

# **INDIANA SYMPHONY SOCIETY, INC.**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2016 AND 2015**

**INDIANA SYMPHONY SOCIETY, INC.**

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AUGUST 31, 2016 AND 2015

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## REPORT OF INDEPENDENT AUDITORS

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

### Report on the Financial Statements

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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Blue & Co., LLC*

Carmel, Indiana  
November 21, 2016

# INDIANA SYMPHONY SOCIETY, INC.

## STATEMENTS OF FINANCIAL POSITION AUGUST 31, 2016 AND 2015

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	2016	2015
	<u>2016</u>	<u>2015</u>
Cash	\$ 98,323	\$ 62,655
Receivables:		
Pledges, net (Note 3)	4,582,078	4,223,284
Government Grants	89,250	166,246
Accounts	<u>220,141</u>	<u>249,784</u>
Total Receivables	4,891,469	4,639,314
Prepaid Expenses and Other Assets	702,048	835,041
Property and Equipment, net (Note 2)	2,849,506	2,457,049
Interest in Net Assets of ISO Foundation	<u>93,016,167</u>	<u>95,435,935</u>
Total Assets	<u>\$ 101,557,513</u>	<u>\$ 103,429,994</u>

### LIABILITIES AND NET ASSETS

Liabilities		
Accounts Payable	\$ 1,438,937	\$ 614,272
Accrued Expenses	742,416	719,048
Other Liabilities	199,113	221,989
Deferred Revenue	2,885,202	2,296,408
Line of Credit (Note 4)	6,110,413	7,434,666
Pension Liability (Note 11)	<u>5,865,542</u>	<u>12,592,463</u>
Total Liabilities	17,241,623	23,878,846
Net Assets		
Unrestricted		
General Operating	(9,068,222)	(8,507,383)
Pension Plan (Note 11)	(7,154,925)	(13,401,818)
Board Designated (Note 5)	<u>38,733</u>	<u>77,215</u>
Total Unrestricted	(16,184,414)	(21,831,986)
Temporarily Restricted		
Society (Note 6)	7,484,137	5,947,199
ISO Foundation (Note 6)	<u>60,467,195</u>	<u>62,885,963</u>
Total Temporarily Restricted	67,951,332	68,833,162
Permanently Restricted		
ISO Foundation (Note 7)	<u>32,548,972</u>	<u>32,549,972</u>
Total Net Assets	<u>84,315,890</u>	<u>79,551,148</u>
Total Liabilities and Net Assets	<u>\$ 101,557,513</u>	<u>\$ 103,429,994</u>

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See accompanying notes to financial statements.

# INDIANA SYMPHONY SOCIETY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2016 (With Comparative Total for the Year Ended August 31, 2015)

	2016									2015	
	Unrestricted				Temporarily Restricted			Permanently Restricted		Total	Total
	General Operating	Pension Plan	Board Designated	Facilities	Total	Society	ISO Foundation	Total	ISO Foundation		
<b>Revenue</b>											
Earned Revenue											
Ticket Sales and Fee Income	\$ 8,723,425	\$ -0-	\$ -0-	\$ -0-	\$ 8,723,425	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 8,723,425	\$ 7,768,477
Rental Income	523,919	-0-	-0-	-0-	523,919	-0-	-0-	-0-	-0-	523,919	525,156
Program Advertising	137,208	-0-	-0-	-0-	137,208	-0-	-0-	-0-	-0-	137,208	144,200
Education	151,709	-0-	-0-	-0-	151,709	-0-	-0-	-0-	-0-	151,709	151,869
Other	105,372	-0-	-0-	-0-	105,372	-0-	-0-	-0-	-0-	105,372	55,829
Total Earned Revenue	9,641,633	-0-	-0-	-0-	9,641,633	-0-	-0-	-0-	-0-	9,641,633	8,645,531
Contributed Income											
Annual Fund	6,191,613	-0-	-0-	-0-	6,191,613	3,336,971	-0-	3,336,971	-0-	9,528,584	6,918,038
Net Assets Released - Annual Fund (Note 8)	2,874,914	-0-	-0-	-0-	2,874,914	(2,874,914)	-0-	(2,874,914)	-0-	-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	247,031
Net Assets Released - Project Funding (Note 8)	85,000	-0-	-0-	-0-	85,000	(85,000)	-0-	(85,000)	-0-	-0-	-0-
Capital Campaign	-0-	-0-	-0-	-0-	-0-	3,134	-0-	3,134	-0-	3,134	4,856
Net Assets Released - Capital Campaign (Note 8)	-0-	-0-	243,500	-0-	243,500	(243,500)	-0-	(243,500)	-0-	-0-	-0-
Board Designated Transfer - Capital Campaign	243,500	-0-	(243,500)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital Assets	-0-	-0-	-0-	-0-	-0-	500,000	-0-	500,000	-0-	500,000	-0-
Net Assets Released - Depreciation (Note 8)	199,753	-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-
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	7,169,925
ISO Foundation											
Net Assets Released (Note 8)	5,526,565	-0-	-0-	1,250,000	6,776,565	-0-	(6,776,565)	(6,776,565)	-0-	-0-	-0-
Service Fee	50,000	-0-	-0-	-0-	50,000	-0-	-0-	-0-	-0-	50,000	50,000
Total ISO Foundation	5,576,565	-0-	-0-	1,250,000	6,826,565	-0-	(6,776,565)	(6,776,565)	-0-	50,000	50,000
<b>Total Revenue</b>	<b>25,251,460</b>	<b>8,000,000</b>	<b>(38,482)</b>	<b>1,250,000</b>	<b>34,462,978</b>	<b>1,536,938</b>	<b>(6,776,565)</b>	<b>(5,239,627)</b>	<b>-0-</b>	<b>29,223,351</b>	<b>15,865,456</b>

See accompanying notes to financial statements.

# INDIANA SYMPHONY SOCIETY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2016 (Continued) (With Comparative Total for the Year Ended August 31, 2015)

	2016									2015	
	Unrestricted					Temporarily Restricted			Permanently Restricted		
	General Operating	Pension Plan	Board Designated	Facilities	Total	Society	ISO Foundation	Total	ISO Foundation	Total	Total
<b>Expenses</b>											
Concert Related Expenses											
Orchestra Operations	9,918,404	-0-	-0-	-0-	9,918,404	-0-	-0-	-0-	-0-	9,918,404	8,745,330
Defined Benefit Pension Plan Expense (Notes 9 and 11)	637,972	-0-	-0-	-0-	637,972	-0-	-0-	-0-	-0-	637,972	712,530
Concert Production	5,935,361	-0-	-0-	-0-	5,935,361	-0-	-0-	-0-	-0-	5,935,361	4,567,029
Marketing	2,037,545	-0-	-0-	-0-	2,037,545	-0-	-0-	-0-	-0-	2,037,545	1,898,423
Total Concert Related Expenses	18,529,282	-0-	-0-	-0-	18,529,282	-0-	-0-	-0-	-0-	18,529,282	15,923,312
Departmental Expenses											
General and Administrative	2,522,250	-0-	-0-	-0-	2,522,250	-0-	-0-	-0-	-0-	2,522,250	2,398,744
Development	1,386,541	-0-	-0-	-0-	1,386,541	-0-	-0-	-0-	-0-	1,386,541	1,337,109
Patron Services	390,520	-0-	-0-	-0-	390,520	-0-	-0-	-0-	-0-	390,520	364,340
Education	725,148	-0-	-0-	-0-	725,148	-0-	-0-	-0-	-0-	725,148	685,948
Program Book	122,405	-0-	-0-	-0-	122,405	-0-	-0-	-0-	-0-	122,405	158,361
Other	123,634	-0-	-0-	-0-	123,634	-0-	-0-	-0-	-0-	123,634	34,246
Total Departmental Expenses	5,270,498	-0-	-0-	-0-	5,270,498	-0-	-0-	-0-	-0-	5,270,498	4,978,748
Facilities	1,591,603	-0-	-0-	1,250,000	2,841,603	-0-	-0-	-0-	-0-	2,841,603	2,942,423
Depreciation (Note 9)	420,916	-0-	-0-	-0-	420,916	-0-	-0-	-0-	-0-	420,916	354,371
	2,012,519	-0-	-0-	1,250,000	3,262,519	-0-	-0-	-0-	-0-	3,262,519	3,296,794
Total Expenses	25,812,299	-0-	-0-	1,250,000	27,062,299	-0-	-0-	-0-	-0-	27,062,299	24,198,854
<b>Revenue Over (Under) Expenses</b>	(560,839)	8,000,000	(38,482)	-0-	7,400,679	1,536,938	(6,776,565)	(5,239,627)	-0-	2,161,052	(8,333,398)
<b>Nonoperating Gains (Losses)</b>											
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	2,618,795
Pension Liability Adjustment (Note 11)	-0-	(1,753,107)	-0-	-0-	(1,753,107)	-0-	-0-	-0-	-0-	(1,753,107)	(2,875,404)
Total Nonoperating Gains (Losses)	-0-	(1,753,107)	-0-	-0-	(1,753,107)	-0-	4,357,797	4,357,797	(1,000)	2,603,690	(256,609)
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	(8,590,007)
<b>Net Assets, Beginning of Year</b>	(8,507,383)	(13,401,818)	77,215	-0-	(21,831,986)	5,947,199	62,885,963	68,833,162	32,549,972	79,551,148	88,141,155
<b>Net Assets, End of Year</b>	<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>	<u>\$ 79,551,148</u>

See accompanying notes to financial statements.

# INDIANA SYMPHONY SOCIETY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2015

	Unrestricted					Temporarily Restricted			Permanently Restricted	
	General Operating	Pension Plan	Board Designated	Facilities	Total	Society	ISO Foundation	Total	ISO Foundation	
<b>Revenue</b>										
Earned Revenue										
Ticket Sales and Fee Income	\$ 7,768,477	\$ -0-	\$ -0-	\$ -0-	\$ 7,768,477	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 7,768,477
Rental Income	525,156	-0-	-0-	-0-	525,156	-0-	-0-	-0-	-0-	525,156
Program Advertising	144,200	-0-	-0-	-0-	144,200	-0-	-0-	-0-	-0-	144,200
Education	151,869	-0-	-0-	-0-	151,869	-0-	-0-	-0-	-0-	151,869
Other	55,829	-0-	-0-	-0-	55,829	-0-	-0-	-0-	-0-	55,829
Total Earned Revenue	8,645,531	-0-	-0-	-0-	8,645,531	-0-	-0-	-0-	-0-	8,645,531
Contributed Income										
Annual Fund	4,931,366	-0-	-0-	-0-	4,931,366	1,986,672	-0-	1,986,672	-0-	6,918,038
Net Assets Released - Annual Fund (Note 8)	4,054,909	-0-	-0-	-0-	4,054,909	(4,054,909)	-0-	(4,054,909)	-0-	-0-
Project Funding	162,031	-0-	-0-	-0-	162,031	85,000	-0-	85,000	-0-	247,031
Net Assets Released - Project Funding (Note 8)	65,750	-0-	-0-	-0-	65,750	(65,750)	-0-	(65,750)	-0-	-0-
Capital Campaign	-0-	-0-	-0-	-0-	-0-	4,856	-0-	4,856	-0-	4,856
Net Assets Released - Capital Campaign (Note 8)	-0-	-0-	263,500	-0-	263,500	(263,500)	-0-	(263,500)	-0-	-0-
Board Designated Transfer - Capital Campaign	263,500	-0-	(263,500)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Net Assets Released - Depreciation (Note 8)	177,619	-0-	-0-	-0-	177,619	(177,619)	-0-	(177,619)	-0-	-0-
Board Designated Transfer - Depreciation	38,482	-0-	(38,482)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Contributed Income	9,693,657	-0-	(38,482)	-0-	9,655,175	(2,485,250)	-0-	(2,485,250)	-0-	7,169,925
ISO Foundation										
Net Assets Released (Note 8)	5,390,908	-0-	-0-	1,250,000	6,640,908	-0-	(6,640,908)	(6,640,908)	-0-	-0-
Service Fee	50,000	-0-	-0-	-0-	50,000	-0-	-0-	-0-	-0-	50,000
Total ISO Foundation	5,440,908	-0-	-0-	1,250,000	6,690,908	-0-	(6,640,908)	(6,640,908)	-0-	50,000
Total Revenue	23,780,096	-0-	(38,482)	1,250,000	24,991,614	(2,485,250)	(6,640,908)	(9,126,158)	-0-	15,865,456

See accompanying notes to financial statements.



# INDIANA SYMPHONY SOCIETY, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2015 (Continued)

	Unrestricted					Temporarily Restricted			Permanently Restricted	
	General Operating	Pension Plan	Board Designated	Facilities	Total	Society	ISO Foundation	Total	ISO Foundation	Total
<b>Expenses</b>										
Concert Related Expenses										
Orchestra Operations	8,745,330	-0-	-0-	-0-	8,745,330	-0-	-0-	-0-	-0-	8,745,330
Defined Benefit Pension Plan Expense (Notes 9 and 11)	712,530	-0-	-0-	-0-	712,530	-0-	-0-	-0-	-0-	712,530
Concert Production	4,567,029	-0-	-0-	-0-	4,567,029	-0-	-0-	-0-	-0-	4,567,029
Marketing	1,898,423	-0-	-0-	-0-	1,898,423	-0-	-0-	-0-	-0-	1,898,423
Total Concert Related Expenses	15,923,312	-0-	-0-	-0-	15,923,312	-0-	-0-	-0-	-0-	15,923,312
Departmental Expenses										
General and Administrative	2,398,744	-0-	-0-	-0-	2,398,744	-0-	-0-	-0-	-0-	2,398,744
Development	1,337,109	-0-	-0-	-0-	1,337,109	-0-	-0-	-0-	-0-	1,337,109
Patron Services	364,340	-0-	-0-	-0-	364,340	-0-	-0-	-0-	-0-	364,340
Education	685,948	-0-	-0-	-0-	685,948	-0-	-0-	-0-	-0-	685,948
Program Book	158,361	-0-	-0-	-0-	158,361	-0-	-0-	-0-	-0-	158,361
Other	34,246	-0-	-0-	-0-	34,246	-0-	-0-	-0-	-0-	34,246
Total Departmental Expenses	4,978,748	-0-	-0-	-0-	4,978,748	-0-	-0-	-0-	-0-	4,978,748
Facilities	1,692,423	-0-	-0-	1,250,000	2,942,423	-0-	-0-	-0-	-0-	2,942,423
Depreciation (Note 9)	354,371	-0-	-0-	-0-	354,371	-0-	-0-	-0-	-0-	354,371
	2,046,794	-0-	-0-	1,250,000	3,296,794	-0-	-0-	-0-	-0-	3,296,794
Total Expenses	22,948,854	-0-	-0-	1,250,000	24,198,854	-0-	-0-	-0-	-0-	24,198,854
<b>Revenue Over (Under) Expenses</b>	831,242	-0-	(38,482)	-0-	792,760	(2,485,250)	(6,640,908)	(9,126,158)	-0-	(8,333,398)
<b>Nonoperating Gains (Losses)</b>										
Other Changes in Interest in Net Assets of ISO Foundation	-0-	-0-	-0-	-0-	-0-	-0-	2,510,945	2,510,945	107,850	2,618,795
Pension Liability Adjustment (Note 11)	-0-	(2,875,404)	-0-	-0-	(2,875,404)	-0-	-0-	-0-	-0-	(2,875,404)
Total Nonoperating Gains (Losses)	-0-	(2,875,404)	-0-	-0-	(2,875,404)	-0-	2,510,945	2,510,945	107,850	(256,609)
Change in Net Assets	831,242	(2,875,404)	(38,482)	-0-	(2,082,644)	(2,485,250)	(4,129,963)	(6,615,213)	107,850	(8,590,007)
<b>Net Assets, Beginning of Year</b>	(9,338,625)	(10,526,414)	115,697	-0-	(19,749,342)	8,432,449	67,015,926	75,448,375	32,442,122	88,141,155
<b>Net Assets, End of Year</b>	<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>

See accompanying notes to financial statements.

# INDIANA SYMPHONY SOCIETY, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
<b>Operating Activities</b>		
Change in Net Assets	\$ 4,764,742	\$ (8,590,007)
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	2,419,768	4,022,113
Bad Debt Expense	90,763	93,115
Depreciation	420,916	354,371
Defined Benefit Pension Plan Expense	637,972	712,530
Pension Liability Adjustment	1,753,107	2,875,404
	5,322,526	8,057,533
Changes in Operating Assets and Liabilities		
Receivables	(342,918)	2,347,652
Prepaid Expenses and Other Assets	132,993	(14,293)
Accounts Payable, Accrued Expenses, and Other Liabilities	825,157	(66,878)
Deferred Revenue	588,794	323,334
Pension Liability	(9,118,000)	(1,456,885)
Net Cash Flows from Operating Activities	2,173,294	600,456
 <b>Investing Activities</b>		
Capital Expenditures	(813,373)	(429,706)
 <b>Financing Activities</b>		
Advances on Line of Credit	22,475,095	13,225,247
Payments on Line of Credit	(23,799,348)	(13,486,124)
Net Cash Flows from Financing Activities	(1,324,253)	(260,877)
 Net Change in Cash	35,668	(90,127)
 <b>Cash, Beginning of Year</b>	62,655	152,782
 <b>Cash, End of Year</b>	\$ 98,323	\$ 62,655
 <b>Supplemental Disclosure of Cash Flow Information</b>		
Cash Payments for Interest	\$ 73,660	\$ 65,081

*See accompanying notes to financial statements.*

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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### 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 Indianapolis Symphony Orchestra, 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

#### 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 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 four 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.

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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*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 10.

**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 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.

### 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.

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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### 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, 2016 ranged from 0.61% to 1.32% and for the year ended August 31, 2015 ranged from 0.39% to 1.94%. Amortization of the discounts is included in Contributed Income.

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, 2016 and 2015, management determined that an allowance of \$173,071 and \$186,820, 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, 2016 and 2015.

### 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, 2016 and 2015.

### 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

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## INDIANA SYMPHONY SOCIETY, INC.

### NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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.

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

	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
	2015		
	Cost	Accumulated Depreciation	Net Book Value
Computer Equipment and Software	\$ 907,253	\$ 626,137	\$ 281,116
Musical Instruments and Orchestra Equipment	2,056,501	1,586,512	469,989
Stage Equipment	1,508,452	1,362,475	145,977
Transportation Equipment	94,170	59,427	34,743
Office Furniture and Equipment	203,613	203,613	-0-
Hilbert Circle Theatre Property	496,422	411,646	84,776
Leasehold Improvements	10,079,638	8,639,190	1,440,448
	\$ 15,346,049	\$ 12,889,000	\$ 2,457,049

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, 2016.

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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### 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, 2016 and 2015 were \$1,626,837 and \$1,388,984, respectively. Prepaid advertising expenses are \$201,941 and \$262,530 as of August 31, 2016 and 2015, 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 fiscal 2016 and 2015.

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, 2016 and 2015, 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.

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# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

The Society has filed its federal and state income tax returns for periods through August 31, 2015. 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).

### 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 21, 2016, which is the date the financial statements are available to be issued.

### **3. PLEDGES RECEIVABLE**

Pledges receivable consist of the following at August 31:

	2016	2015
Annual Fund	\$ 3,556,905	\$ 2,954,078
Lilly Endowment, Inc.	1,237,000	1,237,000
Capital Campaign	-0-	253,500
Total Pledges Receivable	4,793,905	4,444,578
Less Unamortized Discount	(38,756)	(34,474)
Less Allowance for Uncollectible Contributions	(173,071)	(186,820)
Net Pledges Receivable	<u>\$ 4,582,078</u>	<u>\$ 4,223,284</u>
Amounts Due In:		
Less Than One Year	\$ 3,333,564	\$ 2,830,521
One to Five Years	1,457,841	1,609,057
More Than Five Years	2,500	5,000
	<u>\$ 4,793,905</u>	<u>\$ 4,444,578</u>

### **4. LINE OF CREDIT**

The Society has an \$8,000,000 line of credit agreement with an institutional lender which expires on January 31, 2017. 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, 2016 and 2015, there was \$6,110,413 and \$7,434,666, respectively, borrowed against this line. Interest is charged at the one month LIBOR rate as defined in the agreement plus 0.80% (1.324% at August 31, 2016). The ISO Foundation has guaranteed the line of credit and pledged specific assets as collateral. The ISO Foundation's assets are pledged at a 75% advance ratio, therefore, the maximum amount to be pledged by the ISO Foundation is \$10,667,000.



# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

### 5. BOARD DESIGNATED NET ASSETS

Board Designated net assets of \$38,733 and \$77,215 at August 31, 2016 and 2015, 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 years ended August 31, 2016 and 2015, Capital Campaign pledges totaling \$243,500 and \$265,500, respectively, were collected or became currently due. The Board approved transferring a total of \$243,500 and \$263,500 to the General Operating fund for fiscal 2016 and 2015, respectively, 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, 2016 and 2015, such transfers were \$38,482.

### 6. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
<b>Society</b>		
Annual Fund		
Pledges/Grants Restricted Due to Timing	\$ 3,100,952	\$ 2,645,429
Annual Productions	206,994	200,459
Capital Campaign Pledges Restricted Due to Timing	-0-	240,367
Operations in Future Years	1,237,000	1,237,000
Capital Improvements - Funded Depreciation	1,839,191	1,538,944
Project Funding	1,100,000	85,000
Total Society	<u>\$ 7,484,137</u>	<u>\$ 5,947,199</u>
<b>ISO Foundation</b>		
Unrestricted Net Assets of the ISO Foundation	\$ 53,635,991	\$ 56,387,680
Capital Improvements - Funded Depreciation	1,738,143	1,987,881
Pledges Restricted Due to Timing	2,265,746	1,574,011
Educational Purposes	143,162	256,811
Hilbert Circle Theatre Annual Facility Expenses	1,310,038	1,282,977
Orchestra's Artistic Endeavors	1,374,115	1,396,603
Total ISO Foundation	<u>\$ 60,467,195</u>	<u>\$ 62,885,963</u>

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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### 7. 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>2016</u>	<u>2015</u>
Orchestra's General Operations	\$ 21,044,084	\$ 21,045,084
Hilbert Circle Theatre Annual Facility Expenses	6,260,000	6,260,000
Educational Purposes	3,876,275	3,876,275
Orchestra's Artistic Endeavors	<u>1,368,613</u>	<u>1,368,613</u>
	<u>\$ 32,548,972</u>	<u>\$ 32,549,972</u>

### 8. 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>2016</u>	<u>2015</u>
Purpose Restriction Accomplished		
Funded Depreciation on Capital Improvements	\$ 199,753	\$ 177,619
Project Funding	85,000	65,750
Capital Campaign Operational Projects	243,500	263,500
Annual Productions	200,460	166,693
Expiration of Time Restrictions	1,437,454	2,651,216
Current Year Operations	1,237,000	1,237,000
ISO Foundation Grants to the Society	<u>6,776,565</u>	<u>6,640,908</u>
	<u>\$ 10,179,732</u>	<u>\$ 11,202,686</u>

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

### 9. FUNCTIONAL EXPENSES

Expenses by program and supporting activities, including the allocation of depreciation of \$420,916 and \$354,371 and defined benefit pension plan expense of \$637,972 and \$712,530 for the years ended August 31, 2016 and 2015, respectively, are as follows:

	2016	2015
Programs		
Orchestra Operations	\$ 10,641,483	\$ 9,543,297
Concert Production	5,973,680	4,588,073
Facilities	2,342,713	2,394,028
Marketing	2,325,160	2,170,664
Education	725,148	685,948
Patron Services	390,521	364,340
Program Book	122,405	158,361
Other	123,202	34,246
	<u>22,644,312</u>	<u>19,938,957</u>
Management and General		
General and Administrative	2,370,577	2,254,803
Facilities	600,758	607,316
	<u>2,971,335</u>	<u>2,862,119</u>
Fundraising	<u>1,446,652</u>	<u>1,397,778</u>
	<u>\$ 27,062,299</u>	<u>\$ 24,198,854</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.

### 10. 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 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 fiscal 2016 and 2015, the ISO Foundation contributed the \$850,000 of annual rental expense back to the Society (Note 13).

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

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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payments and expires on January 31, 2020. The lease may be cancelled with at least twelve months' prior written notice.

### Symphony Centre

The Society has a lease agreement with the ISO Foundation for the Symphony Centre expiring August 31, 2023. At August 31, 2016, 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 of the facility. During both fiscal 2016 and 2015, the ISO Foundation contributed the \$400,000 of annual rental expense back to the Society (Note 13).

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. The lease expires June 30, 2017 and includes one three-year and seven-month renewal option. The lease calls for escalating future minimum lease payments. Total rental expense under this lease for the years ended August 31, 2016 and 2015 was \$64,060 and \$63,058, respectively.

### Fletcher Properties

The Society has an operating lease for warehouse space from Fletcher Properties that expires February 28, 2018 (the previous lease expired February 28, 2015). Total rental expense under these leases for the years ended August 31, 2016 and 2015 was \$41,415 and \$40,812, respectively.

### Conner Prairie

The Society had an operating lease with Conner Prairie for facilities used for the Symphony on the Prairie series, which expired September 30, 2016 (the previous lease expired September 30, 2015). It is the Society's intention to negotiate a new operating lease with Conner Prairie. Total rental expense under these leases for the years ended August 31, 2016 and 2015 was \$530,285 and \$460,840, respectively.

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

### 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
2017	\$ 979,472	\$ 400,000	\$ 54,093	\$ 41,415	\$ 76,240	\$ 1,551,220
2018	982,455	400,000	-0-	20,707	-0-	1,403,162
2019	134,585	400,000	-0-	-0-	-0-	534,585
2020	56,077	400,000	-0-	-0-	-0-	456,077
2021	-0-	400,000	-0-	-0-	-0-	400,000
Thereafter	<u>-0-</u>	<u>800,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>800,000</u>
Minimum Payments	2,152,589	2,800,000	54,093	62,122	76,240	5,145,044
Less: Sublease Rentals	<u>-0-</u>	<u>(983,827)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(983,827)</u>
	<u>\$ 2,152,589</u>	<u>\$ 1,816,173</u>	<u>\$ 54,093</u>	<u>\$ 62,122</u>	<u>\$ 76,240</u>	<u>\$ 4,161,217</u>

Total rent expense for the years ended August 31, 2016 and 2015 was \$2,013,102 and \$1,846,487, 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 \$127,343 and \$124,361 for the years ended August 31, 2016 and 2015, 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 \$334,535 and \$302,202 for the years ended August 31, 2016 and 2015, respectively.

## **11. 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, 2016 AND 2015

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

	<u>2016</u>	<u>2015</u>
Funded Status		
Benefit Obligation (both projected and accumulated)	\$ 38,763,738	\$ 34,526,454
Fair Value of Plan Assets	<u>32,898,196</u>	<u>21,933,991</u>
	<u>\$ (5,865,542)</u>	<u>\$ (12,592,463)</u>
Amounts Recognized in the Statement of Financial Position		
Accrued Pension Benefits	<u>\$ (5,865,542)</u>	<u>\$ (12,592,463)</u>
Amounts Not Yet Recognized as Components of Net Periodic Pension Cost		
Net Loss	\$ 15,154,925	\$ 13,401,818
Project Funding Pension Plan	<u>(8,000,000)</u>	<u>-0-</u>
Pension Plan Net Asset Deficit	<u>\$ 7,154,925</u>	<u>\$ 13,401,818</u>

The measurement dates used in determining the pension benefit measurements for plan assets and benefit obligations were August 31, 2016 and 2015, respectively.

Effective September 1, 2015, the Society refined the method used to determine the service and interest cost components of the net periodic benefit cost. Previously, the cost was determined using a single weighted-average discount rate derived from the yield curve. Under the refined method, known as the spot rate approach, the Society uses individual spot rates along the yield curve that correspond with the timing of each benefit payment. The Society believes this change provides a more precise measurement of service and interest costs by improving the correlation between projected cash outflows and corresponding spot rates on the yield curve. Compared to the previous method, the spot rate approach decreased the service and interest components of benefit costs by \$238,530 in the year ended August 31, 2016. There is no impact on the total benefit obligation. This change in accounting estimate will be accounted for prospectively. The spot rate approach will decrease the service and interest component of the Society's benefit costs by \$215,288 in the year ending August 31, 2017.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 3.13% and 4.07% for fiscal 2016 and 2015, respectively, and the expected long-term rate of return on assets was 7.50% for both fiscal 2016 and 2015.

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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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

Net pension cost for the defined benefit plan for the years ended August 31, 2016 and 2015 included the following components:

	2016	2015
Service Costs	\$ 520,897	\$ 509,535
Interest Costs	1,133,706	1,208,612
Return on Assets	(3,242,291)	987,254
Net Amortization and Deferral	<u>2,225,660</u>	<u>(1,992,871)</u>
Net Periodic Pension Costs	<u>\$ 637,972</u>	<u>\$ 712,530</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 \$1,365,714.

The Society made contributions to the plan of \$9,118,000 and \$1,456,885 during the years ended August 31, 2016 and 2015, respectively. The Society does not expect to make a contribution to the plan during the year ending August 31, 2017. There are no participant contributions to the plan. Distributions from the plan were \$1,396,086 and \$1,322,757 during the years ended August 31, 2016 and 2015, respectively.

## INDIANA SYMPHONY SOCIETY, INC.

### NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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 fiscal 2026 are as follows:

Year Ending <u>August 31,</u>	
2017	\$ 1,544,026
2018	1,791,621
2019	1,899,348
2020	1,962,644
2021	2,071,083
Years 2022 - 2026	<u>11,446,295</u>
	<u>\$ 20,715,017</u>

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

	2016	2015
Equity Mutual Funds		
Disciplined Equity	\$ 2,662,951	\$ 2,640,198
S&P 500 Equity	2,664,618	2,420,832
International Equity	5,091,624	4,411,540
Small/Mid Cap Equity	2,715,919	2,184,591
Emerging Markets Equity	1,686,226	1,206,493
Fixed Income Mutual Funds		
High Yield Bond	1,687,239	1,151,114
Emerging Markets Debt	1,707,133	1,516,915
Core Fixed Income	-0-	3,473,742
Long Duration	11,228,198	-0-
Opportunistic Income	1,524,951	1,167,835
Dynamic Asset Allocation Fund	<u>1,929,337</u>	<u>1,760,731</u>
	<u>\$ 32,898,196</u>	<u>\$ 21,933,991</u>

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, which are considered to be Level 1 investments in the fair value hierarchy (based on unadjusted quoted prices for identical assets in active markets).



# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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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 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, 2016 and 2015 were \$142,377 and \$129,847, respectively.

## **12. 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, 2016 and 2015, net of stop-loss reimbursements, were \$2,205,355 and \$1,651,400, respectively. These expenses were offset by employee contributions to the plan of \$159,306 and \$147,144, 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, 2016 and 2015 were \$121,650 and \$119,246, respectively.

## **13. INDIANAPOLIS SYMPHONY ORCHESTRA FOUNDATION, INC.**

The Society has an \$8,000,000 line of credit agreement with an institutional lender (Note 4) which is guaranteed by the ISO Foundation. The ISO Foundation has pledged assets as collateral for this line of credit.

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 fiscal 2016 and 2015, which is included in the Statements of Activities under ISO Foundation revenue.

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

The ISO Foundation contributed \$6,776,565 and \$6,640,908 to the Society during the years ended August 31, 2016 and 2015, respectively. The amounts contributed are included in the Statements of Activities as net assets released from restrictions.

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

	2016	2015
General Operating Fund		
General Operating	\$ 4,237,674	\$ 3,651,500
Pension Grant	1,000,000	1,456,885
Education Grant	206,654	208,689
Pops Enhancement	40,012	41,485
Conductor Laureate	26,284	27,252
Other	15,941	5,097
	<u>5,526,565</u>	<u>5,390,908</u>
Facilities (Note 10)	<u>1,250,000</u>	<u>1,250,000</u>
	<u>\$ 6,776,565</u>	<u>\$ 6,640,908</u>

The contributed amounts above for fiscal 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 contributed amounts above for fiscal 2015 include a 4.5% draw from the ISO Foundation's investment portfolio, plus an additional \$1,456,885 to reduce the Society's unfunded pension liability, for an overall draw rate of 6.2%.

The Society owed \$35,613 to the ISO Foundation at August 31, 2016.

#### 14. CONCENTRATIONS

At August 31, 2016 and 2015, 12% and 40%, respectively, of accounts receivable were due from Marsh Supermarkets, LLC related to Symphony on the Prairie.

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

At August 31, 2016 and 2015, a pledge from the Lilly Endowment, Inc. comprised 26% and 28%, respectively, of the gross pledge receivable balance. At August 31, 2016, pledges from the Eli Lilly and Company Foundation comprised 21% of the gross pledge receivable balance.

Contributions from the Lilly Endowment, Inc. represented approximately 58% and 21% of contributed income during the years ended August 31, 2016 and 2015, respectively, and included a special grant of \$10,000,000 received in December 2015.

# INDIANA SYMPHONY SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016 AND 2015

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### **15. RISKS AND UNCERTAINTIES**

The Society's defined benefit pension plan holds investments in debt and equity securities (Note 11). 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.

### **16. 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 current agreement with the Musicians' Union is effective through September 3, 2017. The Society and the Musician's Union have reached agreement defining the terms for a new collective bargaining agreement that will be effective September 4, 2017 through September 6, 2020. The Society's current agreement with the Stagehands' Union is effective through August 31, 2018.

### **17. MANAGEMENT'S OPERATIONAL PLANS**

The Society has an unrestricted net asset deficit of \$16,184,414 and \$21,831,986 as of August 31, 2016 and 2015, 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 13). Fiscal 2016 was the fourth 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.

The Society's line of credit (Note 4) matures on January 31, 2017. 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.