

**BUFFALO PHILHARMONIC  
ORCHESTRA SOCIETY, INC.**

Financial Statements  
For the Years Ended  
August 31, 2017 and 2016  
with  
Independent Auditors' Report

**BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC.**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Buffalo Philharmonic Orchestra Society, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities and changes in net assets and of 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 Buffalo Philharmonic Orchestra Society, Inc. as of August 31, 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.

*Chiampou Travis Besaw & Kershner LLP*

February 14, 2018

**BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC.**

**STATEMENTS OF FINANCIAL POSITION  
AUGUST 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 370,384	\$ 574,553
Investments	216,277	202,235
Pledges receivable	1,098,823	1,197,619
Grants and other receivables	222,126	83,979
Prepaid expenses and other current assets	349,239	303,251
Total current assets	<u>2,256,849</u>	<u>2,361,637</u>
PROPERTY AND EQUIPMENT, net	118,326	135,022
NON-CURRENT PORTION OF PLEDGES RECEIVABLE, net	872,415	1,294,670
ASSETS HELD IN TRUST	<u>30,573,829</u>	<u>26,825,485</u>
	<u>\$ 33,821,419</u>	<u>\$ 30,616,814</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Lines of credit	\$ 675,000	\$ 250,000
Accounts payable	216,470	322,476
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	21,088	259,706
Accrued expenses	158,241	125,254
Deferred revenue	2,785,188	3,027,867
Total current liabilities	<u>3,855,987</u>	<u>3,985,303</u>
<b>NET ASSETS:</b>		
Unrestricted	(2,443,582)	(2,454,727)
Temporarily restricted	3,380,519	3,409,271
Permanently restricted	29,028,495	25,676,967
Total net assets	<u>29,965,432</u>	<u>26,631,511</u>
	<u>\$ 33,821,419</u>	<u>\$ 30,616,814</u>

See notes to financial statements.

**BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC.****STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016**

	2017	2016
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Revenue and other support:		
Concert revenue	\$ 4,345,268	\$ 4,002,579
Private support	3,787,052	4,422,655
Public support	1,157,360	1,070,835
Endowment income	1,753,259	1,660,363
Other	322,005	253,949
	<u>11,364,944</u>	<u>11,410,381</u>
Net assets released from restrictions	296,410	232,467
Total revenue and other support	<u>11,661,354</u>	<u>11,642,848</u>
Expenses:		
Orchestra	6,076,428	6,007,744
Artistic	1,296,490	1,247,699
Production	1,084,706	1,200,135
Marketing	1,221,848	1,283,393
Administrative compensation	624,581	617,028
General administration	480,130	368,547
Fundraising	866,026	891,061
Total expenses	<u>11,650,209</u>	<u>11,615,607</u>
Change in unrestricted net assets	11,145	27,241
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	85,203	826,544
Transfers to Buffalo Philharmonic Orchestra Foundation, Inc. endowment fund	(231,462)	(209,600)
Investment income	617,964	116,281
Investment expenses	(204,047)	(107,336)
Net assets released from restrictions	<u>(296,410)</u>	<u>(232,467)</u>
Change in temporarily restricted net assets	(28,752)	393,422
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:</b>		
Restricted contributions	36,155	6,000
Investment income	<u>3,315,373</u>	<u>4,188,642</u>
Change in permanently restricted net assets	<u>3,351,528</u>	<u>4,194,642</u>
Change in net assets	3,333,921	4,615,305
Net assets, beginning of year	<u>26,631,511</u>	<u>22,016,206</u>
Net assets, end of year	<u>\$ 29,965,432</u>	<u>\$ 26,631,511</u>

See notes to financial statements.

**BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC.****STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,333,921	\$ 4,615,305
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	28,144	28,649
Net realized and unrealized gain on investments	(13,187)	(5,948)
Net appreciation of assets held in trust	(3,748,344)	(4,196,668)
Provision for bad debts	2,000	29,017
Contributions restricted for long-term investment	(121,358)	(622,944)
Changes in other operating assets and liabilities:		
Pledges receivable	604,254	503,037
Grants and other receivables	(138,147)	139,500
Prepaid expenses and other current assets	(45,988)	(21,258)
Accounts payable	(106,006)	(14,044)
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	(238,618)	259,706
Accrued expenses	32,987	(60,734)
Deferred revenue	(242,679)	315,339
Net cash provided by (used in) operating activities	<u>(653,021)</u>	<u>968,957</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and equipment expenditures	(11,448)	(14,365)
Purchases of investments	(19,136)	(196,287)
Proceeds from sale of investments	18,281	-
Net cash used in investing activities	<u>(12,303)</u>	<u>(210,652)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in contributions restricted for long-term investment	36,155	6,000
Net increase (decrease) in line of credit	425,000	(350,000)
Net cash provided by (used in) financing activities	<u>461,155</u>	<u>(344,000)</u>
<b>NET CHANGE IN CASH</b>	(204,169)	414,305
CASH, beginning of year	<u>574,553</u>	<u>160,248</u>
CASH, end of year	<u>\$ 370,384</u>	<u>\$ 574,553</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 35,792</u>	<u>\$ 24,929</u>

See notes to financial statements.

## **BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC.**

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016**

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#### **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.

**Financial Statement Presentation** – The 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 three net asset categories according to externally (donor) imposed restrictions. Unrestricted net assets are available for operating, financing or investing purposes. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets must be maintained in perpetuity while funds earned on permanently restricted net assets must be used in accordance with donor stipulations.

**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.

**Recent Accounting Standards Issued** – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14 “Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.” 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.

The guidance is effective for fiscal years beginning after December 15, 2017, and will be implemented by the BPO during the year ending August 31, 2018.

**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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 statements of financial position.

Private support and contributions are reported at fair value at the date the contribution is made and recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. When a temporary restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and are reported in the 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 unrestricted net assets.

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 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. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Subsequent Events** – Management of the BPO has evaluated the effects of all subsequent events through February 14, 2018, the date which the financial statements were available to be issued, to determine if events or transactions occurring through that date require potential adjustment or disclosure in the financial statements.

**Reclassifications** – Certain reclassifications were made to the 2016 financial statements to conform with the 2017 presentation.

## 2. INVESTMENTS

In 2016, the Society 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:

	2017	2016
<i>Level 1:</i>		
Mutual funds	\$ 2,530	\$ 5,049
Exchange-traded products	<u>213,747</u>	<u>197,186</u>
	<u>\$ 216,277</u>	<u>\$ 202,235</u>



## 2. INVESTMENTS (continued)

The following are included within investment income and are classified in the statements of activities and changes in net assets as temporarily restricted for the years ended August 31:

	2017	2016
Net realized and unrealized gain on investments	\$ 13,187	\$ 5,948
Dividends and interest	3,913	971
Assets held in trust appreciation	<u>600,864</u>	<u>109,362</u>
	617,964	116,281
Less assets held in trust investment expenses	<u>(204,047)</u>	<u>(107,336)</u>
	<u>\$ 413,917</u>	<u>\$ 8,945</u>

## 3. 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:

	2017	2016
Gross unconditional promises to give	\$ 2,156,974	\$ 2,687,142
Less unamortized discount	(157,736)	(168,853)
Less allowance for uncollectible pledges	<u>(28,000)</u>	<u>(26,000)</u>
	<u>\$ 1,971,238</u>	<u>\$ 2,492,289</u>
Amounts due in:		
Less than one year	\$ 1,098,823	\$ 1,197,619
One to five years	<u>1,058,151</u>	<u>1,489,523</u>
	<u>\$ 2,156,974</u>	<u>\$ 2,687,142</u>

Additionally, as of August 31, 2017, the BPO has been notified of bequest intentions totaling approximately \$15,000,000. These intentions to give are not recognized in the accompanying 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, 2017 and 2016, with the amortized discount over the life of the pledges.

## 4. PROPERTY AND EQUIPMENT

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

	2017	2016
Computer software and equipment	\$ 622,976	\$ 613,028
Furniture, fixtures and equipment	239,500	238,000
Leasehold improvements	<u>22,114</u>	<u>22,114</u>
	884,590	873,142
Less accumulated depreciation	<u>766,264</u>	<u>738,120</u>
	<u>\$ 118,326</u>	<u>\$ 135,022</u>

#### 4. PROPERTY AND EQUIPMENT (continued)

Depreciation expense amounted to \$28,144 and \$28,649 for the years ended August 31, 2017 and 2016, respectively.

#### 5. ASSETS HELD IN TRUST

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

	2017	2016
The Buffalo Philharmonic Orchestra Foundation, Inc.	\$ 25,912,304	\$ 22,596,931
The Community Foundation for Greater Buffalo	<u>4,661,525</u>	<u>4,228,554</u>
	<u>\$ 30,573,829</u>	<u>\$ 26,825,485</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 \$863,028 and \$828,660 for the years ended August 31, 2017 and 2016, respectively, and are included in endowment income in the accompanying 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 temporarily restricted revenues until appropriated for spending. Distributions received by the BPO, which were available for unrestricted purposes, during the years ended August 31, 2017 and 2016 totaled \$183,838 and \$124,756, respectively, and are included in endowment income in the accompanying statements of activities and changes in net assets.

BPO is also a beneficiary of approximately \$5,100,000 of funds not recorded in these financial statements, but held in trusts established by others at the CFGB. The income earned on these funds is unrestricted and remitted annually to the BPO. Distributions received by the BPO during 2017 and 2016, are included in endowment income in the accompanying statements of activities and changes in net assets and totaled \$307,426 and \$219,618, respectively.

Additional funds of approximately \$8,400,000 are earmarked by other organizations to earn income for the benefit of the BPO. These amounts are also not recorded in these financial statements. Distributions received by the BPO and included in endowment income during the years ended August 31, 2017 and 2016, amounted to \$398,967 and \$487,329, respectively.

## 6. LINES OF CREDIT

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

There is a line of credit with a maximum availability of \$200,000, which bears interest at the prime rate plus 1.75% (6.00% at August 31, 2017). There was no outstanding balance on this line of credit at August 31, 2017 or August 31, 2016.

The BPO has a line of credit with a maximum availability of \$300,000, which bears interest at the prime rate plus 1.0% (5.25% at August 31, 2017). The total outstanding balance on this line of credit at August 31, 2017 and 2016 was \$175,000 and \$250,000, respectively.

The BPO also has a line of credit with a maximum availability of \$500,000, which bears interest at the prime rate plus 0.5% (4.75% at August 31, 2017). The total outstanding balance on this line was \$500,000 at August 31, 2017. There was no outstanding balance at August 31, 2016. The Foundation has guaranteed this line in the aggregate amount of \$500,000.

## 7. 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, 2017 and 2016:

<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>2017</u>	<u>2016</u>
American Federation of Musicians & Employers Pension Fund	51-6120204	Red	Yes	5%	\$ 314,424	\$ 322,451

## 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at August 31:

	2017	2016
Cumulative appreciation of endowment assets held at the CFGB	\$ 1,545,335	\$ 1,148,518
Contributions restricted for scholarships	8,250	8,250
Pledges received for future operational purposes	<u>1,826,934</u>	<u>2,252,503</u>
	<u>\$ 3,380,519</u>	<u>\$ 3,409,271</u>

Pledges of \$296,410 and \$232,467 were released from temporarily restricted net assets to unrestricted net assets during the years ended August 31, 2017 and 2016, respectively.

## 9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at August 31:

	2017	2016
Net assets held in trust by the Foundation	\$ 25,912,304	\$ 22,596,931
Endowment assets held at CFGB	<u>3,116,191</u>	<u>3,080,036</u>
	<u>\$ 29,028,495</u>	<u>\$ 25,676,967</u>

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 as permanently restricted net assets (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 temporarily restricted net assets 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 permanently restricted net assets.

**10. LEASE COMMITMENTS**

The BPO previously leased its office space under the terms of an operating lease that expired October 2017, with monthly rental costs of \$7,505. Rental expense under the lease totaled approximately \$91,000 and \$90,500 for the years ended August 31, 2017 and 2016, respectively. Subsequent to August 31, 2017, the BPO entered into a new operating lease for its office space with an annual rental cost of \$1. Future minimum rental payments required under this lease are approximately \$15,000 for the year ending August 31, 2018, at which point the building is intended to be donated to the BPO.

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