

THE BUFFALO FINE ARTS
ACADEMY AND AFFILIATES

Consolidated Financial Statements

June 30, 2024 and 2023

(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, 2024 and 2023, 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, 2024 and 2023, 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
November 20, 2024

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2024 and 2023

<u>Assets</u>	<u>2024</u>	<u>2023</u>
Assets:		
Cash	\$ 3,187,961	3,413,341
Accounts receivable, net	4,076,190	513,528
Prepays	1,555,881	1,025,570
Contributions receivable, net	7,382,457	12,792,704
Merchandise inventory	438,452	153,479
Property and equipment, net	187,918,042	180,747,797
Beneficial interest in trust	112,717	140,444
Investments	<u>156,846,918</u>	<u>148,371,799</u>
Total assets	<u>\$ 361,518,618</u>	<u>347,158,662</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	3,245,922	7,100,517
Deferred revenue	232,490	194,133
Line of credit	5,000,000	1,250,000
Mortgages and notes payable	<u>11,778,276</u>	<u>2,093,220</u>
Total liabilities	<u>20,256,688</u>	<u>10,637,870</u>
Net assets:		
Without donor restrictions	7,785,945	8,203,914
With donor restrictions	<u>333,475,985</u>	<u>328,316,878</u>
Total net assets	<u>341,261,930</u>	<u>336,520,792</u>
Total liabilities and net assets	<u>\$ 361,518,618</u>	<u>347,158,662</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statement of Activities
Year ended June 30, 2024

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating activities:			
Support and revenue:			
Gifts and grants:			
Government grants	\$ -	715,000	715,000
Corporate and foundation support	-	1,783,312	1,783,312
Contributions of nonfinancial assets - gifts-in-kind	-	124,012	124,012
Annual giving	1,005,231	-	1,005,231
All other gifts and grants	844,381	-	844,381
Total gifts and grants	<u>1,849,612</u>	<u>2,622,324</u>	<u>4,471,936</u>
Exhibitions	779,107	-	779,107
Memberships	1,097,180	-	1,097,180
Investment income and gains in accordance with spending policy	3,608,500	-	3,608,500
Education and other related programs	2,073,922	-	2,073,922
Revenue from auxiliary services	3,031,851	-	3,031,851
Net assets released from restrictions	3,764,123	(3,764,123)	-
Total support and revenue	<u>16,204,295</u>	<u>(1,141,799)</u>	<u>15,062,496</u>
Expenses:			
Program services	6,518,119	-	6,518,119
Supporting services:			
Management	10,417,120	-	10,417,120
Fundraising	2,387,420	-	2,387,420
Auxiliary services	1,812,483	-	1,812,483
Total expenses	<u>21,135,142</u>	<u>-</u>	<u>21,135,142</u>
Change in net asset from operating activities	<u>(4,930,847)</u>	<u>(1,141,799)</u>	<u>(6,072,646)</u>
Non-operating activities:			
Investment income, net	1,367,047	17,591,738	18,958,785
Restricted contributions	-	1,561,682	1,561,682
Change in beneficial interest in trust	-	(2,615)	(2,615)
Proceeds from deaccessioning	-	2,029,346	2,029,346
Investment income and gains allocated under spending policy to general operations	(3,608,500)	-	(3,608,500)
Acquisition, preservation and conservation of works of art	(8,104,841)	-	(8,104,841)
Net change in obligations under trust agreements	(20,073)	-	(20,073)
Net assets released from restrictions	14,879,245	(14,879,245)	-
Total non-operating activities	<u>4,512,878</u>	<u>6,300,906</u>	<u>10,813,784</u>
Change in net assets	<u>(417,969)</u>	<u>5,159,107</u>	<u>4,741,138</u>
Net assets at beginning of year	<u>8,203,914</u>	<u>328,316,878</u>	<u>336,520,792</u>
Net assets at end of year	<u>\$ 7,785,945</u>	<u>333,475,985</u>	<u>341,261,930</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 Functional Expenses
Year ended June 30, 2024

	Program Services				Supporting Services			Auxiliary Services			Total
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe	Total	Functional Expenses
Salaries and benefits	\$ 1,912,480	823,209	432,742	3,168,431	5,786,537	780,384	6,566,921	76,829	610,512	687,341	10,422,693
Advertising and promotion	-	-	-	-	92,848	5,121	97,969	-	-	-	97,969
Audio tour	350	2,588	-	2,938	-	-	-	-	-	-	2,938
Books and periodicals	851	79	491	1,421	6,101	7	6,108	-	-	-	7,529
Cleaning	-	-	-	-	28,404	-	28,404	-	-	-	28,404
Conservation	10,439	-	-	10,439	-	-	-	-	-	-	10,439
Equipment purchases	1,088	205	3,145	4,438	18,477	-	18,477	-	3,033	3,033	25,948
Film rentals	-	1,250	-	1,250	-	-	-	-	-	-	1,250
Gifts	7,875	1,949	5,181	15,005	12,015	10,927	22,942	388	-	388	38,335
Honoraria	3,152	185,501	400	189,053	-	226,755	226,755	-	-	-	415,808
Installation	306,437	-	-	306,437	-	-	-	-	-	-	306,437
Insurance	26,578	-	-	26,578	221,691	-	221,691	-	-	-	248,269
Licenses, dues, subscriptions and fees	2,952	4,708	-	7,660	31,369	6,166	37,535	-	8,635	8,635	53,830
Maintenance contracts	8,061	55,024	57,756	120,841	455,498	67,507	523,005	8,003	4,669	12,672	656,518
Bank charges	-	-	-	-	117,838	32,335	150,173	23,401	32,926	56,327	206,500
Miscellaneous	-	-	-	-	-	699	699	-	25	25	724
Outside services	145,585	20,524	72,574	238,683	144,114	127,853	271,967	2,382	31,258	33,640	544,290
Participation fees	1,650	-	1,775	3,425	-	-	-	610	-	610	4,035
Photography	-	-	3,356	3,356	-	209	209	-	-	-	3,565
Postage	2,901	-	164	3,065	54,994	11,929	66,923	2,393	-	2,393	72,381
Printing	7,752	15,915	63,397	87,064	18,366	81,522	99,888	-	427	427	187,379
Professional development	2,266	1,101	870	4,237	11,158	2,343	13,501	199	-	199	17,937
Professional fees	500	-	-	500	92,098	-	92,098	-	4,532	4,532	97,130
Rentals	8,426	979	-	9,405	4,272	54,176	58,448	-	6,002	6,002	73,855
Supplies	50,675	56,500	1,432	108,607	80,713	20,678	101,391	15,135	28,852	43,987	253,985
Telecommunications	5,941	-	4,391	10,332	93,916	1,167	95,083	-	-	-	105,415
Transportation and crating	429,767	60,934	-	490,701	-	-	-	-	-	-	490,701
Travel and entertainment	119,460	23,790	16,306	159,556	209,516	393,182	602,698	2,965	1,530	4,495	766,749
Cost of goods sold	-	-	-	-	-	-	-	301,813	408,037	709,850	709,850
Occupancy	318	1,104	2,191	3,613	474,266	-	474,266	-	4,786	4,786	482,665
Total expenses before depreciation and interest	3,055,504	1,255,360	666,171	4,977,035	7,954,191	1,822,960	9,777,151	434,118	1,145,224	1,579,342	16,333,528
Depreciation	886,453	364,201	193,268	1,443,922	2,307,646	528,872	2,836,518	125,945	76,364	202,309	4,482,749
Interest	59,650	24,507	13,005	97,162	155,283	35,588	190,871	8,475	22,357	30,832	318,865
Total expenses	\$ 4,001,607	1,644,068	872,444	6,518,119	10,417,120	2,387,420	12,804,540	568,538	1,243,945	1,812,483	21,135,142

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	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	\$ 2,164,229	734,809	668,033	3,567,071	5,462,861	1,926,762	7,389,623	94,220	179,709	273,929	11,230,623

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
Consolidated Statements of Cash Flows
Years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,741,138	55,431,732
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	4,715,825	1,224,577
Loss on disposal of property and equipment	-	205,241
Investment income, net	(18,958,785)	(14,666,642)
Restricted contributions	(1,561,682)	(54,159,215)
Change in beneficial interest in trust	2,615	(7,091)
Other non-operating activities	5,862,492	9,320,736
Changes in:		
Accounts receivable, net	(1,537,716)	54,521
Prepays	(530,311)	(230,985)
Merchandise inventory	(284,973)	(153,479)
Accounts payable and accrued expenses	397,187	(5,497,382)
Deferred revenue	38,357	146,201
Net cash used in operating activities	<u>(7,115,853)</u>	<u>(8,331,786)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(16,137,852)	(51,626,403)
Net investment income	1,277,806	921,809
Proceeds from deaccessioning of art	4,400	320,000
Payments for acquisition, preservation and conservation of art	(7,871,765)	(9,620,812)
Investment income from trust	25,112	24,984
Purchases of investments	(29,748,077)	(46,844,703)
Proceeds from sale of investments	38,933,864	64,098,834
Net cash used in investing activities	<u>(13,516,512)</u>	<u>(42,726,291)</u>
Cash flows from financing activities:		
Restricted contributions	6,971,929	50,314,304
Repayments of lines of credit	(7,705,866)	(29,815,542)
Draws on lines of credit	11,455,866	31,065,542
Repayments of mortgage and notes payable	(7,220,549)	(496,517)
Proceeds from mortgages and notes payable	16,905,605	58,800
Net cash provided by financing activities	<u>20,406,985</u>	<u>51,126,587</u>
Net change in cash	(225,380)	68,510
Cash at beginning of year	3,413,341	3,344,831
Cash at end of year	<u>\$ 3,187,961</u>	<u>3,413,341</u>
Supplemental disclosure of cash flow information:		
Cash paid for the purchase of works of art	<u>\$ 4,333,302</u>	<u>4,567,496</u>
Cash paid for interest expense	<u>\$ 1,449,671</u>	<u>448,273</u>
Accumulated depreciation on disposal of property and equipment	<u>\$ -</u>	<u>9,781,086</u>
Supplemental disclosure of non-cash investing and financing activities - accounts payable and accrued expenses related to purchases of property and equipment	<u>\$ 573,138</u>	<u>4,824,920</u>

See accompanying notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

(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. As of June 30, 2024 and 2023, there were no amounts in excess of the federally insured limits. The Academy believes it is not exposed to any significant credit risk with regards to cash. In addition, the Academy has approximately \$3,095,000 and \$3,434,000 of cash restricted for AK360 as of June 30, 2024 and 2023, respectively.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

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

(e) Receivables and Bad Debts

The Academy's primary revenue sources that are subject to Accounting Standards Codification 326, Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments, are memberships. At each consolidated statement of financial position date, the Academy recognizes an expected allowance for credit losses. This estimate is calculated on a pooled basis where similar characteristics exist and individually when there are no shared characteristics.

The allowance method is derived from a review of Academy's historical losses based on an aging of accounts receivable. Historical losses have been consistent. This estimate is adjusted for management's assessment of current conditions, forecasts of future events, and other factors deemed relevant risk factors, such as local and national economic indicators. As a result, management has determined that no allowance for credit losses is necessary.

The Academy writes off accounts receivable when there is information that indicates that there is no possibility of collection. If any recoveries are made from any accounts receivable previously written off, they will be recognized in revenue. There were no write-offs for the years ended June 30, 2024 and 2023.

(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.

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

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.

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 12 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.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

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

(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.

(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 \$475,000 and \$523,000 at June 30, 2024 and 2023, respectively, is necessary. For the years ended June 30, 2024 and 2023, nine and ten donors accounted for 90% and 81% 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.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

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

(l) Revenue Recognition, Continued

Special Events, Continued

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.

(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.

(q) New Accounting Standards

At the beginning of 2024, the Academy adopted Topic 326 as amended which modifies the measurement of expected credit losses on certain financial instruments, including accounts receivable, and requires organizations to measure all expected credit losses for financial instruments based on historical experience, current conditions, and reasonable and supportable forecasts for collectability. The Academy adopted this new standard utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Academy's consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(2) Liquidity

The Academy has approximately \$2,153,000 of financial assets available within one year of the consolidated statement of financial position date consisting of approximately \$93,000 in cash and \$2,060,000 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 \$5,000,000, which it could draw upon in the event of an unanticipated liquidity need. Additionally, the Academy has a quasi-endowment of approximately \$8,749,000. 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.

(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, 4.36% and 3.81% at June 30, 2024 and 2023, respectively, and is included in change in beneficial interest in trust in the accompanying consolidated statements of activities for the years ended June 30, 2024 and 2023. The value of the beneficial interest in Trust was approximately \$113,000 and \$140,000 at June 30, 2024 and 2023, respectively.

(4) Contributions Receivable

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

	<u>2024</u>	<u>2023</u>
Unconditional gross promises to give:		
Due within one year	\$ 7,087,813	10,964,907
Due in one to five years	<u>870,216</u>	<u>2,773,692</u>
Gross promises to give	7,958,029	13,738,599
Less unamortized discount	<u>(100,765)</u>	<u>(423,083)</u>
	7,857,264	13,315,516
Less allowance for uncollectible pledges	<u>(474,807)</u>	<u>(522,812)</u>
	\$ <u>7,382,457</u>	<u>12,792,704</u>

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(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 equal to the five (5) year United States Treasury Bill yield of 4.33% and 4.13% as of June 30, 2024 and 2023, 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 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>2024</u>	<u>2023</u>
Level 1:		
Marketable equity securities	\$ 6,231,727	6,593,374
Equity funds	44,877,355	40,498,920
Corporate bond funds	22,972,908	23,366,898
Money market funds	<u>1,811,265</u>	<u>1,866,576</u>
	<u>75,893,255</u>	<u>72,325,768</u>
Level 2:		
Pooled funds	7,850,220	8,540,551
Foreign equity securities	<u>2,395,816</u>	<u>1,366,549</u>
	<u>10,246,036</u>	<u>9,907,100</u>
Investments measured at net asset value:		
Partnerships	70,372,627	65,803,931
Other	<u>335,000</u>	<u>335,000</u>
	<u>70,707,627</u>	<u>66,138,931</u>
Total investments at fair value	\$ <u>156,846,918</u>	<u>148,371,799</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, 2024 and 2023 are \$11,496,121 and \$13,714,062, respectively.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(5) Fair Value Measurements, Continued

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, 2024 and 2023.

(6) Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2024</u>	<u>2023</u>
Land	\$ 85,707	85,707
Buildings and building improvements	196,636,841	26,512,327
Equipment	9,509,130	6,708,134
Construction-in-progress	<u>13,546</u>	<u>161,052,986</u>
	206,245,224	194,359,154
Less accumulated depreciation and amortization	<u>(18,327,182)</u>	<u>(13,611,357)</u>
	<u>\$ 187,918,042</u>	<u>180,747,797</u>

The Academy completed 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.

At June 30, 2023, approximately \$161,053,000, had been spent or incurred on AK360 and is reflected in the consolidated statements of financial position as construction-in-progress. At June 30, 2024, the project was complete and was placed in service, and is included in property and equipment, net on the consolidated statement financial position.

Equipment under finance lease obligations as of June 30, 2024 and 2023 amounted to \$121,327. Accumulated amortization related to such equipment amounted to \$57,528 and \$36,412 as of June 30, 2024 and 2023, respectively.

Depreciation expense for the years ended June 30, 2024 and 2023 amounted to \$4,715,825 and \$1,224,577, of which \$233,076 and \$229,487, 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.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(7) Lines of Credit

The Academy had a \$2,000,000 unsecured line of credit arrangement with a bank that was used to meet general operating needs. On March 12, 2024, this line of credit was revised to have a \$5,000,000 limit and bear interest at 2.62% above the greater of the base rate (rate per annum equal to the greater of 2 percentage points above the rate of interest announced by the Bank each day as its prime rate of interest) or 3.25%. The interest rate at June 30, 2024 was equal to 7.995%. The Academy had an outstanding balance on the line of credit of \$5,000,000 and \$1,250,000 at June 30, 2024 and 2023, respectively.

The Academy had 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. This line was closed on March 12, 2024. There was no amount outstanding at June 30, 2023.

On August 9, 2022, the Academy signed an outstanding letter of credit amounting to \$71,758. There was no outstanding balance at June 30, 2024 and 2023. The letter of credit was closed on July 12, 2024.

(8) Mortgages and Notes Payable

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

	<u>2024</u>	<u>2023</u>
Loan payable to a bank, requiring interest only for the first five years from the date of the last advance and the outstanding principal balance due in full on July 27, 2028. The loan pays interest on the balance of the line equal to 15 basis points and the Daily Simple Secured Overnight Finance Rate (SOFR) plus 262 basis points (7.93% at June 30, 2024). The loan is collateralized by the accounts of the Academy.	\$ 10,191,988	-
Mortgage note payable to a bank in fixed principal of \$40,000 plus interest at 7.89% at June 30, 2024; secured by real property. On July 1, 2023 this note was changed to bear interest at the one month SOFR plus 12 basis points.	1,528,760	2,008,760
Capital lease obligations.	<u>57,528</u>	<u>84,460</u>
	<u>\$ 11,778,276</u>	<u>2,093,220</u>

Required principal repayments of debt for the years subsequent to June 30, 2024 are as follows:

2025	\$ 505,326
2026	493,237
2027	491,760
2028	95,965
2029	<u>10,191,988</u>
	<u>\$ 11,778,276</u>

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

(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:

	<u>2024</u>	<u>2023</u>
Quasi-endowment	\$ 8,748,551	10,432,340
Accumulated deficit	<u>(962,606)</u>	<u>(2,228,426)</u>
	\$ <u>7,785,945</u>	<u>8,203,914</u>

(10) Net Assets With Donor Restrictions

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

	<u>2024</u>	<u>2023</u>
Purchase of works of art	\$ 91,806,817	84,878,377
Programs and exhibitions	8,690,303	8,683,893
Operations	46,813,966	44,865,587
Time restricted	112,717	140,444
AK360	10,434,300	11,094,000
Buildings and equipment	<u>175,617,882</u>	<u>178,654,577</u>
	\$ <u>333,475,985</u>	<u>328,316,878</u>

(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:

	<u>2024</u>	<u>2023</u>
Art acquisitions	\$ 5,955,450	4,771,455
Programs and exhibitions	3,764,123	2,535,965
AK360 initiatives	4,752,465	-
Operations	<u>4,171,330</u>	<u>1,820,263</u>
	\$ <u>18,643,368</u>	<u>9,127,683</u>

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(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 years ended June 30, 2024 and 2023 are summarized as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets at June 30, 2022	\$ 16,690,103	129,461,528	146,151,631
Investment income, 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	10,432,340	137,939,459	148,371,799
Investment income, net	1,068,357	17,591,738	18,660,095
Contributions	-	660,951	660,951
Amounts appropriated for expenditure	<u>(2,752,146)</u>	<u>(8,093,781)</u>	<u>(10,845,927)</u>
Change in endowment net assets	<u>(1,683,789)</u>	<u>10,158,908</u>	<u>8,475,119</u>
Endowment net assets at June 30, 2024	\$ <u>8,748,551</u>	<u>148,098,367</u>	<u>156,846,918</u>

(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.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

Notes to Consolidated Financial Statements, Continued

(13) 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 \$37,248, \$40,495 and \$55,115, 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, 2024 and 2023, were approximately \$417,000 and \$319,000, 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, 2024 and 2023, the Academy committed to purchase works of art totaling approximately \$1,215,000 and \$326,000, respectively. The purchases were expected to take place during subsequent fiscal years. These amounts have not been recorded as of June 30, 2024 and 2023, as the Academy had neither possession nor title to these works of art.

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

(16) 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.

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

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

	<u>2024</u>	<u>2023</u>
Outside services	\$ 483	7,500
Entertainment	115,529	310,509
Subscriptions/maintenance contracts	2,000	3,500
AK360	-	153,360
Public art installation	<u>6,000</u>	<u>-</u>
	<u>\$ 124,012</u>	<u>474,869</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, 2024 and 2023, as follows:

- Outside services amounting to \$483 and \$7,500, in 2024 and 2023, respectively for specific exhibits and events.
- Entertainment amounting to \$115,529 and \$310,509, in 2024 and 2023, respectively for fundraising events.
- Subscriptions/maintenance contracts amounting to \$2,000 and \$3,500 in 2024 and 2023, respectively, for specific contracts.
- AK360 amounting to \$153,360 in 2023 for the building project.
- Exhibition and public art installation amounting to \$6,000 in 2024 for public art installation.

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.