THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Table of Contents

* * * * *

EFPR GROUP, CPAs PLLC
6390 Main Street, Suite 200
Williamsville, NY 14221

P 716.634.0700
TF 800.546.7556
F 716.634.0764
W EFPRgroup.com

INDEPENDENT AUDITORS' REPORT

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, 2019 and 2018, 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, 2019 and 2018, 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
October 1, 2019

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2019 and 2018

Assets	2019	2018
Assets:		
Cash	$ 1,238,707	2,900,628
Accounts receivable, net	1,149,987	3,142,649
Merchandise inventories	338,240	402,152
Prepaids	287,629	370,911
Contributions receivable, net	14,213,542	16,073,701
Assets restricted to investment in property and equipment	30,148,309	26,328,433
Property and equipment, net	23,997,521	19,020,825
Beneficial interest in trust	200,922	250,745
Investments	159,063,443	157,171,583
Total assets	$ 230,638,300	225,661,627

Liabilities and Net Assets	2019	2018
Liabilities:		
Accounts payable and accrued expenses	3,918,928	2,926,685
Lines of credit	1,860,000	1,385,000
Deferred revenue	117,077	555,812
Mortgage and notes payable	4,117,555	4,734,091
Total liabilities	10,013,560	9,601,588
Net assets:		
Without donor restrictions	7,719,644	9,962,330
With donor restrictions	212,905,096	206,097,709
Total net assets	220,624,740	216,060,039
Total liabilities and net assets	$ 230,638,300	225,661,627

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

	Without donor restrictions	With donor restrictions	Total
Support and revenues:			
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	1,183,424	2,909,033	4,092,457
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	3,346,705	(3,346,705)	-
Total support and revenues	11,032,253	(437,672)	10,594,581
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	11,255,135	-	11,255,135
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	6,730,531	(6,730,531)	-
Total non-operating activities	(2,019,804)	7,245,059	5,225,255
Change in net assets	(2,242,686)	6,807,387	4,564,701
Net assets, beginning of year	9,962,330	206,097,709	216,060,039
Net assets, end of year	$ 7,719,644	212,905,096	220,624,740

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, 2018

	Without donor restrictions	With donor restrictions	Total
Support and revenues:			
Gifts and grants:			
Government grants	$ -	627,000	627,000
Corporate and foundation support	340,893	1,869,901	2,210,794
Annual giving	744,082	-	744,082
All other gifts and grants	279,733	-	279,733
Total gifts and grants	1,364,708	2,496,901	3,861,609
Exhibitions	152,031	-	152,031
Memberships	478,643	-	478,643
Investment income and gains in accordance with spending policy	2,716,000	-	2,716,000
Education and other related programs	702,674	-	702,674
Revenue from auxiliary activities	1,323,073	-	1,323,073
Net assets released from restrictions	2,626,559	(2,626,559)	-
Total support and revenues	9,363,688	(129,658)	9,234,030
Expenses:			
Program services	3,903,726	-	3,903,726
Supporting services:			
Management	4,374,003	-	4,374,003
Fundraising	971,266	-	971,266
Auxiliary services	957,593	-	957,593
Total expenses	10,206,588	-	10,206,588
Non-operating activities:			
Investment return - net	718,034	12,409,609	13,127,643
Restricted contributions	-	8,775,750	8,775,750
Change in beneficial interest in trust	-	(628)	(628)
Investment income and gains allocated under spending policy to general operations	(2,716,000)	-	(2,716,000)
Acquisition, preservation and conservation of works of art	(9,051,930)	-	(9,051,930)
Net change in obligations under trust agreements	(18,726)	-	(18,726)
Net assets released from restrictions	14,398,593	(14,398,593)	-
Total non-operating activities	3,329,971	6,786,138	10,116,109
Change in net assets	2,487,071	6,656,480	9,143,551
Net assets, beginning of year	7,475,259	199,441,229	206,916,488
Net assets, end of year	$ 9,962,330	206,097,709	216,060,039

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 Functional Expenses
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe	Total	
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
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-
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
Moving and relocation	-	-	-	-	-	-	-	-	-	-	-
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	$ 2,457,234	688,156	883,365	4,028,755	4,472,651	1,805,666	6,278,317	511,267	436,796	948,063	11,255,135

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Functional Expenses
Year ended June 30, 2018

	Program Services				Supporting Services			Auxiliary Activities			Total Functional
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe	Total	Expenses
Salaries and benefits	$ 1,239,954	378,329	347,286	1,965,569	2,443,713	436,467	2,880,180	191,058	237,487	428,545	5,274,294
Advertising and promotion	-	-	-	-	146,305	-	146,305	-	-	-	146,305
Books and periodicals	3,315	90	631	4,036	3,055	108	3,163	-	-	-	7,199
Cleaning	-	-	-	-	21,908	-	21,908	-	-	-	21,908
Conservation	1,325	-	-	1,325	-	-	-	-	-	-	1,325
Equipment purchases	5,867	1,119	8,726	15,712	14,604	934	15,538	653	5,052	5,705	36,955
Film rentals	-	1,113	-	1,113	-	-	-	-	-	-	1,113
Gifts	1,398	450	1,172	3,020	9,901	7,118	17,019	-	-	-	20,039
Honoraria	4,388	81,685	1,242	87,315	1,300	14,724	16,024	-	-	-	103,339
Installation	274,527	1,600	-	276,127	1,942	-	1,942	-	-	-	278,069
Insurance	532	-	3,049	3,581	72,376	-	72,376	-	-	-	75,957
Licenses, dues, subscriptions and fees	473	2,810	-	3,283	27,794	3,686	31,480	165	2,149	2,314	37,077
Maintenance contracts	29,147	-	35,001	64,148	141,928	53,212	195,140	3,054	635	3,689	262,977
Bank charges	-	-	-	-	42,586	15,727	58,313	12,726	11,709	24,435	82,748
Miscellaneous	461	-	45	506	25	278	303	-	475	475	1,284
Outside services	6,049	11,888	110,638	128,575	188,262	37,427	225,689	5,404	17,531	22,935	377,199
Participation fee	65,131	-	1,025	66,156	-	17	17	5,709	-	5,709	71,882
Photography	691	-	475	1,166	375	-	375	-	-	-	1,541
Postage	5,020	-	818	5,838	41,323	16,580	57,903	5,038	-	5,038	68,779
Moving and relocation	-	1,208	1,357	2,565	-	-	-	-	-	-	2,565
Cataloging services	1,927	-	-	1,927	-	-	-	-	-	-	1,927
Printing	-	10,025	56,386	66,411	9,583	34,696	44,279	-	-	-	110,690
Professional development	3,442	5,444	1,249	10,135	12,346	4,512	16,858	99	-	99	27,092
Professional fees	108	-	-	108	61,407	-	61,407	-	1,500	1,500	63,015
Rentals	-	1,789	-	1,789	3,120	18,496	21,616	-	1,778	1,778	25,183
Supplies	74,511	18,031	16,247	108,789	28,134	1,948	30,082	5,577	3,269	8,846	147,717
Telecommunications	3,105	900	2,637	6,642	81,765	2,396	84,161	-	1,137	1,137	91,940
Transportation, crating	478,358	56,917	5,065	540,340	-	-	-	-	-	-	540,340
Travel and entertainment	101,546	22,852	9,896	134,294	143,400	222,707	366,107	5,880	29	5,909	506,310
Occupancy	396	-	-	396	425,461	-	425,461	-	3,479	3,479	429,336
Cost of goods sold	-	-	-	-	-	-	-	233,920	103,257	337,177	337,177
Total expenses before depreciation and interest	2,301,671	596,250	602,945	3,500,866	3,922,613	871,033	4,793,646	469,283	389,487	858,770	9,153,282
Depreciation	239,223	61,971	62,667	363,861	407,695	90,530	498,225	48,775	40,481	89,256	951,342
Interest	25,640	6,642	6,717	38,999	43,695	9,703	53,398	5,228	4,339	9,567	101,964
Total expenses	$ 2,566,534	664,863	672,329	3,903,726	4,374,003	971,266	5,345,269	523,286	434,307	957,593	10,206,588

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 4,564,701	9,143,551
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,117,946	996,201
Loss from sale of fixed assets	3,026	-
Change in beneficial interest in trust	26,244	628
Endowment fund gifts	(4,712,141)	(8,775,750)
Investment income with donor restrictions, net	(3,556,112)	(2,119,391)
Net gains on investments	(6,245,141)	(11,123,954)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,992,662	(2,301,886)
Merchandise inventories	63,912	(60,666)
Prepaids	83,282	(60,471)
Accounts payable and accrued expenses	992,243	(751,752)
Deferred revenue	(438,735)	447,419
Net cash used in operating activities	(6,108,113)	(14,606,071)
Cash flows from investing activities:		
Purchases of property and equipment	(6,097,668)	(1,479,429)
Investment income with donor restrictions, net	3,556,112	2,119,391
Investment income from trust	23,579	25,304
Purchases of investments	(57,310,481)	(55,708,520)
Proceeds from sale of investments	57,843,886	59,856,176
Net cash provided by (used in) investing activities	(1,984,572)	4,812,922
Cash flows from financing activities:		
Endowment fund gifts	4,712,141	8,775,750
Repayments of lines of credit	(11,330,213)	(8,457,825)
Draws on lines of credit	11,805,213	8,356,825
Repayments of mortgage and notes payable	(616,536)	(527,776)
Change in contributions receivable, net	1,860,159	3,856,330
Net cash provided by financing activities	6,430,764	12,003,304
Net change in cash	(1,661,921)	2,210,155
Cash, beginning of year	2,900,628	690,473
Cash, end of year	$ 1,238,707	2,900,628
Supplemental disclosure of cash flow information:		
Cash used for the purchase of works of art	$ 2,529,665	3,710,346
Cash used for interest expense	$ 301,468	294,374
Supplemental disclosure of non-cash investing and financing activities - accounts payable and accrued expenses related to purchases of property and equipment	$ -	5,516

See accompanying notes to consolidated financial statements.

(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 $1,072,000 and $2,883,000 of cash restricted for AK360 as of June 30, 2019 and 2018, respectively.

(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, 2019 and 2018.

(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.

(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 12 for the enhanced endowment fund disclosures.

Net asset 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 classified 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.

(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, 2019 and 2018 is necessary. For the years ended June 30, 2019 and 2018, nine and five donors accounted for 78% and 77% 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.

(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 $1,317,000 of financial assets available within one year of the consolidated statement of financial position date consisting of $167,000 of cash and $1,150,000 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. 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 $12,408,605. 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.

(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, 2.0% and 2.85% at June 30, 2019 and 2018, 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, 2019 and 2018. The value of the beneficial interest in Trust was approximately $201,000 and $251,000 at June 30, 2019 and 2018, respectively.

(4) Contributions Receivable

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

	2019	2018
Unconditional gross promises to give:		
Due within one year	$ 3,442,944	3,394,589
Due in one to five years	12,067,371	14,198,865
Gross promises to give	15,510,315	17,593,454
Less unamortized discount	(796,773)	(1,019,753)
	14,713,542	16,573,701
Less allowance for uncollectible pledges	(500,000)	(500,000)
	$ 14,213,542	16,073,701

(4) Contributions Receivable, Continued

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, 2019 and 2018, 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 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.

	2019	2018
Level 1:		
Marketable equity securities	$ 9,378,425	9,092,615
Mutual funds	11,547,409	11,048,015
Equity funds	44,413,677	42,306,438
Corporate bond funds	31,970,446	32,503,081
Money market funds	930,491	1,853,983
	98,240,448	96,804,132
Level 2:		
Pooled funds	14,970,154	14,302,301
Foreign equity securities	258,926	406,308
	15,229,080	14,708,609
Investments measured at net asset value:		
Partnerships	45,258,915	45,323,842
Other	335,000	335,000
	45,593,915	45,658,842
Total investments at fair value	$ 159,063,443	157,171,583

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.

(5) Fair Value Measurements, Continued

The unfunded commitments of the investments in the partnerships at June 30, 2019 and 2018 are $13,818,000 and $16,247,000, respectively.

Assets restricted to investment in property and equipment totaling $30,148,309 and $26,328,433 as of June 30, 2019 and 2018, 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, 2019.

(6) Property and Equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Land	$ 85,707	85,707
Buildings and building improvements	28,948,358	28,636,114
Equipment	7,872,600	7,644,606
Construction in progress	5,581,756	30,186
	42,488,421	36,396,613
Less accumulated depreciation	(18,490,900)	(17,375,788)
	$ 23,997,521	19,020,825

The Academy has begun a multi-million dollar campus expansion and renovation project (AK360). This project is expected to break ground in late 2019 and be complete by late 2021 or early 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, 2019 $5,581,756 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, 2019 and 2018, amounted to $84,638. Accumulated depreciation related to such equipment amounted to $63,206 and $46,278 as of June 30, 2019 and 2018, 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% (4.8375 % at June 30, 2019). The outstanding balance on the line of credit was $1,860,000 and $1,385,000 at June 30, 2019 and 2018, 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% (4.8375% at June 30, 2019). There was no amount outstanding as of June 30, 2019 or 2018.

(8) Mortgages and Notes Payable

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

	2019	2018
Mortgage note payable to a bank in fixed principal of $40,000 plus variable interest at LIBOR plus 2.4%. (4.8375% at June 30, 2019); secured by real property.	$ 3,928,760	4,408,760
Term loan payable to a bank in fixed principal payments of $6,667, plus variable interest at LIBOR plus 3.0% (5.4375% at June 30, 2019) through July 2020.	86,650	166,666
Term loan payable to a bank in fixed principal payments of $3,300 plus variable interest at LIBOR plus 3.0% (5.4375% at June 30, 2019) through December 2020.	81,170	120,770
Capital lease obligations	20,975	37,895
	$ 4,117,555	4,734,091

Required principal repayments of debt for the years subsequent to June 30, 2019 are as follows, 2020 - $616,536, 2021 - $532,259, 2022 - $480,000, 2023 - $480,000, 2024 - $480,000 and thereafter $1,528,760.

The Academy is subject to certain financial covenants under their banking agreement. As of June 30, 2019 and 2018, the Academy was in compliance with all financial covenants.

(9) Net Assets Without Donor Restrictions

The Board of Directors has designated net assets without donor restrictions for the following purposes as of June 30, 2019 and 2018:

	2019	2018
Quasi-endowment	$ 13,347,614	11,743,727
Accumulated deficit	(5,627,970)	(1,781,397)
	$ 7,719,644	9,962,330

(10) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2019 and 2018:

	2019	2018
Purchase of works of art	$ 91,087,302	90,902,532
Programs and exhibitions	3,199,361	3,521,450
Operations	50,188,087	46,703,899
Time restricted	200,922	250,745
AK360	48,349,458	50,432,349
Buildings and equipment	19,879,966	14,286,734
	$ 212,905,096	206,097,709

(11) 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, 2019 and 2018:

	2019	2018
Art acquisitions	$ 4,407,639	4,303,161
Programs and exhibitions	3,346,705	2,626,559
AK360 initiatives	1,666,251	9,724,146
Operations	656,641	371,286
	$ 10,077,236	17,025,152

(12) 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, 2019 are summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, 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	-	(2,237,375)	(2,237,375)
Change in endowment net assets	1,603,887	287,974	1,891,861
Endowment net assets, end of year	$ 13,347,614	145,715,830	156,063,444

(12) Endowment Net Assets, Continued

The changes in the endowment net assets for the year ended June 30, 2018 are summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 8,728,849	139,782,138	148,510,987
Investment return, net	717,534	12,409,609	13,127,143
Contributions	3,000,000	19,602	3,019,602
Amounts appropriated for expenditure	(702,656)	(6,687,789)	(7,390,445)
Other changes	-	(95,704)	(95,704)
Change in endowment net assets	3,014,878	5,645,718	8,660,596
Endowment net assets, end of year	$ 11,743,727	145,427,856	157,171,583

(13) 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.

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 $58,135, $59,106 and $64,087, respectively. The Academy's contributions made to the System were equal to 100 percent of the contributions required for each year.

(13) Retirement Plans, Continued

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, 2019 and 2018, were approximately $238,000 and $227,000, respectively.

(14) 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.

(15) Commitments

As of June 30, 2019, the Academy has committed to purchase works of art totaling approximately $2,423,000. The purchases are expected to take place during the year ending June 30, 2020. This amount has not been recorded as of June 30, 2019, as the Academy has neither possession nor title to these works of art.

(16) 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.