

INDIANA SYMPHONY SOCIETY, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2017 AND 2016

CPAs / ADVISORS



INDIANA SYMPHONY SOCIETY, INC.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Indiana Symphony Society, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of the Indiana Symphony Society, Inc. (the Society), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities 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.

Auditor's 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 auditor's 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.

**REPORT OF INDEPENDENT AUDITORS
(Continued)**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society 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.

Blue & Co., LLC

Carmel, Indiana
November 16, 2017

INDIANA SYMPHONY SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION AUGUST 31, 2017 AND 2016

ASSETS		
	2017	2016
Cash	\$ 95,981	\$ 98,323
Receivables:		
Pledges, net (Note 3)	4,786,692	4,582,078
Government Grants	96,851	89,250
Accounts	525,044	220,141
Total Receivables	5,408,587	4,891,469
Prepaid Expenses and Other Assets	486,191	702,048
Property and Equipment, net (Note 2)	2,752,702	2,849,506
Interest in Net Assets of ISO Foundation	98,234,590	93,016,167
Total Assets	\$ 106,978,051	\$ 101,557,513
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 875,547	\$ 1,438,937
Accrued Expenses	679,742	742,416
Other Liabilities	144,353	199,113
Deferred Revenue	2,570,375	2,885,202
Intercompany Loans (Note 4)	804,000	-0-
Line of Credit (Note 5)	6,612,008	6,110,413
Pension Liability (Note 12)	2,931,752	5,865,542
Total Liabilities	14,617,777	17,241,623
Net Assets		
Unrestricted		
General Operating	(9,040,737)	(9,068,222)
Pension Plan (Note 12)	(3,732,541)	(7,154,925)
Board Designated (Note 6)	251	38,733
Facilities and Other	(171,417)	-0-
Total Unrestricted	(12,944,444)	(16,184,414)
Temporarily Restricted		
Society (Note 7)	7,070,129	7,484,137
ISO Foundation (Note 7)	65,685,117	60,467,195
Total Temporarily Restricted	72,755,246	67,951,332
Permanently Restricted		
ISO Foundation (Note 8)	32,549,472	32,548,972
Total Net Assets	92,360,274	84,315,890
Total Liabilities and Net Assets	\$ 106,978,051	\$ 101,557,513

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2017 (With Comparative Total for the Year Ended August 31, 2016)

	2017										2016		
	Unrestricted					Temporarily Restricted			Permanently Restricted		Total	Total	
	General Operating	Pension Plan	Board Designated	Facilities	Other	Total	Society	ISO Foundation	Total	ISO Foundation			Total
Revenue													
Earned Revenue													
Ticket Sales and Fee Income	\$ 10,736,668	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 10,736,668	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 10,736,668	\$ 8,723,425	
Rental Income	619,313	-0-	-0-	-0-	-0-	619,313	-0-	-0-	-0-	-0-	619,313	523,919	
Program Advertising	178,359	-0-	-0-	-0-	-0-	178,359	-0-	-0-	-0-	-0-	178,359	137,208	
Education	158,453	-0-	-0-	-0-	-0-	158,453	-0-	-0-	-0-	-0-	158,453	151,709	
Other	130,820	-0-	-0-	-0-	-0-	130,820	-0-	-0-	-0-	-0-	130,820	105,372	
Total Earned Revenue	11,823,613	-0-	-0-	-0-	-0-	11,823,613	-0-	-0-	-0-	-0-	11,823,613	9,641,633	
Contributed Income													
Annual Fund	5,963,278	-0-	-0-	-0-	-0-	5,963,278	3,462,061	-0-	3,462,061	-0-	9,425,339	9,528,584	
Provision for Loss on Annual Fund Pledge	-0-	-0-	-0-	-0-	-0-	-0-	(620,000)	-0-	(620,000)	-0-	(620,000)	-0-	
Net Assets Released - Annual Fund (Note 9)	2,921,316	-0-	-0-	-0-	-0-	2,921,316	(2,921,316)	-0-	(2,921,316)	-0-	-0-	-0-	
Project Funding	75,827	-0-	-0-	-0-	-0-	75,827	265,000	-0-	265,000	-0-	340,827	9,500,000	
Net Assets Released - Project Funding (Note 9)	400,000	-0-	-0-	-0-	-0-	400,000	(400,000)	-0-	(400,000)	-0-	-0-	-0-	
Capital Campaign	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3,134	
Capital Assets	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	500,000	
Net Assets Released - Depreciation (Note 9)	199,753	-0-	-0-	-0-	-0-	199,753	(199,753)	-0-	(199,753)	-0-	-0-	-0-	
Board Designated Transfer - Depreciation	38,482	-0-	(38,482)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Total Contributed Income	9,598,656	-0-	(38,482)	-0-	-0-	9,560,174	(414,008)	-0-	(414,008)	-0-	9,146,166	19,531,718	
ISO Foundation													
Net Assets Released (Note 9)	4,540,568	-0-	-0-	1,250,000	-0-	5,790,568	-0-	(5,790,568)	(5,790,568)	-0-	-0-	-0-	
Service Fee	50,000	-0-	-0-	-0-	-0-	50,000	-0-	-0-	-0-	-0-	50,000	50,000	
Total ISO Foundation	4,590,568	-0-	-0-	1,250,000	-0-	5,840,568	-0-	(5,790,568)	(5,790,568)	-0-	50,000	50,000	
Total Revenue	<u>26,012,837</u>	<u>-0-</u>	<u>(38,482)</u>	<u>1,250,000</u>	<u>-0-</u>	<u>27,224,355</u>	<u>(414,008)</u>	<u>(5,790,568)</u>	<u>(6,204,576)</u>	<u>-0-</u>	<u>21,019,779</u>	<u>29,223,351</u>	

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2017 (Continued) (With Comparative Total for the Year Ended August 31, 2016)

	2017										2016	
	Unrestricted					Temporarily Restricted			Permanently Restricted		Total	Total
	General Operating	Pension Plan	Board Designated	Facilities	Other	Total	ISO		ISO	Foundation		
						Society	Foundation	Total	Foundation	Total		
Expenses												
Concert Related Expenses												
Orchestra Operations	9,799,712	-0-	-0-	-0-	-0-	9,799,712	-0-	-0-	-0-	-0-	9,799,712	9,918,404
Defined Benefit Pension Plan Expense (Notes 10 and 12)	488,594	-0-	-0-	-0-	-0-	488,594	-0-	-0-	-0-	-0-	488,594	637,972
Concert Production	6,321,838	-0-	-0-	-0-	-0-	6,321,838	-0-	-0-	-0-	-0-	6,321,838	5,935,361
Marketing	2,036,019	-0-	-0-	-0-	-0-	2,036,019	-0-	-0-	-0-	-0-	2,036,019	2,037,545
Total Concert Related Expenses	18,646,163	-0-	-0-	-0-	-0-	18,646,163	-0-	-0-	-0-	-0-	18,646,163	18,529,282
Departmental Expenses												
General and Administrative	2,461,578	-0-	-0-	-0-	171,417	2,632,995	-0-	-0-	-0-	-0-	2,632,995	2,522,250
Development	1,306,414	-0-	-0-	-0-	-0-	1,306,414	-0-	-0-	-0-	-0-	1,306,414	1,386,541
Patron Services	409,314	-0-	-0-	-0-	-0-	409,314	-0-	-0-	-0-	-0-	409,314	390,520
Education	705,261	-0-	-0-	-0-	-0-	705,261	-0-	-0-	-0-	-0-	705,261	725,148
Program Book	172,114	-0-	-0-	-0-	-0-	172,114	-0-	-0-	-0-	-0-	172,114	122,405
Other	131,376	-0-	-0-	-0-	-0-	131,376	-0-	-0-	-0-	-0-	131,376	123,634
Total Departmental Expenses	5,186,057	-0-	-0-	-0-	171,417	5,357,474	-0-	-0-	-0-	-0-	5,357,474	5,270,498
Facilities	1,683,302	-0-	-0-	1,250,000	-0-	2,933,302	-0-	-0-	-0-	-0-	2,933,302	2,841,603
Depreciation (Note 10)	469,830	-0-	-0-	-0-	-0-	469,830	-0-	-0-	-0-	-0-	469,830	420,916
Total Facilities and Depreciation	2,153,132	-0-	-0-	1,250,000	-0-	3,403,132	-0-	-0-	-0-	-0-	3,403,132	3,262,519
Total Expenses	25,985,352	-0-	-0-	1,250,000	171,417	27,406,769	-0-	-0-	-0-	-0-	27,406,769	27,062,299
Revenue Over (Under) Expenses	27,485	-0-	(38,482)	-0-	(171,417)	(182,414)	(414,008)	(5,790,568)	(6,204,576)	-0-	(6,386,990)	2,161,052
Other Changes in Net Assets												
Other Changes in Interest in Net Assets of ISO Foundation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	11,008,490	11,008,490	500	11,008,990	4,356,797
Pension Liability Adjustment (Note 12)	-0-	3,422,384	-0-	-0-	-0-	3,422,384	-0-	-0-	-0-	-0-	3,422,384	(1,753,107)
Total Other Changes in Net Assets	-0-	3,422,384	-0-	-0-	-0-	3,422,384	-0-	11,008,490	11,008,490	500	14,431,374	2,603,690
Change in Net Assets	27,485	3,422,384	(38,482)	-0-	(171,417)	3,239,970	(414,008)	5,217,922	4,803,914	500	8,044,384	4,764,742
Net Assets, Beginning of Year	(9,068,222)	(7,154,925)	38,733	-0-	-0-	(16,184,414)	7,484,137	60,467,195	67,951,332	32,548,972	84,315,890	79,551,148
Net Assets, End of Year	\$ (9,040,737)	\$ (3,732,541)	\$ 251	\$ -0-	\$ (171,417)	\$ (12,944,444)	\$ 7,070,129	\$ 65,685,117	\$ 72,755,246	\$ 32,549,472	\$ 92,360,274	\$ 84,315,890

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2016

	Unrestricted					Temporarily Restricted			Permanently Restricted	
	General Operating	Pension Plan	Board Designated	Facilities	Total	Society	ISO Foundation	Total	ISO Foundation	Total
Revenue										
Earned Revenue										
Ticket Sales and Fee Income	\$ 8,723,425	\$ -0-	\$ -0-	\$ -0-	\$ 8,723,425	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 8,723,425
Rental Income	523,919	-0-	-0-	-0-	523,919	-0-	-0-	-0-	-0-	523,919
Program Advertising	137,208	-0-	-0-	-0-	137,208	-0-	-0-	-0-	-0-	137,208
Education	151,709	-0-	-0-	-0-	151,709	-0-	-0-	-0-	-0-	151,709
Other	<u>105,372</u>	-0-	-0-	-0-	<u>105,372</u>	-0-	-0-	-0-	-0-	<u>105,372</u>
Total Earned Revenue	9,641,633	-0-	-0-	-0-	9,641,633	-0-	-0-	-0-	-0-	9,641,633
Contributed Income										
Annual Fund	6,191,613	-0-	-0-	-0-	6,191,613	3,336,971	-0-	3,336,971	-0-	9,528,584
Net Assets Released - Annual Fund (Note 9)	2,874,914	-0-	-0-	-0-	2,874,914	(2,874,914)	-0-	(2,874,914)	-0-	-0-
Project Funding	400,000	8,000,000	-0-	-0-	8,400,000	1,100,000	-0-	1,100,000	-0-	9,500,000
Net Assets Released - Project Funding (Note 9)	85,000	-0-	-0-	-0-	85,000	(85,000)	-0-	(85,000)	-0-	-0-
Capital Campaign	-0-	-0-	-0-	-0-	-0-	3,134	-0-	3,134	-0-	3,134
Net Assets Released - Capital Campaign (Note 9)	-0-	-0-	243,500	-0-	243,500	(243,500)	-0-	(243,500)	-0-	-0-
Board Designated Transfer - Capital Campaign	243,500	-0-	(243,500)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital Assets	-0-	-0-	-0-	-0-	-0-	500,000	-0-	500,000	-0-	500,000
Net Assets Released - Depreciation (Note 9)	199,753	-0-	-0-	-0-	199,753	(199,753)	-0-	(199,753)	-0-	-0-
Board Designated Transfer - Depreciation	<u>38,482</u>	-0-	<u>(38,482)</u>	-0-	<u>-0-</u>	-0-	-0-	-0-	-0-	<u>-0-</u>
Total Contributed Income	10,033,262	8,000,000	(38,482)	-0-	17,994,780	1,536,938	-0-	1,536,938	-0-	19,531,718
ISO Foundation										
Net Assets Released (Note 9)	5,526,565	-0-	-0-	1,250,000	6,776,565	-0-	(6,776,565)	(6,776,565)	-0-	-0-
Service Fee	<u>50,000</u>	-0-	-0-	-0-	<u>50,000</u>	-0-	-0-	-0-	-0-	<u>50,000</u>
Total ISO Foundation	<u>5,576,565</u>	-0-	-0-	<u>1,250,000</u>	<u>6,826,565</u>	-0-	<u>(6,776,565)</u>	<u>(6,776,565)</u>	-0-	<u>50,000</u>
Total Revenue	<u>25,251,460</u>	<u>8,000,000</u>	<u>(38,482)</u>	<u>1,250,000</u>	<u>34,462,978</u>	<u>1,536,938</u>	<u>(6,776,565)</u>	<u>(5,239,627)</u>	-0-	<u>29,223,351</u>

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2016 (Continued)

	Unrestricted					Temporarily Restricted			Permanently Restricted	
	General Operating	Pension Plan	Board Designated	Facilities	Total	Society	ISO Foundation	Total	ISO Foundation	Total
Expenses										
Concert Related Expenses										
Orchestra Operations	9,918,404	-0-	-0-	-0-	9,918,404	-0-	-0-	-0-	-0-	9,918,404
Defined Benefit Pension Plan Expense (Notes 10 and 12)	637,972	-0-	-0-	-0-	637,972	-0-	-0-	-0-	-0-	637,972
Concert Production	5,935,361	-0-	-0-	-0-	5,935,361	-0-	-0-	-0-	-0-	5,935,361
Marketing	<u>2,037,545</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,037,545</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,037,545</u>
Total Concert Related Expenses	18,529,282	-0-	-0-	-0-	18,529,282	-0-	-0-	-0-	-0-	18,529,282
Departmental Expenses										
General and Administrative	2,522,250	-0-	-0-	-0-	2,522,250	-0-	-0-	-0-	-0-	2,522,250
Development	1,386,541	-0-	-0-	-0-	1,386,541	-0-	-0-	-0-	-0-	1,386,541
Patron Services	390,520	-0-	-0-	-0-	390,520	-0-	-0-	-0-	-0-	390,520
Education	725,148	-0-	-0-	-0-	725,148	-0-	-0-	-0-	-0-	725,148
Program Book	122,405	-0-	-0-	-0-	122,405	-0-	-0-	-0-	-0-	122,405
Other	<u>123,634</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>123,634</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>123,634</u>
Total Departmental Expenses	5,270,498	-0-	-0-	-0-	5,270,498	-0-	-0-	-0-	-0-	5,270,498
Facilities										
Depreciation (Note 10)	1,591,603	-0-	-0-	1,250,000	2,841,603	-0-	-0-	-0-	-0-	2,841,603
	<u>420,916</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>420,916</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>420,916</u>
Total Facilities and Depreciation	2,012,519	-0-	-0-	1,250,000	3,262,519	-0-	-0-	-0-	-0-	3,262,519
Total Expenses										
	<u>25,812,299</u>	<u>-0-</u>	<u>-0-</u>	<u>1,250,000</u>	<u>27,062,299</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>27,062,299</u>
Revenue Over (Under) Expenses	(560,839)	8,000,000	(38,482)	-0-	7,400,679	1,536,938	(6,776,565)	(5,239,627)	-0-	2,161,052
Other Changes in Net Assets										
Other Changes in Interest in Net Assets of ISO Foundation	-0-	-0-	-0-	-0-	-0-	-0-	4,357,797	4,357,797	(1,000)	4,356,797
Pension Liability Adjustment (Note 12)	-0-	(1,753,107)	-0-	-0-	(1,753,107)	-0-	-0-	-0-	-0-	(1,753,107)
Total Other Changes in Net Assets	<u>-0-</u>	<u>(1,753,107)</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,753,107)</u>	<u>-0-</u>	<u>4,357,797</u>	<u>4,357,797</u>	<u>(1,000)</u>	<u>2,603,690</u>
Change in Net Assets										
	(560,839)	6,246,893	(38,482)	-0-	5,647,572	1,536,938	(2,418,768)	(881,830)	(1,000)	4,764,742
Net Assets, Beginning of Year	<u>(8,507,383)</u>	<u>(13,401,818)</u>	<u>77,215</u>	<u>-0-</u>	<u>(21,831,986)</u>	<u>5,947,199</u>	<u>62,885,963</u>	<u>68,833,162</u>	<u>32,549,972</u>	<u>79,551,148</u>
Net Assets, End of Year	<u>\$ (9,068,222)</u>	<u>\$ (7,154,925)</u>	<u>\$ 38,733</u>	<u>\$ -0-</u>	<u>\$ (16,184,414)</u>	<u>\$ 7,484,137</u>	<u>\$ 60,467,195</u>	<u>\$ 67,951,332</u>	<u>\$ 32,548,972</u>	<u>\$ 84,315,890</u>

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2017 AND 2016

	2017	2016
Operating Activities		
Change in Net Assets	\$ 8,044,384	\$ 4,764,742
Adjustments to Reconcile Change in Net Assets to Net Cash Flows from Operating Activities		
Non-Cash Items		
Change in Interest in Net Assets of ISO Foundation	(5,218,423)	2,419,768
Change in unamortized discount on pledges	22,489	4,282
Bad Debt Expense	691,772	90,763
Depreciation	469,830	420,916
Defined Benefit Pension Plan Expense	488,594	637,972
Pension Liability Adjustment	(3,422,384)	1,753,107
Total Non-Cash Items	(6,968,122)	5,326,808
Changes in Operating Assets and Liabilities		
Receivables	(1,231,379)	(347,200)
Prepaid Expenses and Other Assets	215,857	132,993
Accounts Payable, Accrued Expenses, and Other Liabilities	(680,824)	825,157
Deferred Revenue	(314,827)	588,794
Pension Liability	-0-	(9,118,000)
Net Cash Flows from Operating Activities	(934,911)	2,173,294
Investing Activities		
Capital Expenditures	(373,026)	(813,373)
Financing Activities		
Advances on Line of Credit	15,576,733	22,475,095
Payments on Line of Credit	(15,075,138)	(23,799,348)
Advances on Intercompany Loans	804,000	-0-
Net Cash Flows from Financing Activities	1,305,595	(1,324,253)
Net Change in Cash	(2,342)	35,668
Cash, Beginning of Year	98,323	62,655
Cash, End of Year	\$ 95,981	\$ 98,323
Supplemental Disclosure of Cash Flow Information		
Cash Payments for Interest	\$ 108,491	\$ 73,660

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

1. NATURE OF ACTIVITIES

The Indiana Symphony Society, Inc. (the Society) is a not-for-profit corporation formed in 1937 for the purpose of operating the Indianapolis Symphony Orchestra (ISO). The ISO is one of Indiana's best known cultural resources receiving national and international recognition and setting the highest musical standards within our community.

The Indianapolis Symphony Orchestra Foundation, Inc. (the ISO Foundation) is a separate entity that was formed in September 1990 for the purpose of educating the public by providing financial and other support to the Society. The ISO Foundation manages the endowment which was raised to support the ISO, the Hilbert Circle Theatre, and the Symphony Centre buildings. The ISO Foundation is under no obligation to transfer assets to the Society.

Due to the purpose for which the ISO Foundation was formed, the Society and the ISO Foundation are considered to be financially interrelated organizations even though they operate independently of each other and have separate Boards of Directors. Because the Society and the ISO Foundation are financially interrelated, the Society has recognized its interest in the net assets of the ISO Foundation in its financial statements. Additionally, based on the nature of the relationship between the ISO Foundation and the Society, and the purposes for which the ISO Foundation exists, the ISO Foundation qualifies under Internal Revenue Service guidelines as a functionally integrated Type III supporting organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pledges Receivable

Pledges receivable consist of unconditional pledges received from a broad base of contributors. Amounts pledged relate to the Annual Fund, the Life is Better with Music Campaign (included in Annual Fund contributions in the Statements of Activities), Project Funding and Capital Campaign.

Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using United States Treasury Bill rates with maturities commensurate to the time period of expected collection of pledges. Discount rates used for the year ended August 31, 2017 ranged from 1.23% to 1.70% and for the year ended August 31, 2016 ranged from 0.61% to 1.32%. Amortization of the discounts is included in Contributed Income.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

Management estimates an allowance for uncollectible pledges receivable based on current economic conditions, historical trends, and current and past experience with their donor base. At August 31, 2017 and 2016, management determined that an allowance of \$190,284 and \$173,071, respectively, was necessary.

Government Grants Receivable

Government grants receivable represent amounts awarded by various government agencies. Government grants receivable are due within one year and are recorded at their net realizable value. Management estimates an allowance for uncollectible government grants receivable based on current economic conditions, historical trends, and current and past experience with the individual grantors. Management determined that no allowance was necessary at August 31, 2017 and 2016.

Accounts Receivable

Accounts receivable are stated at amounts expected to be received for tickets sold by third party vendors, run out performances, and program advertising. Accounts are monitored on an ongoing basis and significant effort is made to collect all amounts due to the Society. After one year, amounts uncollected are written off as bad debts. No interest is charged on past due accounts.

Management estimates an allowance for uncollectible accounts receivable based on current economic conditions, historical trends, and current and past experience with their vendor base. Management determined that no allowance was necessary at August 31, 2017 and 2016.

Property and Equipment and Depreciation

The Society capitalizes at cost all significant purchases of property and equipment acquired for use, including expenditures that substantially increase the useful lives of existing assets. Costs of ordinary maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method, including one-half year's depreciation in the year placed in service. Property and equipment are depreciated over their estimated useful lives, which range from three to thirty-nine years.

Contributed property and equipment are recorded at their fair value at the date of the gift. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment with specific directions about the period of use, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Society reports expirations of donor restrictions as the donated or acquired assets are depreciated. The Society reclassifies temporarily restricted net assets to unrestricted net assets at that time.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

The major classes of property and equipment, along with their respective accumulated depreciation, are as follows at August 31:

	2017		
	Cost	Accumulated Depreciation	Net Book Value
Computer Equipment and Software	\$ 812,023	\$ 659,564	\$ 152,459
Musical Instruments and Orchestra Equipment	2,069,207	1,731,589	337,618
Stage Equipment	1,810,808	1,436,177	374,631
Transportation Equipment	66,396	46,282	20,114
Office Furniture and Equipment	203,613	203,613	-0-
Hilbert Circle Theatre Property	611,749	481,189	130,560
Leasehold Improvements	10,202,979	8,981,671	1,221,308
Construction in Progress	516,012	-0-	516,012
	\$ 16,292,787	\$ 13,540,085	\$ 2,752,702
	2016		
	Cost	Accumulated Depreciation	Net Book Value
Computer Equipment and Software	\$ 988,315	\$ 737,382	\$ 250,933
Musical Instruments and Orchestra Equipment	2,065,075	1,653,425	411,650
Stage Equipment	1,579,773	1,386,099	193,674
Transportation Equipment	66,396	38,968	27,428
Office Furniture and Equipment	203,613	203,613	-0-
Hilbert Circle Theatre Property	584,318	441,043	143,275
Leasehold Improvements	10,145,502	8,808,017	1,337,485
Construction in Progress	485,061	-0-	485,061
	\$ 16,118,053	\$ 13,268,547	\$ 2,849,506

Construction in progress primarily includes costs associated with technology upgrades in the Hilbert Circle Theatre not completed as of the end of the year. There were no significant commitments related to property and equipment as of August 31, 2017.

Basis of Presentation

The financial statements report net assets and changes in net assets in classes that are based upon the existence or absence of restrictions on use that are placed by the Society and Foundation's donors, as follows:

Society Unrestricted Net Assets – Society unrestricted net assets are not subject to donor-imposed stipulation. The only limits on the use of Society unrestricted net assets

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

are the broad limits resulting from the nature of the Society, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The Society maintains five unrestricted net asset classifications, as follows:

General Operating - used to report contributions, revenues and expenses from the general operations of the Society.

Pension Plan - used to report the activity related to the pension liability adjustment computed according to the provisions of Financial Accounting Standards Board Accounting Standards Codification 715-20 and 30 related to the non-contributory pension plan administered by the Society for qualified employees.

Board Designated - established to account for Board of Director designations.

Facilities - established to account for the grants received from the ISO Foundation for the Hilbert Circle Theatre and Symphony Centre and annual lease payments made to the ISO Foundation as discussed in Note 11.

Other - established to account for activities that are not central or ongoing for general operating classification, or related to pension plan, board designations or facilities. Other includes risk management and various other items not classified above.

Society Temporarily Restricted Net Assets – Society temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Society's unspent contributions are classified in this class if the donor limited their use.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the Statements of Activities by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of property or equipment (or the contribution of those assets directly) are reported as temporarily restricted, and are reclassified to unrestricted net assets as the specified asset is depreciated, unless the donor provides more specific directions about the period of its use.

ISO Foundation Temporarily Restricted Net Assets – ISO Foundation temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Included in this net asset class are the unrestricted net assets of the ISO Foundation due to implied time restrictions since such payments will be made from the ISO Foundation to the Society in future periods. This net asset class is also used to account for contributions where the donor has stipulated that the contribution be used to purchase and improve land, the Hilbert Circle Theatre, Symphony Centre, and for the investment return from the Hilbert gift which is restricted

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

for use for Hilbert Circle Theatre capital requirements, cost of maintenance, and operations.

ISO Foundation Permanently Restricted Net Assets – ISO Foundation permanently restricted net assets are resources which must be maintained by the ISO Foundation in perpetuity. Net assets increase when the ISO Foundation receives contributions for which donor-imposed restrictions limit the ISO Foundation's use of the asset and/or its economic benefits and which neither expire with the passage of time nor can be removed by the ISO Foundation's meeting certain requirements.

Revenue and Expense Recognition

The Society derives its revenues from the sale of tickets and performance fees as well as receiving contributions from the general public, governmental agencies, philanthropic foundations, and other organizations. Ticket sales and performance fees are recognized as increases in unrestricted net assets when earned. Ticket sales in advance of concert performances are recorded as deferred revenue.

Pledges, government grants, and operating grants are recorded as assets when the pledge commitments are received. The related revenue that is not restricted by the donor or restricted by time is reported as an increase in unrestricted net assets. Revenue that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met in the reporting period in which the revenue is received. Expirations of temporary restrictions on net assets, either by fulfillment of the stipulated purpose or the passage of time, are reported as reclassifications between the applicable classes of net assets.

Annual fund contributions include amounts contributed to support operations or specific productions that have been included in the annual operating budget. Project funding contributions include support for specific projects not included in the annual operating budget.

Concert Advertising Costs

The Society expenses direct response marketing costs in the year in which the related concert production occurs and all other concert advertising costs in the year incurred. Concert advertising expenses for the years ended August 31, 2017 and 2016 were \$1,870,591 and \$1,626,837, respectively. Prepaid advertising expenses are \$107,579 and \$201,941 as of August 31, 2017 and 2016, respectively, and are included in prepaid expenses and other assets.

Income Taxes

The Society is exempt from Federal and state income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and similar state law. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. The Society's net advertising income is considered unrelated business income. The Society's related advertising expenses offset related income and no tax was paid during 2017 and 2016.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Society and recognize a tax liability if the Society has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Society, and has concluded that as of August 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Society is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Society has filed its federal and state income tax returns for periods through August 31, 2016. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Going Concern Evaluation

During 2017, the Society adopted Accounting Standards Update (ASU) No. 2014-15, Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU No. 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued. When conditions or events that raise substantial doubt exist, additional disclosures will be required to enable financial statement users to understand those conditions or events, management's evaluation of them and management's plans that either alleviated substantial doubt, or are intended to mitigate the conditions or events that raise substantial doubt. Note 18 to the financial statements has been updated to comply with the disclosure requirements of ASU No. 2014-15.

Management evaluates whether there are conditions or events that raise substantial doubt about the Society's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

Subsequent Events

The Society evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 16, 2017, which is the date the financial statements are available to be issued.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

3. PLEDGES RECEIVABLE

Pledges receivable consist of the following at August 31:

	2017	2016
Annual Fund	\$ 3,800,721	\$ 3,556,905
Lilly Endowment, Inc.	1,237,000	1,237,000
Project Funding	500	-0-
Total Pledges Receivable	5,038,221	4,793,905
Less Unamortized Discount	(61,245)	(38,756)
Less Allowance for Uncollectible Contributions	(190,284)	(173,071)
Net Pledges Receivable	<u>\$ 4,786,692</u>	<u>\$ 4,582,078</u>
Amounts Due In:		
Less Than One Year	\$ 3,628,601	\$ 3,333,564
One to Five Years	1,409,620	1,457,841
More Than Five Years	-0-	2,500
	<u>\$ 5,038,221</u>	<u>\$ 4,793,905</u>

4. INTERCOMPANY LOANS

On August 8, 2017, the ISO Foundation loaned \$304,000 to the Society under the terms of an unsecured intercompany loan to cover upfront expenditures on two capital projects. Terms of the intercompany loan require quarterly principal payments of \$30,400 commencing September 30, 2017 with the final quarterly installment due on December 31, 2019. Interest is charged at the one month LIBOR rate as defined in the loan agreement plus 0.80% (2.034% at August 31, 2017) and will be due and paid in full for the term of the loan on December 31, 2019.

On August 29, 2017, the ISO Foundation loaned \$500,000 to the Society under the terms of an unsecured intercompany loan for working capital to support operations of the ISO. Interest was charged at the one month LIBOR rate as defined in the loan agreement plus 0.80% (2.034% at August 31, 2017). Terms of the intercompany loan required the aggregate principal amount of the loan plus all current and accrued interest then outstanding to be paid in full on or before September 8, 2017. This loan was repaid in full by the due date.

5. LINE OF CREDIT

The Society has an \$8,000,000 line of credit agreement with an institutional lender which expires on January 31, 2018. It is the Society's intention to negotiate a renewal and extension of this credit facility, although no renewal commitments have yet been sought or received from this lender. At August 31, 2017 and 2016, there was \$6,612,008 and \$6,110,413, respectively, borrowed against this line. Interest is charged at the one month LIBOR rate as defined in the agreement plus 0.80% (2.034% at August 31, 2017). The ISO Foundation has guaranteed the line of credit and pledged specific assets as collateral. The ISO Foundation's assets are pledged at a

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

75% advance ratio, therefore, the maximum amount to be pledged by the ISO Foundation is \$10,667,000.

6. BOARD DESIGNATED NET ASSETS

Board Designated net assets of \$251 and \$38,733 at August 31, 2017 and 2016, respectively, consist of net assets designated for capital asset acquisition and refurbishing.

All pledges collected in cash or currently due for the Capital Campaign are reported in the Board Designated fund unless otherwise restricted by the donor. When cash is collected on these unrestricted pledges, the Board may approve a transfer of funds to the General Operating fund. During the year ended August 31, 2016, Capital Campaign pledges totaling \$243,500 were collected or became currently due. The Board approved transferring a total of \$243,500 to the General Operating fund for 2016 to help fund operations.

Board Designated net assets related to Capital Assets are transferred to the General Operating fund as the assets are depreciated to offset the depreciation expense being recognized. During each of the years ended August 31, 2017 and 2016, such transfers were \$38,482.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily Restricted net assets are available for the following purposes or periods at August 31:

	2017	2016
Society		
Annual Fund		
Pledges/Grants Restricted Due to Timing	\$ 3,008,129	\$ 3,100,952
Annual Productions	220,562	206,994
Operations in Future Years	1,237,000	1,237,000
Capital Improvements - Funded Depreciation	1,639,438	1,839,191
Project Funding	965,000	1,100,000
Total Society	<u>\$ 7,070,129</u>	<u>\$ 7,484,137</u>
ISO Foundation		
Unrestricted Net Assets of the ISO Foundation	\$ 57,749,489	\$ 53,635,991
Capital Improvements - Funded Depreciation	1,488,405	1,738,143
Pledges Restricted Due to Timing	2,373,411	2,265,746
Educational Purposes	427,038	143,162
Hilbert Circle Theatre Annual Facility Expenses	2,031,585	1,310,038
Orchestra's Artistic Endeavors	1,615,189	1,374,115
Total ISO Foundation	<u>\$ 65,685,117</u>	<u>\$ 60,467,195</u>

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently Restricted net assets of the ISO Foundation are restricted in perpetuity and are available to support the following at August 31:

	<u>2017</u>	<u>2016</u>
Orchestra's General Operations	\$ 21,044,084	\$ 21,044,084
Hilbert Circle Theatre Annual Facility Expenses	6,260,000	6,260,000
Educational Purposes	3,876,775	3,876,275
Orchestra's Artistic Endeavors	<u>1,368,613</u>	<u>1,368,613</u>
	<u>\$ 32,549,472</u>	<u>\$ 32,548,972</u>

9. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows during the years ended August 31:

	<u>2017</u>	<u>2016</u>
Purpose Restriction Accomplished		
Funded Depreciation on Capital Improvements	\$ 199,753	\$ 199,753
Project Funding	400,000	85,000
Capital Campaign Operational Projects	-0-	243,500
Annual Productions *	206,994	200,460
Expiration of Time Restrictions *	1,477,322	1,437,454
Current Year Operations *	1,237,000	1,237,000
ISO Foundation Grants to the Society	<u>5,790,568</u>	<u>6,776,565</u>
	<u>\$ 9,311,637</u>	<u>\$ 10,179,732</u>

* Amounts included in Net Assets Released – Annual Fund on the Statements of Activities

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

10. FUNCTIONAL EXPENSES

Expenses by program and supporting activities, including the allocation of depreciation of \$469,830 and \$420,916 and defined benefit pension plan expense of \$488,594 and \$637,972 for the years ended August 31, 2017 and 2016, respectively, are as follows:

	2017	2016
Programs		
Orchestra Operations	\$ 10,374,075	\$ 10,641,483
Concert Production	6,389,899	5,973,680
Facilities	2,312,704	2,342,713
Marketing	2,410,507	2,325,160
Education	705,261	725,148
Patron Services	409,314	390,521
Program Book	172,114	122,405
Other	129,269	123,202
	<u>22,903,143</u>	<u>22,644,312</u>
Management and General		
General and Administrative	2,518,515	2,370,577
Facilities	614,083	600,758
	<u>3,132,598</u>	<u>2,971,335</u>
Fundraising	1,371,028	1,446,652
	<u>\$ 27,406,769</u>	<u>\$ 27,062,299</u>

Certain costs have been allocated among programs, management and general and fundraising categories based on the actual direct expenditures and cost allocations determined by the Society's personnel. Although the methods used were appropriate, alternative methods may provide different results.

11. LEASES

Hilbert Circle Theatre

The Society has a lease agreement with the ISO Foundation for the Hilbert Circle Theatre (the Theatre) expiring August 31, 2018. The lease agreement requires annual rental payments of \$850,000. The Society is responsible for utilities, maintenance, insurance and other expenses incidental to the operations of the Theatre. During both 2017 and 2016, the ISO Foundation contributed the \$850,000 of annual rental expense back to the Society (Note 14).

The Society has a sublease with the ISO Foundation whereby the Society leases additional lobby space adjacent to Hilbert Circle Theatre. The lease agreement calls for escalating monthly payments and expires on January 31, 2020. The lease may be cancelled with at least twelve months' prior written notice.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

Symphony Centre

The Society has a lease agreement with the ISO Foundation for the Symphony Centre expiring August 31, 2023. At August 31, 2017, the lease agreement requires annual rental payments aggregating \$400,000. The lease agreement provides for rent increases if additional tenant improvements are incurred by the ISO Foundation. The Society is responsible for utilities, maintenance and other operating costs. During both 2017 and 2016, the ISO Foundation contributed the \$400,000 of annual rental expense back to the Society (Note 14).

The Society also subleases office space within the Symphony Centre to various third party organizations. These agreements have maturity dates ranging from August 2017 through December 2022.

Victoria Centre

The Society has an operating lease for a portion of the Victoria Centre. During 2017, the Society extended the leases through January 31, 2020 under the terms provided under the lease. The lease calls for escalating future minimum lease payments. Total rental expense under this lease for the years ended August 31, 2017 and 2016 was \$65,669 and \$64,060, respectively.

Fletcher Properties

The Society has an operating lease for warehouse space from Fletcher Properties that expires February 28, 2018. Total rental expense under this lease for the years ended August 31, 2017 and 2016 was \$41,415 in each year.

Conner Prairie

The Society has an operating lease with Conner Prairie for facilities used for the Symphony on the Prairie series, which expires September 30, 2019 (the previous lease expired September 30, 2016). Total rental expense under these leases for the years ended August 31, 2017 and 2016 was \$544,990 and \$530,825, respectively.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

Future Minimum Lease Payments

Future minimum lease payments required under the aforementioned operating leases are as follows:

Year Ending August 31,	Hilbert Circle Theatre	Symphony Centre	Victoria Centre	Fletcher Properties	Conner Prairie	Total
2018	\$ 982,455	\$ 400,000	\$ 69,638	\$ 20,707	\$ 543,750	\$ 2,016,550
2019	134,585	400,000	70,716	-0-	543,750	1,149,051
2020	56,077	400,000	29,847	-0-	18,750	504,674
2021	-0-	400,000	-0-	-0-	-0-	400,000
2022	-0-	400,000	-0-	-0-	-0-	400,000
Thereafter	-0-	400,000	-0-	-0-	-0-	400,000
Minimum Payments	1,173,117	2,400,000	170,201	20,707	1,106,250	4,870,275
Less: Sublease Rentals	-0-	(856,958)	-0-	-0-	-0-	(856,958)
	<u>\$ 1,173,117</u>	<u>\$ 1,543,042</u>	<u>\$ 170,201</u>	<u>\$ 20,707</u>	<u>\$ 1,106,250</u>	<u>\$ 4,013,317</u>

Total rent expense for the years ended August 31, 2017 and 2016 was \$2,031,547 and \$2,013,102, respectively, including \$1,250,000 for the rental of the Hilbert Circle Theatre and Symphony Centre. Rent expense includes additional rent for the Hilbert Circle Theatre lobby expansion of \$129,472 and \$127,343 for the years ended August 31, 2017 and 2016, respectively. The additional rents are included in Facilities expense in the General Operating unrestricted net asset class. Rent expense has not been reduced by sublease rentals received on the office operating leases amounting to \$346,469 and \$334,535 for the years ended August 31, 2017 and 2016, respectively.

12. PENSION PLANS

Defined Benefit Plan

The Society has a non-contributory defined benefit pension plan for employees covered by collective bargaining agreements (musicians with a hire date prior to October 16, 2012 and stagehands) and seven other former employees who were grandfathered into the plan and whose benefits have been frozen. The Society makes annual contributions to the defined benefit plan at least equal to the amount required to satisfy legal funding requirements.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

The following sets forth the funded status of the plan and amounts shown in the accompanying Statements of Financial Position at August 31:

	2017	2016
Unfunded Status		
Benefit Obligation (both projected and accumulated)	\$ 37,300,543	\$ 38,763,738
Fair Value of Plan Assets	34,368,791	32,898,196
	\$ (2,931,752)	\$ (5,865,542)
Amounts Recognized in the Statement of Financial Position		
Accrued Pension Benefits	\$ (2,931,752)	\$ (5,865,542)
Amounts Not Yet Recognized as Components of Net Periodic Pension Cost		
Net Loss	\$ 11,732,541	\$ 15,154,925
Project Funding Pension Plan	(8,000,000)	(8,000,000)
Pension Plan Net Asset Deficit	\$ 3,732,541	\$ 7,154,925

The measurement dates used in determining the pension benefit measurements for plan assets and benefit obligations were August 31, 2017 and 2016, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 3.46% and 3.13% for 2017 and 2016, respectively, and the expected long-term rate of return on assets was 7.50% for both 2017 and 2016.

The projected benefit obligation was computed using a \$25 monthly retirement benefit per year of service for office staff and a monthly retirement benefit per year of service for musicians as follows:

For benefit service credited as of August 31, 2007	\$ 86
For benefit service credited commencing on September 1, 2007 and before September 1, 2008	\$ 95
For benefit service credited commencing on September 1, 2008 and before September 1, 2009	\$ 105
For benefit service credited commencing on or after September 1, 2009 and before September 1, 2011	\$ 56
For benefit service credited commencing on or after September 1, 2011	\$ 86

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

Net pension cost for the defined benefit plan for the years ended August 31, 2017 and 2016 included the following components:

	<u>2017</u>	<u>2016</u>
Service Costs	\$ 623,618	\$ 520,897
Interest Costs	968,596	1,133,706
Return on Assets	(2,912,451)	(3,242,291)
Net Amortization and Deferral	<u>1,808,831</u>	<u>2,225,660</u>
Net Periodic Pension Costs	<u>\$ 488,594</u>	<u>\$ 637,972</u>

The amount included in the pension plan net asset deficit that is expected to be recognized as a component of net periodic pension cost during the year ending August 31, 2017 includes the amortization of the net loss of \$1,046,941.

The Society made contributions to the plan of \$9,118,000 during the year ended August 31, 2016. The Society was not required to make and did not make a contribution to the plan during the year ended August 31, 2017. The Society does not expect to make a contribution to the plan during the year ending August 31, 2018. There are no participant contributions to the plan. Distributions from the plan were \$1,441,856 and \$1,396,086 during the years ended August 31, 2017 and 2016, respectively.

The amount of benefits expected to be paid, based on the same assumptions used to measure the benefit obligation (including, when applicable, benefits attributable to estimated future service) through 2027 are as follows:

Year Ending <u>August 31,</u>	
2018	\$ 1,655,910
2019	1,896,224
2020	1,968,965
2021	2,070,614
2022	2,147,272
2023 - 2027	<u>11,350,395</u>
	<u>\$ 21,089,380</u>

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

The Society's pension plan assets by asset category are as follows at August 31:

	2017	2016
Mutual Funds		
Equity		
Disciplined Equity	\$ 2,304,333	\$ 2,662,951
S&P 500 Equity	2,286,042	2,664,618
International Equity	4,588,615	5,091,624
Small/Mid Cap Equity	1,915,731	2,715,919
Emerging Markets Equity	1,449,514	1,686,226
Fixed Income		
High Yield Bond	1,293,272	1,687,239
Emerging Markets Debt	1,362,994	1,707,133
Immediate Duration	5,604,818	-0-
Long Duration	8,417,557	11,228,198
Opportunistic Income	-0-	1,524,951
Multi-Class		
Dynamic Asset Allocation Fund	1,621,676	1,929,337
U.S. Government Agencies	3,524,239	-0-
	\$ 34,368,791	\$ 32,898,196

The Society's investment strategy is based on an expectation that equity securities will outperform debt securities over the long term. Accordingly, the composition of the Society's plan assets is broadly characterized as a 50% - 50% allocation between equity and debt securities, respectively. The strategy utilizes indexed U.S. equity securities and actively managed investment grade debt securities with lesser allocations to high-yield and international debt securities. Plan assets consist of mutual funds and U.S. Government Agency obligations, which are considered to be Level 1 investments in the fair value hierarchy (based on unadjusted quoted prices for identical assets in active markets).

The Society attempts to mitigate investment risk by rebalancing between equity and debt classes as the Society's contributions and benefit payments are made. Although changes in interest rates may affect the fair value of a portion of the investment portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold. The expected long-term rate of return on plan assets is based on an independent advisor's projection of return on the target portfolio, reduced, as deemed appropriate, by management for conservatism and consistency.

Defined Contribution Plan

The Society implemented a 403(b) plan effective September 1, 2008. Under the 403(b) plan, the Society will match the staff employees' contributions up to 3% of eligible compensation. Effective, September 1, 2011, the Society will match contributions made by musicians covered under the collective bargaining agreement with at least 40 years credited benefit service up to 5% of eligible compensation. Effective October 16, 2012, for musicians hired after that date, the

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Society will contribute 5% of musicians' annual minimum salary covered under the collective bargaining agreement through the 2015–16 season, and 8% for the 2016–17 season through the 2019–20 season. Contributions to the 403(b) plan for the years ended August 31, 2017 and 2016 were \$167,976 and \$142,377, respectively.

13. SELF-FUNDED MEDICAL PLAN

The Society's medical and dental insurance is covered through a self-funded plan. The Society is liable for claims under the plan. The Society has stop-loss coverage to limit the exposure arising from these claims. Medical costs under the self-funded plan for the years ended August 31, 2017 and 2016, net of stop-loss reimbursements, were \$1,601,023 and \$2,205,355, respectively. These expenses were offset by employee contributions to the plan of \$172,023 and \$159,306, respectively.

The Society also offers a Health Savings Account to all employees covered under the self-funded plan. Employer contributions to employee health savings accounts for the years ended August 31, 2017 and 2016 were \$132,175 and \$121,650, respectively.

14. INDIANAPOLIS SYMPHONY ORCHESTRA FOUNDATION, INC.

The Society has an \$8,000,000 line of credit agreement with an institutional lender (Note 5) which is guaranteed by the ISO Foundation. The ISO Foundation has pledged assets as collateral for this line of credit.

The Society has two intercompany loans with the ISO Foundation at August 31, 2017 (Note 4).

The Society has a service agreement with the ISO Foundation whereby the Society provides certain management services, including endowment fundraising, administrative services, office space and preparing financial records and reports. In return, the ISO Foundation paid the Society an annual fee of \$50,000 in 2017 and 2016, which is included in the Statements of Activities under ISO Foundation revenue.

The ISO Foundation contributed \$5,790,568 and \$6,776,565 to the Society during the years ended August 31, 2017 and 2016, respectively. The amounts contributed are included in the Statements of Activities as net assets released from restrictions.

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The contributions were in support of the following programs or activities:

	2017	2016
General Operating Fund		
General Operating	\$ 4,263,665	\$ 4,237,674
Pension Grant	-0-	1,000,000
Education Grant	200,972	206,654
Pops Enhancement	38,911	40,012
Conductor Laureate	25,683	26,284
Other	11,337	15,941
	<u>4,540,568</u>	<u>5,526,565</u>
Facilities (Note 11)	1,250,000	1,250,000
	<u>\$ 5,790,568</u>	<u>\$ 6,776,565</u>

The contributed amounts above for 2017 include a 5.0% draw from the ISO Foundation's investment portfolio. The contributed amounts above for 2016 include a 5.0% draw from the ISO Foundation's investment portfolio, plus an additional \$1,000,000 to reduce the Society's unfunded pension liability, for an overall draw rate of 6.1%.

The Society owed \$5,697 and \$35,613 to the ISO Foundation at August 31, 2017 and 2016, respectively, which includes interest payables on intercompany loans at August 31, 2017.

15. CONCENTRATIONS

At August 31, 2017, 20% of accounts receivable were due from The Kroger Company related to Symphony on the Prairie.

At August 31, 2016, 12% of accounts receivable were due from Marsh Supermarkets, LLC related to Symphony on the Prairie.

At August 31, 2017 and 2016, 67% and 66% of accounts receivable was due from the Society's providers of stop loss reinsurance.

At August 31, 2017 and 2016, a pledge from the Lilly Endowment, Inc. comprised 26% of the gross pledge receivable balance. At August 31, 2017 and 2016, pledges from the Eli Lilly and Company Foundation comprised 16% and 21%, respectively of the gross pledge receivable balance. At August 31, 2017 pledges from The Kroger Company comprised 16% of the gross pledge receivable balance.

Contributions from the Lilly Endowment, Inc. represented approximately 16% and 58% of contributed income during the years ended August 31, 2017 and 2016, respectively, and included a special grant of \$10,000,000 received in December 2015.

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NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016

16. RISKS AND UNCERTAINTIES

The Society's defined benefit pension plan holds investments in debt and equity securities (Note 12). In addition, a substantial portion of the assets of the ISO Foundation are invested in a diversified long-term investment portfolio. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

The Society is subject to disputes, claims and lawsuits in the normal course of business and is insured against such risks when appropriate. At August 31, 2017, the Society is involved in certain litigation. Based upon legal counsel and management's opinions, the loss resulting from this litigation, if any, is indeterminable as of the date the financial statements were available to be issued. Therefore, no liability for a potential loss has been recorded at August 31, 2017, due to the uncertainty of this matter.

17. COLLECTIVE BARGAINING AGREEMENTS WITH MUSICIANS AND STAGEHANDS

The Society recognizes Indianapolis Musicians Local No. 3 of the American Federation of Musicians (Musicians' Union) and the International Alliance of Theatrical Stage Employees Local No. 30 (Stagehands' Union) as the collective bargaining agents for its musicians and stagehands, with respect to wages, hours and conditions of employment.

The Society's prior contract with the Musician's Union ended on September 3, 2017. The Society's current contract with the Musician's Union is effective through September 6, 2020. The Society's current agreement with the Stagehands' Union is effective through August 31, 2018.

18. MANAGEMENT'S OPERATIONAL PLANS

The Society has an unrestricted net asset deficit of \$12,944,444 and \$16,184,414 as of August 31, 2017 and 2016, respectively, resulting from operational deficits in prior years and costs associated with the defined benefit pension plan.

The Society is operating under a business plan based on financially responsible operating draws from the ISO Foundation (Note 14). 2017 was the final year of a five-year plan prepared to enable the Society to grow ticket sales and increase philanthropic contributions to balance the budget on a sustainable annual operating draw from the endowment. During this five-year period, the Society was successful in achieving a general operating surplus in four of the five years by growing annual ticket sales and fee income by 55% and increasing annual contributed income by 39%, all while maintaining a financially responsible annual operating draw from the ISO Foundation during each of those five years.

The Society has developed a new business plan that covers the periods through 2020 which supports the Society's goal to continue to balance the budget over the next three years, while maintaining financially responsible annual operating draws from the ISO Foundation.

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The Society's line of credit (Note 5) matures on January 31, 2018. It is the Society's intention to negotiate a renewal and extension of this credit facility, although no renewal commitments have yet been sought or received from the lender.

Management and the Board understand that the continued success of the Society is dependent on achieving the operational, sales and fundraising results outlined in the Society's annual operating budgets, and its ability to maintain appropriate credit facilities. It is not possible at this time to predict the success of these plans.