future periods with the remaining \$6 million permanently restricted. During the year ended August 31, 2017, the director further revised the conditions on this pledge, removing all restrictions from the last two years of the pledge in the amount of \$2 million, which the director paid during 2017. Approximately \$1.7 million of such funds were then designated by the Board to fund bonuses for the musicians over the next 6 years. Contributions receivable from this director represented 71% and 64% of total receivables at August 31, 2017 and 2016, respectively.

During a prior year, 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 ended August 31, 2017. During the year ended August 31, 2017, the donor repurposed their gift to be part operating support and part contingent on both fundraising challenges and meeting agreed upon financial benchmarks. PSI recognized \$500,000 as operating support during the year ended August 31, 2017. Approximately \$2.5 million remains conditional upon meeting fundraising challenges by August 31, 2019, and another \$2 million will be conditional upon meeting agreed upon financial benchmarks during the years ended August 31, 2020 and 2021, at the rate of \$1 million per year.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**  
**(all amounts in thousands)**

2. Summary of Significant Accounting Policies, continued

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.

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 Financial Accounting Standards Board's (FASB) Accounting Standards Codification (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.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**  
**(all amounts in thousands)**

2. Summary of Significant Accounting Policies, continued

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.

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, 2017 and 2016.

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).

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**  
**(all amounts in thousands)**

2. Summary of Significant Accounting Policies, continued

Concentration Risk:

At August 31, 2017, approximately 55% of the PSI's workforce is union-represented subject to collective bargaining agreements. The individual unions may limit the Company's flexibility in dealing with its workforce. Any work stoppage or instability within the workforce could have a negative impact on PSI, including loss of revenues and strained relationships with patrons and donors, which could adversely affect PSI's operations.

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 March 28, 2018 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 implemented the provisions of ASU 2014-15 and evaluated PSI's financial condition and operating environment within Note 15.

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 2016-14 will have on its financial statements and corresponding disclosures.

Continued

**PITTSBURGH SYMPHONY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2017 AND 2016**  
**(all amounts in thousands)**

2. Summary of Significant Accounting Policies, continued

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 to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board 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, 2017 and 2016, respectively:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2017	\$ <u>(102)</u>	\$ <u>132,560</u>	\$ <u>132,458</u>
2016	\$ <u>(102)</u>	\$ <u>123,035</u>	\$ <u>122,933</u>

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**PITTSBURGH SYMPHONY, INC.**  
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3. Endowment, continued

The following represents the change in endowment funds by net asset type for the year ended August 31, 2017:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (102)	\$ 123,035	\$ 122,933
Investment return:			
Investment gain	-	1,658	1,658
Net appreciation	-	16,925	16,925
Contributions	-	279	279
Appropriation of endowment assets for expenditures	-	(7,875)	(7,875)
Release from restriction	-	(289)	(289)
Other	-	93	93
General and administrative expense	-	(342)	(342)
Repurpose of endowment gift	-	(924)	(924)
Endowment net assets, end of year	\$ <u>(102)</u>	\$ <u>132,560</u>	\$ <u>132,458</u>

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

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	\$ <u>(102)</u>	\$ <u>123,035</u>	\$ <u>122,933</u>

As discussed in Note 2, a director revised the conditions on a \$12 million pledge, removing all restrictions from the last two years of the pledge in the amount of \$2 million, \$1 million of which had been designated for permanent restriction. The release of the discounted amount previously recorded within permanently restricted net assets was approximately \$924 for the year ended August 31, 2017.

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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. 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.

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 2017 and 2016, the spendable return totaled 6.9% and 7% or \$7,875 and \$7,440, 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:

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**PITTSBURGH SYMPHONY, INC.**  
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4. Fair Value Measurement, 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 and interest receivable, contributions receivable, investments, assets held in trust by others, accounts payable and accrued expenses and line of credit 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, 2017 and 2016.

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, 2017 and 2016, 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 PSI 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.

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**PITTSBURGH SYMPHONY, INC.**  
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4. Fair Value Measurement, continued

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.

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

	2017			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Investments:				
Temporary investments	\$ 4,837	-	-	\$ 4,837
Common stocks	24,670	-	-	24,670
Domestic equity mutual funds	7,673	-	-	7,673
International equity mutual funds	33,871	-	-	33,871
Assets held in trust by others	-	-	\$ 3,743	3,743
Endowment assets in hierarchy	\$ 71,051	-	\$ 3,743	74,794
Fixed income instruments (a)				18,762
Real estate limited partnerships (a)				4,864
Other limited partnerships (a)				32,987
Total fair value of assets				\$ 131,407

	2016			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
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

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**PITTSBURGH SYMPHONY, INC.**  
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4. Fair Value Measurement, continued

- (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.

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:

		<u>Assets Held In Trust By Others</u>
Balance, August 31, 2015	\$	3,530
Market gain		191
Distributions		<u>(178)</u>
Balance, August 31, 2016		3,543
Market gain		378
Distributions		<u>(178)</u>
Balance, August 31, 2017	\$	<u>3,743</u>

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.

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**PITTSBURGH SYMPHONY, INC.**  
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4. Fair Value Measurement, continued

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.

<u>Category</u>	<u>Fair Value</u> <u>At 8/31/17</u>	<u>Fair Value</u> <u>At 8/31/16</u>	<u>Unfunded</u> <u>Commitments</u> <u>At 8/31/17</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice</u> <u>Period</u>
Real estate limited partnerships (a)	\$ 4,864	\$ 3,768	\$ 5,232	None permitted	N/A
Other limited partnerships (b)	32,987	31,541	15,567	None permitted	N/A
Funds held in trust by others (c)	3,743	3,543	-	None permitted	N/A
Fixed income instruments (d)	18,762	17,748	-	Monthly	40-60 days
	<u>\$ 60,356</u>	<u>\$ 56,660</u>	<u>\$ 20,799</u>		

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 nonconvertible 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 \$2.25 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 \$3,743 and \$3,543 at August 31, 2017 and 2016, respectively. The trustees of both the McKelvy and Pickens Trusts have elected to adopt a 4.0% payout rate under Act 141 for both 2017 and 2016. 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.

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**PITTSBURGH SYMPHONY, INC.**  
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6. Temporarily Restricted Net Assets

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

	2017	2016
Future periods	\$ 6,871	\$ 7,305
Programming	895	1,785
Capital	36	855
	\$ 7,802	\$ 9,945

Net assets were released from donor restrictions during the years ended August 31, 2017 and 2016 by incurring expenses satisfying the restricted purposes, passage of time, or by occurrence of other events specified by donors and grantors.

7. Permanently Restricted Net Assets:

	2017	2016
General Endowment	\$ 116,795	\$ 107,001
The Pittsburgh Symphony 1963 Endowment	11,072	10,406
Major Campaign Pledges	4,693	5,625
Bessie Morrison McKelvy Trust	3,051	2,893
Pauline Beemer Pickens Trust	744	714
Morrison Fine String Instrument Loan Fund	254	254
Instrument Loan Fund	83	83
	\$ 136,692	\$ 126,976

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.

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8. Property and Equipment:

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

	2017	2016
Office equipment and furniture and fixtures	\$ 1,726	\$ 1,711
Musical and concert equipment	987	925
Original site and building	907	907
Site improvements	43,013	42,293
	46,633	45,836
Less: Accumulated depreciation	(30,794)	(29,516)
	15,839	16,320
Construction-in-process	49	625
	\$ 15,888	\$ 16,945

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 and placed into service in fiscal year 2017. The construction-in-process at August 31, 2017 relates to the Heinz Hall master plan and a recording equipment project.

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 five 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.

During the year ended August 31, 2017, the PSI and the union representing the musicians entered into a new five-year contract that expires on September 5, 2021. The terms of the contract stipulate that the Musicians' Pension Plan will be frozen as of August 31, 2019, and all musicians will be enrolled in the defined contribution plan at 8% of the musicians' base scale. PSI will make supplemental retirement contributions to those musicians most affected by the pension plan freeze.

The contract also established a Pension Task Force to evaluate if PSI should pursue a distress termination and turn the Musicians' Pension Plan over to the Pension Benefit Guaranty Corporation (PBGC). The Pension Task Force determined that distress termination was not in the best interest of the PSI or the Musicians' Pension Plan beneficiaries.

The Musicians' and Staff Pension Plans contain 74 and 60 active participants, respectively, as of September 1, 2017.

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9. Pension Plans, continued

The following sets forth the plans' funded status at August 31, 2017 and 2016:

	Musician Plan		Staff Plan		Total	
	2017	2016	2017	2016	2017	2016
Accumulated benefit obligation	\$ 38,087	\$ 39,177	\$ 14,310	\$ 14,162	\$ 52,397	\$ 53,339
Plan assets at fair value, primarily invested in equity securities	\$ 22,839	\$ 21,289	\$ 8,962	\$ 8,393	\$ 31,801	\$ 29,682
Projected benefit obligation	(38,087)	(39,187)	(14,789)	(14,701)	(52,876)	(53,888)
Total funded position	\$ (15,248)	\$ (17,898)	\$ (5,827)	\$ (6,308)	\$ (21,075)	\$ (24,206)

Included in unrestricted net deficit at August 31, 2017 and 2016 are:

	Musician Plan		Staff Plan		Total	
	2017	2016	2017	2016	2017	2016
Unrecognized actuarial loss	\$ 19,598	\$ 23,359	\$ 4,562	\$ 5,787	\$ 24,160	\$ 29,146

Amounts in unrestricted net deficit as of August 31, 2017 expected to be recognized as components of net periodic benefit cost in the year ending August 31, 2018 are:

	Musician Plan	Staff Plan	Total
Unrecognized actuarial loss	\$ 1,356	\$ 414	\$ 1,770
Prior service cost	-	-	-
Amounts not yet recognized in net periodic benefit cost	\$ 1,356	\$ 414	\$ 1,770

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**PITTSBURGH SYMPHONY, INC.**  
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9. Pension Plans, continued

The components of the net periodic benefit cost for the years ended August 31, 2017 and 2016 are as follows:

	Musician Plan		Staff Plan		Total	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 566	\$ 503	\$ 428	\$ 304	\$ 994	\$ 807
Interest cost	1,435	1,487	558	577	1,993	2,064
Expected return on plan assets	(1,371)	(1,676)	(533)	(656)	(1,904)	(2,332)
Amortization of prior service cost	-	-	-	-	-	-
Recognized actuarial loss	1,605	1,122	638	425	2,243	1,547
<b>Total periodic benefit cost</b>	<b>\$ 2,235</b>	<b>\$ 1,436</b>	<b>\$ 1,091</b>	<b>\$ 650</b>	<b>\$ 3,326</b>	<b>\$ 2,086</b>

The aggregated amount expected to be recognized in net periodic benefit cost during the period ending August 31, 2018 is \$2,718.

Weighted average assumptions used to determine net periodic benefit cost for the plan as of August 31, 2017 and 2016 were as follows:

	Musician Plan		Staff Plan	
	2017	2016	2017	2016
Discount rate	4.00%	3.75%	4.00%	3.75%
Expected return on plan assets	6.50%	6.50%	6.50%	6.50%
Rate of compensation increase (Staff Plan)	*	*	1.00%	1.00%

\* - Musician Plan rate of compensation increase is dictated by their collective bargaining agreement. The Musicians' scale wages were reduced by 7.5% for the fiscal year ended August 31, 2017; wages will freeze for the fiscal year ending August 31, 2018 and will increase by 3.4% for the fiscal year ending August 31, 2019.

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.

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**PITTSBURGH SYMPHONY, INC.**  
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9. Pension Plans, continued

The plans' asset allocations at August 31, 2017 and 2016, by asset category, are as follows:

<u>Asset Category:</u>	<u>Musician Plan</u>		<u>Staff Plan</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Registered investment companies	69%	70%	70%	70%
Corporate bonds	28%	28%	26%	29%
Cash and other	<u>3%</u>	<u>2%</u>	<u>4%</u>	<u>1%</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.

The fair value of the financial assets comprising the plans' investments excluding accrued income, in the amount of \$56 and \$55, at August 31, 2017 and 2016, respectively, is shown in the following table:

	<u>2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 969	-	-	\$ 969
Corporate debt instruments	-	\$ 8,748	-	8,748
Registered investment companies	22,028	-	-	22,028
	<u>\$ 22,997</u>	<u>\$ 8,748</u>	<u>-</u>	<u>\$ 31,745</u>

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9. Pension Plans, continued

	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

PSI made contributions to the plans and the plans paid benefits as follows during the years ended August 31, 2017 and 2016:

	Musician Plan		Staff Plan		Total	
	2017	2016	2017	2016	2017	2016
Employer contributions	\$ 1,124	-	\$ 346	\$ 144	\$ 1,470	\$ 144
Benefits paid	1,551	\$ 1,120	492	434	2,043	1,554

PSI expects to make contributions to the Musician Plan and Staff Plan of \$1,507 and \$933, respectively, during the year ending August 31, 2018.

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

	Musician Plan	Staff Plan	Total
2017-18	\$1,538	\$582	\$2,120
2018-19	1,639	618	2,257
2019-20	1,838	625	2,463
2020-21	1,843	651	2,494
2021-22	2,037	652	2,689
2023-2027	11,380	3,644	15,024

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9. Pension Plans, continued

The following changes in plan assets and benefit obligations were recognized in unrestricted net assets for the year ended August 31, 2017:

	<u>Musician Plan</u>		<u>Staff Plan</u>		<u>Total</u>
Net actuarial gain	\$ (2,157)	\$	(587)	\$	(2,744)
Recognized actuarial gain	<u>(1,605)</u>		<u>(638)</u>		<u>(2,243)</u>
Total recognized in net assets (deficit) for 2017	\$ <u>(3,762)</u>	\$	<u>(1,225)</u>	\$	<u>(4,987)</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 2017 and 2016 were \$82 and \$22, 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 2014, 2015 and 2016 remain open to examination.

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 2017 and 2016 was \$6,161 and \$7,800, 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.

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13. Term Loans and Bank Line of Credit, continued

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 2017 and 2016 was \$1,663 and \$1,983, respectively.

PSI entered into a \$3,000 two-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 2017 and 2016 was \$2,800 and \$3,000, respectively.

PSI entered into a \$1,500, two-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 was used to pay construction costs associated with the above grant, and the PSI will repay the bank with the grant proceeds immediately upon receipt. Subsequent to the year ended August 31, 2017, the loan was extended through April 1, 2018.

The aggregate annual principal payments due subsequent to August 31, 2017 are as follows:

2018	\$	2,150
2019		650
2020		650
2021		650
2022		563
Thereafter		<u>1,300</u>
Total	\$	<u>5,963</u>

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.

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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.

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 and agreed upon financial benchmarks.

PSI understands there are many components in the calculation of the pension liability that may result in volatility and is actively managing these assumptions to reduce such volatility. As a part of the settlement, the musicians' defined benefit pension will be frozen as of August 31, 2019, 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.

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.

PSI has seen positive results from the implementation of the strategic plan. As of December 31, 2017, PSI raised \$1.25 million of the \$2.5 million conditional grant from a foundation (discussed in Note 2), which matches new and increased support. Additionally, in 2017, PSI pledged to raise \$75 million over five years, \$50 million related to annual fund and \$25 million related to pension and strategic plan implementation, and is at one-third of that goal as of December 31, 2017. Management believes that these are positive indicators pointing to a recovery.

Artistically, PSI is experiencing a tremendous year, including the successful European Tour during the fall of 2017 and a Grammy award for Best Orchestral Performance for "Shostakovich: Symphony No. 5; Barber: Adagio," conducted by PSO music director Manfred Honeck.

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15. Operating Environment, continued

PSI reported negative unrestricted net asset positions as of August 31, 2017 and 2016, resulting from the historical deficit of annual operating expenses over unrestricted revenue. The annual operating expenses are primarily driven by the costs of operating the orchestra, production, and Heinz Hall, as well as annual changes due to the pension obligation. Additionally, due to the challenges of high-cost operations and managing cash flow, management closely monitors cash positions monthly and forecasts for potential cash inflows and outflows up to one year in advance to identify what months PSI will have the cash reserves to fund operations and identify which months will require a draw from the endowment. PSI drew approximately 6.9% from the endowment during the year ended August 31, 2017, and plans to reduce the endowment draw by .1% a year over 10 years to reach a 6% draw annually. Management believes that this strategy continues to be appropriate and will enable PSI to sustain operations.

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