

THE BUFFALO FINE ARTS
ACADEMY AND AFFILIATES

Consolidated Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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The Board of Directors
The Buffalo Fine Arts Academy and Affiliates
Buffalo, New York:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Buffalo Fine Arts Academy and Affiliates (a non-profit organization) (the Academy), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and of cash flows for the years 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 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 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 Academy'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 Academy'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 Fine Arts Academy and Affiliates as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 28, 2020

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Assets:		
Cash	\$ 3,579,252	1,238,707
Accounts receivable, net	786,389	1,149,987
Merchandise inventories	231,228	338,240
Prepays	328,798	287,629
Contributions receivable, net	14,305,953	14,213,542
Assets restricted to investment in property and equipment	25,879,875	30,148,309
Property and equipment, net	36,298,551	23,997,521
Beneficial interest in trust	202,413	200,922
Investments	<u>151,919,209</u>	<u>159,063,443</u>
Total assets	<u>\$ 233,531,668</u>	<u>230,638,300</u>
 <u>Liabilities and Net Assets</u> 		
Liabilities:		
Accounts payable and accrued expenses	3,284,407	3,918,928
Lines of credit	500,000	1,860,000
Deferred revenue	13,895	117,077
Mortgages and notes payable	3,501,019	4,117,555
Promissory note - paycheck protection program	<u>1,110,937</u>	<u>-</u>
Total liabilities	<u>8,410,258</u>	<u>10,013,560</u>
Net assets:		
Without donor restrictions	13,646,838	7,719,644
With donor restrictions	<u>211,474,572</u>	<u>212,905,096</u>
Total net assets	<u>225,121,410</u>	<u>220,624,740</u>
Total liabilities and net assets	<u>\$ 233,531,668</u>	<u>230,638,300</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Activities and Changes in Net Assets
Year ended June 30, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue:			
Gifts and grants:			
Government grants	\$ -	739,250	739,250
Corporate and foundation support	113,602	1,191,725	1,305,327
Annual giving	739,532	-	739,532
All other gifts and grants	338,731	-	338,731
Total gifts and grants	<u>1,191,865</u>	<u>1,930,975</u>	<u>3,122,840</u>
Exhibitions	100,000	-	100,000
Memberships	352,771	-	352,771
Investment income and gains in accordance with spending policy	3,765,999	-	3,765,999
Education and other related programs	238,517	-	238,517
Revenue from auxiliary activities	998,008	-	998,008
Net assets released from restrictions	<u>1,758,849</u>	<u>(1,758,849)</u>	<u>-</u>
Total support and revenue	<u>8,406,009</u>	<u>172,126</u>	<u>8,578,135</u>
Expenses:			
Program services	2,727,628	-	2,727,628
Supporting services:			
Management	4,497,407	-	4,497,407
Fundraising	1,310,296	-	1,310,296
Auxiliary services	698,470	-	698,470
Total expenses	<u>9,233,801</u>	<u>-</u>	<u>9,233,801</u>
Non-operating activities:			
Investment return - net	526,337	4,785,784	5,312,121
Restricted contributions	-	7,707,753	7,707,753
Change in beneficial interest in trust	-	24,334	24,334
Investment income and gains allocated under spending policy to general operations	(3,765,999)	-	(3,765,999)
Acquisition, preservation and conservation of works of art	(4,107,732)	-	(4,107,732)
Net change in obligations under trust agreements	(18,141)	-	(18,141)
Net assets released from restrictions	<u>14,120,521</u>	<u>(14,120,521)</u>	<u>-</u>
Total non-operating activities	<u>6,754,986</u>	<u>(1,602,650)</u>	<u>5,152,336</u>
Change in net assets	5,927,194	(1,430,524)	4,496,670
Net assets at beginning of year	<u>7,719,644</u>	<u>212,905,096</u>	<u>220,624,740</u>
Net assets at end of year	<u>\$ 13,646,838</u>	<u>211,474,572</u>	<u>225,121,410</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Activities and Changes in Net Assets
Year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue:			
Gifts and grants:			
Government grants	\$ -	638,475	638,475
Corporate and foundation support	335,815	2,270,558	2,606,373
Annual giving	768,721	-	768,721
All other gifts and grants	78,888	-	78,888
Total gifts and grants	<u>1,183,424</u>	<u>2,909,033</u>	<u>4,092,457</u>
Exhibitions	334,145	-	334,145
Memberships	449,763	-	449,763
Investment income and gains in accordance with spending policy	2,782,781	-	2,782,781
Education and other related programs	695,179	-	695,179
Revenue from auxiliary activities	2,240,256	-	2,240,256
Net assets released from restrictions	<u>3,346,705</u>	<u>(3,346,705)</u>	<u>-</u>
Total support and revenue	<u>11,032,253</u>	<u>(437,672)</u>	<u>10,594,581</u>
Expenses:			
Program services	4,028,755	-	4,028,755
Supporting services:			
Management	4,472,651	-	4,472,651
Fundraising	1,805,666	-	1,805,666
Auxiliary services	948,063	-	948,063
Total expenses	<u>11,255,135</u>	<u>-</u>	<u>11,255,135</u>
Non-operating activities:			
Investment return - net	511,560	9,289,693	9,801,253
Restricted contributions	-	4,712,141	4,712,141
Change in beneficial interest in trust	-	(26,244)	(26,244)
Investment income and gains allocated under spending policy to general operations	(2,782,781)	-	(2,782,781)
Acquisition, preservation and conservation of works of art	(6,460,667)	-	(6,460,667)
Net change in obligations under trust agreements	(18,447)	-	(18,447)
Net assets released from restrictions	<u>6,730,531</u>	<u>(6,730,531)</u>	<u>-</u>
Total non-operating activities	<u>(2,019,804)</u>	<u>7,245,059</u>	<u>5,225,255</u>
Change in net assets	(2,242,686)	6,807,387	4,564,701
Net assets at beginning of year	<u>9,962,330</u>	<u>206,097,709</u>	<u>216,060,039</u>
Net assets at end of year	<u>\$ 7,719,644</u>	<u>212,905,096</u>	<u>220,624,740</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Functional Expenses
Year ended June 30, 2020

	Program Services				Supporting Services			Auxiliary Activities			Total
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe	Total	Functional Expenses
Salaries and benefits	\$ 1,213,447	471,713	318,710	2,003,870	2,574,958	592,666	3,167,624	224,803	174,271	399,074	5,570,568
Advertising and promotion	-	-	-	-	26,821	-	26,821	-	-	-	26,821
Bad debts	-	-	-	-	-	14,250	14,250	-	-	-	14,250
Books and periodicals	3,319	115	-	3,434	5,648	2,014	7,662	-	-	-	11,096
Cleaning	-	-	-	-	12,919	-	12,919	-	-	-	12,919
Conservation	5,685	-	-	5,685	-	-	-	-	-	-	5,685
Equipment purchases	3,418	2,235	-	5,653	27,169	-	27,169	-	-	-	32,822
Film rentals	-	403	-	403	-	-	-	-	-	-	403
Gifts	511	195	2,209	2,915	11,121	9,356	20,477	-	-	-	23,392
Honoraria	-	33,770	-	33,770	-	14,915	14,915	-	-	-	48,685
Installation	13,156	-	-	13,156	-	-	-	-	-	-	13,156
Insurance	-	-	-	-	84,249	-	84,249	-	-	-	84,249
Licenses, dues, subscriptions and fees	1,790	5,308	-	7,098	30,371	1,895	32,266	175	2,175	2,350	41,714
Maintenance contracts	34,059	442	56,489	90,990	153,536	57,852	211,388	7,257	303	7,560	309,938
Bank charges	-	-	-	-	24,379	10,824	35,203	8,315	5,723	14,038	49,241
Miscellaneous	-	1,181	-	1,181	86	-	86	-	-	-	1,267
Outside services	12,675	7,886	9,694	30,255	355,249	60,891	416,140	746	6,336	7,082	453,477
Participation fee	-	-	-	-	-	-	-	456	-	456	456
Photography	-	-	-	-	-	250	250	-	-	-	250
Postage	451	-	35	486	28,569	22,205	50,774	5,241	-	5,241	56,501
Cataloging services	2,517	-	-	2,517	-	-	-	-	-	-	2,517
Printing	430	5,594	26,814	32,838	3,142	46,051	49,193	-	-	-	82,031
Professional development	1,532	1,133	160	2,825	15,642	1,670	17,312	-	-	-	20,137
Professional fees	-	-	-	-	93,801	-	93,801	-	1,500	1,500	95,301
Rentals	644	3,142	-	3,786	10,362	12,261	22,623	-	853	853	27,262
Supplies	21,113	26,381	484	47,978	32,675	5,334	38,009	1,555	1,025	2,580	88,567
Telecommunications	5,982	1,459	1,158	8,599	101,768	2,144	103,912	-	150	150	112,661
Transportation, crating	(946)	11,810	253	11,117	-	-	-	-	-	-	11,117
Travel and entertainment	40,073	15,245	1,727	57,045	91,976	300,457	392,433	5,639	-	5,639	455,117
Occupancy	38,566	256	-	38,822	280,057	-	280,057	-	947	947	319,826
Cost of goods sold	-	-	-	-	-	-	-	130,350	33,992	164,342	164,342
Total expenses before depreciation and interest	1,398,422	588,268	417,733	2,404,423	3,964,498	1,155,035	5,119,533	384,537	227,275	611,812	8,135,768
Depreciation	171,976	72,344	51,372	295,692	487,545	142,044	629,589	47,289	32,368	79,657	1,004,938
Interest	16,002	6,731	4,780	27,513	45,364	13,217	58,581	4,400	2,601	7,001	93,095
Total expenses	<u>\$ 1,586,400</u>	<u>667,343</u>	<u>473,885</u>	<u>2,727,628</u>	<u>4,497,407</u>	<u>1,310,296</u>	<u>5,807,703</u>	<u>436,226</u>	<u>262,244</u>	<u>698,470</u>	<u>9,233,801</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Functional Expenses
Year ended June 30, 2019

	Program Services				Supporting Services			Auxiliary Activities			Total
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe	Total	Functional Expenses
Salaries and benefits	\$ 1,136,790	391,074	385,985	1,913,849	2,454,943	421,980	2,876,923	197,575	240,969	438,544	5,229,316
Audio tour	-	2,946	-	2,946	-	-	-	-	-	-	2,946
Advertising and promotion	-	-	-	-	217,240	86,355	303,595	-	-	-	303,595
Books and periodicals	5,622	196	1,161	6,979	5,642	1,637	7,279	-	-	-	14,258
Cleaning	-	-	-	-	16,694	-	16,694	-	-	-	16,694
Conservation	22,044	-	-	22,044	-	-	-	-	-	-	22,044
Equipment purchases	7,088	1,517	4,454	13,059	23,694	216	23,910	2,262	-	2,262	39,231
Film rentals	-	3,253	-	3,253	-	-	-	-	-	-	3,253
Gifts	1,909	452	2,352	4,713	15,801	10,189	25,990	59	-	59	30,762
Honoraria	2,113	79,168	600	81,881	1,400	354,350	355,750	-	-	-	437,631
Installation	113,672	-	-	113,672	2,095	-	2,095	-	-	-	115,767
Insurance	175,820	-	4,359	180,179	75,731	3,156	78,887	-	-	-	259,066
Licenses, dues, subscriptions and fees	1,362	3,932	-	5,294	32,906	6,488	39,394	(901)	2,176	1,275	45,963
Maintenance contracts	31,173	-	48,178	79,351	174,388	56,397	230,785	7,035	699	7,734	317,870
Bank charges	-	-	-	-	37,531	13,458	50,989	11,621	13,265	24,886	75,875
Outside services	25,657	7,903	141,203	174,763	213,557	226,306	439,863	-	20,830	20,830	635,456
Participation fee	873	150	-	1,023	2,575	-	2,575	517	-	517	4,115
Photography	988	-	23,784	24,772	1,296	150	1,446	-	-	-	26,218
Postage	480	-	5,442	5,922	29,590	19,474	49,064	2,400	-	2,400	57,386
Cataloging services	2,049	-	-	2,049	-	-	-	-	-	-	2,049
Printing	46	15,455	150,218	165,719	3,228	38,855	42,083	-	-	-	207,802
Professional development	1,923	4,621	1,500	8,044	30,756	550	31,306	175	-	175	39,525
Professional fees	-	4,820	-	4,820	72,688	-	72,688	-	1,500	1,500	79,008
Rentals	1,624	1,780	-	3,404	3,648	41,483	45,131	-	2,091	2,091	50,626
Supplies	53,474	14,779	13,357	81,610	22,422	11,436	33,858	4,628	5,380	10,008	125,476
Telecommunications	5,016	995	1,833	7,844	94,551	2,767	97,318	39	659	698	105,860
Transportation, crating	542,253	52,459	2,032	596,744	-	-	-	-	-	-	596,744
Travel and entertainment	102,700	40,328	16,898	159,926	127,450	346,875	474,325	2,943	32	2,975	637,226
Occupancy	-	-	-	-	407,727	-	407,727	-	1,142	1,142	408,869
Cost of goods sold	-	-	-	-	-	-	-	236,607	108,491	345,098	345,098
Total expenses before depreciation and interest	2,234,676	625,828	803,356	3,663,860	4,067,553	1,642,122	5,709,675	464,960	397,234	862,194	10,235,729
Depreciation	201,340	56,386	72,381	330,107	366,478	147,952	514,430	41,892	35,790	77,682	922,219
Interest	21,218	5,942	7,628	34,788	38,620	15,592	54,212	4,415	3,772	8,187	97,187
Total expenses	<u>\$ 2,457,234</u>	<u>688,156</u>	<u>883,365</u>	<u>4,028,755</u>	<u>4,472,651</u>	<u>1,805,666</u>	<u>6,278,317</u>	<u>511,267</u>	<u>436,796</u>	<u>948,063</u>	<u>11,255,135</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statements of Cash Flows
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,496,670	4,564,701
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,215,754	1,117,946
Loss from sale of fixed assets	-	3,026
Change in beneficial interest in trust	(24,334)	26,244
Endowment fund gifts	(7,707,753)	(4,712,141)
Investment income with donor restrictions, net	(1,784,517)	(3,556,112)
Net gains on investments	(3,527,604)	(6,245,141)
Changes in operating assets and liabilities:		
Accounts receivable, net	363,598	1,992,662
Merchandise inventories	107,012	63,912
Prepays	(41,169)	83,282
Accounts payable and accrued expenses	(2,033,165)	992,243
Deferred revenue	(103,182)	(438,735)
Net cash used in operating activities	<u>(9,038,690)</u>	<u>(6,108,113)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(12,118,140)	(6,097,668)
Investment income with donor restrictions, net	1,784,517	3,556,112
Investment income from trust	22,843	23,579
Purchases of investments	(147,046,822)	(57,310,481)
Proceeds from sale of investments	<u>161,987,094</u>	<u>57,843,886</u>
Net cash provided by (used in) investing activities	<u>4,629,492</u>	<u>(1,984,572)</u>
Cash flows from financing activities:		
Endowment fund gifts	7,707,753	4,712,141
Repayments of lines of credit	(15,247,898)	(11,330,213)
Draws on lines of credit	13,887,898	11,805,213
Repayments of mortgage and notes payable	(616,536)	(616,536)
Change in contributions receivable, net	(92,411)	1,860,159
Draws on promissory note - payroll protection program	<u>1,110,937</u>	<u>-</u>
Net cash provided by financing activities	<u>6,749,743</u>	<u>6,430,764</u>
Net change in cash	2,340,545	(1,661,921)
Cash at beginning of year	<u>1,238,707</u>	<u>2,900,628</u>
Cash at end of year	<u>\$ 3,579,252</u>	<u>1,238,707</u>
Supplemental disclosure of cash flow information:		
Cash used for the purchase of works of art	<u>\$ 1,955,943</u>	<u>2,529,665</u>
Cash used for interest expense	<u>\$ 244,983</u>	<u>301,468</u>
Supplemental disclosure of non-cash investing and financing activities - accounts payable and accrued expenses related to purchases of property and equipment	<u>\$ 1,398,644</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Buffalo Fine Arts Academy and Affiliates (the Academy) was incorporated in 1862 to promote, cultivate and generally foster the arts. The Academy is the oversight organization of the Albright-Knox Art Gallery (the Gallery), one of the country's most prominent modern and contemporary art museums, as well as an important cultural and education center for Western New York. The Gallery is dedicated to serving both the local community and a wider art audience through a recognized and active program of collecting, educating, exhibiting and interpreting modern and contemporary art works, and aspiring to be one of the world's best and most dynamic modern and contemporary art institutions.

(b) Financial Statement Presentation

Generally accepted accounting principles require that resources be classified for reporting purposes into two categories based upon the presence or absence of donor restrictions - with donor restrictions or without donor restrictions. Net assets without donor restrictions represents resources available for the general support of the Academy's activities and may be designated by the Academy's Board of Directors for specific purposes. 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 Academy and donor restricted endowment funds. As restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

(c) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The consolidated financial statements include the accounts of the Academy and its wholly-owned subsidiary, Albright Knox Restaurant, Inc. The consolidated financial statements also include the accounts of ALKASW, Inc., as the Academy has both an economic interest in ALKASW, Inc. and control of ALKASW, Inc. through a common Board of Directors. All significant intercompany balances and transactions have been eliminated in consolidation.

(d) Cash

Cash consists of demand deposits. The amount of cash on the consolidated statements of financial position and consolidated statements of cash flows excludes money market funds held in the investment portfolio. The Academy maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Academy has not experienced any losses in such accounts. The Academy believes it is not exposed to any significant credit risk with regards to cash. In addition, the Academy has approximately \$3,499,000 and \$1,072,000 of cash restricted for AK360 as of June 30, 2020 and 2019, respectively.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(e) Accounts Receivables

The carrying amounts reported in the consolidated statements of financial position for grants, contributions, and other receivables approximate their fair value. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the obligations to be met. It is the Academy's policy to write off uncollectible accounts receivable when management determines the receivable will not be collected. The Academy recorded an allowance for doubtful accounts receivable of \$9,000 at June 30, 2020 and 2019.

(f) Merchandise Inventories

Merchandise inventories consist of merchandise held for resale, and are stated at the lower of cost or market, with cost determined using the first-in, first-out method.

(g) 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 which are not actively traded or market prices of similar assets or liabilities which 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.

The Academy has established a policy under which investments may be pooled and invested according to certain guidelines. Under New York State law, the Academy is permitted to use the income and gains derived from the net assets with donor restrictions, subject to a standard of prudence, and absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity. Accordingly, all income and realized and unrealized gains and losses are reported as with no donor restrictions or with donor restrictions, based on the presence or absence of donor stipulations as to their use.

The Academy's spending policy stipulates that a percentage of its investments, averaged over a thirty-six month period, may be used to support its activities on an annual basis. The amounts drawn annually may deviate from this policy upon approval of the Academy's Board of Directors.

(h) Property and Equipment

Property and equipment acquisitions over \$2,500 are recorded at cost if purchased or at fair value at the date of the gift if donated. Depreciation is recorded on the straight-line method over the estimated useful lives of 50 years for buildings, 10 to 30 years for building improvements and 5 to 10 years for equipment.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(h) Property and Equipment, Continued

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as a contribution with a donor imposed restriction. Absent explicit donor stipulations about how long such assets must be maintained, the Academy reports the expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

(i) Net Asset Classifications

Generally accepted accounting principles provide guidance on the net asset classification of donor-restricted endowment funds that are subject to the New York Prudent Management of Institutional Funds (NYPMIFA) and include required disclosures for all endowment funds, both donor-restricted and board-restricted, whether or not they are subject to NYPMIFA. The Board of Directors, on the advice of legal counsel, has determined that the majority of the Academy's contributions are subject to the terms of the Academy's governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Academy.

Under the terms of the governing documents, the Board of Directors has the ability to distribute as much of the corpus of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as with donor restrictions are classified as net assets without donor restrictions for consolidated financial statement purposes. See note 13 for the enhanced endowment fund disclosures.

Net assets with donor restrictions consists of irrevocable charitable trusts, restricted contributions, and contributions receivable. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

(j) Collection of Works of Art

It is the Academy's policy to purchase works of art with donor restricted funds, including contributions received for such purpose, and proceeds from the deaccessioning of other works of art. It is the Academy's policy not to capitalize its collection of works of art. Therefore, the value of art objects is not included on the consolidated statements of financial position and changes in net assets and no determination has been made of the aggregate value of such assets for financial reporting purposes. Contributions of works of art are treated in the same manner as purchases of works of art in that they are not capitalized. Proceeds from deaccessions are reflected on the consolidated statements of activities and changes in net assets as net assets with donor restrictions, based on the absence or existence of donor-imposed restrictions. Use of the proceeds of deaccessioned objects are restricted solely to support the acquisition of other objects from the collection.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(k) Contributions

Contributions, including unconditional promises to give, are recognized as revenues at their fair market value in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are designated for future periods or are restricted by the donor for specific purposes are reported as with donor restrictions. Cost-reimbursement grants are considered conditional obligations and are included in revenue as the related expenditures are incurred. Pledges for contributions are recorded as they are received and allowances are provided for amounts estimated to be uncollectible. Management closely monitors outstanding balances and has determined that an allowance for uncollectible pledges of \$500,000 at June 30, 2020 and 2019 is necessary. For the years ended June 30, 2020 and 2019, twelve and nine donors accounted for 83% and 78% of total restricted contributions, respectively.

(l) Non-operating Activities

The Academy considers gifts and other revenues restricted for long-term purposes, purchases of works of art, dividend income, interest income, realized and unrealized gains and losses on investments and investment management fees as non-operating activities.

(m) Donated Services

A number of unpaid volunteers have made contributions of their time to develop and participate in the Academy's programs. No accounting recognition is made for the fair market value of services provided by volunteer personnel, as no objective basis is available to measure the value of such services.

(n) Deferred Revenue

Revenues related to exchange transactions are deferred and recognized as without donor restrictions revenues at the time the related goods are delivered or services are provided.

(o) Subsequent Events

Management of the Academy has evaluated the effects of all subsequent events through the date of the report which is the date which the consolidated financial statements were available to be issued, to determine if events or transactions occurring through that date require potential adjustment or disclosure in the consolidated financial statements.

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 Academy and its future results and financial position is not presently determinable.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued

(p) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(q) Recent Accounting Standards Issued

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 financial statements and notes reflect adoption of this new standard.

In March 2019, the FASB issued ASU 2019-03, "Updating the Definition of Collections." ASU 2019-03 modifies the definition of the term collections and requires that a collection holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. ASU 2019-03 further calls for the disclosure of the term direct-care if a collection holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct-use. These financial statements and notes reflect adoption of this new standard.

(2) Liquidity

The Academy has approximately \$867,000 of financial assets available within one year of the consolidated statement of financial position date consisting of \$80,000 of cash and \$787,000 of accounts receivable. None of these financial assets are subject to donor or contractual restrictions that make them unavailable for general expenditures within one year of the consolidated statement of financial position date. The contributions receivable are subject to time restrictions and are expected to be collected over five to ten years. These contributions receivable are restricted for purposes of future expansion. As more fully described in note 7, the Academy has committed lines of credit in the amount of \$4,000,000, which it could draw upon in the event of an unanticipated liquidity need. Additionally, the Academy has a quasi-endowment of \$12,518,099. Although the Academy does not intend to spend from its quasi-endowment other than the amounts appropriated as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(3) Beneficial Interest in Trust

During the year ended June 30, 2010, a beneficial interest in a Charitable Lead Unitrust was recorded. The Unitrust agreement states that the Trustee shall maintain control over the assets and distribute quarterly payments to the Academy. The Unitrust agreement calls for payments to the Academy through the year ended June 30, 2029. The beneficial interest in the trust has been reflected at the present value of the estimated future cash flows using a discount rate equal to the rate of return on United States Treasury 20 year constant maturity securities, 0.66% and 2.0% at June 30, 2020 and 2019, respectively, and is included in restricted contributions in the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2020 and 2019. The value of the beneficial interest in Trust was approximately \$202,000 and \$201,000 at June 30, 2020 and 2019, respectively.

(4) Contributions Receivable

Contributions receivable, representing unconditional promises to give, consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Unconditional gross promises to give:		
Due within one year	\$ 3,532,234	3,442,944
Due in one to five years	<u>11,854,152</u>	<u>12,067,371</u>
Gross promises to give	15,386,386	15,510,315
Less unamortized discount	<u>(580,433)</u>	<u>(796,773)</u>
	14,805,953	14,713,542
Less allowance for uncollectible pledges	<u>(500,000)</u>	<u>(500,000)</u>
	<u>\$ 14,305,953</u>	<u>14,213,542</u>

Pledges due in more than one year are reflected at the present value of estimated future cash flows using a discount rate to the five (5) year United States Treasury Bill yield as of June 30, 2020 and 2019, with the unamortized discount over the life of the pledges.

(5) Fair Value Measurements

The fair value of the Academy's investments was determined by reference to quoted market prices and other relevant information generated by market transactions (Level 1), similar market transactions (Level 2) and also by significant unobservable inputs (Level 3). Investment gains, losses and income are reported in the consolidated statements of activities and changes in net assets.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(5) Fair Value Measurements, Continued

The following table sets forth, by level within the fair value hierarchy, the Academy's assets that are measured at fair value on a recurring basis as of June 30, with the exception of the partnerships and other investments, which are measured at fair value using the net asset value (NAV) practical expedient. The fair value for the partnerships and other investments is provided below to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

	<u>2020</u>	<u>2019</u>
Level 1:		
Marketable equity securities	\$ 15,563,388	9,378,425
Mutual funds	8,630,104	11,547,409
Equity funds	32,866,484	44,413,677
Corporate bond funds	29,792,020	31,970,446
Money market funds	<u>1,557,552</u>	<u>930,491</u>
	<u>88,409,548</u>	<u>98,240,448</u>
Level 2:		
Pooled funds	14,816,285	14,970,154
Foreign equity securities	<u>344,805</u>	<u>258,926</u>
	<u>15,161,090</u>	<u>15,229,080</u>
Investments measured at net asset value:		
Partnerships	48,013,571	45,258,915
Other	<u>335,000</u>	<u>335,000</u>
	<u>48,348,571</u>	<u>45,593,915</u>
Total investments at fair value	\$ <u>151,919,209</u>	<u>159,063,443</u>

The Partnerships measured at net asset value include investments in limited partnership funds of hedge funds and multi-sector global asset managers. These funds of hedge funds and certain of the multi-sector global asset managers in turn invest in several different types of hedge funds or other investment strategies.

The unfunded commitments of the investments in the partnerships at June 30, 2020 and 2019 are \$17,239,000 and \$13,818,000, respectively.

Assets restricted to investment in property and equipment totaling \$25,879,875 and \$30,148,309 as of June 30, 2020 and 2019, respectively, are invested in a common collective trust which is measured at fair value using the NAV practical expedient.

Generally accepted accounting principles require that impaired investments, that is, investments for which the fair value is less than its cost, be evaluated as to whether such impairment is other than temporary. Since the Academy has the ability and the intent to hold the securities until a recovery in value occurs (or until maturity if necessary), no investments have been deemed impaired as of June 30, 2020.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(6) Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 85,707	85,707
Buildings and building improvements	31,277,491	28,948,358
Equipment	8,201,603	7,872,600
Construction in progress	<u>16,440,404</u>	<u>5,581,756</u>
	56,005,205	42,488,421
Less accumulated depreciation	<u>(19,706,654)</u>	<u>(18,490,900)</u>
	<u>\$ 36,298,551</u>	<u>23,997,521</u>

The Academy has begun a multi-million dollar campus expansion and renovation project (AK360). This project broke ground in late 2019 and expects to be complete by mid-2022. The project includes a new building, underground parking and renovations to existing structures. It will be paid for through gifts from private individuals, foundations, and corporate sponsors, as well as government investments. Any amount not funded through these means will be financed, although details of that financing are not known at this time.

As of June 30, 2020, \$16,440,404 has been spent on AK360 and is reflected on the financial statements as construction in progress.

Equipment under capital lease obligations as of June 30, 2020 and 2019, amounted to \$84,638. Accumulated depreciation related to such equipment amounted to \$80,134 and \$63,206 as of June 30, 2020 and 2019, respectively.

(7) Lines of Credit

The Academy has a \$2,000,000 unsecured line of credit arrangement with a bank that is used to meeting general operating needs. The line bears interest at a rate equal to LIBOR plus 2.4% (2.5875% at June 30, 2020). The outstanding balance on the line of credit was \$500,000 and \$1,860,000 at June 30, 2020 and 2019, respectively.

The Academy has an additional \$2,000,000 unsecured line of credit arrangement with a bank for non-operating needs related to campus development and capital campaign projects. The line bears interest at a rate equal to LIBOR plus 2.4% (2.5875% at June 30, 2020). There was no amount outstanding as of June 30, 2020 or 2019.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(8) Mortgages and Notes Payable

Mortgages and notes payable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Mortgage note payable to a bank in fixed principal of \$40,000 plus variable interest at LIBOR plus 2.4% (2.5875% at June 30, 2020); secured by real property.	\$ 3,448,748	3,928,760
Term loan payable to a bank in fixed principal payments of \$6,667, plus variable interest at LIBOR plus 3.0% (3.1875% at June 30, 2020) through July 2020.	6,646	86,650
Term loan payable to a bank in fixed principal payments of \$3,300 plus variable interest at LIBOR plus 3.0% (3.1875% at June 30, 2020) through December 2020.	41,570	81,170
Capital lease obligations	<u>4,055</u>	<u>20,975</u>
	<u>\$ 3,501,019</u>	<u>4,117,555</u>

Required principal repayments of debt for the years subsequent to June 30, 2020 are as follows, 2021 - \$532,259, 2022 - \$480,000, 2023 - \$480,000, 2024 - \$480,000, 2025 - \$480,000 and thereafter \$1,048,760.

The Academy is subject to certain financial covenants under their banking agreement. As of June 30, 2020 and 2019, the Academy was in compliance with all financial covenants.

(9) Promissory Note - Paycheck Protection Program

On April 16, 2020, the Academy received a Small Business Administration (SBA) loan under the CARES Act in the amount of \$1,110,937 with a 1.00% interest rate.

The Academy must pay monthly principal and interest payments on the outstanding principal balance of the loan amortized over the term of the loan, unless otherwise forgiven in whole or part in accordance with the CARES Act as described below, beginning seven months from the month this note is dated until April 16, 2022 (the maturity date) when the entire principal balance remaining unpaid, along with all accrued and unpaid interest, shall be due and payable in full. Payments of principal and interest must be made on such date as designated by the lender in the months they are due.

Pursuant to the terms of the CARES Act and any implementing rules and regulations, the Academy may apply for the loan to be forgiven by the SBA in whole or in part beginning no sooner than seven (7) weeks from the date of the note. Any loan balance remaining following forgiveness by the SBA will be fully reamortized over the remaining term of the loan. The entire principal balance remaining unpaid, along with all accrued and unpaid interest, shall be due and payable on the maturity date. If there is a default without notice or demand and without giving up any of its rights, lender may require immediate payment of all amounts owing under this note; collect all amounts owing from any borrower; or file suit and obtain judgment.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Notes to Consolidated Financial Statements, Continued

(10) Net Assets Without Donor Restrictions

The Board of Directors has designated net assets without donor restrictions for the following purposes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Quasi-endowment	\$ 12,518,099	13,347,614
Accumulated surplus (deficit)	<u>1,128,739</u>	<u>(5,627,970)</u>
	<u>\$ 13,646,838</u>	<u>7,719,644</u>

(11) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Purchase of works of art	\$ 88,425,117	91,087,302
Programs and exhibitions	3,325,316	3,199,361
Operations	44,448,898	50,188,087
Time restricted	202,413	200,922
AK360	43,615,398	48,349,458
Buildings and equipment	<u>31,457,430</u>	<u>19,879,966</u>
	<u>\$ 211,474,572</u>	<u>212,905,096</u>

(12) Net Assets Released from Donor Restriction

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by donors as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Art acquisitions	\$ 5,675,015	4,407,639
Programs and exhibitions	1,758,849	3,346,705
AK360 initiatives	7,844,608	1,666,251
Operations	<u>600,898</u>	<u>656,641</u>
	<u>\$ 15,879,370</u>	<u>10,077,236</u>

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(13) Endowment Net Assets

The endowment net assets represent the endowment fund balances within each respective category of net assets in accordance with generally accepted accounting principles.

The changes in the endowment net assets for the year ended June 30, 2020 are summarized as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 13,347,614	145,715,830	159,063,444
Investment return, net	534,838	4,785,784	5,320,622
Contributions	-	8,621	8,621
Amounts appropriated for expenditure	(1,364,353)	(8,677,558)	(10,041,911)
Other changes	<u>-</u>	<u>(2,431,566)</u>	<u>(2,431,566)</u>
Change in endowment net assets	<u>(829,515)</u>	<u>(6,314,721)</u>	<u>(7,144,236)</u>
Endowment net assets at end of year	\$ <u>12,518,099</u>	<u>139,401,111</u>	<u>151,919,210</u>

The changes in the endowment net assets for the year ended June 30, 2019 are summarized as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 11,743,727	145,427,856	157,171,583
Investment return, net	618,832	9,289,693	9,908,525
Contributions	1,931,768	136,004	2,067,772
Amounts appropriated for expenditure	(946,713)	(6,900,348)	(7,847,061)
Other changes	<u>-</u>	<u>(2,237,375)</u>	<u>(2,237,375)</u>
Change in endowment net assets	<u>1,603,887</u>	<u>287,974</u>	<u>1,891,861</u>
Endowment net assets at end of year	\$ <u>13,347,614</u>	<u>145,715,830</u>	<u>159,063,444</u>

(14) Retirement Plans

The Academy provides retirement benefits for eligible employees whose employment began before April 1, 2002, through contributions to the New York State and Local Employees' Retirement System (the System). This is a cost-sharing multiple-employer retirement system. As a participant in the System, the relative position of the Academy with respect to vested and nonvested benefits and net assets available for benefits is not determinable. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). The Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(14) Retirement Plans, Continued

transactions of the business of the System and for custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information.

That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244. The System is noncontributory except for employees who joined the System after July 27, 1976, who can elect to contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employees to the pension accumulation fund. The Academy is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were \$57,617, \$58,135 and \$59,106, respectively. The Academy's contributions made to the System were equal to 100 percent of the contributions required for each year.

Additionally, the Academy provides retirement benefits for eligible employees whose retirement began on or after April 1, 2002, through a defined contribution plan under IRC Section 403(b) through the Newport Group. This plan became effective in January 2016. Previously, a plan through Teachers Insurance and Annuity Association and College Retirement Equities Fund was available. No contributions to the TIAA plan were made after December 31, 2015. That plan remains open and participants are under no obligation to transfer their balances to the Newport plan. However, all elective deferrals and employer contributions as of January 1, 2016 are only made to the Newport plan. The costs to the Academy related to both plans for the years ended June 30, 2020 and 2019, were approximately \$236,000 and \$238,000, respectively.

(15) Federal Income Tax Status

The Academy has been informed by the Internal Revenue Service that it is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Management does not believe that circumstances have occurred that have altered the tax-exempt status of the Academy. The Academy has also received a determination letter that they are not a private foundation within the meaning of Section 509(a)(3) of the Internal Revenue Code. The Academy's wholly-owned subsidiary, Albright-Knox Restaurant, Inc., is a taxable corporation. ALKASW, Inc., is also exempt under the provisions of Section 501(c)(2) of the Internal Revenue Code.

(16) Commitments

As of June 30, 2020, the Academy has committed to purchase works of art totaling approximately \$6,340,000. The purchases are expected to take place during the years ending June 30, 2021 and 2022. This amount has not been recorded as of June 30, 2020, as the Academy has neither possession nor title to these works of art.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Notes to Consolidated Financial Statements, Continued

(17) Functional Expenses

The Academy offers a variety of programming related to exhibitions and education as auxiliary services. All expenses related to programming, supporting services and auxiliary services are tracked and reported separately in the statements of functional expenses. Certain general administrative expenses related to the Academy as a whole have been allocated to each program based on the total expenses of each program relative to the total expenses incurred.