

**ART STUDENTS LEAGUE OF NEW YORK**  
**AND ITS SUBSIDIARY**  
**AMERICAN FINE ARTS SOCIETY, INC.**

**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED**  
**MAY 31, 2002 AND 2001**

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED  
MAY 31, 2002 AND 2001

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*Manger & Company*

*Certified Public Accountants*

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Independent Auditor's Report

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To the Board of Control of  
Art Students League of New York

We have audited the accompanying statements of financial position of Art Students League of New York and its subsidiary the American Fine Arts Society, Inc. (not-for-profit organizations) as of May 31, 2002 and 2001 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Art Students League of New York and subsidiary as of May 31, 2002 and 2001 and the changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 10-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Manger & Company*

September 16, 2002

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
STATEMENT OF FINANCIAL POSITION  
MAY 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<b>Assets</b>		
Cash and equivalents	\$ 8,024,108	\$ 683,875
Investments - at market	23,527,549	34,631,940
Accrued interest and dividends	10,213	56,687
Prepaid expenses		
Catalogue	60,018	69,365
Insurance	38,528	42,896
Others	15,672	7,882
Inventories		
Art store	100,421	58,857
Cafeteria	4,347	6,892
Print portfolio	19,543	-
	<u>31,800,399</u>	<u>35,558,394</u>
Property and equipment (net)	2,352,432	2,334,030
Art collection	<u>213,108</u>	<u>213,108</u>
	<u>\$ 34,365,939</u>	<u>\$ 38,105,532</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
STATEMENT OF FINANCIAL POSITION  
MAY 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<b>Liabilities</b>		
Accounts payable	\$ 193,298	\$ 19,507
Deferred revenue	211,354	202,264
Other liabilities		
Sales tax payable	16,396	15,576
Locker deposits	13,340	12,606
Tuition credits	<u>34,539</u>	<u>27,439</u>
<b>Total liabilities</b>	<u>468,927</u>	<u>277,392</u>
<b>Net assets</b>		
Unrestricted	10,398,384	10,688,481
Temporarily restricted	12,610,676	16,401,290
Permanently restricted	<u>10,887,952</u>	<u>10,738,369</u>
<b>Total net assets</b>	<u>33,897,012</u>	<u>37,828,140</u>
	<u>\$ 34,365,939</u>	<u>\$ 38,105,532</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED MAY 31, 2002 AND 2001

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2002</u>	<u>2001</u>
Revenues, gains (losses) and other support					
Tuition	\$ 2,208,189	\$ -	\$ -	\$ 2,208,189	\$ 2,024,863
Fees	208,891	-	-	208,891	199,914
Contributions	324,152	8,071	236,432	568,655	2,684,242
Returned contribution	-	-	(86,849)	(86,849)	-
Investment income					
(net of investment expense)	241,388	582,149	-	823,537	1,443,143
Net unrealized and realized investment gains (losses)					
(net of investment expense)	(948,261)	(3,154,196)	-	(4,102,457)	(3,078,402)
Other revenue (net of expenses)					
Art store	113,674	-	-	113,674	65,606
Cafeteria	(6,310)	-	-	(6,310)	3,253
Miscellaneous	10,334	-	-	10,334	30,140
Net assets released from restrictions	<u>1,226,638</u>	<u>(1,226,638)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,378,695</u>	<u>(3,790,614)</u>	<u>149,583</u>	<u>(262,336)</u>	<u>3,372,759</u>
Expenses					
Program services	3,016,142	-	-	3,016,142	2,726,298
General and administrative	652,650	-	-	652,650	610,178
Total expenses	<u>3,668,792</u>	<u>-</u>	<u>-</u>	<u>3,668,792</u>	<u>3,336,476</u>
Increase (decrease) in net assets	(290,097)	(3,790,614)	149,583	(3,931,128)	36,283
Net assets - beginning of the year	10,688,481	16,401,290	10,738,369	37,828,140	37,791,857
Net assets - end of the year	<u>\$ 10,398,384</u>	<u>\$ 12,610,676</u>	<u>\$ 10,887,952</u>	<u>\$ 33,897,012</u>	<u>\$ 37,828,140</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED MAY 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (3,931,128)	\$ 36,283
Adjustment to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	187,853	76,544
(Increase) decrease in operating assets		
Accrued interest and dividends	46,474	46,022
Prepaid expenses	5,925	(49,813)
Inventories	(58,562)	893
Increase (decrease) in operating liabilities		
Accounts payable	173,791	(116,941)
Deferred revenue	9,090	59,379
Other liabilities	8,654	16,342
Net cash provided by (used in) operating activities	<u>(3,557,903)</u>	<u>68,709</u>
Cash flows provided by (used in) investing activities		
(Increase) decrease in investments (net)	11,104,391	(5,072,407)
Expenditures for building improvements and equipment	<u>(206,255)</u>	<u>(334,194)</u>
Net cash provided by (used in) investing activities	<u>10,898,136</u>	<u>(5,406,601)</u>
Net increase (decrease) in cash and equivalents	7,340,233	(5,337,892)
Cash and equivalents - beginning of the year	683,875	6,021,767
Cash and equivalents - end of the year	<u>\$ 8,024,108</u>	<u>\$ 683,875</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2002 AND 2001

Note 1 - Organization and Summary of Significant Accounting Policies

Art Students League of New York (the League) and its subsidiary, American Fine Arts Society, Inc., are both not-for-profit organizations exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

The League was formed in 1875 to establish and maintain an academic school of art, which gives instruction in painting, drawing, graphics, sculpture, applied art and illustration.

American Fine Arts Society, Inc. owns the facility on West 57th Street where the League conducts its main school.

Principles of Consolidation

The consolidated financial statements include the accounts of the League and its subsidiary, American Fine Arts Society, Inc. All material inter-organization transactions have been eliminated in consolidation.

Financial statement presentation

In 1996, the League elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the League is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Contributions

The League also elected to adopt SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, in 1996. In accordance with SFAS 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and equivalents

Cash and equivalents consist of cash in non-interest bearing accounts as well as cash in interest bearing accounts with an initial maturity of three months or less.



ART STUDENT LEAGUE OF NEW YORK AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2002 AND 2001  
(continued)

Inventories

Consists of food used in the cafeteria, art supplies in the art store, which are stated at the lower of cost or market determined by the first-in, first-out method, and print portfolios of the instructors' works which are being sold by the League.

Art collection

The art collection of the League consists of paintings, drawings and sculptures of the League's instructors, students and other artists, which are held for public exhibitions and preserved by the League for this purpose. The League recognizes no contributions when works of art are donated to the collection.

Property and equipment

The costs of building, building improvements and equipment are depreciated over their estimated useful lives of five to thirty years. Depreciation is computed using the straight-line method.

Basis of Revenue Recognition

Tuition and fees

Tuition and fees are usually collected at the time of enrollment in advance of the monthly session to be attended by the student. Upon completion of the course of study by the student, the related tuition and fees are reflected as revenue in the financial statements.

Tuition and fees, which have been collected for sessions commencing after the school year end, are reflected as deferred revenue in the financial statements.

Note 2 - Restrictions on Assets

Temporarily restricted net assets are available for additional support to the educational programs and restoration of League's buildings.

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income of which is expendable for support of the League's programs and scholarships and aid to the League's students.

In the year ended May 31, 2002 the Board of Control designated all unrestricted contributions to be used for the buildings fund and the instructors fund equally.

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2002 AND 2001  
(continued)

Note 3 - Concentration of Credit Risk

The League maintains cash balances and cash equivalent balances at several financial institutions. Balances at each of the financial institutions are insured up to \$100,000. At May 31, 2002 and 2001, the League's uninsured cash and cash equivalents balances total approximately \$7,824,000 and \$339,000, respectively.

Note 4 - Investments

Investments are reflected in the financial statements at market value.

Investments are composed of the following as of:

	<u>May 31, 2002</u>		<u>May 31, 2001</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Corporate stocks and bonds	\$12,300,616	\$11,789,162	\$35,234,590	\$33,366,834
Other investments	1,345,386	1,536,351	-	-
Brokers' money funds	<u>10,290,439</u>	<u>10,202,036</u>	<u>1,265,106</u>	<u>1,265,106</u>
	<u>\$23,936,441</u>	<u>\$23,527,549</u>	<u>\$36,499,696</u>	<u>\$34,631,940</u>

A summary of net (losses) on investment transactions are listed below for the years ended May 31, 2002 and 2001:

	<u>May 31,</u> <u>2002</u>	<u>May 31,</u> <u>2001</u>
Unrealized gains (losses)	\$ 1,457,756.	\$(4,909,597)
Realized gains (losses)	<u>(5,523,358)</u>	<u>1,905,576</u>
	(4,065,602)	(3,004,021)
Less: Investment expense	<u>(36,855)</u>	<u>(74,381)</u>
Total	<u>\$(4,102,457)</u>	<u>\$(3,078,402)</u>

Investment income is reflected in the financial statements net of investment expense of \$36,855 and \$74,381 for the years ended May 31, 2002 and 2001, respectively.

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2002 AND 2001  
(continued)

Note 5 - Property and equipment

Property and equipment consist of the following:

	<u>May 31,</u> <u>2002</u>	<u>May 31,</u> <u>2001</u>
Land		
West 57 <sup>th</sup> Street School	\$200,000	\$200,000
Vytlacil School	381,000	381,000
Building and Improvements		
West 57 <sup>th</sup> Street School	1,893,598	1,893,598
Vytlacil School	214,582	214,582
Equipment		
West 57 <sup>th</sup> Street School	253,186	301,942
Vytlacil School	4,757	4,757
Preconstruction expenditures related to the renovation of the West 57 <sup>th</sup> Street School	<u>158,599</u>	<u>-</u>
	3,105,7222	2,995,879
Less accumulated depreciation	<u>(753,290)</u>	<u>(661,849)</u>
	<u>\$2,352,432</u>	<u>\$2,334,030</u>

Depreciation expense reflected in the financial statements was \$187,853 and \$76,544 for the years ended May 31, 2002 and 2001, respectively.

Note 6 - Returned Contribution

In the year ended May 31, 2002 the League agreed to return a contribution to the donor because an agreement could not be reached as to its use.

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
SCHEDULES OF FUNCTIONAL EXPENSES  
PROGRAM SERVICES  
FOR THE YEARS ENDED MAY 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Compensation	\$ 548,869	\$ 547,028
Payroll taxes and employee benefits	<u>73,696</u>	<u>106,153</u>
	622,565	653,181
Other expenses		
Instructors	1,153,652	980,528
Models	431,083	388,364
Utilities	119,918	170,750
Architects and building engineer fees	31,305	57,048
Catalogue	69,366	63,171
Repairs and maintenance supplies	75,348	100,084
Insurance - property and casualty	92,349	75,449
Merit scholarships	68,530	51,763
League newsletter	24,711	16,096
Classroom supplies	22,568	25,735
Member services	33,208	14,696
Gallery and exhibitions	35,648	32,980
Archive	16,951	11,028
Permanent collection	<u>43,335</u>	<u>12,131</u>
Total other expenses	<u>2,217,972</u>	<u>1,999,823</u>
Total expenses before depreciation	2,840,537	2,653,004
Depreciation	<u>175,605</u>	<u>73,294</u>
Total	<u>\$ 3,016,142</u>	<u>\$ 2,726,298</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
SCHEDULES OF FUNCTIONAL EXPENSES  
GENERAL AND ADMINISTRATIVE  
FOR THE YEARS ENDED MAY 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Compensation	\$ 284,039	\$ 253,068
Payroll taxes and employee benefits	<u>43,190</u>	<u>40,491</u>
	327,229	293,559
Other expenses		
Professional fees	99,932	43,661
Office, computer supplies and programming	47,914	60,029
Public relations and development	20,246	56,690
Postage	35,239	36,773
Advertising	5,714	15,672
Insurance	16,667	19,678
Telephone and internet	14,208	14,807
Miscellaneous	<u>75,999</u>	<u>66,059</u>
Total other expenses	<u>315,919</u>	<u>313,369</u>
Total expenses before depreciation	643,148	606,928
Depreciation	<u>9,502</u>	<u>3,250</u>
Total	<u>\$ 652,650</u>	<u>\$ 610,178</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY  
SCHEDULES OF OPERATIONS OF THE ART STORE AND CAFETERIA  
FOR THE YEARS ENDED MAY 31, 2002 AND 2001

<u>Art Store</u>	<u>2002</u>	<u>2001</u>
Revenue	\$ 494,572	\$ 404,504
Cost of operations		
Inventory - beginning of year	58,857	62,304
Purchases	<u>317,806</u>	<u>235,658</u>
	376,663	297,962
Inventory - end of year	<u>100,421</u>	<u>58,857</u>
Cost of operations	<u>276,242</u>	<u>239,105</u>
Excess of revenue over cost of operations	218,330	165,399
Other expenses		
Compensation	66,749	71,263
Fringe benefits and payroll taxes	10,745	12,333
Miscellaneous expenses	<u>27,432</u>	<u>16,197</u>
Total other expenses	<u>104,926</u>	<u>99,793</u>
Excess of revenue over expenses	<u>\$ 113,674</u>	<u>\$ 65,606</u>
<u>Cafeteria</u>		
Revenue	\$ 162,400	\$ 168,859
Cost of operations		
Inventory - beginning of year	6,892	4,338
Purchases	<u>72,785</u>	<u>99,441</u>
	79,677	103,779
Inventory - end of year	<u>4,347</u>	<u>6,892</u>
Cost of operations	<u>75,330</u>	<u>96,887</u>
Excess of revenue over cost of operations	87,070	71,972
Other expenses		
Compensation	61,386	43,674
Fringe benefits and payroll taxes	7,731	5,909
Miscellaneous expenses	<u>24,263</u>	<u>19,136</u>
Total other expenses	<u>93,380</u>	<u>68,719</u>
Excess (deficit) of revenue over expenses	<u>\$ (6,310)</u>	<u>\$ 3,253</u>