

**BUFFALO PHILHARMONIC ORCHESTRA
SOCIETY, INC. AND SUBSIDIARY**
Consolidated Financial Statements and
Supplemental Information
August 31, 2020 and 2019
(With Independent Auditors' Report Thereon)

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Buffalo Philharmonic Orchestra Society, Inc. and Subsidiary:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Buffalo Philharmonic Orchestra Society, Inc. and Subsidiary (the BPO) (a nonprofit organization), which comprise the consolidated statement of financial position as of August 31, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 BPO'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 BPO'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 that 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, 2020, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Consolidated Financial Statements

The consolidated financial statements of the Buffalo Philharmonic Orchestra Society, Inc. and Subsidiary as of August 31, 2019, were audited by other auditors whose report dated January 22, 2020, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information included in Schedules 1 and 2 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.

EFPR Group, CPAs, PLLC

Williamsville, New York
January 29, 2021

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
August 31, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and equivalents	\$ 1,197,769	312,136
Investments	628,545	455,127
Pledges receivable	150,198	865,588
Grants and other receivables	206,213	114,584
Prepaid expenses and other current assets	276,987	330,017
Total current assets	2,459,712	2,077,452
Property and equipment, at cost	3,704,615	3,589,068
Less accumulated depreciation	(978,651)	(864,705)
Net property and equipment	2,725,964	2,724,363
Noncurrent portion of pledges receivable, net	182,460	182,959
Assets held in trust	36,119,914	32,848,258
Total assets	\$ 41,488,050	37,833,032
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	157,218	150,759
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	58,025	21,262
Accrued expenses	580,426	195,869
Lines of credit	-	545,000
Deferred revenue	1,565,422	2,815,720
Total current liabilities	2,361,091	3,728,610
Net assets:		
Without donor restrictions	2,053,425	144,707
With donor restrictions	37,073,534	33,959,715
Total net assets	39,126,959	34,104,422
Total liabilities and net assets	\$ 41,488,050	37,833,032

See accompanying notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Consolidated Statements of Activities
Years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Revenue and other support:		
Concert revenue	\$ 3,135,336	4,468,188
Private support	4,477,981	4,032,944
Public support	1,152,691	1,261,309
Grant revenue - paycheck protection program	1,649,740	-
Endowment income	2,064,119	1,926,820
Contribution of donated property	-	2,550,000
Other income	473,579	338,692
Net assets released from restrictions	<u>212,115</u>	<u>346,972</u>
Total revenue and other support	<u>13,165,561</u>	<u>14,924,925</u>
Expenses:		
Program services:		
Orchestra	6,163,067	6,300,793
Artistic	885,173	1,368,154
Production	<u>908,264</u>	<u>1,410,840</u>
Total program services	<u>7,956,504</u>	<u>9,079,787</u>
Supporting services:		
Marketing	1,117,645	1,270,405
Management and general	1,314,717	1,187,158
Fundraising	<u>867,977</u>	<u>841,847</u>
Total supporting services	<u>3,300,339</u>	<u>3,299,410</u>
Total expenses	<u>11,256,843</u>	<u>12,379,197</u>
Change in net assets without donor restrictions	<u>1,908,718</u>	<u>2,545,728</u>
Changes in net assets with donor restrictions:		
Contributions	25,000	161,245
Investment income (loss), net	3,343,934	(1,016,464)
Transfers to Buffalo Philharmonic Orchestra Foundation, Inc. endowment fund	(43,000)	(61,615)
Net assets released from restrictions	<u>(212,115)</u>	<u>(346,972)</u>
Change in net assets with donor restrictions	<u>3,113,819</u>	<u>(1,263,806)</u>
Change in net assets	5,022,537	1,281,922
Net assets at beginning of year	<u>34,104,422</u>	<u>32,822,500</u>
Net assets at end of year	<u>\$ 39,126,959</u>	<u>34,104,422</u>

See accompanying notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
Year ended August 31, 2020
with comparative totals for 2019

	Program Services				Supporting Services				Total	
	<u>Orchestra</u>	<u>Artistic</u>	<u>Production</u>	<u>Total program services</u>	<u>Marketing</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total supporting services</u>	<u>2020</u>	<u>2019</u>
Wages	\$ 4,456,445	36,322	479,223	4,971,990	370,311	642,703	586,643	1,599,657	6,571,647	6,689,774
Employee benefits	1,252,770	7,916	64,853	1,325,539	53,846	73,028	45,139	172,013	1,497,552	1,546,488
Guest artist/conductor expenses	-	837,288	-	837,288	-	-	-	-	837,288	1,275,415
Production expenses	-	-	302,525	302,525	-	-	-	-	302,525	684,532
Payroll taxes	430,057	3,647	47,684	481,388	37,708	43,944	35,787	117,439	598,827	632,606
Advertising	-	-	-	-	254,716	-	-	254,716	254,716	336,866
Office expenses	8,402	-	7,639	16,041	7,921	62,013	4,350	74,284	90,325	98,218
Marketing and promotion	-	-	-	-	80,000	-	31,421	111,421	111,421	161,026
Bank service fees	-	-	-	-	70,198	7,903	16,559	94,660	94,660	134,917
Special events	-	-	-	-	-	-	56,301	56,301	56,301	97,680
Depreciation	814	-	3,256	4,070	6,106	100,921	2,849	109,876	113,946	72,618
Repairs and maintenance	-	-	-	-	21,450	18,032	21,000	60,482	60,482	69,491
Insurance	-	-	-	-	-	59,405	-	59,405	59,405	58,517
Consultants	-	-	-	-	98,005	-	-	98,005	98,005	53,315
Travel	860	-	2,588	3,448	204	2,810	921	3,935	7,383	52,389
Interest	-	-	-	-	-	18,520	-	18,520	18,520	41,912
Gift shop inventory	-	-	-	-	-	106,369	-	106,369	106,369	38,306
Pre/post concert expenses	-	-	-	-	19,023	-	-	19,023	19,023	34,968
Professional fees	10,738	-	-	10,738	-	16,450	-	16,450	27,188	26,713
Building expenses	-	-	-	-	-	104,470	-	104,470	104,470	122,774
Meals and entertainment	652	-	496	1,148	99	5,311	274	5,684	6,832	20,968
Payroll processing fees	-	-	-	-	-	17,821	-	17,821	17,821	18,344
Dues and registration fees	-	-	-	-	-	16,218	310	16,528	16,528	18,171
Bad debt	-	-	-	-	-	-	63,442	63,442	63,442	15,000
Miscellaneous	2,329	-	-	2,329	98,058	18,799	2,981	119,838	122,167	78,189
Total expenses	\$ 6,163,067	885,173	908,264	7,956,504	1,117,645	1,314,717	867,977	3,300,339	11,256,843	12,379,197

See accompanying notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
Year ended August 31, 2019

	Program Services			Total program services	Supporting Services			Total supporting services	Total
	Orchestra	Artistic	Production		Marketing	Management and general	Fund- raising		
Wages	\$ 4,540,356	68,718	534,483	5,143,557	421,794	555,831	568,592	1,546,217	6,689,774
Employee benefits	1,273,584	15,919	77,219	1,366,722	57,933	72,547	49,286	179,766	1,546,488
Guest artist/conductor expenses	-	1,275,415	-	1,275,415	-	-	-	-	1,275,415
Production expenses	-	-	684,532	684,532	-	-	-	-	684,532
Payroll taxes	450,260	8,102	57,255	515,617	47,538	33,288	36,163	116,989	632,606
Advertising	-	-	-	-	336,866	-	-	336,866	336,866
Office expenses	10,546	-	8,742	19,288	9,539	65,099	4,292	78,930	98,218
Marketing and promotion	-	-	-	-	127,991	6,104	26,931	161,026	161,026
Bank service fees	-	-	-	-	103,436	8,660	22,821	134,917	134,917
Special events	-	-	-	-	-	-	97,680	97,680	97,680
Depreciation	772	-	3,086	3,858	6,948	59,111	2,701	68,760	72,618
Repairs and maintenance	-	-	-	-	28,288	29,615	11,588	69,491	69,491
Insurance	-	-	-	-	-	58,517	-	58,517	58,517
Consultants	-	-	-	-	53,315	-	-	53,315	53,315
Travel	2,195	-	43,696	45,891	175	5,602	721	6,498	52,389
Interest	-	-	-	-	-	41,912	-	41,912	41,912
Gift shop inventory	-	-	-	-	-	38,306	-	38,306	38,306
Pre/post concert expenses	-	-	-	-	34,968	-	-	34,968	34,968
Professional fees	16,413	-	-	16,413	-	10,300	-	10,300	26,713
Building expenses	-	-	-	-	-	122,774	-	122,774	122,774
Meals and entertainment	5,160	-	1,827	6,987	1,850	11,970	161	13,981	20,968
Payroll processing fees	-	-	-	-	-	18,344	-	18,344	18,344
Dues and registration fees	-	-	-	-	60	16,174	1,937	18,171	18,171
Bad debt	-	-	-	-	-	-	15,000	15,000	15,000
Miscellaneous	1,507	-	-	1,507	39,704	33,004	3,974	76,682	78,189
Total expenses	<u>\$ 6,300,793</u>	<u>1,368,154</u>	<u>1,410,840</u>	<u>9,079,787</u>	<u>1,270,405</u>	<u>1,187,158</u>	<u>841,847</u>	<u>3,299,410</u>	<u>12,379,197</u>

See accompanying notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,022,537	1,281,922
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	113,946	72,618
Net realized and unrealized gain on investments	(73,418)	(4,383)
Contribution of donated property	-	(2,550,000)
Net (appreciation) depreciation of assets held in trust	(3,246,656)	906,356
Bad debts	63,442	15,000
Changes in:		
Pledges receivable	652,447	270,644
Grants and other receivables	(91,629)	58,290
Prepaid expenses and other current assets	53,030	34,763
Accounts payable	6,459	(78,132)
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	36,763	(200,000)
Accrued expenses	384,557	98,208
Deferred revenue	<u>(1,250,298)</u>	<u>36,891</u>
Net cash provided by (used in) operating activities	<u>1,671,180</u>	<u>(57,823)</u>
Cash flows from investing activities:		
Property and equipment expenditures	(115,547)	(55,271)
Purchases of investments	(100,000)	(391,711)
Proceeds from sale of investments	-	279,212
Net contributions restricted for long-term investments	<u>(25,000)</u>	<u>(35,995)</u>
Net cash used in investing activities	<u>(240,547)</u>	<u>(203,765)</u>
Cash flows from financing activities - net change in line of credit	<u>(545,000)</u>	<u>195,000</u>
Net change in cash and equivalents	885,633	(66,588)
Cash and equivalents at beginning of year	<u>312,136</u>	<u>378,724</u>
Cash and equivalents at end of year	<u>\$ 1,197,769</u>	<u>312,136</u>
Supplemental schedules of cash flow information - cash paid for interest	<u>\$ 18,520</u>	<u>41,912</u>

See accompanying notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

August 31, 2020 and 2019

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

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

786 Delaware LLC (the Corporation), a nonprofit organization, is a wholly-owned subsidiary of the Society. The Corporation was formed to manage the operations and maintenance of the building for its tenants, including the Society.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of the Society and its wholly-owned subsidiary, the Corporation (collectively, the BPO). All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(d) Basis of Presentation

The BPO's financial statements are presented in accordance with the provisions of Accounting Standards Update (ASU) 2016-14, "Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities." As a result, the BPO reports information regarding its net assets and changes therein in the following categories: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions represents resources available for the general support of the BPO's activities. Net assets with donor restrictions are those whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the BPO or are required to be held in perpetuity.

(e) Estimates

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

(f) Cash and Equivalents

For purposes of the consolidated statements of cash flows, the BPO considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and equivalents.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Investments

Investments are reported at their fair values based on quoted market prices. Donated investments are recorded at fair value at the date of donation. Realized and unrealized gains and losses are included in the statements of activities as changes in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law.

(h) Fair Value Measurements and Disclosures

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the BPO has the ability to access.
- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in inactive markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the assets or liabilities; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at August 31, 2020 and 2019.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Capitalization and Depreciation

Property and equipment are recorded at cost or fair market value at the date of the gift in the case of donated property and equipment. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property and equipment, the appropriate property and equipment accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statements of activities.

(j) Deferred Revenue and Revenue Recognition

Grant awards accounted for as exchange transactions are recorded as revenue when expenditures have been incurred in compliance with the grant restrictions. Amounts unspent are recorded in the consolidated statements of financial position as deferred revenue.

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

(k) Donated Materials, Supplies and Personal Services

Donated materials and supplies are reflected in the consolidated financial statements based on the fair market value at the time of the donation.

Donated personal services meeting the requirements for recognition in the consolidated financial statements were not material and have not been recorded. However, many individuals volunteer their time and perform a variety of tasks that assist the Society.

(l) Functional Allocation of Expenses

The costs of providing the BPO's various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs are allocated based on direct allocation where related items are allocated to program services and office related items are allocated to management and general.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give to the BPO. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

(n) Income Taxes

The BPO is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), therefore, no provision for income taxes is reflected in the consolidated financial statements. The BPO has been classified as a publicly supported organization that is not a private foundation under 509(a) of the Code. The BPO presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the BPO has taken no uncertain tax positions that require adjustment in its consolidated financial statements. U.S. Forms 990 filed by the BPO is subject to examination by taxing authorities.

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

(o) Subsequent Events

The BPO has evaluated subsequent events through the date of the report which is the date that the consolidated financial statements were available to be issued.

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences of the COVID-19 on a national, regional and local level are unknown, but has the potential to result in a significant economic impact. The impact of this situation on the BPO and its future results and financial position is not presently determinable.

(p) Recent Accounting Standards Issued

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, "Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made." ASU 2018-08 provides clarification for determining if grants and contracts should be considered contributions or exchange transactions, as well as guidance for determining if a contribution is conditional. This guidance is effective for fiscal years beginning after December 15, 2018. These consolidated financial statements and notes reflect adoption of this new standard.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(q) Reclassifications

Reclassifications have been made to certain 2019 balances in order to conform them to the 2020 presentation.

(2) Liquidity

The BPO has \$2,182,725 of financial assets available within one year of the consolidated statement of financial position date consisting of \$1,197,769 in cash and equivalents, \$628,545 of investments, \$150,198 of pledges receivable and \$206,213 in grants and other receivables at August 31, 2020. 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 \$2,182,725 financial assets available within one year of the consolidated statement of financial position date above, \$628,545 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.

(3) Investments

The following table presents information about the BPO's assets that are measured at fair value on a recurring basis as of August 31, 2020 and 2019, and indicates the fair value hierarchy of the valuation techniques the BPO utilized to determine such fair value:

	<u>2020</u>	<u>2019</u>
<u>Level 1</u>		
Equities	\$ 374,590	259,087
Exchange-traded products	<u>253,955</u>	<u>196,040</u>
Total	\$ <u>628,545</u>	<u>455,127</u>

The following are included within investment income (loss) and are classified in the consolidated statements of activities as net assets with donor restrictions for the years ended August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gain on investments	\$ 73,418	4,383
Dividends and interest, net of fees	23,860	10,759
Assets held in trust appreciation (depreciation) - Community Foundation for Greater Buffalo	476,883	(56,448)
Assets held in trust appreciation (depreciation) - Buffalo Philharmonic Orchestra Foundation, Inc.	<u>3,002,973</u>	<u>(748,719)</u>
	3,577,134	(790,025)
Less assets held in trust investment expenses	<u>(233,200)</u>	<u>(226,439)</u>
	\$ <u>3,343,934</u>	<u>(1,016,464)</u>

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(4) Pledges Receivable

Pledges receivable are composed of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross unconditional promises to give	\$ 762,814	1,163,588
Less unamortized discount	(70,041)	(70,041)
Less allowance for uncollectible pledges	<u>(5,000)</u>	<u>(45,000)</u>
	\$ <u>687,773</u>	<u>1,048,547</u>
Amounts due in:		
Less than one year	45,698	865,588
One to five years	<u>717,116</u>	<u>298,000</u>
	\$ <u>762,814</u>	<u>1,163,588</u>

Additionally, as of August 31, 2020, the Society was notified of bequest intentions totaling \$16,507,574. 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 (5.25% at August 31, 2019) as of August 31, 2020 and 2019, with the amortized discount over the life of the pledges. Management determined that no change in the rate from 2019 to 2020 was considered necessary as lending rates were dropped to 3.25% as a direct result of COVID-19.

(5) Property and Equipment

Property and equipment consisted of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 255,000	255,000
Building	2,167,500	2,167,500
Computer software and equipment	680,992	663,999
Furniture, fixtures and equipment	566,974	468,420
Leasehold improvements	<u>34,149</u>	<u>34,149</u>
	3,704,615	3,589,068
Less accumulated depreciation	<u>(978,651)</u>	<u>(864,705)</u>
	\$ <u>2,725,964</u>	<u>2,724,363</u>

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(5) Property and Equipment, Continued

Depreciation expense amounted to \$113,946 and \$72,618 for the years ended August 31, 2020 and 2019, 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 assets categories. The donation is recorded in contribution of donated property in the consolidated statements of activities for the year ended August 31, 2019.

(6) Assets Held in Trust

Assets held in trust consisted of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
The Buffalo Philharmonic Orchestra Foundation, Inc.	\$ 31,149,682	28,146,709
The Society permanent endowment fund held at the Community Foundation for Greater Buffalo	<u>4,970,232</u>	<u>4,701,549</u>
	\$ <u>36,119,914</u>	<u>32,848,258</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 \$1,128,897 and \$1,007,434 for the years ended August 31, 2020 and 2019, respectively, and are included in endowment income in the accompanying consolidated statement of activities.

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.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(6) Assets Held in Trust, Continued

Under the terms of an agreement with the CFBG, the BPO receives a distribution based upon the quarterly market value of the Fund in accordance with CFBG's current spending policy percentage, which is 5.25%. Earnings from the endowment fund are recorded as revenue with donor restrictions until appropriated for spending. Distributions received by the BPO, which were available for unrestricted purposes, during the years ended August 31, 2020 and 2019 totaled \$210,991 and \$204,873, respectively, and are included in endowment income in the accompanying consolidated statement of activities.

The BPO is also a beneficiary of \$5,276,345 of funds not recorded in these consolidated financial statements, but held in trusts established by others at the CFBG. The income earned on these funds is without donor restrictions and remitted annually to the BPO. Distributions received by the BPO during 2020 and 2019, are included in endowment income in the accompanying consolidated statements of activities and totaled \$213,820 and \$199,469, respectively.

Additional funds of approximately \$10,800,000 are earmarked by the John R. Oishei Foundation, Margaret L. Wendt Foundation, Foundation for Jewish Philanthropies and Louis P. Ciminelli Family Foundation 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, 2020 and 2019, amounted to \$510,411 and \$515,045, 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% (5.00% at August 31, 2020). The outstanding balance on the line at August 31, 2019 was \$200,000. There was no outstanding balance on the line at August 31, 2020.

The second line of credit has a maximum availability of \$300,000, which bears interest at the prime rate plus 1.00% (4.25% at August 31, 2020). The outstanding balance on the line at August 31, 2019 was \$225,000. There was no outstanding balance on the line at August 31, 2020.

The third line of credit has a maximum availability of \$500,000, which bears interest at the prime rate plus 0.50% (3.75% at August 31, 2020). The outstanding balance on the line was \$120,000 at August 31, 2019. There was no outstanding balance on the line at August 31, 2020. The Foundation has guaranteed this line in the aggregate amount of \$500,000.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(8) Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cumulative appreciation of endowment assets held at the CFGB	\$ 1,702,791	1,434,108
Pledges received for future operational purposes	291,960	647,075
Montgomery assets held	661,660	464,382
Net assets held in trust by the Foundation	31,149,682	28,146,709
Endowment assets held at CFGB	<u>3,267,441</u>	<u>3,267,441</u>
	\$ <u>37,073,534</u>	<u>33,959,715</u>

Pledges of \$212,115 and \$346,972 were released from net assets with donor restrictions to net assets without donor restrictions during the years ended August 31, 2020 and 2019, 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 restrictions 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 restrictions until those amounts are appropriated for expenditure by the Society 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 restrictions.

(9) Paycheck Protection Program

In April 2020, the BPO received a loan under the Paycheck Protection Program that was designed by the United States Small Business Administration (SBA) to provide direct incentive for small businesses to keep their workers on payroll due to COVID-19. The SBA will forgive the loan if all employee retention criteria are met, and the funds are used for eligible expenses. If the criteria are not met, the loan is to be paid in equal payments over a period of two years, including interest at 1%. The BPO anticipates this loan to be forgiven. As of August 31, 2020, the BPO recognized \$1,649,740 towards eligible expenses. The consolidated statements of financial position at August 31, 2020 reflects no amount due under the paycheck protection program.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

(10) 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 contributions 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 multiemployer 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, 2020 and 2019:

Plan Name	EIN/Plan Number	Act Zone	Pending/	Surcharge	Total Contributions	
		Status	Implemented	Imposed	2020	2019
American Federation of Musicians and Employers Pension Fund	51-6120204	Red	Yes	No	\$ 325,892	310,731

(11) 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 Music Hall are as follows at August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ <u>2,388</u>	<u>2,975</u>
Accounts payable	\$ <u>80,241</u>	<u>59,289</u>
Accrued expenses	\$ <u>225,771</u>	<u>147,512</u>

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Consolidating Statement of Financial Position
August 31, 2020

<u>Assets</u>	Buffalo Philharmonic Orchestra Society, Inc.	786 Delaware, LLC	<u>Eliminations</u>	<u>Total</u>
Current assets:				
Cash and equivalents	\$ 1,156,189	41,580	-	1,197,769
Investments	628,545	-	-	628,545
Pledges receivable	150,198	-	-	150,198
Grants and other receivables	203,818	2,395	-	206,213
Prepaid expenses and other current assets	<u>276,987</u>	<u>-</u>	<u>-</u>	<u>276,987</u>
Total current assets	2,415,737	43,975	-	2,459,712
Property and equipment, at cost	1,154,615	2,550,000	-	3,704,615
Less accumulated depreciation	<u>(866,480)</u>	<u>(112,171)</u>	<u>-</u>	<u>(978,651)</u>
Net property and equipment	<u>288,135</u>	<u>2,437,829</u>	<u>-</u>	<u>2,725,964</u>
Noncurrent portion of pledges receivable, net	182,460	-	-	182,460
Assets held in trust	<u>36,119,914</u>	<u>-</u>	<u>-</u>	<u>36,119,914</u>
Total assets	<u>\$ 39,006,246</u>	<u>2,481,804</u>	<u>-</u>	<u>41,488,050</u>
 <u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	153,718	3,500	-	157,218
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	58,025	-	-	58,025
Accrued expenses	580,426	-	-	580,426
Deferred revenue	<u>1,565,422</u>	<u>-</u>	<u>-</u>	<u>1,565,422</u>
Total current liabilities	<u>2,357,591</u>	<u>3,500</u>	<u>-</u>	<u>2,361,091</u>
Net assets:				
Without donor restrictions	(424,879)	2,478,304	-	2,053,425
With donor restrictions	<u>37,073,534</u>	<u>-</u>	<u>-</u>	<u>37,073,534</u>
Total net assets	<u>36,648,655</u>	<u>2,478,304</u>	<u>-</u>	<u>39,126,959</u>
Total liabilities and net assets	<u>\$ 39,006,246</u>	<u>2,481,804</u>	<u>-</u>	<u>41,488,050</u>

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY
Consolidating Statement of Activities
Year ended August 31, 2020

	Buffalo Philharmonic Orchestra <u>Society, Inc.</u>	786 Delaware, <u>LLC</u>	<u>Eliminations</u>	<u>Total</u>
Changes in net assets without donor restrictions:				
Revenue and other support:				
Concert revenue	\$ 3,135,336	-	-	3,135,336
Private support	4,477,981	-	-	4,477,981
Public support	1,152,691	-	-	1,152,691
Grant revenue - paycheck protection program	1,649,740	-	-	1,649,740
Endowment income	2,064,119	-	-	2,064,119
Other income	419,501	144,758	(90,680)	473,579
Net assets released from restrictions	<u>212,115</u>	<u>-</u>	<u>-</u>	<u>212,115</u>
Total revenue and other support	<u>13,111,483</u>	<u>144,758</u>	<u>(90,680)</u>	<u>13,165,561</u>
Expenses:				
Program services:				
Orchestra	6,163,067	-	-	6,163,067
Artistic	885,173	-	-	885,173
Production	<u>908,264</u>	<u>-</u>	<u>-</u>	<u>908,264</u>
Total program services	<u>7,956,504</u>	<u>-</u>	<u>-</u>	<u>7,956,504</u>
Supporting services:				
Marketing	1,117,645	-	-	1,117,645
General and administrative	1,211,801	193,596	(90,680)	1,314,717
Fundraising	<u>867,977</u>	<u>-</u>	<u>-</u>	<u>867,977</u>
Total supporting services	<u>3,197,423</u>	<u>193,596</u>	<u>(90,680)</u>	<u>3,300,339</u>
Total expenses	<u>11,153,927</u>	<u>193,596</u>	<u>(90,680)</u>	<u>11,256,843</u>
Change in net assets without donor restrictions	<u>1,957,556</u>	<u>(48,838)</u>	<u>-</u>	<u>1,908,718</u>
Change in net assets with donor restrictions:				
Contributions	25,000	-	-	25,000
Investment income, net	3,343,934	-	-	3,343,934
Transfers to Buffalo Philharmonic Orchestra, Inc. endowment fund	(43,000)	-	-	(43,000)
Net assets released from restrictions	<u>(212,115)</u>	<u>-</u>	<u>-</u>	<u>(212,115)</u>
Change in net assets with donor restrictions	<u>3,113,819</u>	<u>-</u>	<u>-</u>	<u>3,113,819</u>
Change in net assets	5,071,375	(48,838)	-	5,022,537
Net assets at beginning of year	<u>31,577,280</u>	<u>2,527,142</u>	<u>-</u>	<u>34,104,422</u>
Net assets at end of year	<u>\$ 36,648,655</u>	<u>2,478,304</u>	<u>-</u>	<u>39,126,959</u>