

**THE BUFFALO FINE ARTS
ACADEMY AND AFFILIATES**

Consolidated Financial Statements
For the Years Ended
June 30, 2017 and 2016 with
Independent Auditors' Report

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Buffalo Fine Arts Academy (a non-profit organization) and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, of functional expenses, and of cash flows for the years then ended, and the related notes to the 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.

Auditors' 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 consolidated 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2017 and 2016, 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.

Chianpou Travis Besaw + Kershner LLP

September 26, 2017

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash	\$ 690,473	\$ 158,062
Accounts receivable, net	840,763	517,913
Merchandise inventories	341,486	336,125
Prepays	310,440	93,036
Contributions receivable, net	19,930,031	643,911
Assets restricted to investment in property and equipment	28,012,731	-
Property and equipment, net	18,537,597	13,040,298
Beneficial interest in trust	276,677	278,797
Investments	148,510,987	123,190,560
Collection of works of art (Note 1)	-	-
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 217,451,185</u>	<u>\$ 138,258,702</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 3,678,437	\$ 4,046,898
Lines of credit	1,486,000	1,892,825
Deferred revenue	108,393	29,508
Mortgage and notes payable	5,261,867	1,101,443
	<hr/>	<hr/>
Total liabilities	10,534,697	7,070,674
 NET ASSETS:		
Without donor restrictions	7,475,259	7,269,769
With donor restrictions	199,441,229	123,918,259
Total net assets	<u>206,916,488</u>	<u>131,188,028</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 217,451,185</u>	<u>\$ 138,258,702</u>

See notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES:			
Gifts and grants:			
Government grants	\$ -	\$ 766,484	\$ 766,484
Corporate and foundation support	169,296	2,118,315	2,287,611
Annual giving	756,448	-	756,448
All other gifts and grants	127,260	-	127,260
Total gifts and grants	<u>1,053,004</u>	<u>2,884,799</u>	<u>3,937,803</u>
Exhibitions	37,019	-	37,019
Memberships	484,525	-	484,525
Investment income and gains in accordance with spending policy	2,237,916	-	2,237,916
Additional investment income and gains allocated to operations	400,000	-	400,000
Education and other related programs	669,851	-	669,851
Revenue from auxiliary activities	1,778,983	-	1,778,983
Net assets released from restrictions	<u>2,646,760</u>	<u>(2,646,760)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>9,308,058</u>	<u>238,039</u>	<u>9,546,097</u>
EXPENSES:			
Program services	3,203,063	-	3,203,063
Supporting services:			
Management and general	4,354,120	-	4,354,120
Fundraising	1,309,881	-	1,309,881
Auxiliary services	<u>888,634</u>	<u>-</u>	<u>888,634</u>
TOTAL EXPENSES	<u>9,755,698</u>	<u>-</u>	<u>9,755,698</u>
NON-OPERATING ACTIVITIES:			
Investment return - net	3,582,175	12,095,410	15,677,585
Restricted contributions	-	68,869,963	68,869,963
Change in Beneficial Interest in Trust	-	22,515	22,515
Investment income and gains allocated under spending policy to general operations	(2,237,916)	-	(2,237,916)
Additional investment income and gains allocated to operations	(400,000)	-	(400,000)
Acquisition, preservation and conservation of works of art	(5,974,884)	-	(5,974,884)
Net change in obligations under trust agreements	(19,202)	-	(19,202)
Net assets released from restrictions	<u>5,702,957</u>	<u>(5,702,957)</u>	<u>-</u>
TOTAL NON-OPERATING ACTIVITIES	<u>653,130</u>	<u>75,284,931</u>	<u>75,938,061</u>
CHANGES IN NET ASSETS	<u>205,490</u>	<u>75,522,970</u>	<u>75,728,460</u>
NET ASSETS, beginning of year	<u>7,269,769</u>	<u>123,918,259</u>	<u>131,188,028</u>
NET ASSETS, end of year	<u>\$ 7,475,259</u>	<u>\$ 199,441,229</u>	<u>\$ 206,916,488</u>

See notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES:			
Gifts and grants:			
Government grants	\$ -	\$ 674,181	\$ 674,181
Corporate and foundation support	183,489	1,916,799	2,100,288
Annual giving	784,667	-	784,667
All other gifts and grants	225,004	-	225,004
Total gifts and grants	<u>1,193,160</u>	<u>2,590,980</u>	<u>3,784,140</u>
Exhibitions	554,623	-	554,623
Memberships	433,844	-	433,844
Investment income and gains in accordance with spending policy	1,933,600	-	1,933,600
Education and other related programs	687,163	-	687,163
Revenue from auxiliary activities	1,591,760	-	1,591,760
Net assets released from restrictions	<u>2,704,376</u>	<u>(2,704,376)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>9,098,526</u>	<u>(113,396)</u>	<u>8,985,130</u>
EXPENSES:			
Program services	3,126,934	-	3,126,934
Supporting services:			
Management and general	4,653,105	-	4,653,105
Fundraising	1,111,739	-	1,111,739
Auxiliary services	<u>819,222</u>	<u>-</u>	<u>819,222</u>
TOTAL EXPENSES	<u>9,711,000</u>	<u>-</u>	<u>9,711,000</u>
NON-OPERATING ACTIVITIES:			
Investment return - net	(80,191)	(3,022,526)	(3,102,717)
Restricted contributions	-	173,580	173,580
Change in Beneficial Interest in Trust	-	(44,564)	(44,564)
Investment income and gains allocated under spending policy to general operations	(1,933,600)	-	(1,933,600)
Acquisition, preservation and conservation of works of art	(6,489,015)	-	(6,489,015)
Net change in obligations under trust agreements	(19,051)	-	(19,051)
Net assets released from restrictions	<u>5,545,158</u>	<u>(5,545,158)</u>	<u>-</u>
TOTAL NON-OPERATING ACTIVITIES	<u>(2,976,699)</u>	<u>(8,438,668)</u>	<u>(11,415,367)</u>
CHANGES IN NET ASSETS	<u>(3,589,173)</u>	<u>(8,552,064)</u>	<u>(12,141,237)</u>
NET ASSETS, beginning of year	<u>10,858,942</u>	<u>132,470,323</u>	<u>143,329,265</u>
NET ASSETS, end of year	<u>\$ 7,269,769</u>	<u>\$ 123,918,259</u>	<u>\$ 131,188,028</u>

See notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 75,728,460	\$ (12,141,237)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	909,140	709,524
Change in Beneficial Interest in Trust	(22,515)	44,564
Endowment fund gifts	(68,869,963)	(173,580)
Investment income with donor restrictions, net	(1,741,129)	(1,559,123)
Net (gains) losses on investments	(13,936,456)	4,703,205
Changes in operating assets and liabilities:		
Accounts receivable, net	(322,850)	303,373
Prepaid expenses	(217,404)	217,190
Merchandise inventories	(5,361)	29,272
Accounts payable and accrued expenses	(340,798)	1,331,670
Deferred revenue	78,885	(562,528)
Net cash used in operating activities	<u>(8,739,991)</u>	<u>(7,097,670)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,434,102)	(1,269,002)
Investment income with donor restrictions, net	1,741,129	1,559,123
Investment income from Trust	24,635	25,300
Purchases of investments	(159,129,253)	(90,954,055)
Proceeds from sale of investments	<u>119,732,551</u>	<u>96,553,105</u>
Net cash (used in) provided by investing activities	<u>(44,065,040)</u>	<u>5,914,471</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank overdraft	-	(51,396)
Endowment fund gifts	68,869,963	173,580
Repayments of lines of credit	(11,669,488)	(5,462,880)
Draws on lines of credit	11,262,663	7,199,745
Proceeds from notes payable	4,296,960	341,619
Repayments of mortgage and notes payable	(136,536)	(1,010,046)
Change in contributions receivable, net	<u>(19,286,120)</u>	<u>150,639</u>
Net cash provided by financing activities	<u>53,337,442</u>	<u>1,341,261</u>
NET CHANGE IN CASH	532,411	158,062
CASH, beginning of year	<u>158,062</u>	<u>-</u>
CASH, end of year	<u><u>\$ 690,473</u></u>	<u><u>\$ 158,062</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash used for the purchase of works of art	<u>\$ 3,863,716</u>	<u>\$ 3,680,233</u>
Cash used for interest expense	<u>\$ 167,989</u>	<u>\$ 125,076</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable and accrued expenses related to purchases of property and equipment	<u>\$ 106,919</u>	<u>\$ 134,582</u>
Conversion of line of credit to term note payable	<u>-</u>	<u>\$ 281,497</u>
Property and equipment acquired under long-term debt	<u>-</u>	<u>\$ 84,638</u>

See notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Expenses			Supporting Services			Auxiliary Activities			Total Functional Expenses	
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe		Total
Salaries and Benefits	\$ 1,027,499	\$ 293,540	\$ 329,962	\$ 1,651,001	\$ 2,461,972	\$ 429,013	\$ 2,890,985	\$ 178,502	\$ 235,823	\$ 414,325	\$ 4,956,310
Advertising & Promotion	-	-	-	-	183,526	34,260	217,786	-	-	-	217,786
Audio Tour	3,977	-	-	3,977	-	-	-	-	-	-	3,977
Books & Periodicals	6,084	250	90	6,424	2,442	1,988	4,430	-	-	-	10,853
Cleaning	-	-	-	-	17,987	-	17,987	-	-	-	17,987
Conservation	940	-	-	940	-	-	-	-	-	-	940
Equipment Purchases	6,401	1,789	1,011	9,201	24,084	1,415	25,499	2,290	3,801	6,091	40,791
Film Rentals	-	335	-	335	-	-	-	-	-	-	335
Gifts	1,427	408	594	2,429	9,709	5,007	14,716	-	26	26	17,173
Honoraria	7,665	73,379	4,000	85,044	2,050	99,524	101,574	-	-	-	186,618
Installation	116,122	857	-	116,979	6,329	-	6,329	-	-	-	123,308
Insurance	110,121	-	-	110,121	58,311	6,140	64,451	-	-	-	174,571
Licenses, Dues, Subs., Fees	1,274	3,363	-	4,637	20,022	2,512	22,534	-	2,150	2,150	29,320
Maintenance Contracts	28,070	-	25,615	53,685	115,496	51,254	166,750	235	600	835	221,271
Bank charges	-	-	-	-	41,504	15,335	56,839	14,880	11,199	26,079	82,917
Miscellaneous	-	-	46	46	75	753	828	333	-	333	1,205
Outside Services	40,497	15,637	50,147	106,281	150,666	162,404	313,070	3,231	16,745	19,976	439,328
Participation Fee	35,712	-	2,821	38,533	-	430	430	2,400	-	2,400	41,364
Photography	-	-	2,004	2,004	247	-	247	-	-	-	2,251
Postage	3,051	-	156	3,207	32,385	20,866	53,251	1,472	-	1,472	57,930
Moving & Relocation	833	1,500	-	2,333	-	-	-	-	-	-	2,333
Cataloging Services	3,342	-	-	3,342	-	-	-	-	-	-	3,342
Printing	280	6,667	96,194	103,141	14,559	30,437	44,996	-	-	-	148,137
Professional Development	4,147	2,328	3,460	9,935	12,839	1,335	14,174	-	-	-	24,110
Professional Fees	-	-	-	-	79,783	-	79,783	-	1,500	1,500	81,283
Rentals	2,475	2,321	-	4,796	3,970	27,267	31,237	-	2,940	2,940	38,973
Supplies	38,189	17,538	7,819	63,546	34,974	7,297	42,271	5,895	3,575	9,470	115,287
Telecommunications	3,945	825	2,132	6,902	89,255	1,566	90,821	-	660	660	98,382
Transportation, Crating	346,991	43,978	-	390,969	-	-	-	-	-	-	390,969
Travel and Entertainment	62,703	22,844	12,157	97,704	99,897	325,881	425,778	1,427	-	1,427	524,909
Occupancy	708	-	4,391	5,099	414,180	1,928	416,108	-	470	470	421,680
Cost of Goods Sold	-	-	-	-	-	-	-	199,506	112,005	311,511	311,510
Total expenses before interest and depreciation	1,852,453	487,559	542,599	2,882,611	3,876,262	1,226,612	5,102,874	410,171	391,494	801,665	8,787,150
Depreciation	180,722	51,629	58,036	290,387	433,025	75,457	508,482	31,396	48,028	79,424	878,293
Interest	18,711	5,345	6,009	30,065	44,833	7,812	52,645	3,251	4,294	7,545	90,255
	\$ 2,051,886	\$ 544,533	\$ 606,644	\$ 3,203,063	\$ 4,354,120	\$ 1,309,881	\$ 5,664,001	\$ 444,818	\$ 443,816	\$ 888,634	\$ 9,755,698

See notes to consolidated financial statements.

THE BUFFALO FINE ARTS ACADEMY AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Expenses			Supporting Services			Auxiliary Activities			Total Functional Expenses	
	Exhibitions	Education	Other	Total	Management	Fundraising	Total	ShopAK	AKCafe		Total
Salaries and Benefits	\$ 969,734	\$ 233,373	\$ 210,893	\$ 1,414,000	\$ 2,781,112	\$ 493,366	\$ 3,274,478	\$ 150,256	\$ 216,784	\$ 367,040	\$ 5,055,518
Advertising & Promotion	-	-	-	-	170,927	4,135	175,062	-	-	-	175,062
Audio Tour	-	-	-	-	-	-	-	619	-	619	619
Books & Periodicals	6,256	160	577	6,993	5,365	2,428	7,793	-	-	-	14,786
Cleaning	400	-	-	400	17,372	-	17,372	-	-	-	17,372
Conservation	6,018	-	-	6,018	-	-	-	-	-	-	400
Equipment Purchases	75	676	-	751	40,764	7,718	48,482	-	399	399	56,620
Film Rentals	4,577	1,721	-	6,298	-	-	-	-	-	-	751
Gifts	94,708	197	5,014	9,788	10,181	4,088	14,269	-	-	-	24,057
Honoraria	254,176	85,045	-	179,753	750	8,700	9,450	-	-	-	189,203
Installation	48,875	-	-	254,176	30,718	-	30,718	-	-	-	284,894
Insurance	750	2,366	-	3,116	66,561	250	66,811	-	-	-	115,686
Licenses, Dues, Subs., Fees	26,432	-	7,967	34,399	19,814	1,418	21,232	165	2,054	2,219	26,567
Maintenance Contracts	202	5,900	-	6,102	138,417	38,260	176,677	2,746	600	3,346	214,422
Bank charges	-	-	-	-	44,503	18,401	62,904	14,880	11,199	26,079	88,983
Miscellaneous	52,581	12,240	-	131,133	2,372	-	2,372	-	-	-	8,474
Outside Services	3,980	-	-	5,183	182,380	78,496	260,876	13,786	17,039	30,825	422,834
Participation Fee	1,258	28	3,100	4,386	550	-	550	225	-	225	5,958
Photography	-	-	7,625	7,625	403	-	403	-	-	-	8,028
Postage	-	-	-	-	31,702	13,563	45,265	1,453	-	1,453	51,104
Moving & Relocation	2,894	2,500	-	5,394	-	1,500	1,500	-	-	-	4,000
Cataloging Services	201	5,355	210,141	215,697	11,566	31,107	42,673	-	-	-	258,370
Printing	527	3,910	1,697	6,134	7,975	6,441	14,416	1,000	-	1,000	21,550
Professional Development	-	-	-	-	80,208	-	80,208	-	500	500	80,708
Professional Fees	1,664	1,459	-	3,123	3,761	14,352	18,113	-	2,178	2,178	23,414
Rentals	38,339	23,134	3,132	64,605	49,278	3,380	52,658	6,105	5,778	11,883	129,146
Supplies	4,181	75	614	4,870	82,263	1,495	83,758	-	-	-	88,628
Telecommunications	314,168	51,883	-	366,051	-	-	-	-	-	-	366,051
Transportation, Crating	106,321	18,970	10,152	135,443	104,834	310,684	415,518	1,987	-	1,987	552,948
Travel and Entertainment	600	-	4,368	4,968	363,709	-	363,709	-	1,282	1,282	369,959
Occupancy	-	-	-	-	-	-	-	195,942	118,713	314,655	314,655
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	-
Total expenses before interest and depreciation	1,938,917	448,992	532,795	2,920,704	4,247,485	1,039,782	5,287,267	389,164	376,526	765,690	8,973,661
Depreciation	129,594	31,188	28,184	188,966	371,665	65,933	437,598	20,080	28,971	49,051	675,615
Interest	11,840	2,849	2,575	17,264	33,955	6,024	39,979	1,834	2,647	4,481	61,724
	\$ 2,080,351	\$ 483,029	\$ 563,554	\$ 3,126,934	\$ 4,653,105	\$ 1,111,739	\$ 5,764,844	\$ 411,078	\$ 408,144	\$ 819,222	\$ 9,711,000

See notes to consolidated financial statements.

BUFFALO FINE ARTS ACADEMY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Buffalo Fine Arts Academy (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 educational 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.

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.

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.

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 \$624,000 of cash restricted for AK360 as of June 30, 2017.

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, 2017 and 2016.

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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Academy allocated an additional \$400,000 for operations in fiscal 2017.

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.

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 Act (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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Collection of Works of Art – It is the Academy’s policy to purchase works of art with Board designated and 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 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 as net assets with donor restrictions, based on the absence or existence of donor-imposed restrictions.

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 \$29,600 at June 30, 2017 and 2016 is necessary. For the years ended June 30, 2017 and June 30, 2016, one and three donor(s) accounted for 57% and 83% of total restricted contributions, respectively.

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.

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.

Deferred Revenues – 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.

Subsequent Events – Management of the Academy has evaluated the effects of all subsequent events through September 26, 2017, 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Standards Issued – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14 “*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.*” ASU 2016-14 contains several provisions that change the presentation of and disclosures within the financial statements of a not-for-profit entity. These changes include an updated net asset classification scheme from three classes to two classes, changes in underwater endowment accounting, quantitative and qualitative disclosures regarding liquidity, a change in presentation of investment return to a net basis and a requirement to report expenses by function, nature, and an analysis showing the relationship between function and nature and the removal of the requirement for a reconciliation for statements of cash flows done on the direct basis.

The guidance is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted and these consolidated financial statements and footnotes reflect early adoption. Certain reclassifications of prior year amounts have been made to conform to the new standard.

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.

Reclassification – Certain items from the prior year have been reclassified to conform to the current year presentation.

2. LIQUIDITY

The Academy has approximately \$914,000 of financial assets available within one year of the consolidated statement of financial position date consisting of \$64,000 of cash and \$850,000 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 \$8,700,000. 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 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, 2.31% and 2.02% at June 30, 2017 and 2016, 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, 2017 and 2016. The value of the beneficial interest in Trust was approximately \$277,000 and \$279,000 at June 30, 2017 and 2016, respectively.

4. CONTRIBUTIONS RECEIVABLE

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

	2017	2016
Unconditional gross promises to give:		
Due within one year	\$ 3,505,960	\$ 284,941
Due in one to five years	<u>17,688,265</u>	<u>400,000</u>
Gross promises to give	21,194,225	684,941
Less: unamortized discount	<u>(1,234,594)</u>	<u>(11,430)</u>
	19,959,631	673,511
Allowance for uncollectible pledges	<u>(29,600)</u>	<u>(29,600)</u>
	<u>\$ 19,930,031</u>	<u>\$ 643,911</u>

Pledges due in more than one year are reflected at the present value of estimated future cash flows using a discount rate equal to the five (5) year United States Treasury Bill yield as of June 30, 2017 and 2016, 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.

	2017	2016
<i>Level 1:</i>		
Marketable equity securities	\$ 8,329,911	\$ 10,040,726
Mutual funds	10,594,678	6,033,497
Equity funds	43,291,264	36,413,529
Corporate bond funds	31,423,592	25,226,554
Money market funds	<u>849,338</u>	<u>2,452,298</u>
	<u>94,488,783</u>	<u>80,166,604</u>
<i>Level 2:</i>		
Pooled funds	25,841,357	10,966,559
Foreign equity securities	<u>123,135</u>	<u>231,601</u>
	<u>25,964,492</u>	<u>11,198,160</u>
<i>Investments measured at net asset value:</i>		
Partnerships	27,722,712	31,490,796
Other	<u>335,000</u>	<u>335,000</u>
	<u>28,057,712</u>	<u>31,825,796</u>
Total investments at fair value	<u>\$ 148,510,987</u>	<u>\$ 123,190,560</u>

5. FAIR VALUE MEASUREMENTS (continued)

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

The unfunded commitments of the investments in the partnerships at June 30, 2017 and 2016 are \$11,864,000 and \$8,716,000, respectively.

Assets restricted to investment in property and equipment totaling \$28,012,731 as of June 30, 2017, are invested in a common collective trust which is measured at fair value using the NAV practical expedient. There was no such investment as of June 30, 2016.

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, 2017.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2017	2016
Land	\$ 85,707	\$ 85,707
Buildings and building improvements	21,335,055	21,307,734
Equipment	7,363,335	6,540,431
Construction in progress	<u>6,133,087</u>	<u>576,873</u>
	34,917,184	28,510,745
Less: accumulated depreciation	<u>16,379,587</u>	<u>15,470,447</u>
	<u>\$ 18,537,597</u>	<u>\$ 13,040,298</u>

Construction in progress mainly represents the expansion of the warehouse by ALKASW, Inc. and the Academy's various technology projects.

Equipment under capital lease obligations as of June 30, 2017 and 2016, amounted to \$84,638. Accumulated depreciation related to such equipment amounted to \$29,351 and \$12,423 as of June 30, 2017 and 2016, respectively.

7. LINES OF CREDIT

The Academy has a \$2,000,000 unsecured line of credit arrangement with a bank that is used to meet general operating needs. The line bears interest at a rate equal to LIBOR plus 3.0% (4.25% at June 30, 2017). The outstanding balance on the line of credit was \$1,486,000 and \$1,441,674 at June 30, 2017 and 2016, respectively.

7. LINES OF CREDIT (continued)

During the year ended June 30, 2016, the Academy obtained a \$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 3.0% (4.25% at June 30, 2017). The outstanding balance on the line of credit was \$451,151 at June 30, 2016. There was no amount outstanding as of June 30, 2017.

8. TERM NOTES PAYABLE

Term notes payable consisted of the following at June 30:

	2017	2016
Advances under a construction loan payable to a bank; interest only at a rate of LIBOR plus 2.4% (3.65% at June 30, 2017) through closing of a mortgage note; secured by real property.	\$ 4,800,000	\$ 503,040
Term loan payable to a bank in fixed principal payments of \$6,667, plus variable interest at LIBOR plus 3.0% (4.25% at June 30, 2017), through July 2020.	\$ 246,666	\$ 326,666
Term loan payable to a bank in fixed principal payments of \$3,300, plus variable interest at LIBOR plus 3.0%, (4.25% at June 30, 2017), through December 2020.	160,386	200,002
Capital lease obligations	<u>54,815</u>	<u>71,735</u>
	<u>\$ 5,261,867</u>	<u>\$ 1,101,443</u>

Required principal repayments of debt for the years subsequent to June 30, 2017, are as follows 2018 - \$136,536; 2019 - \$136,536; 2020 - \$136,536; and 2021 - \$52,259.

The construction loan payable to a bank is for the expansion of the offsite warehouse. The loan is subject to maximum borrowings of \$4,800,000. As of June 30, 2017, the Academy has made draws of \$4,800,000. The construction loan will be converted to a mortgage note payable with fixed repayment terms at the end of the sixteen-month draw period which will occur in September 2017.

The Academy is subject to certain financial covenants under their banking agreement. As of June 30, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Quasi-endowment	\$ 8,728,849	\$ 8,893,309
Accumulated deficit	<u>(1,253,590)</u>	<u>(1,623,540)</u>
	<u>\$ 7,475,259</u>	<u>\$ 7,269,769</u>

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2017 and 2016:

	2017	2016
Purchase of works of art	\$ 89,571,223	\$ 85,719,503
Programs and exhibitions	3,455,865	3,165,148
Operations	45,866,601	26,155,993
Time restricted	276,677	278,797
AK360	50,561,409	643,911
Buildings and equipment	<u>9,709,454</u>	<u>7,954,907</u>
	<u>\$ 199,441,229</u>	<u>\$ 123,918,259</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 ending June 30, 2017 and 2016:

	2017	2016
Art acquisitions	\$ 4,787,412	\$ 4,545,999
Programs and exhibitions	2,646,760	2,704,376
Operations	<u>915,545</u>	<u>999,159</u>
	<u>\$ 8,349,717</u>	<u>\$ 8,249,534</u>

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, 2017, are summarized as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 8,893,309	\$ 114,297,251	\$ 123,190,560
Investment return, net	2,473,456	13,204,129	15,677,585
Contributions	-	17,983,715	17,983,715
Amounts appropriated for expenditure	(2,637,916)	(5,482,957)	(8,120,873)
Reallocation	<u>-</u>	<u>(220,000)</u>	<u>(220,000)</u>
Change in endowment net assets	<u>(164,460)</u>	<u>25,484,887</u>	<u>25,320,427</u>
Endowment net assets, end of year	<u>\$ 8,728,849</u>	<u>\$ 139,782,138</u>	<u>\$ 148,510,987</u>

The changes in the endowment net assets for the year ended June 30, 2016, are summarized as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,450,144	\$ 130,042,672	\$ 133,492,816
Reallocation	8,085,705	(8,085,705)	-
Investment return, net	(708,940)	(2,393,776)	(3,102,716)
Contributions	-	279,218	279,218
Amounts appropriated for expenditure	<u>(1,933,600)</u>	<u>(5,545,158)</u>	<u>(7,478,758)</u>
Change in endowment net assets	<u>5,443,165</u>	<u>(15,745,421)</u>	<u>(10,302,254)</u>
Endowment net assets, end of year	<u>\$ 8,893,309</u>	<u>\$ 114,297,251</u>	<u>\$ 123,190,560</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 transaction 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 \$64,087, \$94,373, and \$93,787, 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 employment 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, 2017 and 2016, were approximately \$192,000 and \$180,000, 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, 2017, the Academy has committed to purchase works of art totaling approximately \$150,000. The purchases are expected to take place during the year ended June 30, 2018. This amount has not been recorded as of June 30, 2017, as the Academy has neither possession nor title to these works of art.

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