

**THE CHICAGO PHILHARMONIC
SOCIETY**

YEARS ENDED JUNE 30, 2015 AND 2014

THE CHICAGO PHILHARMONIC SOCIETY

YEARS ENDED JUNE 30, 2015 AND 2014

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Independent Auditor's Report

Board of Directors
The Chicago Philharmonic Society
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of The Chicago Philharmonic Society (a nonprofit organization) (the Society), which comprise the statement of financial position as of June 30, 2015 and 2014 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 audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chicago Philharmonic Society as of June 30, 2015 and 2014 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ostrow Reisin Berk & Abrams, Ltd.

September 1, 2015

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENT OF FINANCIAL POSITION

June 30,	2015	2014
ASSETS		
Cash	\$ 105,493	\$ 57,109
Contributions receivable	37,058	20,000
Investments	25,000	
Prepaid expenses	6,233	983
Property and equipment, net	7,458	4,017
Security deposits	834	834
Total assets	\$ 182,076	\$ 82,943
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 113,450	\$ 20,778
Unearned revenue	13,107	16,941
Total liabilities	126,557	37,719
Net assets:		
Unrestricted	8,519	13,224
Temporarily restricted	22,000	32,000
Permanently restricted	25,000	
Total net assets	55,519	45,224
Total liabilities and net assets	\$ 182,076	\$ 82,943

See notes to financial statements.

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENT OF ACTIVITIES

Years ended June 30,	2015				2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue:							
Contracted services	\$ 1,064,436			\$ 1,064,436	\$ 1,202,070		\$ 1,202,070
Admissions and subscription income	57,325			57,325	56,519		56,519
Contributions and grants	393,222	\$ 18,000	\$ 25,000	436,222	340,370	\$ 32,000	372,370
Miscellaneous income	858			858			
Net assets released from restrictions:							
Satisfaction of purpose or time restrictions	28,000	(28,000)					
Total revenue	1,543,841	(10,000)	25,000	1,558,841	1,598,959	32,000	1,630,959
Expenses:							
Program services	1,264,636			1,264,636	1,361,194		1,361,194
Management and general	239,964			239,964	219,488		219,488
Fundraising	43,946			43,946	40,293		40,293
Total expenses	1,548,546			1,548,546	1,620,975		1,620,975
Change in net assets	(4,705)	(10,000)	25,000	10,295	(22,016)	32,000	9,984
Net assets:							
Beginning of year	13,224	32,000		45,224	35,240		35,240
End of year	\$ 8,519	\$ 22,000	\$ 25,000	\$ 55,519	\$ 13,224	\$ 32,000	\$ 45,224

See notes to financial statements.

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENT OF CASH FLOWS

Years ended June 30,	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 10,295	\$ 9,984
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	2,295	1,148
Increase in operating assets:		
Contributions receivable	(17,058)	(15,000)
Prepaid expenses	(5,250)	
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	92,672	(30,123)
Unearned revenue	(3,834)	4,716
Cash provided by (used in) operating activities	79,120	(29,275)
Cash flows from investing activities:		
Purchase of property and equipment	(5,736)	(5,165)
Purchase of investments	(25,000)	
Cash used in investing activities	(30,736)	(5,165)
Increase (decrease) in cash	48,384	(34,440)
Cash, beginning of year	57,109	91,549
Cash, end of year	\$ 105,493	\$ 57,109

See notes to financial statements.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS

1. Organization and purpose

The Chicago Philharmonic Society (the Society) is an Illinois nonprofit corporation that operates orchestral and chamber music ensembles based in Chicago, Illinois. The Society's primary purpose is the promotion and appreciation of orchestral and chamber music among the general public. Revenues are primarily derived from contracted services, ticket sales and contributions.

2. Summary of significant accounting policies

Basis of accounting:

The Society's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of presentation:

The financial statement presentation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification) for *Financial Statements of Not-for-Profit Organizations*. Under the Codification, the Society is required to report information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are available to finance the general operations of the Society. Temporarily restricted net assets represent those for which the use by the Society has been limited by donors to a special time period or purpose, see Note 6. Permanently restricted net assets have been restricted by donors to be maintained by the Society in perpetuity, see Note 7. The Society had no permanently restricted net assets at June 30, 2014.

Unrestricted and restricted revenue and support:

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions, unless the restriction is met in the same reporting period, in which case the contribution is shown as unrestricted.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Contributions receivable:

Contributions receivable include amounts due in less than one year. An allowance for doubtful accounts is considered unnecessary and is not provided.

Investments:

Investments are reported in the statement of financial position at their fair value, with any realized and unrealized gains and losses reported in the statement of activities.

The Society holds all their investments with the Jewish Federation Endowment Fund (the Fund). The Society's investments are combined with the holdings of other entities and the Fund invests the pooled amount. Investment income and loss is then allocated to the Society in proportion to its holdings compared to the Fund as a whole.

Property and equipment and related depreciation and amortization:

Property and equipment are stated at cost or, if donated, at fair value at the date of donation. Depreciation and amortization of property and equipment is provided over the estimated useful life of the assets using the straight-line method. Additions over \$500 are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently.

Unearned revenue:

The Society receives ticket purchases in advance of the concert performance. These are classified as unearned revenue until the concert has taken place.

Advertising and marketing:

Advertising and marketing costs are expensed as incurred. Total advertising and marketing costs were \$78,099 and \$72,537 for the years ended June 30, 2015 and 2014, respectively.

Joint costs and expense allocation:

The costs of providing various programs and other activities have been summarized on a functional basis on the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Income taxes:

The Society is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, there is no provision for federal income taxes in the accompanying financial statements.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

Reclassifications:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

3. Property and equipment

The components of property and equipment are as follows:

June 30,	2015	2014
Website	\$ 5,165	\$ 5,165
Equipment	5,736	
	10,901	5,165
Less accumulated depreciation and amortization	(3,443)	(1,148)
Property and equipment, net	\$ 7,458	\$ 4,017

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Contributed goods and services

The Society follows the recommendations of the Codification for *Accounting for Contributions Received and Contributions Made*, which requires the Society to recognize as revenue the fair value of contributed (donated) goods and services.

The Society also receives donated services from unpaid volunteers who assist in its fundraising events and programs in the furtherance of its purposes. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Society. None of these amounts have been recognized in the statement of activities because the criteria for recognition have not been met.

5. Fair value measurements

The Society has implemented the accounting guidance on *Fair Value Measurements and Disclosures*, which provides the framework for measuring fair value under generally accepted accounting principles. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement dates. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

- | | |
|---------|---|
| Level 1 | Quoted prices are available in active markets for identical investments as of the reporting date. |
| Level 2 | Pricing inputs are other than quoted prices in active markets of comparable instruments, which are either directly or indirectly observable as of the reporting date and fair value is determined through the use of models or other valuation methodologies. |
| Level 3 | Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information under the circumstances and may require significant management judgment or estimation. |

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Society's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Fair value measurements (continued)

The Society assesses the levels of financial instruments at each measurement date and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Society's accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no such transfers for the years ended June 30, 2015 and 2014.

The Society's investment represents its allocable share in the pooled endowment portfolio of the Jewish Federation Endowment Fund and is classified as Level 3 in the fair value hierarchy.

The Fund's investments consist of the following categories:

<u>June 30, 2015</u>	
Private equity and fund-of-funds	13 %
Domestic and international mutual funds	35
Fixed income securities	7
Absolute return investments	18
Real estate and other	27
Total	100 %

The original and ending balance of the endowment at June 30, 2015 is \$25,000.

6. Temporarily restricted net assets

Temporarily restricted net assets were restricted for the following purposes:

<u>June 30,</u>	<u>2015</u>	<u>2014</u>
Future concert performances	\$ 16,000	\$ 32,000
Staff training	6,000	
Temporarily restricted net assets	\$ 22,000	\$ 32,000

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Temporarily restricted net assets (continued)

Net assets were released from donor restrictions by incurring the following expenses during the year ended June 30, 2015:

<u>Year ended June 30, 2015</u>	
<u>Concert performances</u>	<u>\$ 28,000</u>

7. Permanently restricted net assets

During the year ended June 30, 2015, the Society received a donation to establish a general endowment fund. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

The Society's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted in the State of Illinois as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Permanently restricted net assets (continued)

Interpretation of relevant law: (continued)

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Society and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Society
7. The investment policies of the Society

The endowment fund established during the year ended June 30, 2015 was donor-restricted. There were no board-designated endowment funds for the years ended June 30, 2015 and 2014.

The Society's endowment net asset composition as of June 30, 2015 is as follows:

<u>June 30, 2015</u>	
Permanently restricted:	
Donor-restricted endowment fund	\$ 25,000

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA require the Society to retain as a fund of perpetual duration. There were no deficiencies of this nature for the year ended June 30, 2015.

Return objectives and risk parameters:

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to conserve corpus while assuming a minimal level of investment risk.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Permanently restricted net assets (continued)

Strategies employed for achieving objectives:

To satisfy its long-term rate of return objectives, the Society relies on a total return strategy to which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society's policy is to invest 100% of the endowment cash assets in the pooled endowment portfolio of the Jewish Federation of Metropolitan Chicago.

Spending policy and how the investment objectives relate to spending policy:

The Society's current spending policy is limited to earnings on the endowment funds.

8. Line of credit

In February 2012, the Society established a line of credit with First Bank & Trust in Evanston, Illinois. Per the agreement, the Society can borrow up to \$65,000 to the extent that funds have been deposited in a collateral trust created by contributors. The line of credit, which bears interest at the prime rate (3.25%), matured on February 19, 2015 and was renewed for \$50,000 until February 17, 2016. At June 30, 2015 and 2014, the contributors had \$25,000 deposited in the collateral trust, with a borrowing limit of up to the same amount. At June 30, 2015 and 2014, the Society did not have a balance outstanding on the line of credit.

9. Leases

The Society has an operating lease for rental space in Chicago, Illinois. The lease began in September 2013 and expired in August 2015. The Society is currently negotiating a new term with the existing landlord.

Rent expense for the years ended June 30, 2015 and 2014 was \$9,342 and \$8,920, respectively.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Multiemployer pension plan

The Society is a participating employer in a multiemployer, defined-benefit pension plan for musicians. Contributions of \$112,950 and \$127,510 during the years ended June 30, 2015 and 2014, respectively, were charged to operations for the Society's ongoing participation in this defined-benefit plan. The inherent risk of participating in this defined-benefit plan is that under current law regarding the multiemployer benefit plans, a plan's termination, the Society's voluntary withdrawal or mass withdrawal of all contributing employers from any under-funded, multiemployer pension plan would require the Society to make payments to the plan for the Society's proportionate share of the multiemployer plan's unfunded vested liabilities.

The Society's participation in this multiemployer plan for the years ended June 30, 2015 and 2014 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2015 and 2014 is for the plan years ended March 31, 2015 and 2014. The zone status is based on information that the Society received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the participation agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Pension Zone Status		FIP/RP Status Pending/ Implemented	Entity Contributions		Surcharge Imposed	Expiration Date Participation Agreement
		2015	2014		2015	2014		
American Federation of Musicians and Employers' Pension Plan	EIN: 51-6120204 Plan number: 001	Red*	Red*	Yes - Implemented	\$ 112,950	\$ 127,510	Yes	11/14/14 - 11/13/15

*Pursuant to the Preservation of Access to Care for Medicare Beneficiaries and the Pension Relief Act of 2010, the plan elected to (i) extend from 15 years to 29 years the amortization period for 2008 net investment losses (i.e., net investment losses for the plan year ended March 31, 2009); (ii) smooth those net investment losses over 10 years in the actuarial value of assets and (iii) allow the actuarial value of assets used by the plan to be as much as 130% of the market value of assets for the plan years beginning on April 1, 2009 and 2010.

THE CHICAGO PHILHARMONIC SOCIETY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Concentration of credit risk

The Society maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Society has not experienced any losses in such accounts. Management believes that the Society is not exposed to any significant credit risk on cash.

12. Subsequent events

Management of the Society has reviewed and evaluated subsequent events from June 30, 2015, the financial statement date, through September 1, 2015, the date the financial statements were available to be issued. Except as disclosed in Note 9, no events have occurred in this period that would be required to be recognized and/or disclosed in these financial statements as required by generally accepted accounting principles.

THE CHICAGO PHILHARMONIC SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

Years ended June 30,	2015				2014			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries and wages	\$ 920,044	\$ 100,320	\$ 32,294	\$ 1,052,658	\$ 1,008,596	\$ 91,972	\$ 20,582	\$ 1,121,150
Payroll taxes	68,122	9,410	2,418	79,950	77,214	7,035	2,815	87,064
Pension contribution	112,950			112,950	127,510			127,510
Conductors and guest artists	29,589			29,589	39,603			39,603
Total personnel costs	1,130,705	109,730	34,712	1,275,147	1,252,923	99,007	23,397	1,375,327
Advertising and marketing	1,986	75,963	150	78,099	2,335	69,893	309	72,537
Depreciation and amortization		2,295		2,295		1,148		1,148
Bank, credit card and ticket fees	1,608	3,069		4,677	2,794	3,429		6,223
Concert production costs	105,331			105,331	90,056			90,056
Donor cultivation			7,017	7,017			541	541
Dues and subscriptions		475		475		515		515
Insurance	25,006	2,971		27,977	13,086	2,383		15,469
Office supplies and expenses		4,924		4,924		6,365		6,365
Other		4,800		4,800		1,704		1,704
Printing and design		2,002	2,067	4,069		1,143	1,646	2,789
Professional development		6,361		6,361		2,755		2,755
Professional fees		11,510		11,510		10,041	14,400	24,441
Relocation expense						4,183		4,183
Rent		9,342		9,342		8,920		8,920
Telephone and internet		3,394		3,394		3,752		3,752
Transportation		3,128		3,128		4,250		4,250
Total expenses	\$ 1,264,636	\$ 239,964	\$ 43,946	\$ 1,548,546	\$ 1,361,194	\$ 219,488	\$ 40,293	\$ 1,620,975