KPMG

# THE CARNEGIE HALL CORPORATION

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

# Independent Auditors' Report

The Board of Trustees
The Carnegie Hall Corporation:

We have audited the accompanying financial statements of The Carnegie Hall Corporation, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 Carnegie Hall Corporation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

KPMG LLP

October 27, 2017

## THE CARNEGIE HALL CORPORATION

Balance Sheets

June 30, 2017 and 2016

| **Assets** | | **2017** | **2016** |
|---|---|---|---|
| Cash and cash equivalents | $ | 19,687,777 | 16,032,550 |
| Contributions receivable, net (note 4) | | 49,788,441 | 47,468,648 |
| Prepaid expenses and other assets | | 4,537,899 | 4,337,820 |
| Funds held by trustee (note 2) | | 452,312 | 452,312 |
| Investments (note 2) | | 329,484,341 | 302,211,153 |
| Fixed assets, net (note 3) | | 265,880,655 | 281,610,280 |
| Total assets | $ | 669,831,425 | 652,112,763 |
| **Liabilities and Net Assets** | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | $ | 5,791,842 | 6,894,152 |
| Advance sale of tickets and other deferred revenue | | 12,752,505 | 11,955,076 |
| Accrued pension benefit obligation (note 8) | | 26,729,248 | 29,376,147 |
| Loans payable (note 6) | | 117,002,957 | 121,535,823 |
| Total liabilities | | 162,276,552 | 169,761,198 |
| Net assets (note 10): | | | |
| Unrestricted | | 149,844,920 | 158,467,233 |
| Temporarily restricted | | 170,189,910 | 136,608,519 |
| Permanently restricted | | 187,520,043 | 187,275,813 |
| Total net assets | | 507,554,873 | 482,351,565 |
| Total liabilities and net assets | $ | 669,831,425 | 652,112,763 |

See accompanying notes to financial statements.

**THE CARNEGIE HALL CORPORATION**

Statements of Activities

Years ended June 30, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Change in unrestricted net assets: | | | |
| Operations: | | | |
| Expenses (note 7): | | | |
| Carnegie Hall produced events and audience development | $ | 22,598,262 | 22,932,740 |
| Hall operations | | 19,587,302 | 19,256,207 |
| Real estate operations (note 5) | | 20,211,715 | 19,766,063 |
| Weill Music Institute education programs | | 10,187,935 | 12,193,601 |
| General and administrative | | 13,340,968 | 11,059,566 |
| Fund-raising expenses | | 6,342,715 | 7,826,143 |
| Interest expense (notes 6 and 7) | | 5,599,887 | 5,635,284 |
| Other operations | | 3,997,547 | 3,648,346 |
| | | 101,866,331 | 102,317,950 |
| Revenues: | | | |
| Earned revenue: | | | |
| Box office receipts from Carnegie Hall produced events | | 14,433,751 | 17,106,703 |
| Hall rental operations | | 16,920,844 | 16,239,117 |
| Real estate operations and other (note 5) | | 16,957,982 | 16,461,002 |
| Total earned revenue | | 48,312,577 | 49,806,822 |
| Contributed income: | | | |
| Annual campaign and fund-raising events | | 15,849,838 | 10,905,286 |
| The City of New York and other government agency grants | | 431,563 | 407,135 |
| Net assets released from restrictions: | | | |
| Satisfaction of donor restrictions | | 24,805,946 | 22,958,415 |
| Total contributed revenue | | 41,087,347 | 34,270,836 |
| Investment income: | | | |
| Endowment support released from restriction/authorized for spending (note 10) | | 15,000,000 | 17,500,000 |
| Other investment (loss) income (note 2) | | (24,685) | 4,378 |
| Total operating investment income | | 14,975,315 | 17,504,378 |
| Total operating revenues | | 104,375,239 | 101,582,036 |
| Excess (deficiency) of operating revenues over expenses | | 2,508,908 | (735,914) |
| Nonoperating: | | | |
| Depreciation and amortization expense (note 7) | | (16,752,780) | (16,890,298) |
| Investment return, net (note 2) | | 983,342 | — |
| Gain (loss) not yet recognized as a component of net periodic benefit cost (note 8) | | 4,609,684 | (3,894,647) |
| Net assets released from restrictions for capital | | 28,533 | 447,436 |
| Decrease in unrestricted net assets | | (8,622,313) | (21,073,423) |
| Change in temporarily restricted net assets: | | | |
| Contributions | | 30,377,170 | 46,882,113 |
| The City of New York and other government agency grants (note 3) | | 1,371,193 | 1,105,112 |
| Investment return (loss), net (note 2) | | 41,667,507 | (14,317,923) |
| Net assets released from restrictions: | | | |
| Satisfaction of donor restrictions | | (24,834,479) | (23,405,851) |
| Endowment support (note 10) | | (15,000,000) | (17,500,000) |
| Increase (decrease) in temporarily restricted net assets | | 33,581,391 | (7,236,549) |
| Change in permanently restricted net assets: | | | |
| Endowment campaign contributions (note 10) | | 244,230 | 4,896,590 |
| Increase in permanently restricted net assets | | 244,230 | 4,896,590 |
| Increase (decrease) in net assets | | 25,203,308 | (23,413,382) |
| Net assets at beginning of year | | 482,351,565 | 505,764,947 |
| Net assets at end of year | $ | 507,554,873 | 482,351,565 |

See accompanying notes to financial statements.

**THE CARNEGIE HALL CORPORATION**

Statements of Cash Flows

Years ended June 30, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Increase (decrease) in net assets | $ | 25,203,308 | (23,413,382) |
| Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities: | | | |
| Depreciation and amortization | | 16,752,780 | 16,890,298 |
| Amortization of bond discount and issuance costs | | 62,528 | 62,524 |
| Realized and unrealized (gains) losses on investments | | (41,904,763) | 15,104,013 |
| Endowment and capital contributions | | (272,764) | (5,344,026) |
| Changes in assets and liabilities: | | | |
| Contributions receivable, less amounts classified as financing activities | | (8,029,266) | (24,962,074) |
| Prepaid expenses and other assets | | (200,079) | (1,149,219) |
| Accrued pension benefit obligation | | (2,646,899) | 6,969,565 |
| Other operating liability accounts, less amounts classified as investing activities | | (304,881) | 1,476,690 |
| Net cash used in operating activities | | (11,340,036) | (14,365,611) |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (112,744,393) | (54,721,393) |
| Proceeds from sale of investments | | 127,375,968 | 73,751,435 |
| Decrease in construction payable | | — | (820,568) |
| Purchase of fixed assets | | (1,023,155) | (4,099,959) |
| Net cash provided by investing activities | | 13,608,420 | 14,109,515 |
| Cash flows from financing activities: | | | |
| Proceeds from endowment and capital contributions | | 5,982,237 | 7,923,372 |
| Payments on loans | | (4,595,394) | (6,341,581) |
| Net cash provided by financing activities | | 1,386,843 | 1,581,791 |
| Net increase in cash and cash equivalents | | 3,655,227 | 1,325,695 |
| Cash and cash equivalents at beginning of year | | 16,032,550 | 14,706,855 |
| Cash and cash equivalents at end of year | $ | 19,687,777 | 16,032,550 |

See accompanying notes to financial statements.

## (1) Organization and Summary of Significant Accounting Policies

### *(a) Organization*

The Carnegie Hall Corporation (the Corporation or Carnegie Hall) was established in 1960 by legislation of the State of New York for the purpose of managing and operating Carnegie Hall and adjoining properties as an auditorium and facility for concerts and other cultural, educational, and other activities. The Carnegie Hall Society, Inc. (the Society) was established in the same year to support Carnegie Hall's nonprofit activities. The Society uses the income from its endowment, within established policies, to contribute to the operations of the Corporation and for other related activities. The Corporation and the Society are New York not-for-profit corporations and have been classified by the Internal Revenue Service as 501(c)(3) organizations and are exempt from substantially all federal, state, and local taxes.

Because there was no longer a need for separate legal entities, as of June 30, 2017, the Society merged into the Corporation, with the Corporation as the surviving entity. Management believes that managing as one entity will be more efficient and help communicate more clearly about Carnegie Hall's business operations. It will not affect how Carnegie Hall operates programmatically. The staff and leadership of the organization will continue their work on behalf of Carnegie Hall as before.

In previous years, the consolidated financial statements included the accounts of the Corporation and the Society, after elimination of significant transactions between the two organizations. Because consolidated financial statements have always been presented, the only impact on the financial statements is the change in the name of the reporting entity to the Carnegie Hall Corporation. In accordance with accounting standards, because the Society and the Corporation were under common control, the merger was accounted for as if it occurred at the beginning of the year. Additionally, prior year comparative financial statements also include the assets, liabilities, revenues, and expenses of the Society, as accounting guidance requires the retrospective application to all previous periods presented. No adjustments were required to such amounts and amounts agree to the consolidated amounts previously reported.

The significant accounting policies of Carnegie Hall are discussed below and in the following notes to the financial statements.

### *(b) Basis of Presentation*

Carnegie Hall's net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations are unrestricted. Carnegie Hall considers depreciation and amortization, investment return in excess of the spending rate, pension plan adjustments, and net assets released from restrictions for capital to be nonoperating in the statements of activities.

*Temporarily restricted net assets* – Net assets that are subject to donor-imposed stipulations that will be met by either actions of Carnegie Hall or the passage of time. Temporarily restricted net assets are restricted principally to artistic and education programs, and include unexpended endowment gains that have not been appropriated for expenditure (note 10).

*Permanently restricted net assets* – Net assets that are subject to donor-imposed stipulations to be maintained in perpetuity. Generally, the donors of these assets permit Carnegie Hall to use all or part of the income earned on related investments for general or specific purposes. The income from permanently restricted net assets is expendable principally to support the artistic, education, and general activities of Carnegie Hall.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor-imposed restrictions or by law. As discussed in note 10, investment income on donor-restricted endowment funds is recorded as temporarily restricted until appropriated for expenditure. When restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished or endowment funds are appropriated for expenditure, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets.

### *(c) Cash Equivalents*

Cash equivalents include short-term investments with original maturities of three months or less at the time of purchase, except for those short-term investments managed by Carnegie Hall's investment managers as part of their long-term investment strategy.

### *(d) Fair Value Measurements*

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follows:

Level 1 Quoted or published prices in active markets for identical assets or liabilities that Carnegie Hall has the ability to access at the measurement date

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active

Level 3 Inputs that are unobservable at or near the balance sheet date.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of a financial instrument within the hierarchy does not necessarily correspond to Carnegie Hall's perceived risk of that instrument.

### *(e) Use of Estimates*

The preparation of the 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 disclosures of contingencies at the date of the financial statements and revenues, expenses, gains, and losses recognized during the reporting period. Significant estimates made in preparation of the financial statements include the valuation of alternative investments, net realizable value of contributions receivable, valuation of pension benefit obligations, determination of depreciable lives for fixed assets, and allocation of functional expenses. Actual results could differ from those estimates.

***(f) Reclassifications***

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

***(g) Subsequent Events***

Carnegie Hall evaluated subsequent events after the balance sheet date of June 30, 2017 through October 27, 2017, which was the date the financial statements were issued, and concluded that no additional disclosures are required.

## (2) Investments

Investments are stated at fair value based upon quoted or published market prices except for the fair values of alternative investments, including equity, fixed income, real estate, and private equity funds, which are based on net asset values (practical expedient) provided by the fund managers and general partners based upon the underlying net assets of the funds. These values are reviewed and evaluated by management. Alternative investments, real estate, and private equity funds are generally less liquid than other investments and the reported fair value may differ from the values that would have been reported had a ready market for these investments existed.

The following table presents the fair value hierarchy for those investments reported at fair value as of June 30, 2017:

| | Fair value | Level 1 |
|---|---|---|
| Fixed income: | | |
| Short-term duration | $ 30,878,619 | 30,878,619 |
| U.S. Treasury and agencies | 22,209,020 | 22,209,020 |
| Equities: | | |
| Domestic | 101,707,977 | 101,707,977 |
| | 154,795,616 | $ 154,795,616 |
| Investments reported at net asset value | 174,688,725 | |
| Total investments | $ 329,484,341 | |

The following table presents the fair value hierarchy for investments as of June 30, 2016:

| | Fair value | Level 1 |
|---|---|---|
| Fixed income: | | |
| Short-term duration | $ 21,681,821 | 21,681,821 |
| U.S. Treasury and agencies | 23,887,053 | 23,887,053 |
| Equities: | | |
| Domestic | 78,744,816 | 78,744,816 |
| | 124,313,690 | $ 124,313,690 |
| Investments reported at net asset value | 177,897,463 | |
| Total investments | $ 302,211,153 | |

Carnegie Hall's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

The following tables present the liquidity and outstanding commitments for all investments reported at net asset value as of June 30, 2017 and 2016:

| | June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | | Liquidity | | | |
| | Fair value | Monthly/ Quarterly | Semiannual | Greater than one year | Outstanding commitments |
| Equities: | | | | | |
| Event driven | $ 45,590,808 | — | 45,590,808 | — | — |
| Sector long/short | 25,150,415 | 6,281,862 | 18,868,553 | — | — |
| Foreign | 31,311,169 | 31,156,140 | — | 155,029 | — |
| Alternative investments: | | | | | |
| Global long/short debt/equity funds | 924,526 | — | — | 924,526 | — |
| Distressed debt hedge funds | 4,537,982 | — | 2,523,762 | 2,014,220 | — |
| Multistrategy hedge funds | 29,608,379 | 29,308,302 | — | 300,077 | — |
| Real estate | 15,636,257 | — | — | 15,636,257 | 1,082,295 |
| Private equity | 21,929,189 | — | — | 21,929,189 | 4,354,120 |
| | $ 174,688,725 | 66,746,304 | 66,983,123 | 40,959,298 | 5,436,415 |

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | | Liquidity | | | |
| | Fair value | Monthly/ Quarterly | Semiannual | Greater than one year | Outstanding commitments |
| Equities: | | | | | |
| Event driven | $ 55,534,222 | — | 55,534,222 | — | — |
| Sector long/short | 20,822,797 | 5,579,662 | 15,243,135 | — | — |
| Foreign | 26,470,556 | 26,178,769 | — | 291,787 | — |
| Alternative investments: | | | | | |
| Global long/short debt/equity funds | 997,325 | — | — | 997,325 | — |
| Distressed debt hedge funds | 4,693,329 | — | 2,289,178 | 2,404,151 | — |
| Multistrategy hedge funds | 27,953,074 | 27,535,355 | — | 417,719 | — |
| Real estate | 15,130,266 | — | — | 15,130,266 | 1,082,295 |
| Private equity | 26,295,894 | — | — | 26,295,894 | 5,313,571 |
| | $ 177,897,463 | 59,293,786 | 73,066,535 | 45,537,142 | 6,395,866 |

For investments with monthly, quarterly, and semiannual redemptions, the notice periods for redemptions range from approximately 10 to 180 days as of June 30, 2017. At June 30, 2017, Carnegie Hall had commitments of approximately $5.4 million relating to private equity and real estate investments, for which capital calls had not been made. Such commitments generally have fixed expiration dates or other termination clauses. Carnegie Hall maintains sufficient liquidity in its investment portfolio to cover such calls. Additionally, at June 30, 2017, Carnegie Hall's investments in private equity and real estate investments had remaining lives of 1 to 10 years.

Funds held by trustee totaling $452,312 at June 30, 2017 and 2016 are invested in cash, which is considered Level 1 within the fair value hierarchy.

In 2017 and 2016, investment return (loss) includes the following components:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividends | $ 1,482,994 | 1,449,363 |
| Realized and unrealized gains (loss) | 41,904,763 | (15,104,013) |
| Investment expenses | (761,593) | (658,895) |
| | $ 42,626,164 | (14,313,545) |

## (3) Fixed Assets

Fixed assets are recorded at cost and consist of the following at June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Leasehold improvements | $ 358,540,198 | 360,603,801 |
| Building | 8,400,000 | 8,400,000 |
| Furniture and equipment | 10,240,470 | 11,610,726 |
| | 377,180,668 | 380,614,527 |
| Less accumulated depreciation and amortization | (111,300,013) | (99,004,247) |
| | $ 265,880,655 | 281,610,280 |

The cost of leasehold improvements is amortized using the straight-line method over the estimated useful lives of the assets or term of the lease, whichever is shorter, ranging principally from 10 to 40 years. The building is depreciated using the straight-line method over the estimated useful life of 20 years. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, ranging principally from 5 to 10 years.

Carnegie Hall disposed of fixed assets with a cost and accumulated depreciation of $4,457,014 and $3,355,760 in 2017 and 2016, respectively.

The City of New York has historically made grants to Carnegie Hall for capital improvement purposes. In 2017, $2,635,350 was received related to prior year commitments from the City of New York for the Studio Towers Renovation Project (project commenced in 2010 to create an education wing, renovate backstage areas, and upgrade building infrastructure). In 2016, $1,970,000 was received related to prior year commitments and $270,000 was recognized as a contribution.

## (4) Contributions

Contributions receivable at June 30, 2017 and 2016 are scheduled to be collected as follows:

| | 2017 | 2016 |
|---|---|---|
| Less than one year | $ 15,245,558 | 18,296,855 |
| One to five years | 30,540,384 | 23,795,750 |
| Greater than five years | 10,600,000 | 10,500,000 |
| | 56,385,942 | 52,592,605 |
| Less allowance for uncollectible contributions receivable | (35,000) | (235,000) |
| Adjustment to reflect contributions receivable at discounted value (at rates ranging from 3% to 5%) | (6,562,501) | (4,888,957) |
| | $ 49,788,441 | 47,468,648 |



(Continued)

Unconditional promises to give are recognized initially at fair value as contributions revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor’s payment plan. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary.

Amounts receivable from five donors represented 78% and 73% of gross contributions receivable as of June 30, 2017 and 2016, respectively.

Fund-raising expenses, exclusive of depreciation, reflected in the accompanying financial statements of $6,342,715 and $7,826,143 have been incurred to raise contributions and grants, including temporarily and permanently restricted contributions, totaling $48,273,994 and $64,196,236 in 2017 and 2016, respectively.

## (5) Property Lease

The Corporation has a lease with the City of New York (the Master Lease) covering the Carnegie Hall building and land, and the land adjacent thereto (the Tower Property). The Corporation subleases the Tower Property (the Sublease) to a real estate developer (the Subtenant) who has constructed an office building on this property. The Master Lease and the Sublease expire in 2086. Under the terms of the Master Lease, the annual rental expense for the Carnegie Hall building and land is currently $183,600. However, the City of New York has directed that this amount be used by the Corporation for specific operating purposes in lieu of payment of rent. The annual rent payable to the City of New York for the Tower Property is based on the amount of revenue the Corporation receives from the Subtenant. These subrental revenues are subject to adjustment based upon subtenant commercial rental revenues, property value, and any refinancing or property transfer, as defined in the Sublease.

Future minimum payments relating to the Tower Property due under the Master Lease, related Sublease, and other operating leases are as follows:

| | Future minimum lease payments | Future minimum subrental revenues |
|---|---|---|
| Year ending June 30: | | |
| 2018 | $ 9,879,279 | 14,113,255 |
| 2019 | 8,549,276 | 12,213,252 |
| 2020 | 8,549,276 | 12,213,252 |
| 2021 | 8,549,276 | 12,213,252 |
| 2022 | 8,549,276 | 12,213,252 |

The Tower Property subrental revenues for the years ended June 30, 2017 and 2016 amounted to $15,023,768 and $14,704,241, respectively. The Tower Property rent expense paid to the City of New York for the years ended June 30, 2017 and 2016 amounted to $10,516,638 and $10,292,969, respectively.

## (6) Loans Payable and Line of Credit

In November 2009, The Trust for Cultural Resources of the City of New York (the Trust) issued Series 2009 Revenue Bonds, the proceeds of which have been loaned to Carnegie Hall. The outstanding amount due under the Series 2009 Revenue Bonds at June 30, 2017 and 2016 is $110,000,000.

The interest on the Series 2009 Revenue Bonds is fixed at 4.75% on $28,905,000 principal amount and 5.00% on $81,095,000 principal amount. The loan agreement between Carnegie Hall and the Trust requires that Carnegie Hall make loan repayments equal to all principal and interest payable on the applicable bond payment dates. Loan principal repayments are scheduled to commence during the fiscal year ending June 30, 2026. Carnegie Hall is in compliance with the requirements of the loan documents. Interest paid for the years ended June 30, 2017 and 2016 was $5,427,738.

As of June 30, 2017 and 2016, the Series 2009 Revenue Bonds had an unamortized bond discount and issuance costs of $172,323 and $1,229,326, and $180,010 and $1,284,167, respectively, included in loans payable in the accompanying balance sheets.

Carnegie Hall obtained a $78,500,000 unsecured line of credit with a financial institution to provide assistance with capital expenditure projects. The revolving credit agreement provided a total commitment of $78,500,000 for the period May 14, 2012 through March 31, 2015; this amount was reduced to $50,000,000 for the period April 1, 2015 through March 31, 2017. The revolving credit agreement was amended and restated as of December 31, 2016, reducing the amount to $25,000,000 and terminating on December 31, 2019, when all amounts under the agreement are due. At June 30, 2017 and 2016, the amount outstanding under the agreement is $8,404,606 and $13,000,000, respectively. The outstanding amount is recorded as a liability and included with loans payable in the accompanying balance sheets. The interest rate on the outstanding amount is approximately 1.53% and 1.11% at June 30, 2017 and 2016, respectively. The fixed fee rate on the unused balance was 0.10% at June 30, 2017 and 2016. Interest and fees paid on the line of credit for the years ended June 30, 2017 and 2016 were $164,462 and $199,859, respectively.

The line of credit agreement requires Carnegie Hall to meet certain financial covenants. At June 30, 2017, Carnegie Hall was in compliance with these financial covenants.

## (7) Allocation of Expenses

Carnegie Hall excluded depreciation and amortization and interest from the functional expense categories in the statements of activities for the years ended June 30, 2017 and 2016. Those expenses have been distributed to the functional areas of Carnegie Hall as follows:

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Expenses excluding depreciation and interest | Depreciation and amortization | Interest | Total |
| Programs | $ | 76,582,761 | 15,966,609 | 5,599,887 | 98,149,257 |
| General and administrative | | 13,340,968 | 594,845 | — | 13,935,813 |
| Fund-raising | | 6,342,715 | 191,326 | — | 6,534,041 |
| Total | $ | 96,266,444 | 16,752,780 | 5,599,887 | 118,619,111 |

| | | 2016 | | | |
|---|---|---|---|---|---|
| | | Expenses excluding depreciation and interest | Depreciation and amortization | Interest | Total |
| Programs | $ | 77,796,957 | 16,120,817 | 5,635,284 | 99,553,058 |
| General and administrative | | 11,059,566 | 582,217 | — | 11,641,783 |
| Fund-raising | | 7,826,143 | 187,264 | — | 8,013,407 |
| Total | $ | 96,682,666 | 16,890,298 | 5,635,284 | 119,208,248 |

## (8) Pension Plans

The Corporation has a defined-benefit pension plan for its administrative employees. Plan benefits are based on a participant's years of service, age, and average monthly compensation. The Corporation's funding policy is to contribute amounts to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Effective July 1, 2017, the plan was amended to freeze credited service that applies to the pre-July 1, 2017 benefit formula (Legacy benefit). Additionally, going forward, active participants each year will earn a new benefit to be paid in the form of a variable annuity (Sustainable Income Plan (SIP) benefit). At retirement, participants will receive both benefits.

The following tables set forth the plan's financial information as of June 30, 2017 and 2016:

| | | 2017 | 2016 |
|---|---|---|---|
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | $ | 44,204,737 | 36,857,193 |
| Service cost | | 2,490,696 | 2,235,373 |
| Interest cost | | 1,397,136 | 1,517,019 |
| Actuarial (gain) loss | | (3,018,534) | 4,124,428 |
| Benefits paid and estimated expenses | | (830,151) | (529,276) |
| Benefit obligation at end of year | | 44,243,884 | 44,204,737 |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | | 14,828,590 | 14,450,611 |
| Actual return | | 1,555,259 | 305,782 |
| Employer contributions | | 1,975,000 | 600,000 |
| Benefits paid and actual expenses | | (844,213) | (527,803) |
| Fair value of plan assets at end of year | | 17,514,636 | 14,828,590 |
| Funded status | $ | (26,729,248) | (29,376,147) |

| | | 2017 | 2016 |
|---|---|---|---|
| Components of net periodic cost: | | | |
| Service cost | $ | 2,490,696 | 2,235,373 |
| Interest cost | | 1,397,136 | 1,517,019 |
| Expected return on plan assets | | (894,790) | (859,188) |
| Other, net | | 944,743 | 781,714 |
| Net periodic cost | $ | 3,937,785 | 3,674,918 |
| Item not yet recognized as a component of net periodic benefit cost: | | | |
| Actuarial gain (loss) | $ | 4,609,684 | (3,894,647) |

Accumulated amounts recorded in unrestricted net assets other than through net periodic benefit cost at June 30, 2017 and 2016 consist of actuarial losses of $11,861,509 and $16,471,193, respectively. In addition to service and interest costs, the components of projected net periodic postretirement benefit cost for fiscal year 2018 will include the amortization of the actuarial loss of $633,000.

The accumulated benefit obligation for the plan at June 30, 2017 and 2016 was $35,312,587 and $34,603,240, respectively.

| | 2017 | 2016 |
|---|---|---|
| Weighted average assumptions used to determine benefit obligations: | | |
| Discount rate | 3.70 % | 3.35 % |
| Rate of compensation increase | 3.50 | 3.50 |
| Weighted average assumptions used to determine net periodic benefit cost: | | |
| Discount rate | 3.35 % | 4.25 % |
| Expected return on plan assets | 6.40 | 6.70 |
| Rate of compensation increase | 3.50 | 4.00 |

Carnegie Hall expects to contribute $3,431,000 to the plan in 2018. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

| | |
|---|---|
| 2018 | $ 2,992,000 |
| 2019 | 1,405,000 |
| 2020 | 1,149,000 |
| 2021 | 2,067,000 |
| 2022 | 2,496,000 |
| 2023–2027 | 10,439,000 |

The following tables present Carnegie Hall's fair value hierarchy for plan assets, which are measured at fair value on a recurring basis, as of June 30, 2017 and 2016:

| | 2017 | | | |
|---|---|---|---|---|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Common stocks | $ 2,453,407 | 2,453,407 | — | — |
| Mutual funds | 9,113,767 | 9,113,767 | — | — |
| Investment contracts | 5,947,462 | — | — | 5,947,462 |
| | $ 17,514,636 | 11,567,174 | — | 5,947,462 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| Common stocks | $ | 2,052,864 | 2,052,864 | — | — |
| Mutual funds | | 6,262,365 | 6,262,365 | — | — |
| Investment contracts | | 6,513,361 | — | — | 6,513,361 |
| | $ | 14,828,590 | 8,315,229 | — | 6,513,361 |

Activity with respect to Level 3 plan assets for the years ended June 30, 2017 and 2016 was as follows:

| | | **2017** | **2016** |
|---|---|---|---|
| Balance at beginning of year | $ | 6,513,361 | 6,691,067 |
| Sales | | (772,116) | (470,894) |
| Interest earned | | 206,217 | 293,188 |
| Balance at end of year | $ | 5,947,462 | 6,513,361 |

Carnegie Hall participates in a multiemployer union pension plan, the Pension Fund of Local No. One, I.A.T.S.E. The Employer Identification Number is 13-3022965 and the three-digit Pension Plan number is 001. The most recent Pension Protection Act (PPA) zone status is green at December 31, 2015 and 2014, which is for the plan years ended December 31, 2015 and 2014. The zone status is based on information that Carnegie Hall received from the plan sponsor and, as required by the PPA, is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

The expiration date of the collective bargaining agreement requiring contributions to the plan is August 31, 2016. The contributions by Carnegie Hall to the union pension fund were $415,347 and $433,092 for the years ended June 30, 2017 and 2016, respectively.

Carnegie Hall further participates in six other multiemployer plans, the amounts of which are insignificant to the financial statements.

## (9) Related Party Transactions

Organizations affiliated with members of the Board of Trustees of Carnegie Hall provide services to the Corporation. The arrangements for these services are negotiated on an arm's length basis and are periodically reviewed by the Governance Committee of the Corporation.

## (10) Net Assets

Carnegie Hall's endowment is subject to the provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA). Carnegie Hall has interpreted NYPMIFA as allowing it to appropriate for expenditure or accumulate so much of the donor-restricted endowment fund as is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument absent explicit donor stipulations to the contrary. Accounting guidance associated with the enactment of NYPMIFA as set forth in Accounting Standards Codification 958-205-45, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*, requires the portion of a donor-restricted endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA. In fiscal year 2016, Carnegie Hall had a spending policy of appropriating for distribution 6% of the endowment funds' average ending balance of the preceding 20 quarters through the calendar year preceding the fiscal year in which the distribution is planned. The Board of Trustees approved a reduction in the distributed percentage to 5% beginning July 1, 2016.

The objective of Carnegie Hall's investment portfolio is to provide future growth of the portfolio sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the endowment fund. The objective of the investment program is to enhance the portfolio's long-term viability by maximizing the value of the portfolio with a prudent level of risk. The assets are managed on a total return basis. The Investment Committee of the Board of Trustees has adopted long-term asset allocation policy midrange targets for fixed income, equities, alternative investments, real estate, and private equity.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the original historic dollar value. This deficiency typically results from unfavorable market fluctuations subsequent to the investment of permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the donor-restricted endowment fund to the required level will be classified as increases in unrestricted net assets. There were no such deficiencies at June 30, 2017 or 2016.

Carnegie Hall's endowment consists of both donor-restricted endowments and those amounts designated by the board to function as endowment. Endowment net assets consist of the following at June 30, 2017 and 2016:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor restricted | $ | — | 84,970,084 | 187,275,813 | 272,245,897 |
| Board designated | | 6,424,930 | — | — | 6,424,930 |
| Balance at June 30, 2016 | $ | 6,424,930 | 84,970,084 | 187,275,813 | 278,670,827 |
| Donor restricted | $ | — | 111,637,591 | 187,520,043 | 299,157,634 |
| Board designated | | 7,408,272 | — | — | 7,408,272 |
| Balance at June 30, 2017 | $ | 7,408,272 | 111,637,591 | 187,520,043 | 306,565,906 |

The following table presents the changes in endowment net assets for the years ended June 30, 2017 and 2016:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Balance at June 30, 2015 | $ 6,420,552 | 116,788,007 | 182,379,223 | 305,587,782 |
| Investment gain (loss), net | 4,378 | (14,317,923) | — | (14,313,545) |
| Endowment spending | — | (17,500,000) | — | (17,500,000) |
| Contributions | — | — | 4,896,590 | 4,896,590 |
| Balance at June 30, 2016 | 6,424,930 | 84,970,084 | 187,275,813 | 278,670,827 |
| Investment gain, net | 983,342 | 41,667,507 | — | 42,650,849 |
| Endowment spending | — | (15,000,000) | — | (15,000,000) |
| Contributions | — | — | 244,230 | 244,230 |
| Balance at June 30, 2017 | $ 7,408,272 | 111,637,591 | 187,520,043 | 306,565,906 |

Temporarily restricted net assets at June 30, 2017 and 2016 were available for the following purposes:

| | 2017 | 2016 |
|---|---|---|
| Artistic and educational programs | $ 34,458,583 | 28,739,816 |
| Annual fund – time restrictions | 24,093,736 | 22,898,619 |
| Endowment appreciation not appropriated for expenditure | 111,637,591 | 84,970,084 |
| | $ 170,189,910 | 136,608,519 |