

THE BUFFALO FINE ARTS
ACADEMY AND AFFILIATES

Consolidated Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Buffalo Fine Arts Academy and Affiliates as of June 30, 2023 and 2022, and the consolidated 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

EFPR Group, CPAs, PLLC

Williamsville, New York
October 16, 2023

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2023 and 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Assets:		
Cash	\$ 3,413,341	3,344,831
Accounts receivable, net	513,528	568,049
Prepays	1,025,570	794,585
Contributions receivable, net	12,792,704	8,947,793
Merchandise inventory	153,479	-
Assets restricted to investment in property and equipment	-	5,749,390
Property and equipment, net	180,747,797	125,726,292
Beneficial interest in trust	140,444	158,337
Investments	<u>148,371,799</u>	<u>146,151,631</u>
Total assets	<u>\$ 347,158,662</u>	<u>291,440,908</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	7,100,517	7,772,979
Deferred revenue	194,133	47,932
Line of credit	1,250,000	-
Mortgages and notes payable	<u>2,093,220</u>	<u>2,530,937</u>
Total liabilities	<u>10,637,870</u>	<u>10,351,848</u>
Net assets:		
Without donor restrictions	8,203,914	15,784,308
With donor restrictions	<u>328,316,878</u>	<u>265,304,752</u>
Total net assets	<u>336,520,792</u>	<u>281,089,060</u>
Total liabilities and net assets	<u>\$ 347,158,662</u>	<u>291,440,908</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Activities
Year ended June 30, 2023

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating activities:			
Support and revenue:			
Gifts and grants:			
Government grants	\$ -	705,000	705,000
Corporate and foundation support	-	3,121,768	3,121,768
Contributions of nonfinancial assets - gifts-in-kind	-	321,509	321,509
Annual giving	895,914	-	895,914
Grant income - employee retention credit	440,048	-	440,048
All other gifts and grants	603,594	-	603,594
Total gifts and grants	<u>1,939,556</u>	<u>4,148,277</u>	<u>6,087,833</u>
Exhibitions	20,000	-	20,000
Memberships	591,952	-	591,952
Investment income and gains in accordance with spending policy	4,068,503	-	4,068,503
Education and other related programs	115,441	-	115,441
Revenue from auxiliary services	616,285	-	616,285
Net assets released from restrictions	<u>2,535,965</u>	<u>(2,535,965)</u>	<u>-</u>
Total support and revenue	<u>9,887,702</u>	<u>1,612,312</u>	<u>11,500,014</u>
Expenses:			
Program services	3,567,071	-	3,567,071
Supporting services:			
Management	5,462,861	-	5,462,861
Fundraising	1,926,762	-	1,926,762
Auxiliary services	<u>273,929</u>	<u>-</u>	<u>273,929</u>
Total expenses	<u>11,230,623</u>	<u>-</u>	<u>11,230,623</u>
Change in net asset from operating activities	<u>(1,342,921)</u>	<u>1,612,312</u>	<u>269,391</u>
Non-operating activities:			
Investment income, net	1,314,776	13,351,866	14,666,642
Restricted contributions	-	54,159,215	54,159,215
Change in beneficial interest in trust	-	7,091	7,091
Proceeds from deaccessioning	-	320,000	320,000
Contributions of nonfinancial assets - gifts-in-kind	-	153,360	153,360
Investment income and gains allocated under spending policy to general operations	(4,068,503)	-	(4,068,503)
Loss on retirement of assets	(205,241)	-	(205,241)
Acquisition, preservation and conservation of works of art	(9,850,299)	-	(9,850,299)
Net change in obligations under trust agreements	(19,924)	-	(19,924)
Net assets released from restrictions	<u>6,591,718</u>	<u>(6,591,718)</u>	<u>-</u>
Total non-operating activities	<u>(6,237,473)</u>	<u>61,399,814</u>	<u>55,162,341</u>
Change in net assets	<u>(7,580,394)</u>	<u>63,012,126</u>	<u>55,431,732</u>
Net assets at beginning of year	<u>15,784,308</u>	<u>265,304,752</u>	<u>281,089,060</u>
Net assets at end of year	<u>\$ 8,203,914</u>	<u>328,316,878</u>	<u>336,520,792</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Activities
Year ended June 30, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating activities:			
Support and revenue:			
Gifts and grants:			
Government grants	\$ -	724,500	724,500
Corporate and foundation support	-	1,344,424	1,344,424
Contributions of nonfinancial assets - gifts-in-kind	-	36,052	36,052
Annual giving	906,188	-	906,188
Grant income - paycheck protection program	932,965	-	932,965
Grant income - employee retention credit	13,266	-	13,266
All other gifts and grants	<u>112,320</u>	<u>-</u>	<u>112,320</u>
Total gifts and grants	1,964,739	2,104,976	4,069,715
Memberships	253,358	-	253,358
Investment income and gains in accordance with spending policy	3,820,195	-	3,820,195
Education and other related programs	66,309	-	66,309
Revenue from auxiliary services	668,935	-	668,935
Net assets released from restrictions	<u>2,035,819</u>	<u>(2,035,819)</u>	<u>-</u>
Total support and revenue	<u>8,809,355</u>	<u>69,157</u>	<u>8,878,512</u>
Expenses:			
Program services	2,901,784	-	2,901,784
Supporting services:			
Management	4,688,721	-	4,688,721
Fundraising	1,391,607	-	1,391,607
Auxiliary services	<u>34,406</u>	<u>-</u>	<u>34,406</u>
Total expenses	<u>9,016,518</u>	<u>-</u>	<u>9,016,518</u>
Changes in net assets from operating activities	<u>(207,163)</u>	<u>69,157</u>	<u>(138,006)</u>
Non-operating activities:			
Investment loss, net	(2,594,579)	(21,063,436)	(23,658,015)
Restricted contributions	-	12,648,075	12,648,075
Change in beneficial interest in trust	-	36,128	36,128
Proceeds from deaccessioning	-	1,205,117	1,205,117
Contributions of nonfinancial assets - gifts-in-kind	-	125,000	125,000
Investment income and gains allocated under spending policy to general operations	(3,820,195)	-	(3,820,195)
Acquisition, preservation and conservation of works of art	(9,453,541)	-	(9,453,541)
Net change in obligations under trust agreements	(18,993)	-	(18,993)
Net assets released from restrictions	<u>10,341,917</u>	<u>(10,341,917)</u>	<u>-</u>
Total non-operating activities	<u>(5,545,391)</u>	<u>(17,391,033)</u>	<u>(22,936,424)</u>
Change in net assets	<u>(5,752,554)</u>	<u>(17,321,876)</u>	<u>(23,074,430)</u>
Net assets at beginning of year	<u>21,536,862</u>	<u>282,626,628</u>	<u>304,163,490</u>
Net assets at end of year	<u>\$ 15,784,308</u>	<u>265,304,752</u>	<u>281,089,060</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Functional Expenses
Year ended June 30, 2023

	Program Services				Supporting Services			Auxiliary Services			Total
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe	Total	Functional Expenses
Salaries and benefits	\$ 1,800,549	599,947	440,276	2,840,772	3,705,739	825,156	4,530,895	39,242	97,513	136,755	7,508,422
Advertising and promotion	-	-	-	-	38,681	-	38,681	-	-	-	38,681
Books and periodicals	1,457	1,075	374	2,906	5,124	-	5,124	-	-	-	8,030
Cleaning	-	-	-	-	14,128	-	14,128	-	-	-	14,128
Equipment purchases	12,502	748	1,247	14,497	30,518	34	30,552	218	1,420	1,638	46,687
Gifts	487	1,179	1,284	2,950	12,807	16,800	29,607	-	-	-	32,557
Honoraria	4,501	12,725	3,782	21,008	-	19,468	19,468	-	-	-	40,476
Insurance	-	-	-	-	70,271	-	70,271	-	-	-	70,271
Licenses, dues, subscriptions and fees:	56	2,140	-	2,196	33,494	2,089	35,583	282	3,123	3,405	41,184
Maintenance contracts	9,996	4,422	40,137	54,555	369,927	50,539	420,466	6,150	-	6,150	481,171
Bank charges	-	-	-	-	40,505	26,668	67,173	-	1,608	1,608	68,781
Miscellaneous	628	159	-	787	-	-	-	-	25	25	812
Outside services	2,660	1,297	60,756	64,713	85,055	43,586	128,641	2,006	2,501	4,507	197,861
Photography	1,000	-	1,092	2,092	-	-	-	-	-	-	2,092
Postage	519	60	9,149	9,728	22,758	1,665	24,423	-	31	31	34,182
Printing	-	5,949	25,263	31,212	2,823	96,955	99,778	-	1,965	1,965	132,955
Professional development	3,661	3,974	2,188	9,823	19,515	379	19,894	4,800	-	4,800	34,517
Professional fees	-	-	-	-	41,246	1,560	42,806	-	5,018	5,018	47,824
Rentals	3,026	-	-	3,026	6,739	42,352	49,091	-	-	-	52,117
Supplies	40,696	12,063	2,147	54,906	61,085	19,462	80,547	4,028	3,363	7,391	142,844
Telecommunications	5,036	-	539	5,575	145,122	2,218	147,340	-	-	-	152,915
Transportation and crating	14,307	-	-	14,307	-	-	-	-	-	-	14,307
Travel and entertainment	33,899	12,149	10,792	56,840	102,022	578,782	680,804	762	-	762	738,406
Cost of goods sold	-	-	-	-	-	-	-	26,999	55,800	82,799	82,799
Occupancy	5,686	658	-	6,344	91,010	-	91,010	-	1,484	1,484	98,838
Total expenses before depreciation and interest	1,940,666	658,545	599,026	3,198,237	4,898,569	1,727,713	6,626,282	84,487	173,851	258,338	10,082,857
Depreciation	194,184	66,259	59,939	320,382	490,137	172,891	663,028	8,454	3,226	11,680	995,090
Interest	29,379	10,005	9,068	48,452	74,155	26,158	100,313	1,279	2,632	3,911	152,676
Total expenses	<u>\$ 2,164,229</u>	<u>734,809</u>	<u>668,033</u>	<u>3,567,071</u>	<u>5,462,861</u>	<u>1,926,762</u>	<u>7,389,623</u>	<u>94,220</u>	<u>179,709</u>	<u>273,929</u>	<u>11,230,623</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Functional Expenses
Year ended June 30, 2022

	Program Services				Supporting Services			Auxiliary Services			Total Functional
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe	Total	Expenses
Salaries and benefits	\$ 1,471,133	417,723	363,207	2,252,063	3,000,081	765,835	3,765,916	21,499	-	21,499	6,039,478
Advertising and promotion	-	7	-	7	137,437	-	137,437	-	-	-	137,444
Books and periodicals	1,249	108	264	1,621	3,790	84	3,874	-	-	-	5,495
Cleaning	-	-	-	-	6,887	-	6,887	-	-	-	6,887
Equipment purchases	4,192	454	4,148	8,794	21,575	320	21,895	-	-	-	30,689
Film rentals	-	320	-	320	-	-	-	-	-	-	320
Gifts	245	252	-	497	18,580	7,128	25,708	-	-	-	26,205
Honoraria	3,500	22,441	3,850	29,791	-	2,000	2,000	-	-	-	31,791
Insurance	-	-	-	-	68,008	-	68,008	-	-	-	68,008
Licenses, dues, subscriptions and fees	1,148	1,601	-	2,749	25,141	1,751	26,892	-	1,718	1,718	31,359
Maintenance contracts	9,632	479	98,371	108,482	257,983	54,354	312,337	5,438	-	5,438	426,257
Bank charges	-	-	-	-	35,685	10,945	46,630	-	-	-	46,630
Miscellaneous	1,000	-	-	1,000	-	-	-	-	36	36	1,036
Outside services	6,073	3,092	27,778	36,943	155,298	57,536	212,834	-	-	-	249,777
Photography	-	-	2,996	2,996	1,000	-	1,000	-	-	-	3,996
Postage	362	160	75	597	20,398	5,933	26,331	-	-	-	26,928
Printing	-	2,249	5,093	7,342	3,589	38,504	42,093	-	-	-	49,435
Professional development	421	415	1,061	1,897	14,353	1,691	16,044	-	-	-	17,941
Professional fees	-	-	-	-	94,265	-	94,265	-	2,138	2,138	96,403
Rentals	-	-	-	-	5,021	19,221	24,242	-	-	-	24,242
Supplies	17,536	17,130	478	35,144	32,094	6,572	38,666	-	-	-	73,810
Telecommunications	4,156	2,765	919	7,840	142,225	2,641	144,866	-	-	-	152,706
Transportation and crating	53,510	885	-	54,395	-	-	-	-	-	-	54,395
Travel and entertainment	33,436	10,788	1,037	45,261	63,515	272,426	335,941	-	-	-	381,202
Occupancy	1,156	1,233	-	2,389	94,550	-	94,550	-	-	-	96,939
Total expenses before depreciation and interest	1,608,749	482,102	509,277	2,600,128	4,201,475	1,246,941	5,448,416	26,937	3,892	30,829	8,079,373
Depreciation	177,834	53,292	56,296	287,422	464,244	137,839	602,083	2,978	431	3,409	892,914
Interest	8,807	2,639	2,788	14,234	23,002	6,827	29,829	148	20	168	44,231
Total expenses	\$ 1,795,390	538,033	568,361	2,901,784	4,688,721	1,391,607	6,080,328	30,063	4,343	34,406	9,016,518

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statements of Cash Flows
Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 55,431,732	(23,074,430)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,224,577	1,121,217
Loss on disposal of property and equipment	205,241	2,097
Grant income - paycheck protection program	-	(932,965)
Investment income (loss), net	(14,666,642)	23,658,015
Restricted contributions	(54,159,215)	(12,648,075)
Change in beneficial interest in trust	(7,091)	(36,128)
Other non-operating activities	9,320,736	7,914,114
Changes in:		
Accounts receivable, net	54,521	(59,302)
Prepays	(230,985)	(5,083)
Merchandise inventory	(153,479)	-
Accounts payable and accrued expenses	(5,497,382)	4,389,814
Deferred revenue	<u>146,201</u>	<u>(29,197)</u>
Net cash provided by (used in) operating activities	<u>(8,331,786)</u>	<u>300,077</u>
Cash flows from investing activities:		
Purchases of property and equipment	(51,626,403)	(59,106,669)
Net investment income	921,809	8,829,547
Proceeds from deaccessioning of art	320,000	3,641,949
Payments for acquisition, preservation and conservation of art	(9,620,812)	(9,225,238)
Investment income from trust	24,984	21,973
Purchases of investments	(46,844,703)	(131,907,151)
Proceeds from sale of investments	<u>64,098,834</u>	<u>153,890,252</u>
Net cash used in investing activities	<u>(42,726,291)</u>	<u>(33,855,337)</u>
Cash flows from financing activities:		
Restricted contributions	50,314,304	12,671,432
Repayments of lines of credit	(29,815,542)	(11,376,766)
Draws on lines of credit	31,065,542	11,376,766
Repayments of mortgage and notes payable	(496,517)	(493,567)
Proceeds from mortgages and notes payable	<u>58,800</u>	<u>-</u>
Net cash provided by financing activities	<u>51,126,587</u>	<u>12,177,865</u>
Net change in cash	68,510	(21,377,395)
Cash at beginning of year	<u>3,344,831</u>	<u>24,722,226</u>
Cash at end of year	<u>\$ 3,413,341</u>	<u>3,344,831</u>
Supplemental disclosure of cash flow information:		
Cash paid for the purchase of works of art	<u>\$ 4,567,496</u>	<u>8,624,211</u>
Cash paid for interest expense	<u>\$ 448,273</u>	<u>119,090</u>
Accumulated depreciation on disposal of property and equipment	<u>\$ 9,781,086</u>	<u>22,029</u>
Supplemental disclosure of non-cash investing and financing activities - accounts payable and accrued expenses related to purchases of property and equipment	<u>\$ 4,824,920</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

(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 Buffalo AKG Art Museum (the Museum), 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 Museum 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 - without donor restrictions or with 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 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 portfolios. 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 \$3,434,000 and \$2,916,000 of cash restricted for AK360 as of June 30, 2023 and 2022, 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, 2023 and 2022.

(f) Merchandise Inventory

Merchandise inventory 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 realized and unrealized gains and losses 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 without 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 net assets 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, contributions receivable and other restricted assets. 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. Additionally, 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 deaccessioned objects are reflected on the consolidated statements of activities as net assets with donor restrictions, based on the existence or absence 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 revenue 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 net assets 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 approximately \$523,000 at June 30, 2023 and 2022 is necessary. For the years ended June 30, 2023 and 2022, ten and fourteen donors accounted for 81% and 74% of total restricted contributions, respectively.

(l) Revenue Recognition

Under Accounting Standards Update (ASU) No. 2014-09 (Topic 606) - Revenue from Contracts with Customers, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Academy expects to be entitled in exchange for these goods or services. The Academy utilizes a five-step framework as identified in ASU No. 2014-09. The primary sources of revenue from customers for the Academy are:

Memberships

Memberships are dues received to provide access and admission to events, exhibits and programs held at the Academy over a period of time. All memberships are nonrefundable and nontransferable. Memberships are recognized as a revenue when received.

Special Events

Special event revenue, excluding any contribution component, consists of a single performance obligation and revenue is recognized when the event occurs. There are minimal factors that could impact the nature, amount and timing of the uncertainties involving this revenue and the related cash flows.

Special event revenue is generally nonrefundable and is due before the event occurs, at the start of, or during the event. Special event revenue received in advance is deferred and recognized when the event takes place.

(m) Non-operating Activities

The Academy considers gifts and other revenue 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.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

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

(n) Deferred Revenue

Revenue related to exchange transactions is deferred and recognized as without donor restricted revenue 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.

(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.

(2) Liquidity

The Academy has approximately \$522,000 of financial assets available within one year of the consolidated statement of financial position date consisting of approximately \$522,000 of gross 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. 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 approximately \$10,432,000. 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 ending 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 10 year constant maturity rate, 3.81% and 2.98% at June 30, 2023 and 2022, respectively, and is included in change in beneficial interest in trust in the accompanying consolidated statements of activities for the years ended June 30, 2023 and 2022. The value of the beneficial interest in Trust was approximately \$140,000 and \$158,000 at June 30, 2023 and 2022, respectively.

(4) Contributions Receivable

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

	<u>2023</u>	<u>2022</u>
Unconditional gross promises to give:		
Due within one year	\$ 10,964,907	5,590,330
Due in one to five years	<u>2,773,692</u>	<u>4,034,642</u>
Gross promises to give	13,738,599	9,624,972
Less unamortized discount	<u>(423,083)</u>	<u>(154,367)</u>
	13,315,516	9,470,605
Less allowance for uncollectible pledges	<u>(522,812)</u>	<u>(522,812)</u>
	<u>\$ 12,792,704</u>	<u>8,947,793</u>

Pledges due in more than one year are reflected at the present value of estimated future cash flows using a discount rate equal to the five (5) year United States Treasury Bill yield of 4.13% and 3.01% as of June 30, 2023 and 2022, respectively.

(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.

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>2023</u>	<u>2022</u>
Level 1:		
Marketable equity securities	\$ 6,593,374	6,496,469
Equity funds	40,498,920	36,041,649
Corporate bond funds	23,366,898	28,238,136
Money market funds	<u>1,866,576</u>	<u>2,999,917</u>
	<u>72,325,768</u>	<u>73,776,171</u>
Level 2:		
Pooled funds	8,540,551	7,133,825
Foreign equity securities	<u>1,366,549</u>	<u>878,950</u>
	<u>9,907,100</u>	<u>8,012,775</u>
Investments measured at net asset value:		
Partnerships	65,803,391	64,027,685
Other	<u>335,000</u>	<u>335,000</u>
	<u>66,138,931</u>	<u>64,362,685</u>
Total investments at fair value	\$ <u>148,371,799</u>	<u>146,151,631</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 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, 2023 and 2022 are \$13,714,062 and \$16,852,025, respectively.

Assets restricted to investment in property and equipment totaling approximately \$5,749,000 as of June 30, 2022, 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 at June 30, 2023 and 2022.

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>2023</u>	<u>2022</u>
Land	\$ 85,707	85,707
Buildings and building improvements	26,512,327	31,283,026
Equipment	6,708,134	8,762,872
Construction-in-progress	<u>161,052,986</u>	<u>107,762,553</u>
	194,359,154	147,894,158
Less accumulated depreciation and amortization	<u>(13,611,357)</u>	<u>(22,167,866)</u>
	<u>\$ 180,747,797</u>	<u>125,726,292</u>

The Academy has begun a multi-million-dollar campus expansion and renovation project (AK360). This project broke ground in late 2019 and opened to the public in July 2023. The project includes a new building, underground parking, and renovations to existing structures. It is being paid for through gifts from private individuals, foundations, and corporate sponsors, as well as government investments.

As of June 30, 2023 and 2022, approximately \$161,053,000 and \$107,763,000, respectively, has been spent or incurred on AK360 and is reflected in the consolidated statements of financial position as construction-in-progress.

Equipment under finance lease obligations as of June 30, 2023 and 2022 amounted to \$121,327 and \$62,527, respectively. Accumulated amortization related to such equipment amounted to \$36,412 and \$20,454 as of June 30, 2023 and 2022, respectively.

Depreciation expense for the years ended June 30, 2023 and 2022 amounted to \$1,224,577 and \$1,121,217, of which \$229,487 and \$228,303, respectively, is recorded in acquisition, preservation and conservation of works of art on the consolidated statements of activities as these amounts are related to depreciation recorded by ALKASW, Inc.

(7) Lines of Credit

The Academy has a \$2,000,000 unsecured line of credit arrangement with a bank that is used to meet general operating needs. The line bears interest at a rate equal to 7.59% at June 30, 2023. The Academy had a outstanding balance on the line of credit of \$1,250,000 at June 30, 2023. There was no outstanding balance on the line at June 30, 2022. On July 1, 2023 this line was changed to bear interest at the one month Secured Overnight Financing Rate (SOFR) plus 12 basis points.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(7) Lines of Credit, Continued

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 7.65 % at June 30, 2023. There was no amount outstanding at June 30, 2023 and 2022. On July 1, 2023 this line was changed to bear interest at the one month SOFR plus 12 basis points.

On August 9, 2022, the Academy signed an outstanding letter of credit amounting to \$71,758. The letter of credit expires on August 9, 2023, and is renewable in one-year increments.

(8) Mortgages and Notes Payable

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

	<u>2023</u>	<u>2022</u>
Mortgage note payable to a bank in fixed principal of \$40,000 plus interest at 7.65% at June 30, 2023; secured by real property. On July 1, 2023 this note was changed to bear interest at the one month SOFR plus 12 basis points.	\$ 2,008,760	2,488,760
Capital lease obligations.	<u>84,460</u>	<u>42,177</u>
	<u>\$ 2,093,220</u>	<u>2,530,937</u>

Required principal repayments of debt for the years subsequent to June 30, 2023 are as follows:

2024	\$ 505,327
2025	505,327
2026	493,237
2027	491,760
2028	<u>97,569</u>
	<u>\$ 2,093,220</u>

On August 12, 2022 the Academy signed a \$35 million construction loan agreement with a bank. This agreement was amended on April 19, 2023 to extend the draw period to August 31, 2023. The loan pays interest on the unused portion of the line equal to 15 basis points and the Daily Simple SOFR plus 262 basis points (7.67% as of June 30, 2023). There was no balance on this line at June 30, 2023. Payment of the balance, if any, of the note is due 5 years from the date of the last advance.

The Academy is subject to certain financial covenants under their banking agreement. At June 30, 2023 and 2022, the Academy was in compliance with all financial covenants.

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

(9) Paycheck Protection Program

On February 11, 2021, the Academy received a Small Business Administration loan (the Loan) under the Coronavirus Aid, Relief and Economic Security Act in the amount of \$932,965 with a 1% interest rate for a term of 5 years. During the year ended June 30, 2022, the Loan was forgiven in its entirety by the SBA and is recorded as grant income - paycheck protection program in the consolidated statement of activities.

(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:

	<u>2023</u>	<u>2022</u>
Quasi-endowment	\$ 10,432,340	16,690,103
Accumulated deficit	<u>(2,228,426)</u>	<u>(905,795)</u>
	\$ <u>8,203,914</u>	<u>15,784,308</u>

(11) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	<u>2023</u>	<u>2022</u>
Purchase of works of art	\$ 84,878,377	81,102,031
Programs and exhibitions	8,683,893	3,568,681
Operations	44,865,587	45,378,082
Time restricted	140,444	158,337
AK360	11,094,000	11,902,266
Buildings and equipment	<u>178,654,577</u>	<u>123,195,355</u>
	\$ <u>328,316,878</u>	<u>265,304,752</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:

	<u>2023</u>	<u>2022</u>
Art acquisitions	\$ 4,771,455	5,295,135
Programs and exhibitions	2,535,965	2,035,819
AK360 initiatives	-	3,906,712
Operations	<u>1,820,263</u>	<u>1,140,070</u>
	\$ <u>9,127,683</u>	<u>12,377,736</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 years ended June 30, 2023 and 2022 are summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets at June 30, 2021	\$ 22,420,401	163,259,753	185,680,154
Investment loss, net	(2,594,579)	(21,063,436)	(23,658,015)
Contributions	10,000	3,756,502	3,766,502
Amounts appropriated for expenditure	(1,115,771)	(9,504,180)	(10,619,951)
Other changes	<u>(2,029,948)</u>	<u>(6,987,111)</u>	<u>(9,017,059)</u>
Change in endowment net assets	<u>(5,730,298)</u>	<u>(33,798,225)</u>	<u>(39,528,523)</u>
Endowment net assets at June 30, 2022	16,690,103	129,461,528	146,151,631
Investment gain, net	1,314,776	13,351,866	14,666,642
Contributions	-	2,799,908	2,799,908
Amounts appropriated for expenditure	(7,527,969)	(8,485,445)	(16,013,414)
Other changes	<u>(44,570)</u>	<u>811,602</u>	<u>767,032</u>
Change in endowment net assets	<u>(6,257,763)</u>	<u>8,477,931</u>	<u>2,220,168</u>
Endowment net assets at June 30, 2023	\$ <u>10,432,340</u>	<u>137,939,459</u>	<u>148,371,799</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 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.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(14) Retirement Plans, Continued

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 for the first ten years of membership. 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 \$40,495, \$55,115 and \$55,853, 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 (TIAA-CREF) was available. No contributions to the TIAA-CREF 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, 2023 and 2022, were approximately \$319,000 and \$251,000, 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, 2023 and 2022, the Academy has committed to purchase works of art totaling approximately \$326,000 and \$339,000, respectively. The purchases are expected to take place during subsequent fiscal years. These amounts have not been recorded as of June 30, 2023 and 2022, 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 services related to exhibitions, education, support, auxiliary and other services. All expenses related to program, supporting and auxiliary services are tracked and reported separately in the consolidated statements of functional expenses. Certain general administrative expenses related to the Academy as a whole have been allocated to each service based on the total expenses of each program relative to the total expenses incurred.

(18) Contributions of Nonfinancial Assets - Gifts-in-Kind

Contributions of nonfinancial assets - gifts-in-kind consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Outside services	\$ 7,500	9,350
Entertainment	310,509	11,061
Subscriptions/maintenance contracts	3,500	3,500
Gifts	-	2,000
Advertising	-	616
AK360	153,360	125,000
Public art installation	<u>-</u>	<u>9,525</u>
	<u>\$ 474,869</u>	<u>161,052</u>

Gifts-in-Kind Valuation Techniques - Contributed outside services, entertainment and subscriptions/maintenance contracts are valued using the estimated fair value of rates charged by the vendor or other vendors for similar charges. Printing and supplies are valued using the estimated fair value equal to products of similar purchase.

Donor Restrictions and Use - Gifts-in-kind were restricted for use in the years ended June 30, 2023 and 2022, as follows:

- Outside services amounting to \$7,500 and \$9,350, in 2023 and 2022, respectively for specific exhibits and events.
- Entertainment amounting to \$310,509 and \$11,061, in 2023 and 2022, respectively for fundraising events.
- Subscriptions/maintenance contracts amounting to \$3,500 in 2023 and 2022 for specific contracts.
- Gifts amounting to \$2,000 in 2022 for fundraising events.
- Advertising amounting to \$616 in 2022 for promotional events.
- AK360 amounting to \$153,360 and \$125,000 in 2023 and 2022, respectively, for the building project.
- Public art installation amounting to \$9,525 in 2022 for programming events.

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

(18) Contributions of Nonfinancial Assets - Gifts-in-Kind, Continued

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.

The Academy does not sell donated gifts-in-kind and only distributes goods for program, supporting and auxiliary services use.