

**BACH CHOIR  
OF BETHLEHEM**

**Financial Statements**

**June 30, 2018**

Kreischer  
Miller

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# BACH CHOIR OF BETHLEHEM

June 30, 2018

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### INDEPENDENT AUDITORS' REPORT

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## Independent Auditors' Report

The Board of Managers  
Bach Choir of Bethlehem  
Bethlehem, Pennsylvania

We have audited the accompanying financial statements of Bach Choir of Bethlehem, which comprise the statement of assets, liabilities and net assets – modified cash basis as of June 30, 2018, and the related statements of revenue, expenses and changes in net assets – modified cash basis and cash flows – modified cash basis for the year 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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 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 auditors consider 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bach Choir of Bethlehem as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with the basis of accounting described in Note 2.

*Basis of Accounting*

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink, reading "Kreischer Miller". The signature is written in a cursive, flowing style.

Horsham, Pennsylvania  
October 8, 2018

# BACH CHOIR OF BETHLEHEM

## Statement of Assets, Liabilities and Net Assets - Modified Cash Basis

June 30, 2018

	Unrestricted		Temporarily Restricted		
	Operating Fund	Endowment Fund	Operating Fund	Endowment Fund	Total All Funds
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 53,395	\$ 280,805	\$ 42,000	\$ -	\$ 376,200
Inventories	44,341	-	-	-	44,341
Total current assets	97,736	280,805	42,000	-	420,541
Property and equipment:					
Leasehold improvements	66,404	-	-	-	66,404
Choir equipment	56,120	-	-	-	56,120
Office equipment	201,033	-	-	-	201,033
	323,557	-	-	-	323,557
Less accumulated depreciation	288,106	-	-	-	288,106
	35,451	-	-	-	35,451
Cash surrender value of life insurance	-	21,375	-	-	21,375
Investments	-	4,659,968	-	2,998,994	7,658,962
Certificate of deposit	100,000	-	-	-	100,000
	\$ 233,187	\$ 4,962,148	\$ 42,000	\$ 2,998,994	\$ 8,236,329
<b>LIABILITIES AND NET ASSETS</b>					
Net assets:					
Unrestricted	\$ 233,187	\$ -	\$ -	\$ -	\$ 233,187
Unrestricted, board designated	-	4,962,148	-	-	4,962,148
Temporarily restricted	-	-	42,000	2,998,994	3,040,994
	\$ 233,187	\$ 4,962,148	\$ 42,000	\$ 2,998,994	\$ 8,236,329

See accompanying notes to financial statements.

# BACH CHOIR OF BETHLEHEM

## Statement of Revenue, Expenses and Changes in Net Assets - Modified Cash Basis Year Ended June 30, 2018

	Unrestricted		Temporarily Restricted		Total
	Operating Fund	Endowment Fund	Operating Fund	Endowment Fund	All Funds
Revenue:					
Contributions:					
Corporate contributions	\$ 77,250	\$ -	\$ -	\$ -	\$ 77,250
Foundation contributions	186,500	-	10,000	-	196,500
Individual contributions	542,608	226,413	32,000	219,735	1,020,756
Grants, government	52,020	-	-	-	52,020
In-kind contributions	6,535	-	-	-	6,535
Release from restrictions	33,127		(33,127)		-
	898,040	226,413	8,873	219,735	1,353,061
Earned revenue:					
Investment return	353	292,802	-	163,893	457,048
Performances and special events	246,860	-	-	-	246,860
Recording and miscellaneous sales - net	7,154	-	-	-	7,154
	254,367	292,802	-	163,893	711,062
	1,152,407	519,215	8,873	383,628	2,064,123
Expenses:					
Administrative	98,125	-	-	-	98,125
Development - special events	96,918		-	-	96,918
Employment	503,569	-	-	-	503,569
Facilities	56,908	-	-	-	56,908
Marketing	126,752	-	-	-	126,752
Program	551,702	-	-	-	551,702
	1,433,974	-	-	-	1,433,974
Changes in net assets before transfers	(281,567)	519,215	8,873	383,628	630,149
Transfers to operating fund due to spending policy release	345,600	(220,300)	-	(125,300)	-
Changes in net assets	64,033	298,915	8,873	258,328	630,149
Net assets, beginning of year	169,154	4,663,233	33,127	2,740,666	7,606,180
Net assets, end of year	\$ 233,187	\$ 4,962,148	\$ 42,000	\$ 2,998,994	\$ 8,236,329

See accompanying notes to financial statements.

BACH CHOIR OF BETHLEHEM

Statement of Cash Flows - Modified Cash Basis  
Year Ended June 30, 2018

	Unrestricted		Temporarily restricted		
	Operating Fund	Endowment Fund	Operating Fund	Endowment Fund	Total
Cash flows from operating activities:					
Changes in net assets	\$ 64,033	\$ 298,915	\$ 8,873	\$ 258,328	\$ 630,149
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:					
Realized gain on sale of investments	-	(90,027)	-	(50,404)	(140,431)
Unrealized gains on investments	-	(20,628)	-	(11,549)	(32,177)
Depreciation	16,860	-	-	-	16,860
Increase in:					
Inventories	2,617	-	-	-	2,617
Net cash and cash equivalents provided by operating activities	83,510	188,260	8,873	196,375	477,018
Cash flows from investing activities:					
Proceeds from sale of investments	-	1,871,938	-	125,300	1,997,238
Purchases of investments	(100,000)	(1,913,898)	-	(321,675)	(2,335,573)
Net cash and cash equivalents used in investing activities	(100,000)	(41,960)	-	(196,375)	(338,335)
Net increase (decrease) in cash and cash equivalents	(16,490)	146,300	8,873	-	138,683
Cash and cash equivalents, beginning of year	69,885	134,505	33,127	-	237,517
Cash and cash equivalents, end of year	\$ 53,395	\$ 280,805	\$ 42,000	\$ -	\$ 376,200

See accompanying notes to financial statements.

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements June 30, 2018

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### (1) Nature of Organization

Bach Choir of Bethlehem (the Organization) is a nonprofit 501(c)(3) tax-exempt organization organized in the Commonwealth of Pennsylvania. The mission of the Organization and its Bach Festival Orchestra is to perform the works of Johann Sebastian Bach and to promote and encourage appreciation of the aesthetic and spiritual value of Bach's music, while striving for the highest standards of musical excellence. This mission is achieved by engaging audiences - locally, nationally, and internationally - through education and performance, including works by composers who influenced Bach and were influenced by him.

### (2) Summary of Significant Accounting Policies

#### *Basis of Accounting*

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This method differs from GAAP in that, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

#### *Basis of Presentation*

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 958, Not-for-Profit Entities*. The Organization's net assets and revenue, expenses, gains and losses are classified in the financial statements based on the absence or existence and nature of donor-imposed stipulations as follows:

*Unrestricted net assets:* Net assets that are not subject to donor-imposed stipulations are classified as unrestricted net assets. The Board of Managers may designate a portion of the unrestricted net assets as to its use in current operations.

*Temporarily restricted net assets:* Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time are classified as temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of revenues, expenses and changes in net assets - modified cash basis as net assets released from restrictions. Contributions for which the restriction expires in the year the funds are received are immediately released from restriction and not reported as temporarily restricted.

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements

June 30, 2018

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### (2) Summary of Significant Accounting Policies, Continued

#### *Basis of Presentation, Continued*

*Permanently restricted net assets:* Net assets, subject to permanent donor-imposed stipulations, that are maintained by the Organization or a designated third party are classified as permanently restricted. Generally, the donors of these assets permit the Organization to use all of the income earned on any related investments for general or specific purposes. As of June 30, 2018, the Organization has no permanently restricted net assets.

#### *Cash and Cash Equivalents*

Cash and cash equivalents, as presented on the statement of cash flows - modified cash basis, represent all checking and money market accounts plus investment instruments purchased with an initial maturity of three months or less.

#### *Inventories*

Inventories of compact discs, digital video discs, and other items are carried at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

#### *Property and Equipment*

Property and equipment are stated at cost unless donated. Donated assets are recorded at fair market value at the time of the donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets that range from 5 to 15 years. Depreciation expense was \$16,860 for the year ended June 30, 2018.

#### *Investments*

The Organization carries investments in marketable securities with readily determinable fair values and investments in debt securities at their fair values in the statement of assets, liabilities, and net assets - modified cash basis. Unrealized gains and losses are included in investment return in the accompanying statement of revenue, expenses and changes in net assets - modified cash basis.

#### *Certificate of deposit*

The Organization has a 13-month certificate of deposit with a maturity date of July 31, 2019.

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements June 30, 2018

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### (2) Summary of Significant Accounting Policies, Continued

#### *Contributions*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Guarantors pledge an amount to the Organization to help cover expenses. A pledge drive is performed annually in July. Pledged amounts are recorded as unrestricted contributions when cash is received.

#### *Donated Services*

Donated services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no donated services for the year ended June 30, 2018.

#### *Fair Value Measurements*

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. The 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 under FASB ASC 820 are described as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

For the year ended June 30, 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent.

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements June 30, 2018

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### (2) Summary of Significant Accounting Policies, Continued

#### *Income Taxes*

Bach Choir of Bethlehem is an organization recognized as exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes. No provision for income taxes has been reflected in the accompanying financial statements.

For the year ended June 30, 2018, the Organization did not identify any uncertain tax positions taken or expected to be taken, which would require adjustments or disclosure in the financial statements. The Organization is potentially subject to federal, state and local examinations for years subsequent to June 30, 2014.

#### *Concentration of Credit Risk*

Financial instruments which potentially subject the Organization to concentrations of credit risk include cash balances at financial institutions that exceeded the federal deposit insurance limit of \$250,000. There were no uninsured balances as of June 30, 2018. Money market balances are held by an investment banking/stock brokerage company and are not insured.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could material affect the amounts reported in the statement of assets, liabilities and net assets – modified cash basis.

#### *Recent Accounting Pronouncements*

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*; which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU requires an amended presentation and additional disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources. The amendments are effective for the Organization's fiscal year ending June 30, 2019. The Organization is evaluating the potential impact of this ASU on the financial statements.

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements June 30, 2018

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### (2) Summary of Significant Accounting Policies, Continued

#### *Recent Accounting Pronouncements, Continued*

In July 2015, the FASB issued FASB ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This ASU requires inventory within the scope of the guidance to be measured at the lower of cost or net realizable value rather than the lower of cost or market. ASU 2015-11 is effective for annual periods beginning after December 15, 2016. This guidance was adopted by the Organization as of July 1, 2017 and did not have an impact on its financial statements.

#### *Use of Estimates*

The preparation of financial statements in accordance with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### *Subsequent Events*

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 8, 2018, the date the financial statements were available to be issued. See also Note 10.

### (3) Investments and Fair Value Measurements – Endowment Funds

As of June 30, 2018, the Board of Managers had designated \$4,962,148 of unrestricted net assets as an endowment fund to support the mission of the Organization.

The Organization has a spending policy of appropriating for distribution each year no more than 5% of the endowment fund's average fair value for the prior three years. It also limits the increase in year to year distribution amounts to 20% of the prior year's distribution amount. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment fund to grow and to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements

June 30, 2018

### (3) Investments and Fair Value Measurements – Endowment Funds, Continued

To achieve that objective, the Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, while growing the fund. The policy calls for a targeted asset class allocation of 60% equities and 40% fixed income investments. The Organization's goal is to have its endowment assets, over time, produce an average rate of return to fund the annual distribution and provide for growth in the fund. Actual returns and asset allocation in any given year may vary from these amounts.

Investments as of June 30, 2018 are composed of the following securities and the estimated fair value of the Organization's financial instruments measured on a recurring basis is as follows:

	Level 1	Level 2	Level 3	Total
Common stock	\$ 1,684,027	\$ -	\$ -	\$ 1,684,027
Mutual funds - equities	3,128,280	-	-	3,128,280
Corporate bonds	-	866,120	-	866,120
Preferred securities	-	1,688,759	-	1,688,759
Mutual funds - fixed income	224,299	-	-	224,299
Mutual funds - other	67,477	-	-	67,477
Certificate of deposit	100,000	-	-	100,000
	\$ 5,204,083	\$ 2,554,879	\$ -	\$ 7,758,962

Valuation for common stock and mutual funds are based on quoted market prices for identical assets in active markets.

Corporate bonds and preferred securities are valued based on yields currently available on comparable securities for issuers with similar credit ratings.

Investment return for the year ended June 30, 2018 was as follows:

	Unrestricted Operating	Unrestricted Endowment	Temporarily Restricted Endowment	Total
Interest and dividends	\$ 353	\$ 182,147	\$ 101,943	\$ 284,443
Realized gain	-	90,027	50,401	140,428
Unrealized gain	-	20,628	11,549	32,177
	\$ 353	\$ 292,802	\$ 163,893	\$ 457,048

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements June 30, 2018

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### (4) Commitments

The Organization leases the office facility and office equipment under several operating leases. Total rental expenses was \$25,776 for the year ended June 30, 2018. The future payments due under the terms of these leases as of June 30, 2018 are as follows:

Year Ending June 30,	Amount
2019	\$ 28,600
2020	27,440
2021	13,140
	<u>\$ 69,180</u>

### (5) Temporarily Restricted Net Assets

The endowment funds include an array of funds and contributions.

The following are some of the restricted funds for continuing support which are managed as part of the endowment:

- The Archives and History Fund: for support of the culturally rich and diverse archival collection of the Organization and for continuing collection, conservation, arrangement, cataloguing, and dissemination of recordings, films, and artifacts related to the Organization.
- The Artistic Director and Conductor Fund: for support of the salary of the artistic director and conductor of the Organization.
- The Joseph W. Ayers Maintenance Fund: for support of and the maintenance of the Organization's musical instruments (piano, portative organ and harpsichord) as well as for office improvements and equipment.
- The Bach at Noon Fund: for support of Bach at Noon free concert series in Bethlehem and Allentown.
- The Linda J. Dangelmajer Education Outreach Fund: for the support of the Organization's educational outreach programs including Bach to School, Bach at Noon, Bach Choir Choral Scholars Program, and Family Concerts.

## BACH CHOIR OF BETHLEHEM

### Notes to Financial Statements

June 30, 2018

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#### (5) Temporarily Restricted Net Assets, Continued

- The David and Carol Beckwith and Jack and Betsy Jordan Choir Recognition Fund: established to support, encourage and affirm the Organization's most precious resource - its singers.
- The Ifor Jones Memorial Chamber Music Concert Fund: for support of the chamber music concert series at The Bethlehem Bach Festival featuring members of The Bach Festival Orchestra.
- The Recordings and Broadcasts Fund: for support and expansion of the Organization's continuing legacy of outstanding audio and video recordings.
- The Research and Scholarship Fund: for support and continuing expansion of the Organization's research and scholarship activities.
- The Fairbairn Family Choir Development Fund: established to support additional training activities for the amazing volunteer singers of the Organization.
- The Anthony R. Thompson and Vickie Ziegler Thompson Fund for Heckewelder House: for support of the costs of the Organization's headquarters (currently the Heckewelder House) including renovations and furnishings/equipment as well as annual costs including rent, utilities, and maintenance.
- The Festival Fund: provides support for The Bethlehem Bach Festival, which has been the core of the Organization's concert season for more than 100 years. The fund ensures that this treasure continues to delight and inspire future generations by sustaining and preserving cherished tradition, while bringing fresh perspective to The Bethlehem Bach Festival.

# BACH CHOIR OF BETHLEHEM

## Notes to Financial Statements June 30, 2018

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### (5) Temporarily Restricted Net Assets, Continued

Temporarily restricted net assets are available for the following purposes at June 30:

Fund Name	2018
Endowment Fund:	
The Archives and History Fund	\$ 295
The Artistic Director and Conductor Fund	116,208
The Joseph W. Ayers Maintenance Fund	184,145
The Bach at Noon Fund	507,143
The David and Carol Beckwith and Jack and Betsy Jordan Choir Recognition Fund	115,620
The Linda J. Danglemajer Educational Outreach Fund	149,051
The Fairbairn Family Choir Development Fund	122,090
The Festival Fund	1,185,873
The Anthony R. Thompson and Vickie Ziegler Thompson Fund for Heckewelder House	464,002
The Ifor Jones Memorial Chamber Music Concert Fund	33,896
The Recordings and Broadcasts Fund	61,531
The Research and Scholarship Fund	59,140
	<hr/> 2,998,994
Operating Fund:	
Future year's operations	42,000
	<hr/> \$ 3,040,994

### (6) Functional Expenses

The costs of providing the programs and supporting services have been summarized on a functional basis in the following schedule. Accordingly, certain costs have been allocated among the programs and supporting services benefited as follows for the years ended June 30, 2018:

Program service	\$ 961,638
Management and general	297,663
Fundraising	184,673
	<hr/> \$ 1,443,974

# **BACH CHOIR OF BETHLEHEM**

## **Notes to Financial Statements**

**June 30, 2018**

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### **(7) Related Party**

The Organization has a cooperation agreement with The Bel Canto Children's Chorus to provide administrative services and to perform together at various venues. The Organization provides grants to the related party to assist in these performances. Grant expense to the related party was \$10,000 for the year ended June 30, 2018.

### **(8) Contingent Assets**

The Organization is a beneficiary of various split-interest agreements (principally charitable annuities) contributed to and held by a charitable foundation. These contracts provide income benefits upon the death of the contributor. No amounts have been reflected in the financial statements as of June 30, 2018, as the Organization does not have unconditional rights to receive these residual amounts and support.

### **(9) Unemployment Compensation**

The Organization is currently using the system of reimbursement financing to pay Pennsylvania employment compensation claims. Under this method a liability occurs only when a former employee collects unemployment benefits.

### **(10) Subsequent Events**

Effective July 1, 2018, The Bel Canto Children's Chorus (Bel Canto) merged with the Organization. Bel Canto provides an educational and artistic musical experience for children of diverse ethnic, religious, and cultural backgrounds, and nurtures a sense of accomplishment and community through the outstanding performance of diverse choral repertoire chosen specifically for the young voice. Management does not expect this merger to have a significant impact on the Organization's financial statements.