

**BUFFALO PHILHARMONIC
ORCHESTRA SOCIETY, INC.
AND SUBSIDIARY**

Consolidated Financial Statements
and Additional Information
for the Years Ended
August 31, 2019 and 2018
with
Independent Auditors' Report

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Buffalo Philharmonic Orchestra Society, Inc. and Subsidiary
Buffalo, New York

We have audited the accompanying consolidated financial statements of the Buffalo Philharmonic Orchestra Society, Inc. and Subsidiary (non-profit corporations), which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended August 31, 2019, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Buffalo Philharmonic Orchestra Society, Inc. and Subsidiary as of August 31, 2019 and 2018, 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 Additional Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional information included on pages 14 through 15 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Chungon Travis Burrell, CPA

January 22, 2020

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash	\$ 312,136	\$ 378,724
Investments	455,127	338,245
Pledges receivable	865,588	999,117
Grants and other receivables	114,584	172,874
Prepaid expenses and other current assets	330,017	364,780
Total current assets	<u>2,077,452</u>	<u>2,253,740</u>
PROPERTY AND EQUIPMENT, net	2,724,363	191,710
NON-CURRENT PORTION OF PLEDGES RECEIVABLE, net	182,959	299,079
ASSETS HELD IN TRUST	<u>32,848,258</u>	<u>33,754,614</u>
	<u>\$ 37,833,032</u>	<u>\$ 36,499,143</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Lines of credit	\$ 545,000	\$ 350,000
Accounts payable	150,759	228,891
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	21,262	221,262
Accrued expenses	195,869	97,661
Deferred revenue	2,815,720	2,778,829
Total current liabilities	<u>3,728,610</u>	<u>3,676,643</u>
NET ASSETS:		
Without donor restriction	144,707	(2,401,021)
With donor restriction	<u>33,959,715</u>	<u>35,223,521</u>
Total net assets	<u>34,104,422</u>	<u>32,822,500</u>
	<u>\$ 37,833,032</u>	<u>\$ 36,499,143</u>

See notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018**

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION:		
Revenue and other support:		
Concert revenue	\$ 4,468,188	\$ 4,375,927
Private support	4,032,944	4,417,232
Public support	1,261,309	1,064,360
Endowment income	1,926,820	1,810,274
Contribution of donated property	2,550,000	-
Other	338,692	321,388
	<u>14,577,953</u>	<u>11,989,181</u>
Net assets released from restrictions	346,972	351,439
Total revenue and other support	<u>14,924,925</u>	<u>12,340,620</u>
 Expenses:		
Orchestra	6,300,793	6,275,997
Artistic	1,368,154	1,228,140
Production	1,410,840	1,512,999
Marketing	1,270,405	1,198,971
General and administrative	1,187,158	1,164,340
Fundraising	841,847	917,612
Total expenses	<u>12,379,197</u>	<u>12,298,059</u>
 Changes in net assets without donor restriction	 2,545,728	 42,561
CHANGES IN NET ASSETS WITH DONOR RESTRICTION:		
Contributions	35,995	119,548
Transfers to Buffalo Philharmonic Orchestra Foundation, Inc. endowment fund	(61,615)	(159,608)
Investment income (loss), net	(1,016,464)	3,180,006
Restricted contributions	125,250	26,000
Net assets released from restrictions	<u>(346,972)</u>	<u>(351,439)</u>
 Changes in net assets with donor restriction	 <u>(1,263,806)</u>	 <u>2,814,507</u>
 Change in net assets	 1,281,922	 2,857,068
 Net assets, beginning of year	 <u>32,822,500</u>	 <u>29,965,432</u>
 Net assets, end of year	 <u>\$ 34,104,422</u>	 <u>\$ 32,822,500</u>

See notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019**

	Program			Marketing	General and Administrative	Fundraising	Total
	Orchestra	Artistic	Production				
Wages	\$ 4,540,356	\$ 68,718	\$ 534,483	\$ 421,794	\$ 555,831	\$ 568,592	\$ 6,689,774
Employee benefits	1,273,584	15,919	77,219	57,933	72,547	49,286	1,546,488
Guest artist/conductor expenses	-	1,275,415	-	-	-	-	1,275,415
Production expenses	-	-	684,532	-	-	-	684,532
Payroll taxes	450,260	8,102	57,255	47,538	33,288	36,163	632,606
Advertising	-	-	-	336,866	-	-	336,866
Office expenses	10,546	-	8,742	9,539	155,099	4,292	188,218
Marketing and promotion	-	-	-	127,991	6,104	26,931	161,026
Bank service fees	-	-	-	103,436	8,660	22,821	134,917
Special events	-	-	-	-	-	97,680	97,680
Depreciation	772	-	3,086	6,948	59,111	2,701	72,618
Repairs and maintenance	-	-	-	28,288	29,615	11,588	69,491
Insurance	-	-	-	-	58,517	-	58,517
Consultants	-	-	-	53,315	-	-	53,315
Travel	2,195	-	43,696	175	5,602	721	52,389
Interest	-	-	-	-	41,912	-	41,912
Gift shop inventory	-	-	-	-	38,306	-	38,306
Pre/post concert expenses	-	-	-	34,968	-	-	34,968
Professional fees	16,413	-	-	-	10,300	-	26,713
Building expenses	-	-	-	-	32,774	-	32,774
Meals and entertainment	5,160	-	1,827	1,850	11,970	161	20,968
Payroll processing fees	-	-	-	-	18,344	-	18,344
Dues and registration fees	-	-	-	60	16,174	1,937	18,171
Bad debt	-	-	-	-	-	15,000	15,000
Miscellaneous expenses	1,507	-	-	39,704	33,004	3,974	78,189
Total	\$ 6,300,793	\$ 1,368,154	\$ 1,410,840	\$ 1,270,405	\$ 1,187,158	\$ 841,847	\$ 12,379,197

See notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,281,922	\$ 2,857,068
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	72,618	25,823
Net realized and unrealized gain on investments	(4,383)	(18,525)
Donated investments	-	(102,848)
Contribution of donated property	(2,550,000)	-
Net (appreciation) depreciation of assets held in trust	906,356	(3,180,785)
Provision for bad debts	15,000	25,767
Contributions restricted for long-term investment	(161,245)	(145,548)
Changes in other operating assets and liabilities:		
Pledges receivable	270,644	766,823
Grants and other receivables	58,290	49,252
Prepaid expenses and other current assets	34,763	(15,541)
Accounts payable	(78,132)	12,421
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	(200,000)	200,174
Accrued expenses	98,208	(60,580)
Deferred revenue	36,891	(6,359)
Net cash provided by (used in) operating activities	<u>(219,068)</u>	<u>407,142</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment expenditures	(55,271)	(99,207)
Purchases of investments	(391,711)	(3,109)
Proceeds from sale of investments	279,212	2,514
Net cash used in investing activities	<u>(167,770)</u>	<u>(99,802)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in contributions restricted for long-term investment	125,250	26,000
Net change in line of credit	195,000	(325,000)
Net cash provided by (used in) financing activities	<u>320,250</u>	<u>(299,000)</u>
NET CHANGE IN CASH	(66,588)	8,340
CASH, beginning of year	378,724	370,384
CASH, end of year	\$ 312,136	\$ 378,724
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 41,912</u>	<u>\$ 30,642</u>

See notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Buffalo Philharmonic Orchestra Society, Inc. (the “BPO”) maintains a world-class symphonic orchestra serving Western New York State and the Niagara Frontier region. The BPO performs classical, pops, progressive and educational concerts to enrich the cultural interests and stimulate the economy in the community in which it operates.

786 Delaware LLC, a non-profit organization, is a wholly-owned subsidiary of the BPO. The entity was formed to manage the operations and maintenance of the building for its tenants, including the BPO. During the fiscal year ended August 31, 2018, 786 Delaware LLC was notified of a donor’s intent to contribute a building and its contents. During fiscal 2018, 786 Delaware LLC entered into a ground lease agreement with this donor for the rights to lease the facility until the title of the building was transferred to 786 Delaware LLC on December 19, 2018 (see Note 5).

Principles of Consolidation – The consolidated financial statements include accounts of the Buffalo Philharmonic Orchestra Society, Inc. and its wholly-owned subsidiary, 786 Delaware LLC. All significant intercompany accounts and transactions have been eliminated.

Consolidated Financial Statement Presentation – The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which establish guidance for external reporting by not-for-profit organizations and require that resources be classified for accounting and reporting purposes into two net asset categories according to externally (donor) imposed restrictions. The standards also require that the amounts for each of the two classes of net assets – net assets with donor restriction and net assets without donor restriction be displayed in a consolidated statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a consolidated statement of activities and changes in net assets.

Cash – The BPO’s cash, at times, could exceed federally insured limits. The BPO has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to its cash.

Investments – Generally accepted accounting principles establish a hierarchy for the determination of fair value, as well as disclosure requirements relative to those assets and liabilities. The hierarchy identifies three levels of input. Level 1 inputs are generally quoted market prices for identical assets or liabilities, which are actively traded on an exchange. Level 2 inputs generally consist of market prices for identical assets that are not actively traded or market prices of similar assets or liabilities that are actively traded, on an exchange. Level 3 inputs are referred to as unobservable inputs and consist primarily of information derived by management where Level 1 and Level 2 inputs are not available.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Standards Issued – The BPO adopted Accounting Standards Update (“ASU”) 2016-14 “*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*” in the current year. ASU 2016-14 contains several provisions that change the presentation of and disclosures within the financial statements of a not-for-profit entity. These changes include an updated net asset classification scheme from three classes to two classes, changes in underwater endowment accounting, quantitative and qualitative disclosures regarding liquidity, a change in presentation of investment return to a net basis and a requirement to report expenses by function, nature, and an analysis showing the relationship between function and nature and the removal of the requirement for a reconciliation for statements of cash flows done on a direct basis, making it optional. Certain reclassifications of prior year amounts have been made to conform to the new standard.

The BPO has not presented the consolidated statement of functional expenses for the year ended August 31, 2018, as this period was before the implementation of the new guidance as permitted under ASU 2016-14.

Property and Equipment – Property and equipment is stated at cost or fair market value at the date of donation, net of accumulated depreciation. Depreciation is computed by the straight-line method over estimated useful lives. The BPO capitalizes all sheet music inventory within furniture, fixtures and equipment. Sheet music is not depreciated as it is held in perpetuity to promote and preserve the musical compositions.

Revenue and Expense Recognition – Concert revenue and related expenses are recognized in the period in which the concert is performed. Amounts expended for the subsequent concert season (for example, cost of brochures, advertising, and guest artist advances) are recorded as prepaid expenses in the accompanying consolidated statements of financial position.

Private support and contributions are reported at fair value at the date the contribution is made and recorded as without donor restriction or with donor restriction, depending on the existence and nature of any donor restrictions. When a restriction expires, that is, when a stipulated purpose restriction is accomplished, donor restricted assets are reclassified to net assets without donor restriction and are reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Contributions whose stipulated purpose restriction is accomplished in the same reporting period as received are reported as an increase in net assets without donor restriction.

Public support, including grant revenue, is recognized as income at the time of the grant award unless the grant is designated to reimburse for specific expenditures.

Deferred Revenue – Deferred revenue in the accompanying consolidated statements of financial position consists of concert revenue received in advance and grants for which the related expenditures have not been incurred.

Income Taxes – The BPO is a 501(c)(3) corporation exempt from income taxes under Section 501(a) of the Internal Revenue Code. 786 Delaware LLC is a single-member LLC and a qualified non-profit organization exempt from income taxes under for income taxes Section 501(a) of the Internal Revenue Code. Accordingly, no provision has been reflected in the accompanying consolidated financial statements.

Use of Estimates – The preparation of consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events – Management of the BPO has evaluated the effects of all subsequent events through January 22, 2020, the date which the consolidated financial statements were available to be issued, to determine if events or transactions occurring through that date require potential adjustment or disclosure in the consolidated financial statements.

2. LIQUIDITY

The BPO has approximately \$1,748,000 of financial assets available within one year of the consolidated statement of financial position date consisting of approximately \$312,000 of cash, \$455,000 of investments, \$866,000 of pledges receivable and \$115,000 of grants and other receivables. It is anticipated that the pledges receivable and grants and other receivables will be collected and utilized within one year of the consolidated statement of financial position date. Of the approximately \$1,748,000 financial assets available within one year of the consolidated statement of financial position date above, approximately \$1,110,000 have contract or donor imposed restrictions. As described further in Note 7, the BPO has three available lines of credit for borrowings up to \$1,000,000, which could be drawn on in the event of an unanticipated liquidity need. There were outstanding borrowings on the line of credit of \$545,000 as of August 31, 2019.

3. INVESTMENTS

In 2019 and 2018, the BPO received a pledge contribution from a donor which was placed within a brokerage account through a financial institution. The recorded values approximate fair values, which are determined based on the fair values of the funds' interests of the underlying assets.

Assets subjected to measurement at fair value on a recurring basis are as follows as of August 31:

	2019	2018
<i>Level 1:</i>		
Equities	\$ 259,087	\$ 107,887
Exchange-traded products	<u>196,040</u>	<u>230,358</u>
	<u>\$ 455,127</u>	<u>\$ 338,245</u>

The following are included within investment income (loss) and are classified in the consolidated statements of activities and changes in net assets as net assets with donor restriction for the years ended August 31:

	2019	2018
Net realized and unrealized gain on investments	\$ 4,383	\$ 18,525
Dividends and interest, net of fees	10,759	6,697
Assets held in trust appreciation (depreciation) – Community Foundation for Greater Buffalo	(56,448)	387,593
Assets held in trust appreciation (depreciation) – Buffalo Philharmonic Orchestra Foundation, Inc.	<u>(748,719)</u>	<u>2,983,125</u>
	(790,025)	3,395,940
Less assets held in trust investment expenses	<u>(226,439)</u>	<u>(215,934)</u>
	<u>\$ (1,016,464)</u>	<u>\$ 3,180,006</u>

4. PLEDGES RECEIVABLE

Pledges receivable over more than one year are discounted at inception using an appropriate interest rate. Receivables are composed of the following at August 31:

	2019	2018
Gross unconditional promises to give	\$ 1,163,588	\$ 1,444,232
Less unamortized discount	(70,041)	(106,036)
Less allowance for uncollectible pledges	<u>(45,000)</u>	<u>(40,000)</u>
	<u>\$ 1,048,547</u>	<u>\$ 1,298,196</u>
Amounts due in:		
Less than one year	\$ 865,588	\$ 999,117
One to five years	<u>298,000</u>	<u>445,115</u>
	<u>\$ 1,163,588</u>	<u>\$ 1,444,232</u>

Additionally, as of August 31, 2019, the BPO was notified of bequest intentions totaling approximately \$16,000,000. These intentions to give are not recognized in the accompanying consolidated financial statements since there is no written unconditional promise to give.

Pledges due in more than one year are reflected at the present value of estimated future cash flows using a discount rate consistent with the United States Prime Lending Rate as of August 31, 2019 and 2018, with the amortized discount over the life of the pledges.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of August 31:

	2019	2018
Land	\$ 255,000	\$ -
Building	2,167,500	-
Computer software and equipment	663,999	661,521
Furniture, fixtures and equipment	468,420	288,127
Leasehold improvements	<u>34,149</u>	<u>34,149</u>
	3,589,068	983,797
Less accumulated depreciation	<u>864,705</u>	<u>792,087</u>
	<u>\$ 2,724,363</u>	<u>\$ 191,710</u>

Depreciation expense amounted to \$72,618 and \$25,823 for the years ended August 31, 2019 and 2018, respectively.

In December 2018, a donor contributed a building and its contents to 786 Delaware LLC. The appraised value of the land, building and contents amounted to \$2,550,000 and was allocated to the appropriate fixed asset categories. The donation is recorded in contribution of donated property in the consolidated statement of activities and changes in net assets for the year ended August 31, 2019.

6. ASSETS HELD IN TRUST

Assets held in trust consisted of the following as of August 31:

	2019	2018
The Buffalo Philharmonic Orchestra Foundation, Inc.	\$ 28,146,709	\$ 28,895,429
The BPO Permanent Endowment Fund held at the Community Foundation for Greater Buffalo	<u>4,701,549</u>	<u>4,859,185</u>
	<u>\$ 32,848,258</u>	<u>\$ 33,754,614</u>

The Buffalo Philharmonic Orchestra Foundation, Inc. (the "Foundation"), a related party, is a not-for-profit corporation whose primary purpose is to receive contributions and maintain a permanent endowment fund for the benefit of the BPO. The Foundation may, at the discretion of its independent Board of Directors, make unrestricted distributions to the BPO not to exceed an amount determined by a formula based on 5% of historical asset fair value averages at the determination date.

Amounts held by the Foundation consist primarily of pledges receivable and a variety of pooled investments sponsored by the Commonfund and Wilmington Trust, an organization that provides a full array of investment advisory services to foundations, endowments, health care institutions, and certain other tax exempt institutional investors. Distributions received from the Foundation totaled \$1,007,433 and \$908,336 for the years ended August 31, 2019 and 2018, respectively, and are included in endowment income in the accompanying consolidated statements of activities and changes in net assets.

The BPO maintains an agency endowment fund at the Community Foundation for Greater Buffalo ("CFGB") to accommodate donors who wish to support the BPO through an endowment fund held by a community foundation. The Fund is pooled with other CFGB investment assets and includes money market funds, marketable securities and alternative investments stated at fair value. Values of amounts held by the CFGB are based on the BPO's contributions, plus its allocable share of CFGB net investment earnings, as defined, less any withdrawals or distributions.

Under the terms of an agreement with the CFGB, the BPO receives a distribution based upon the quarterly market value of the Fund in accordance with CFGB's current spending policy percentage, which is 5.25%. Earnings from the endowment fund are recorded as revenues with donor restriction until appropriated for spending. Distributions received by the BPO, which were available for unrestricted purposes, during the years ended August 31, 2019 and 2018 totaled \$204,873 and \$195,369, respectively, and are included in endowment income in the accompanying consolidated statements of activities and changes in net assets.

BPO is also a beneficiary of approximately \$5,000,000 of funds not recorded in these consolidated financial statements, but held in trusts established by others at the CFGB. The income earned on these funds is without donor restriction and remitted annually to the BPO. Distributions received by the BPO during 2019 and 2018, are included in endowment income in the accompanying consolidated statements of activities and changes in net assets and totaled \$199,469 and \$193,997, respectively.

Additional funds of approximately \$10,900,000 are earmarked by other organizations to earn income for the benefit of the BPO. These amounts are also not recorded in these consolidated financial statements. Distributions received by the BPO and included in endowment income during the years ended August 31, 2019 and 2018, amounted to \$515,045 and \$512,572, respectively.

7. LINES OF CREDIT

The BPO has three working capital lines of credit with total availability of \$1,000,000.

The first line of credit has a maximum availability of \$200,000, which bears interest at the prime rate plus 1.75% (7.00% at August 31, 2019). The total outstanding balance on this line of credit at August 31, 2019 and 2018 was \$200,000.

The second line of credit has a maximum availability of \$300,000, which bears interest at the prime rate plus 1.0% (6.25% at August 31, 2019). The total outstanding balance on this line of credit at August 31, 2019 was \$225,000. There was no outstanding balance on this line of credit at August 31, 2018.

The third line of credit has a maximum availability of \$500,000, which bears interest at the prime rate plus 0.5% (5.75% at August 31, 2019). The total outstanding balance on this line was \$120,000 and \$150,000 at August 31, 2019 and 2018, respectively. The Foundation has guaranteed this line in the aggregate amount of \$500,000.

8. RETIREMENT PLANS

The BPO has a contributory, tax-deferred annuity plan covering substantially all employees. The BPO is not required to make contributions under this plan.

Additionally, the BPO contributes to the American Federation of Musicians and Employers’ Pension Fund on behalf of employees covered by the “Agreement for Collectively Bargained Employees.” The Plan is a defined benefit multi-employer plan pursuant to the terms of the collective bargaining agreement, and requires contributions based upon specified percentages of scale wages earned. The risks of participating in the multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the BPO chooses to stop participating in a multiemployer plan, the BPO may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

For an individually significant plan, the BPO is required to disclose the Plan’s zone status, based upon information received from the Plan and certified by the Plan’s actuary. The zone status is based upon criteria outlined in the Pension Protection Act of 2006 (PPA). Based upon this criteria and 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. Funds that are designated in the yellow and red zones are required to have a financial improvement plan (FIP) or rehabilitation plan (RP) pending or implemented.

The BPO contributed to the following multiemployer plan for pension, health and welfare benefits for each of the years ended August 31, 2019 and 2018:

<u>Plan Name</u>	<u>EIN/Plan Number</u>	<u>Act Zone Status</u>	<u>Pending/ Implemented</u>	<u>Surcharge Imposed</u>	<u>Total Contributions</u>	
					<u>2019</u>	<u>2018</u>
American Federation of Musicians & Employers Pension Fund	51-6120204	Red	Yes	No	\$ 310,731	\$ 308,065

9. NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction consisted of the following at August 31:

	2019	2018
Cumulative appreciation of endowment assets held at the CFGB	\$ 1,434,108	\$ 1,716,994
Contributions restricted for scholarships	-	8,250
Pledges received for future operational purposes	647,075	1,011,146
Montgomery assets held	464,383	449,241
Net assets held in trust by the Foundation	28,146,709	28,895,429
Endowment assets held at CFGB	<u>3,267,441</u>	<u>3,142,191</u>
	<u>\$ 33,959,715</u>	<u>\$ 35,223,521</u>

Pledges of \$335,874 and \$351,439 were released from net assets with donor restriction to net assets without donor restriction during the years ended August 31, 2019 and 2018, respectively.

The BPO’s Board of Trustees has evaluated the New York State Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this evaluation, the BPO classifies net assets with donor restriction as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of a donor gift instrument at the time the accumulation is added to the fund.

Investment earnings of endowment assets held at the CFGB, including, interest, dividends, realized gains (losses), and appreciation (depreciation), are classified as net assets with donor restriction until those amounts are appropriated for expenditure by the BPO in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Undistributed net appreciation or depreciation of net assets held in trust by the Foundation are presented as adjustments to net assets with donor restriction.

10. RELATED PARTY TRANSACTIONS

The BPO uses the facility at Kleinhans Music Hall for concerts and other large group events. Pursuant to an agreement, the BPO has certain exclusive use rights. The BPO rents the facility on an event-by-event basis. Based on agreement, activity and balances with Kleinhans Musical Hall are as follows as of August 31:

	2019	2018
Accounts receivable	\$ 2,975	\$ 1,660
Accounts payable	59,289	85,706
Accrued expenses	147,512	31,233

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BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2019**

	Buffalo Philharmonic Orchestra Society, Inc.	786 Delaware LLC	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash	\$ 289,189	\$ 22,947	\$ -	\$ 312,136
Investments	455,127	-	-	455,127
Pledges receivable	865,588	-	-	865,588
Grants and other receivables	111,656	2,928	-	114,584
Prepaid expenses and other current assets	330,017	-	-	330,017
Total current assets	<u>2,051,577</u>	<u>25,875</u>	<u>-</u>	<u>2,077,452</u>
PROPERTY AND EQUIPMENT, net	219,596	2,504,767	-	2,724,363
NON-CURRENT PORTION OF PLEDGES RECEIVABLE, net	182,959	-	-	182,959
ASSETS HELD IN TRUST	<u>32,848,258</u>	<u>-</u>	<u>-</u>	<u>32,848,258</u>
	<u>\$ 35,302,390</u>	<u>\$ 2,530,642</u>	<u>\$ -</u>	<u>\$ 37,833,032</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Lines of credit	\$ 545,000	\$ -	\$ -	\$ 545,000
Accounts payable	147,259	3,500	-	150,759
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	21,262	-	-	21,262
Accrued expenses	195,869	-	-	195,869
Deferred revenue	2,815,720	-	-	2,815,720
Total current liabilities	<u>3,725,110</u>	<u>3,500</u>	<u>-</u>	<u>3,728,610</u>
NET ASSETS:				
Without donor restriction	(2,382,435)	2,527,142	-	144,707
With donor restriction	33,959,715	-	-	33,959,715
Total net assets	<u>31,577,280</u>	<u>2,527,142</u>	<u>-</u>	<u>34,104,422</u>
	<u>\$ 35,302,390</u>	<u>\$ 2,530,642</u>	<u>\$ -</u>	<u>\$ 37,833,032</u>

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2019**

	Buffalo Philharmonic Orchestra Society, Inc.	786 Delaware LLC	Eliminations	Consolidated
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION:				
Revenue and other support:				
Concert revenue	\$ 4,468,188	\$ -	\$ -	\$ 4,468,188
Private support	4,032,944	-	-	4,032,944
Public support	1,261,309	-	-	1,261,309
Endowment income	1,926,820	-	-	1,926,820
Contribution of donated property	-	2,550,000	-	2,550,000
Other	283,837	144,855	(90,000)	338,692
	<u>11,973,098</u>	<u>2,694,855</u>	<u>(90,000)</u>	<u>14,577,953</u>
Net assets released from restrictions	346,972	-	-	346,972
Total revenue and other support	<u>12,320,070</u>	<u>2,694,855</u>	<u>(90,000)</u>	<u>14,924,925</u>
Expenses:				
Orchestra	6,300,793	-	-	6,300,793
Artistic	1,368,154	-	-	1,368,154
Production	1,410,840	-	-	1,410,840
Marketing	1,270,405	-	-	1,270,405
General and administrative	1,089,383	187,775	(90,000)	1,187,158
Fundraising	841,847	-	-	841,847
Total expenses	<u>12,281,422</u>	<u>187,775</u>	<u>(90,000)</u>	<u>12,379,197</u>
Changes in net assets without donor restriction	38,648	2,507,080	-	2,545,728
CHANGES IN NET ASSETS WITH DONOR RESTRICTION:				
Contributions	35,995	-	-	35,995
Transfers to Buffalo Philharmonic Orchestra Foundation, Inc. endowment fund	(61,615)	-	-	(61,615)
Investment loss, net	(1,016,464)	-	-	(1,016,464)
Restricted contributions	125,250	-	-	125,250
Net assets released from restrictions	(346,972)	-	-	(346,972)
Changes in net assets with donor restriction	<u>(1,263,806)</u>	<u>-</u>	<u>-</u>	<u>(1,263,806)</u>
Change in net assets	(1,225,158)	2,507,080	-	1,281,922
Net assets, beginning of year	<u>32,802,438</u>	<u>20,062</u>	<u>-</u>	<u>32,822,500</u>
Net assets, end of year	<u>\$ 31,577,280</u>	<u>\$ 2,527,142</u>	<u>\$ -</u>	<u>\$ 34,104,422</u>