

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

Consolidated Financial Statements
and Additional Information
for the Years Ended
August 31, 2018 and 2017
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 (a non-profit corporation), which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, 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, 2018 and 2017, 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 13 through 14 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.

Changra Travis Besaw & Kersh LLP

January 29, 2019

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash	\$ 378,724	\$ 370,384
Investments	338,245	216,277
Pledges receivable	999,117	1,098,823
Grants and other receivables	172,874	222,126
Prepaid expenses and other current assets	364,780	349,239
Total current assets	<u>2,253,740</u>	<u>2,256,849</u>
PROPERTY AND EQUIPMENT, net	191,710	118,326
NON-CURRENT PORTION OF PLEDGES RECEIVABLE, net	299,079	872,415
ASSETS HELD IN TRUST	<u>33,754,614</u>	<u>30,573,829</u>
	<u>\$ 36,499,143</u>	<u>\$ 33,821,419</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Lines of credit	\$ 350,000	\$ 675,000
Accounts payable	228,891	216,470
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	221,262	21,088
Accrued expenses	97,661	158,241
Deferred revenue	2,778,829	2,785,188
Total current liabilities	<u>3,676,643</u>	<u>3,855,987</u>
NET ASSETS:		
Unrestricted	(2,401,021)	(2,443,582)
Temporarily restricted	3,185,901	3,380,519
Permanently restricted	32,037,620	29,028,495
Total net assets	<u>32,822,500</u>	<u>29,965,432</u>
	<u>\$ 36,499,143</u>	<u>\$ 33,821,419</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, 2018 AND 2017**

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue and other support:		
Concert revenue	\$ 4,375,927	\$ 4,345,268
Private support	4,417,232	3,787,052
Public support	1,064,360	1,157,360
Endowment income	1,810,274	1,753,259
Other	321,388	322,005
	<u>11,989,181</u>	<u>11,364,944</u>
Net assets released from restrictions	351,439	296,410
Total revenue and other support	<u>12,340,620</u>	<u>11,661,354</u>
Expenses:		
Orchestra	6,275,997	6,076,428
Artistic	1,228,140	1,296,490
Production	1,512,999	1,084,706
Marketing	1,198,971	1,221,848
Administrative compensation	647,381	624,581
General administration	516,959	480,130
Fundraising	917,612	866,026
Total expenses	<u>12,298,059</u>	<u>11,650,209</u>
Change in unrestricted net assets	42,561	11,145
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	119,548	85,203
Transfers to Buffalo Philharmonic Orchestra Foundation, Inc. endowment fund	(159,608)	(231,462)
Investment income	412,815	617,964
Investment expenses	(215,934)	(204,047)
Net assets released from restrictions	<u>(351,439)</u>	<u>(296,410)</u>
Change in temporarily restricted net assets	(194,618)	(28,752)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Restricted contributions	26,000	36,155
Investment income	<u>2,983,125</u>	<u>3,315,373</u>
Change in permanently restricted net assets	<u>3,009,125</u>	<u>3,351,528</u>
Change in net assets	2,857,068	3,333,921
Net assets, beginning of year	<u>29,965,432</u>	<u>26,631,511</u>
Net assets, end of year	<u>\$ 32,822,500</u>	<u>\$ 29,965,432</u>

See notes to consolidated financial statements.

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,857,068	\$ 3,333,921
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	25,823	28,144
Net realized and unrealized gain on investments	(18,525)	(13,187)
Donated investments	(102,848)	-
Net appreciation of assets held in trust	(3,180,785)	(3,748,344)
Provision for bad debts	25,767	2,000
Contributions restricted for long-term investment	(145,548)	(121,358)
Changes in other operating assets and liabilities:		
Pledges receivable	766,823	604,254
Grants and other receivables	49,252	(138,147)
Prepaid expenses and other current assets	(15,541)	(45,988)
Accounts payable	12,421	(106,006)
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	200,174	(238,618)
Accrued expenses	(60,580)	32,987
Deferred revenue	(6,359)	(242,679)
Net cash provided by (used in) operating activities	<u>407,142</u>	<u>(653,021)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment expenditures	(99,207)	(11,448)
Purchases of investments	(3,109)	(19,136)
Proceeds from sale of investments	2,514	18,281
Net cash used in investing activities	<u>(99,802)</u>	<u>(12,303)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in contributions restricted for long-term investment	26,000	36,155
Net change in line of credit	(325,000)	425,000
Net cash provided by (used in) financing activities	<u>(299,000)</u>	<u>461,155</u>
NET CHANGE IN CASH	8,340	(204,169)
CASH, beginning of year	<u>370,384</u>	<u>574,553</u>
CASH, end of year	<u>\$ 378,724</u>	<u>\$ 370,384</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 30,642</u>	<u>\$ 35,792</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, 2018 AND 2017

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. It was formed to manage the operations and maintenance of the building for its tenants, including the BPO.

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 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, 2019.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

Subsequent Events – Management of the BPO has evaluated the effects of all subsequent events through January 29, 2019, 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.

2. INVESTMENTS

In 2018 and 2017, 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:

	2018	2017
<i>Level 1:</i>		
Mutual funds	\$ -	\$ 2,530
Equities	107,887	-
Exchange-traded products	<u>230,358</u>	<u>213,747</u>
	<u>\$ 338,245</u>	<u>\$ 216,277</u>

2. INVESTMENTS (continued)

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

	2018	2017
Net realized and unrealized		
gain on investments	\$ 18,525	\$ 13,187
Dividends and interest	6,697	3,913
Assets held in trust appreciation	<u>387,593</u>	<u>600,864</u>
	412,815	617,964
Less assets held in trust investment expenses	<u>(215,934)</u>	<u>(204,047)</u>
	<u>\$ 196,881</u>	<u>\$ 413,917</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:

	2018	2017
Gross unconditional promises to give	\$ 1,444,232	\$ 2,156,974
Less unamortized discount	(106,036)	(157,736)
Less allowance for uncollectible pledges	<u>(40,000)</u>	<u>(28,000)</u>
	<u>\$ 1,298,196</u>	<u>\$ 1,971,238</u>
Amounts due in:		
Less than one year	\$ 999,117	\$ 1,098,823
One to five years	<u>445,115</u>	<u>1,058,151</u>
	<u>\$ 1,444,232</u>	<u>\$ 2,156,974</u>

Additionally, as of August 31, 2018, 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, 2018 and 2017, 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:

	2018	2017
Computer software and equipment	\$ 661,521	\$ 622,976
Furniture, fixtures and equipment	288,127	239,500
Leasehold improvements	<u>34,149</u>	<u>22,114</u>
	983,797	884,590
Less accumulated depreciation	<u>792,087</u>	<u>766,264</u>
	<u>\$ 191,710</u>	<u>\$ 118,326</u>

Depreciation expense amounted to \$25,823 and \$28,144 for the years ended August 31, 2018 and 2017, respectively.

5. ASSETS HELD IN TRUST

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

	2018	2017
The Buffalo Philharmonic Orchestra Foundation, Inc.	\$ 28,895,429	\$ 25,912,304
The Community Foundation for Greater Buffalo	<u>4,859,185</u>	<u>4,661,525</u>
	<u>\$ 33,754,614</u>	<u>\$ 30,573,829</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 \$908,336 and \$863,028 for the years ended August 31, 2018 and 2017, 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.

5. ASSETS HELD IN TRUST (continued)

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, 2018 and 2017 totaled \$195,369 and \$183,838, 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 \$5,300,000 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 unrestricted and remitted annually to the BPO. Distributions received by the BPO during 2018 and 2017, are included in endowment income in the accompanying consolidated statements of activities and changes in net assets and totaled \$193,997 and \$307,426, 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, 2018 and 2017, amounted to \$512,572 and \$398,967, 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% (6.75% at August 31, 2018). The total outstanding balance on this line of credit at August 31, 2018 was \$200,000. There was no outstanding balance on this line of credit at August 31, 2017.

The BPO has a line of credit with a maximum availability of \$300,000, which bears interest at the prime rate plus 1.0% (6.00% at August 31, 2018). There was no outstanding balance on this line of credit at August 31, 2018. The total outstanding balance on this line of credit at August 31, 2017 was \$175,000.

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% (5.50% at August 31, 2018). The total outstanding balance on this line was \$150,000 and \$500,000 at August 31, 2018 and August 31, 2017, respectively. 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:

7. RETIREMENT PLANS (continued)

- 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, 2018 and 2017:

<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>2018</u>	<u>2017</u>
American Federation of Musicians & Employers Pension Fund	51-6120204	Red	Yes	No	\$ 308,065	\$ 314,424

8. TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Cumulative appreciation of endowment assets held at the CFGB	\$ 1,716,994	\$ 1,545,335
Contributions restricted for scholarships	8,250	8,250
Pledges received for future operational purposes	<u>1,460,657</u>	<u>1,826,934</u>
	<u>\$ 3,185,901</u>	<u>\$ 3,380,519</u>

Pledges of \$351,439 and \$296,410 were released from temporarily restricted net assets to unrestricted net assets during the years ended August 31, 2018 and 2017, respectively.

9. PERMANENTLY RESTRICTED NET ASSETS

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

	2018	2017
Net assets held in trust by the Foundation	\$ 28,895,429	\$ 25,912,304
Endowment assets held at CFGB	<u>3,142,191</u>	<u>3,116,191</u>
	<u>\$ 32,037,620</u>	<u>\$ 29,028,495</u>

9. PERMANENTLY RESTRICTED NET ASSETS (continued)

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 these leases totaled approximately \$15,000 and \$91,000 for the years ended August 31, 2018 and 2017, respectively.

11. SUBSEQUENT EVENT

During the fiscal year ended August 31, 2018, 786 Delaware LLC was notified of a donor's intent to contribute a building. 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 transfers to 786 Delaware LLC. On December 19, 2018, the building was donated and ownership of the building transferred to 786 Delaware LLC. The fair market value of the building at the time of the transfer was \$2,550,000.

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BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018**

	Buffalo Philharmonic Orchestra Society, Inc.	786 Delaware LLC	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS:				
Cash	\$ 361,109	\$ 17,615	\$ -	\$ 378,724
Investments	338,245	-	-	338,245
Pledges receivable	999,117	-	-	999,117
Grants and other receivables	166,437	6,437	-	172,874
Prepaid expenses and other current assets	364,780	-	-	364,780
Total current assets	<u>2,229,688</u>	<u>24,052</u>	<u>-</u>	<u>2,253,740</u>
PROPERTY AND EQUIPMENT, net	191,710	-	-	191,710
NON-CURRENT PORTION OF PLEDGES RECEIVABLE, net	299,079	-	-	299,079
ASSETS HELD IN TRUST	<u>33,754,614</u>	<u>-</u>	<u>-</u>	<u>33,754,614</u>
	<u>\$ 36,475,091</u>	<u>\$ 24,052</u>	<u>\$ -</u>	<u>\$ 36,499,143</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Lines of credit	\$ 350,000	\$ -	\$ -	\$ 350,000
Accounts payable	224,901	3,990	-	228,891
Due to Buffalo Philharmonic Orchestra Foundation, Inc.	221,262	-	-	221,262
Accrued expenses	97,661	-	-	97,661
Deferred revenue	2,778,829	-	-	2,778,829
Total current liabilities	<u>3,672,653</u>	<u>3,990</u>	<u>-</u>	<u>3,676,643</u>
NET ASSETS:				
Unrestricted	(2,421,083)	20,062	-	(2,401,021)
Temporarily restricted	3,185,901	-	-	3,185,901
Permanently restricted	32,037,620	-	-	32,037,620
Total net assets	<u>32,802,438</u>	<u>20,062</u>	<u>-</u>	<u>32,822,500</u>
	<u>\$ 36,475,091</u>	<u>\$ 24,052</u>	<u>\$ -</u>	<u>\$ 36,499,143</u>

BUFFALO PHILHARMONIC ORCHESTRA SOCIETY, INC. AND SUBSIDIARY

**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2018**

	Buffalo Philharmonic Orchestra Society, Inc.	786 Delaware LLC	Eliminations	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS:				
Revenue and other support:				
Concert revenue	\$ 4,375,927	\$ -	\$ -	\$ 4,375,927
Private support	4,417,232	-	-	4,417,232
Public support	1,064,360	-	-	1,064,360
Endowment income	1,810,274	-	-	1,810,274
Other	285,202	99,936	(63,750)	321,388
	<u>11,952,995</u>	<u>99,936</u>	<u>(63,750)</u>	<u>11,989,181</u>
Net assets released from restrictions	351,439	-	-	351,439
Total revenue and other support	<u>12,304,434</u>	<u>99,936</u>	<u>(63,750)</u>	<u>12,340,620</u>
Expenses:				
Orchestra	6,275,997	-	-	6,275,997
Artistic	1,228,140	-	-	1,228,140
Production	1,512,999	-	-	1,512,999
Marketing	1,228,286	-	(29,315)	1,198,971
Administrative compensation	647,381	-	-	647,381
General administration	471,520	79,874	(34,435)	516,959
Fundraising	917,612	-	-	917,612
Total expenses	<u>12,281,935</u>	<u>79,874</u>	<u>(63,750)</u>	<u>12,298,059</u>
Change in unrestricted net assets	22,499	20,062	-	42,561
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	119,548	-	-	119,548
Transfers to Buffalo Philharmonic Orchestra Foundation, Inc. endowment fund	(159,608)	-	-	(159,608)
Investment income	412,815	-	-	412,815
Investment expenses	(215,934)	-	-	(215,934)
Net assets released from restrictions	(351,439)	-	-	(351,439)
Change in temporarily restricted net assets	<u>(194,618)</u>	<u>-</u>	<u>-</u>	<u>(194,618)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Restricted contributions	26,000	-	-	26,000
Investment income	2,983,125	-	-	2,983,125
Change in permanently restricted net assets	<u>3,009,125</u>	<u>-</u>	<u>-</u>	<u>3,009,125</u>
Change in net assets	2,837,006	20,062	-	2,857,068
Net assets, beginning of year	<u>29,965,432</u>	<u>-</u>	<u>-</u>	<u>29,965,432</u>
Net assets, end of year	<u>\$ 32,802,438</u>	<u>\$ 20,062</u>	<u>\$ -</u>	<u>\$ 32,822,500</u>