

INDIANA SYMPHONY SOCIETY, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

CPAs / ADVISORS



INDIANA SYMPHONY SOCIETY, INC.

TABLE OF CONTENTS
AUGUST 31, 2018 AND 2017

	Page
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	8
Notes to Financial Statements.....	9



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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, 2018 and 2017, 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, 2018 and 2017, 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 20, 2018

INDIANA SYMPHONY SOCIETY, INC.

STATEMENTS OF FINANCIAL POSITION AUGUST 31, 2018 AND 2017

ASSETS		
	2018	2017
Cash	\$ 68,270	\$ 95,981
Receivables:		
Pledges, net (Note 3)	4,257,133	4,786,692
Government Grants	57,970	96,851
Accounts	884,614	525,044
Total Receivables	5,199,717	5,408,587
Prepaid Expenses and Other Assets	687,739	488,227
Property and Equipment, net (Note 2)	2,687,283	2,750,666
Interest in Net Assets of ISO Foundation	100,677,327	98,234,590
 Total Assets	 \$ 109,320,336	 \$ 106,978,051
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 1,524,951	\$ 875,547
Accrued Expenses	431,057	679,742
Other Liabilities	155,146	144,353
Deferred Revenue	2,534,448	2,570,375
Intercompany Loans (Note 4)	682,400	804,000
Bank Line of Credit (Note 5)	7,903,763	6,612,008
Pension Liability (Note 12)	1,085,339	2,931,752
Total Liabilities	14,317,104	14,617,777
Net Assets		
Unrestricted		
General Operating	(10,004,432)	(9,040,737)
Pension Plan (Note 12)	(1,756,286)	(3,732,541)
Board Designated (Note 6)	-0-	251
Facilities and Other	-0-	(171,417)
Total Unrestricted	(11,760,718)	(12,944,444)
Temporarily Restricted		
Society (Note 7)	6,086,623	7,070,129
ISO Foundation (Note 7)	68,016,855	65,685,117
Total Temporarily Restricted	74,103,478	72,755,246
Permanently Restricted		
ISO Foundation (Note 8)	32,660,472	32,549,472
Total Net Assets	95,003,232	92,360,274
 Total Liabilities and Net Assets	 \$ 109,320,336	 \$ 106,978,051

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2018 (With Comparative Total for the Year Ended August 31, 2017)

	2018										2017	
	Unrestricted					Temporarily Restricted			Permanently Restricted		Total	Total
	General Operating	Pension Plan	Board Designated	Facilities	Other	Total	ISO		ISO	Foundation		
						Society	Foundation	Total	Foundation	Total		
Revenue												
Earned Revenue												
Ticket Sales and Fee Income	\$ 11,253,532	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 11,253,532	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 11,253,532	\$ 10,736,668
Facilities Income	636,682	-0-	-0-	-0-	-0-	636,682	-0-	-0-	-0-	-0-	636,682	619,313
Program Advertising	144,753	-0-	-0-	-0-	-0-	144,753	-0-	-0-	-0-	-0-	144,753	178,359
Education	156,314	-0-	-0-	-0-	-0-	156,314	-0-	-0-	-0-	-0-	156,314	158,453
Other	60,087	-0-	-0-	-0-	-0-	60,087	-0-	-0-	-0-	-0-	60,087	130,820
Total Earned Revenue	12,251,368	-0-	-0-	-0-	-0-	12,251,368	-0-	-0-	-0-	-0-	12,251,368	11,823,613
Contributed Income												
Annual Fund	5,591,307	-0-	-0-	-0-	-0-	5,591,307	2,984,236	-0-	2,984,236	-0-	8,575,543	9,425,339
Provision for Loss on Annual Fund Pledge	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	(620,000)
Net Assets Released - Annual Fund (Note 9)	3,136,816	-0-	-0-	-0-	-0-	3,136,816	(3,136,816)	-0-	(3,136,816)	-0-	-0-	-0-
Project Funding	379,422	-0-	-0-	-0-	-0-	379,422	-0-	-0-	-0-	-0-	379,422	340,827
Net Assets Released - Project Funding (Note 9)	665,000	-0-	-0-	-0-	-0-	665,000	(665,000)	-0-	(665,000)	-0-	-0-	-0-
Capital Assets	-0-	-0-	-0-	-0-	-0-	-0-	50,000	-0-	50,000	-0-	50,000	-0-
Net Assets Released - Depreciation (Note 9)	215,926	-0-	-0-	-0-	-0-	215,926	(215,926)	-0-	(215,926)	-0-	-0-	-0-
Board Designated Transfer - Depreciation	251	-0-	(251)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Contributed Income	9,988,722	-0-	(251)	-0-	-0-	9,988,471	(983,506)	-0-	(983,506)	-0-	9,004,965	9,146,166
ISO Foundation												
Net Assets Released (Note 9)	4,643,921	-0-	-0-	1,250,000	849,032	6,742,953	-0-	(6,742,953)	(6,742,953)	-0-	-0-	-0-
Service Fee	50,000	-0-	-0-	-0-	-0-	50,000	-0-	-0-	-0-	-0-	50,000	50,000
Total ISO Foundation	4,693,921	-0-	-0-	1,250,000	849,032	6,792,953	-0-	(6,742,953)	(6,742,953)	-0-	50,000	50,000
Total Revenue	26,934,011	-0-	(251)	1,250,000	849,032	29,032,792	(983,506)	(6,742,953)	(7,726,459)	-0-	21,306,333	21,019,779

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2018 (Continued) (With Comparative Total for the Year Ended August 31, 2017)

	2018									2017		
	Unrestricted					Temporarily Restricted			Permanently Restricted		Total	
	General Operating	Pension Plan	Board Designated	Facilities	Other	Total	ISO		ISO			
						Society	Foundation	Total	Foundation	Total		
Expenses												
Concert Related Expenses												
Orchestra Operations	10,875,029	-0-	-0-	-0-	280,856	11,155,885	-0-	-0-	-0-	-0-	11,155,885	9,799,712
Defined Benefit Pension Plan Expense (Notes 10 and 12)	129,842	-0-	-0-	-0-	-0-	129,842	-0-	-0-	-0-	-0-	129,842	488,594
Concert Production	7,427,311	-0-	-0-	-0-	-0-	7,427,311	-0-	-0-	-0-	-0-	7,427,311	6,321,838
Marketing	2,007,546	-0-	-0-	-0-	-0-	2,007,546	-0-	-0-	-0-	-0-	2,007,546	2,036,019
Total Concert Related Expenses	20,439,728	-0-	-0-	-0-	280,856	20,720,584	-0-	-0-	-0-	-0-	20,720,584	18,646,163
Departmental Expenses												
General and Administrative	2,626,012	-0-	-0-	-0-	396,759	3,022,771	-0-	-0-	-0-	-0-	3,022,771	2,632,995
Development	1,312,168	-0-	-0-	-0-	-0-	1,312,168	-0-	-0-	-0-	-0-	1,312,168	1,306,414
Patron Services	453,687	-0-	-0-	-0-	-0-	453,687	-0-	-0-	-0-	-0-	453,687	409,314
Education	766,046	-0-	-0-	-0-	-0-	766,046	-0-	-0-	-0-	-0-	766,046	705,261
Program Book	157,590	-0-	-0-	-0-	-0-	157,590	-0-	-0-	-0-	-0-	157,590	172,114
Other	110,837	-0-	-0-	-0-	-0-	110,837	-0-	-0-	-0-	-0-	110,837	131,376
Total Departmental Expenses	5,426,340	-0-	-0-	-0-	396,759	5,823,099	-0-	-0-	-0-	-0-	5,823,099	5,357,474
Facilities	1,560,822	-0-	-0-	1,250,000	-0-	2,810,822	-0-	-0-	-0-	-0-	2,810,822	2,933,302
Depreciation (Note 10)	470,816	-0-	-0-	-0-	-0-	470,816	-0-	-0-	-0-	-0-	470,816	469,830
Total Facilities and Depreciation	2,031,638	-0-	-0-	1,250,000	-0-	3,281,638	-0-	-0-	-0-	-0-	3,281,638	3,403,132
Total Expenses	27,897,706	-0-	-0-	1,250,000	677,615	29,825,321	-0-	-0-	-0-	-0-	29,825,321	27,406,769
Revenue Over (Under) Expenses	(963,695)	-0-	(251)	-0-	171,417	(792,529)	(983,506)	(6,742,953)	(7,726,459)	-0-	(8,518,988)	(6,386,990)
Other Changes in Net Assets												
Other Changes in Interest in Net Assets of ISO Foundation	-0-	-0-	-0-	-0-	-0-	-0-	-0-	9,074,691	9,074,691	111,000	9,185,691	11,008,990
Pension Liability Adjustment (Note 12)	-0-	1,976,255	-0-	-0-	-0-	1,976,255	-0-	-0-	-0-	-0-	1,976,255	3,422,384
Total Other Changes in Net Assets	-0-	1,976,255	-0-	-0-	-0-	1,976,255	-0-	9,074,691	9,074,691	111,000	11,161,946	14,431,374
Change in Net Assets	(963,695)	1,976,255	(251)	-0-	171,417	1,183,726	(983,506)	2,331,738	1,348,232	111,000	2,642,958	8,044,384
Net Assets, Beginning 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
Net Assets, End of Year	<u>\$ (10,004,432)</u>	<u>\$ (1,756,286)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (11,760,718)</u>	<u>\$ 6,086,623</u>	<u>\$ 68,016,855</u>	<u>\$ 74,103,478</u>	<u>\$ 32,660,472</u>	<u>\$ 95,003,232</u>	<u>\$ 92,360,274</u>

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2017

	Unrestricted					Temporarily Restricted			Permanently Restricted		
	General	Pension	Board			ISO			ISO		
	Operating	Plan	Designated	Facilities	Other	Total	Society	Foundation	Total	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
Facilities Income	619,313	-0-	-0-	-0-	-0-	619,313	-0-	-0-	-0-	-0-	619,313
Program Advertising	178,359	-0-	-0-	-0-	-0-	178,359	-0-	-0-	-0-	-0-	178,359
Education	158,453	-0-	-0-	-0-	-0-	158,453	-0-	-0-	-0-	-0-	158,453
Other	130,820	-0-	-0-	-0-	-0-	130,820	-0-	-0-	-0-	-0-	130,820
Total Earned Revenue	11,823,613	-0-	-0-	-0-	-0-	11,823,613	-0-	-0-	-0-	-0-	11,823,613
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
Provision for Loss on Annual Fund Pledge	-0-	-0-	-0-	-0-	-0-	-0-	(620,000)	-0-	(620,000)	-0-	(620,000)
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-
Project Funding	75,827	-0-	-0-	-0-	-0-	75,827	265,000	-0-	265,000	-0-	340,827
Net Assets Released - Project Funding (Note 9)	400,000	-0-	-0-	-0-	-0-	400,000	(400,000)	-0-	(400,000)	-0-	-0-
Net Assets Released - Depreciation (Note 9)	199,753	-0-	-0-	-0-	-0-	199,753	(199,753)	-0-	(199,753)	-0-	-0-
Board Designated Transfer - Depreciation	38,482	-0-	(38,482)	-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
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-
Service Fee	50,000	-0-	-0-	-0-	-0-	50,000	-0-	-0-	-0-	-0-	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
Total Revenue	26,012,837	-0-	(38,482)	1,250,000	-0-	27,224,355	(414,008)	(5,790,568)	(6,204,576)	-0-	21,019,779

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED AUGUST 31, 2017 (Continued)

	Unrestricted					Temporarily Restricted			Permanently Restricted		
	General	Pension	Board			ISO			ISO		
	Operating	Plan	Designated	Facilities	Other	Total	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
Defined Benefit Pension Plan Expense (Notes 10 and 12)	488,594	-0-	-0-	-0-	-0-	488,594	-0-	-0-	-0-	-0-	488,594
Concert Production	6,321,838	-0-	-0-	-0-	-0-	6,321,838	-0-	-0-	-0-	-0-	6,321,838
Marketing	2,036,019	-0-	-0-	-0-	-0-	2,036,019	-0-	-0-	-0-	-0-	2,036,019
Total Concert Related Expenses	18,646,163	-0-	-0-	-0-	-0-	18,646,163	-0-	-0-	-0-	-0-	18,646,163
Departmental Expenses											
General and Administrative	2,461,578	-0-	-0-	-0-	171,417	2,632,995	-0-	-0-	-0-	-0-	2,632,995
Development	1,306,414	-0-	-0-	-0-	-0-	1,306,414	-0-	-0-	-0-	-0-	1,306,414
Patron Services	409,314	-0-	-0-	-0-	-0-	409,314	-0-	-0-	-0-	-0-	409,314
Education	705,261	-0-	-0-	-0-	-0-	705,261	-0-	-0-	-0-	-0-	705,261
Program Book	172,114	-0-	-0-	-0-	-0-	172,114	-0-	-0-	-0-	-0-	172,114
Other	131,376	-0-	-0-	-0-	-0-	131,376	-0-	-0-	-0-	-0-	131,376
Total Departmental Expenses	5,186,057	-0-	-0-	-0-	171,417	5,357,474	-0-	-0-	-0-	-0-	5,357,474
Facilities	1,683,302	-0-	-0-	1,250,000	-0-	2,933,302	-0-	-0-	-0-	-0-	2,933,302
Depreciation (Note 10)	469,830	-0-	-0-	-0-	-0-	469,830	-0-	-0-	-0-	-0-	469,830
Total Facilities and Depreciation	2,153,132	-0-	-0-	1,250,000	-0-	3,403,132	-0-	-0-	-0-	-0-	3,403,132
Total Expenses	25,985,352	-0-	-0-	1,250,000	171,417	27,406,769	-0-	-0-	-0-	-0-	27,406,769
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)
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
Pension Liability Adjustment (Note 12)	-0-	3,422,384	-0-	-0-	-0-	3,422,384	-0-	-0-	-0-	-0-	3,422,384
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
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
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
Net Assets, End of Year	<u>\$ (9,040,737)</u>	<u>\$ (3,732,541)</u>	<u>\$ 251</u>	<u>\$ -0-</u>	<u>\$ (171,417)</u>	<u>\$ (12,944,444)</u>	<u>\$ 7,070,129</u>	<u>\$ 65,685,117</u>	<u>\$ 72,755,246</u>	<u>\$ 32,549,472</u>	<u>\$ 92,360,274</u>

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
Operating Activities		
Change in Net Assets	\$ 2,642,958	\$ 8,044,384
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	(2,442,737)	(5,218,423)
Change in Unamortized Discount on Pledges	28,914	22,489
Bad Debt Expense	58,433	691,772
Depreciation	470,816	469,830
Defined Benefit Pension Plan Expense	129,842	488,594
Pension Liability Adjustment	(1,976,255)	(3,422,384)
Total Non-Cash Items	(3,730,987)	(6,968,122)
Changes in Operating Assets and Liabilities		
Receivables	121,523	(1,231,379)
Prepaid Expenses and Other Assets	(199,512)	213,821
Accounts Payable, Accrued Expenses, and Other Liabilities	411,512	(680,824)
Deferred Revenue	(35,927)	(314,827)
Net Cash Flows from Operating Activities	(790,433)	(936,947)
Investing Activities		
Capital Expenditures	(407,433)	(370,990)
Financing Activities		
Advances on Bank Line of Credit	16,783,496	15,576,733
Payments on Bank Line of Credit	(15,491,741)	(15,075,138)
Advances on Intercompany Loans	500,000	804,000
Payments on Intercompany Loans	(621,600)	-0-
Net Cash Flows from Financing Activities	1,170,155	1,305,595
Net Change in Cash	(27,711)	(2,342)
Cash, Beginning of Year	95,981	98,323
Cash, End of Year	\$ 68,270	\$ 95,981
Supplemental Disclosure of Cash Flow Information		
Cash Payments for Interest	\$ 173,963	\$ 108,114

See accompanying notes to financial statements.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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) and Project Funding.

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, 2018 ranged from 2.46% to 2.72% and for the year ended August 31, 2017 ranged from 1.23% to 1.70%. Amortization of the discounts is included in Contributed Income.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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, 2018 and 2017, management determined that an allowance of \$151,384 and \$190,284, 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, 2018 and 2017.

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, 2018 and 2017.

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, 2018 AND 2017

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

	2018		
	Cost	Accumulated Depreciation	Net Book Value
Computer Equipment and Software	\$ 1,030,046	\$ 768,904	\$ 261,142
Musical Instruments and Orchestra Equipment	2,082,114	1,810,970	271,144
Stage Equipment	1,853,246	1,504,814	348,432
Transportation Equipment	80,195	54,976	25,219
Office Furniture and Equipment	203,613	203,613	-0-
Hilbert Circle Theatre Property	1,134,699	562,794	571,905
Leasehold Improvements	10,246,855	9,103,344	1,143,511
Construction in Progress	65,930	-0-	65,930
	\$ 16,696,698	\$ 14,009,415	\$ 2,687,283

	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	513,976	-0-	513,976
	\$ 16,290,751	\$ 13,540,085	\$ 2,750,666

Construction in progress primarily includes costs associated with a new phone system not completed as of the end of the year. This project is expected to be completed and placed into service during fiscal 2019. There were no significant commitments related to property and equipment as of August 31, 2018.

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:

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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 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

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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.

Revenue and Expense Recognition

The Society derives its revenues primarily 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, 2018 and 2017 were \$1,822,593 and \$1,870,591, respectively. Prepaid advertising expenses are \$119,192 and \$107,579 as of August 31, 2018 and 2017, 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

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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 2018 and 2017.

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, 2018 and 2017, 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, 2017. 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 20, 2018, which is the date the financial statements are available to be issued.

Recently Issued Accounting Standards

During August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Society is not required to adopt until its year ending August 31, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The biggest impacts on the Society include changes in net asset classifications, policy on releasing capital restrictions, reporting of expenses by both nature and function, and inclusion of a new disclosure on liquidity and the availability of resources.

During May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." During August 2015, FASB further amended this guidance and issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which the Society is not required to adopt until its

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

year ending August 31, 2020, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

During February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Society is not required to adopt until its year ending August 31, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

During June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Finally, ASU 2018-08 amends the "simultaneous release accounting policy" to allow a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. The Society will be required to adopt this new standard in the year ending August 31, 2020.

The Society is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

3. PLEDGES RECEIVABLE

Pledges receivable consist of the following at August 31:

	2018	2017
Annual Fund	\$ 3,251,676	\$ 3,800,721
Lilly Endowment, Inc.	1,237,000	1,237,000
Project Funding	10,000	500
Total Pledges Receivable	4,498,676	5,038,221
Less Unamortized Discount	(90,159)	(61,245)
Less Allowance for Uncollectible Contributions	(151,384)	(190,284)
Net Pledges Receivable	<u>\$ 4,257,133</u>	<u>\$ 4,786,692</u>
Amounts Due In:		
Less Than One Year	\$ 3,308,376	\$ 3,628,601
One to Five Years	1,190,300	1,409,620
	<u>\$ 4,498,676</u>	<u>\$ 5,038,221</u>

4. INTERCOMPANY LOANS

On August 8, 2017, the ISO Foundation loaned \$304,000 to the Society under 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% (2.865% at August 31, 2018) and will be due and paid in full for the term of the loan on December 31, 2019. Amounts outstanding at August 31, 2018 and 2017 were \$182,400 and \$304,000, respectively.

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.

On June 29, 2018, the ISO Foundation issued a \$500,000 line of credit to the Society for working capital to support operations of the Society. Terms of the line of credit require annual principal payments of \$125,000, plus interest due, commencing December 31, 2018 with the final annual installment due on December 31, 2021. The amount available for borrowing by the Society under this line of credit will be reduced by the amount of the required annual principal payment on each annual installment due date. Interest is charged at the one month LIBOR rate, as defined in the loan agreement, plus 0.80% (2.865% at August 31, 2018).

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

5. BANK LINE OF CREDIT

The Society has an \$8,000,000 line of credit agreement with an institutional lender which expires on January 31, 2019. 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, 2018 and 2017, there was \$7,903,763 and \$6,612,008, respectively, borrowed against this line. Interest is charged at the one month LIBOR rate, which is adjusted as of a specific date each month, as defined in the agreement, plus 0.80% (2.865% at August 31, 2018). 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.

6. BOARD DESIGNATED NET ASSETS

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

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 the years ended August 31, 2018 and 2017, such transfers were \$251 and \$38,482, respectively.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

7. TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Society		
Annual Fund		
Pledges/Grants Restricted Due to Timing	\$ 2,812,793	\$ 3,008,129
Annual Productions	263,318	220,562
Operations in Future Years	1,237,000	1,237,000
Capital Improvements - Funded Depreciation	1,473,512	1,639,438
Project Funding	300,000	965,000
Total Society	\$ 6,086,623	\$ 7,070,129
 ISO Foundation		
Unrestricted Net Assets of the ISO Foundation	\$ 59,477,606	\$ 57,749,489
Capital Improvements - Funded Depreciation	1,239,590	1,488,405
Pledges Restricted Due to Timing	2,485,999	2,373,411
Educational Purposes	548,474	427,038
Hilbert Circle Theatre Annual Facility Expenses	2,507,003	2,031,585
Orchestra's Artistic Endeavors	1,758,183	1,615,189
Total ISO Foundation	\$ 68,016,855	\$ 65,685,117

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:

	2018	2017
Orchestra's General Operations	\$ 21,044,084	\$ 21,044,084
Hilbert Circle Theatre Annual Facility Expenses	6,260,000	6,260,000
Educational Purposes	3,985,775	3,876,775
Orchestra's Artistic Endeavors	1,370,613	1,368,613
	\$ 32,660,472	\$ 32,549,472

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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:

	2018	2017
Purpose Restriction Accomplished		
Funded Depreciation on Capital Improvements	\$ 215,926	\$ 199,753
Project Funding	665,000	400,000
Annual Productions *	220,562	206,994
Expiration of Time Restrictions *	1,679,254	1,477,322
Current Year Operations *	1,237,000	1,237,000
ISO Foundation Grants to the Society	6,742,953	5,790,568
	\$ 10,760,695	\$ 9,311,637

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

10. FUNCTIONAL EXPENSES

Expenses by program and supporting activities, including the allocation of depreciation of \$470,816 and \$469,830 and defined benefit pension plan expense of \$129,842 and \$488,594 for the years ended August 31, 2018 and 2017, respectively, are as follows:

	2018	2017
Programs		
Orchestra Operations	\$ 11,370,280	\$ 10,374,075
Concert Production	7,513,931	6,389,899
Facilities	2,326,237	2,312,704
Marketing	2,283,034	2,410,507
Education	764,049	705,261
Patron Services	452,697	409,314
Program Book	157,590	172,114
Other	110,837	129,269
	24,978,655	22,903,143
Management and General		
General and Administrative	2,899,241	2,518,515
Facilities	581,914	614,083
	3,481,155	3,132,598
Fundraising	1,365,511	1,371,028
	\$ 29,825,321	\$ 27,406,769

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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 2018 and 2017, the ISO Foundation contributed the \$850,000 of annual rental expense back to the Society (Note 14). The Society and ISO Foundation are in the process of negotiating renewal terms of this lease and expect to complete the renewal in fiscal 2019.

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.

Symphony Centre

The Society has a lease agreement with the ISO Foundation for the Symphony Centre expiring August 31, 2023. At August 31, 2018, 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 2018 and 2017, 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 September 2018 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, 2018 and 2017 was \$69,638 and \$65,669, respectively.

Fletcher Properties

The Society has an operating lease for warehouse space from Fletcher Properties that expires February 28, 2021. Total rental expense under this lease for the years ended August 31, 2018 and 2017 was \$42,036 and \$41,415, respectively.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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. Total rental expense under this lease for the years ended August 31, 2018 and 2017 was \$573,138 and \$544,990, respectively.

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
2019	\$ 134,585	\$ 400,000	\$ 70,716	\$ 42,657	\$ 555,176	\$ 1,203,134
2020	56,077	400,000	29,847	42,657	19,144	547,725
2021	-0-	400,000	-0-	21,329	-0-	421,329
2022	-0-	400,000	-0-	-0-	-0-	400,000
2023	-0-	400,000	-0-	-0-	-0-	400,000
Minimum Payments	190,662	2,000,000	100,563	106,643	574,320	2,972,188
Less: Sublease Rentals	-0-	(608,803)	-0-	-0-	-0-	(608,803)
	<u>\$ 190,662</u>	<u>\$ 1,391,197</u>	<u>\$ 100,563</u>	<u>\$ 106,643</u>	<u>\$ 574,320</u>	<u>\$ 2,363,385</u>

Total rent expense for the years ended August 31, 2018 and 2017 was \$2,067,267 and \$2,031,547, 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 \$132,455 and \$129,472 for the years ended August 31, 2018 and 2017, 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 \$344,154 and \$346,469 for the years ended August 31, 2018 and 2017, 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, 2018 AND 2017

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

	2018	2017
Unfunded Status		
Benefit Obligation (both projected and accumulated)	\$ 34,864,750	\$ 37,300,543
Fair Value of Plan Assets	33,779,411	34,368,791
	\$ (1,085,339)	\$ (2,931,752)
Amounts Recognized in the Statement of Financial Position		
Accrued Pension Benefits	\$ (1,085,339)	\$ (2,931,752)
Amounts Not Yet Recognized as Components of Net Periodic Pension Cost		
Net Loss	\$ 9,756,286	\$ 11,732,541
Project Funding Pension Plan	(8,000,000)	(8,000,000)
Pension Plan Net Asset Deficit	\$ 1,756,286	\$ 3,732,541

The measurement dates used in determining the pension benefit measurements for plan assets and benefit obligations were August 31, 2018 and 2017, respectively.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 3.90% and 3.46% for 2018 and 2017, respectively, and the expected long-term rate of return on assets was 7.50% for both 2018 and 2017.

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, 2018 AND 2017

Net pension cost for the defined benefit plan for the years ended August 31, 2018 and 2017 included the following components:

	2018	2017
Service Costs	\$ 574,310	\$ 623,618
Interest Costs	1,066,537	968,596
Return on Assets	(872,764)	(2,912,451)
Net Amortization and Deferral	<u>(638,241)</u>	<u>1,808,831</u>
Net Periodic Pension Costs	<u>\$ 129,842</u>	<u>\$ 488,594</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, 2018 includes the amortization of the net loss of \$751,111.

The Society was not required to make and did not make a contribution to the plan during the years ended August 31, 2018 and 2017. The Society does expect to make a contribution of \$125,834 to the plan during the year ending August 31, 2019. There are no participant contributions to the plan. Distributions from the plan were \$1,462,144 and \$1,441,856 during the years ended August 31, 2018 and 2017, 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 2028 are as follows:

Year Ending <u>August 31,</u>	
2019	\$ 1,722,391
2020	1,894,919
2021	2,025,368
2022	2,127,820
2023	2,186,526
2024 - 2028	<u>11,639,837</u>
	<u>\$ 21,596,861</u>

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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

	2018	2017
Mutual Funds		
Equity		
Disciplined Equity	\$ 1,720,562	\$ 2,304,333
S&P 500 Equity	1,736,692	2,286,042
International Equity	4,019,317	4,588,615
Small/Mid Cap Equity	1,080,791	1,915,731
Emerging Markets Equity	842,609	1,449,514
Fixed Income		
High Yield Bond	996,070	1,293,272
Emerging Markets Debt	1,134,975	1,362,994
Intermediate Duration	7,802,918	5,604,818
Long Duration	8,832,557	8,417,557
Multi-Class		
Dynamic Asset Allocation Fund	1,356,213	1,621,676
U.S. Government Agencies	4,256,707	3,524,239
	<u>\$ 33,779,411</u>	<u>\$ 34,368,791</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 30% to 50% and 50% to 70% 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 has a 403(b) plan for eligible employees, as defined by the 403(b) plan. Under the 403(b) plan, the Society will match the staff employees' contributions up to 3% of eligible compensation. 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. For musicians hired after October 16, 2012, the Society will contribute 8% of musicians' annual minimum salary covered under the collective bargaining agreement

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

through the 2019–20 season. Contributions to the 403(b) plan for the years ended August 31, 2018 and 2017 were \$216,830 and \$167,976, 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, 2018 and 2017, net of stop-loss reimbursements, were \$2,045,716 and \$1,601,023, respectively. These expenses were offset by employee contributions to the plan of \$157,664 and \$172,023, respectively.

The Society also offers a Health Savings Account to all employees covered under the high deductible option of the self-funded plan. Employer contributions to employee health savings accounts for the years ended August 31, 2018 and 2017 were \$142,200 and \$132,175, 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, 2018 and 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 2018 and 2017, which is included in the Statements of Activities under ISO Foundation revenue.

The ISO Foundation contributed \$6,742,953 and \$5,790,568 to the Society during the years ended August 31, 2018 and 2017, respectively. The amounts contributed are included in the Statements of Activities as net assets released from restrictions.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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

	2018	2017
General Operating Fund		
General Operating	\$ 4,353,235	\$ 4,263,665
Education Grant	215,191	200,972
Pops Enhancement	41,659	38,911
Conductor Laureate	27,497	25,683
Other	6,339	11,337
	<u>4,643,921</u>	<u>4,540,568</u>
Facilities (Note 11)	1,250,000	1,250,000
Other	849,032	-0-
	<u>\$ 6,742,953</u>	<u>\$ 5,790,568</u>

The contributed amounts above for 2018 include a 5.0% draw from the ISO Foundation's investment portfolio, plus an additional grant of \$1,000,000, of which \$150,968 was recorded in unrestricted general operations and \$849,032 was board designated to be recorded in unrestricted other. The contributed amounts above for 2017 include a 5.0% draw from the ISO Foundation's investment portfolio.

The Society owed \$143,151 and \$5,697 to the ISO Foundation at August 31, 2018 and 2017, respectively, which includes interest payables on intercompany loans at August 31, 2018.

15. CONCENTRATIONS

At August 31, 2018, 14% of accounts receivable was due from the Society's provider of weather insurance.

At August 31, 2018 and 2017, 57% and 67%, respectively, of accounts receivable was due from the Society's providers of stop loss insurance.

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

At August 31, 2018 and 2017, a pledge from the Lilly Endowment, Inc. comprised 27% and 26%, respectively, of the gross pledge receivable balance. At August 31, 2018 and 2017, pledges from the Eli Lilly and Company Foundation comprised 12% and 16%, respectively, of the gross pledge receivable balance. At August 31, 2018 and 2017, pledges from The Kroger Company comprised 12% and 16%, respectively, of the gross pledge receivable balance. At August 31, 2018, pledges from Indianapolis Power & Light Company comprised 11% of the gross pledge receivable balance.

Contributions from the Lilly Endowment, Inc. represented approximately 14% and 16% of contributed income during the years ended August 31, 2018 and 2017, respectively.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

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. Management determined that no liability for a potential loss from any currently pending disputes, claims or lawsuits was necessary at August 31, 2018 and 2017.

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 prior contract with the Stagehands' Union ended on August 31, 2018. The Society's current contract with the Stagehand's Union is effective through August 31, 2023.

18. MANAGEMENT'S OPERATIONAL PLANS

The Society has an unrestricted net asset deficit of \$11,865,511 and \$12,944,444 as of August 31, 2018 and 2017, 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 developed a new business plan during 2017 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.

INDIANA SYMPHONY SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2018 AND 2017

During 2018, the Society was unsuccessful in balancing the operating budget. Management has outlined operational and programming changes to be made in the board approved budget for fiscal 2019 that should balance the budget once again in 2019 and beyond.

The Society's line of credit (Note 5) matures on January 31, 2019. 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.