
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, 2003 AND 2002

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY

FINANCIAL STATEMENTS AND
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FOR THE YEARS ENDED
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Independent Auditor's Report

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, 2003 and 2002 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, 2003 and 2002 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 page 12 and 13 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 22, 2003

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
STATEMENT OF FINANCIAL POSITION
MAY 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Assets		
Cash and equivalents	\$ 2,043,022	\$ 8,024,108
Investments - at market	25,256,183	23,527,549
Accrued interest and dividends	4,726	10,213
Prepaid expenses		
Catalogue	66,494	60,018
Insurance	48,184	38,528
Others	22,656	15,672
Inventories		
Art store	44,596	100,421
Cafeteria	1,645	4,347
Print portfolio	14,462	19,543
	<u>27,501,968</u>	<u>31,800,399</u>
Property and equipment (net)	3,836,591	2,352,432
Works of art	213,108	213,108
Security deposits	70,125	-
	<u>\$ 31,621,792</u>	<u>\$ 34,365,939</u>
Liabilities		
Accounts payable	\$ 789,603	\$ 193,298
Deferred revenue	48,415	164,924
Sales tax payable	9,504	16,396
Locker deposits	8,959	13,340
Tuition credits	42,355	34,539
Other liabilities	38,960	46,430
	<u>937,796</u>	<u>468,927</u>
Net assets		
Unrestricted	10,827,911	10,398,384
Temporarily restricted	8,412,110	12,610,676
Permanently restricted	11,443,975	10,887,952
Total net assets	<u>30,683,996</u>	<u>33,897,012</u>
	<u>\$ 31,621,792</u>	<u>\$ 34,365,939</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED MAY 31, 2003 AND 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2003</u>	<u>2002</u>
Revenues, gains (losses) and other support					
Tuition	\$ 2,111,732	\$ -	\$ -	\$ 2,111,732	\$ 2,208,189
Fees	235,423	-	-	235,423	208,891
Contributions	91,352	195,053	-	286,405	568,655
Returned contribution	-	-	-	-	(86,849)
Investment income - net	302,580	655,836	-	958,416	823,537
Net unrealized and realized gains (losses)	(910,064)	(1,212,011)	-	(2,122,075)	(4,102,457)
Other revenue (net of expenses)					
Art store	46,991	-	-	46,991	113,674
Cafeteria	(7,218)	-	-	(7,218)	(6,310)
Special events	-	20,202	-	20,202	-
Miscellaneous	34,912	-	-	34,912	10,334
Net assets released from restrictions	<u>2,770,814</u>	<u>(2,770,814)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	4,676,522	(3,111,734)	-	1,564,788	(262,336)
Expenses					
Program services	4,026,162	-	-	4,026,162	3,016,142
General and administrative	689,772	-	-	689,772	632,404
Fundraising	61,870	-	-	61,870	20,246
Total expenses	<u>4,777,804</u>	<u>-</u>	<u>-</u>	<u>4,777,804</u>	<u>3,668,792</u>
Increase (decrease) in net assets	(101,282)	(3,111,734)	-	(3,213,016)	(3,931,128)
Net assets - beginning of the year	10,398,384	12,610,676	10,887,952	33,897,012	37,828,140
Prior period adjustment	530,809	(1,086,832)	556,023	-	-
Net assets - end of the year	<u>\$ 10,827,911</u>	<u>\$ 8,412,110</u>	<u>\$ 11,443,975</u>	<u>\$ 30,683,996</u>	<u>\$ 33,897,012</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, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities (Decrease) in net assets	\$ (3,213,016)	\$ (3,931,128)
Adjustment to reconcile (decrease) in net assets to net cash (used in) operating activities		
Depreciation	62,400	187,853
Non-recurring depreciation	907,834	-
(Increase) decrease in operating assets		
Accrued interest and dividends	5,487	46,474
Prepaid expenses	(23,116)	5,925
Inventories	63,608	(58,562)
Security deposits	(70,125)	-
Increase (decrease) in operating liabilities		
Accounts payable	596,305	173,791
Deferred revenue	(116,509)	9,090
Other liabilities	(10,927)	8,654
Net cash (used in) operating activities	<u>(1,798,059)</u>	<u>(3,557,903)</u>
Cash flows provided by (used in) investing activities		
(Increase) decrease in investments - net	(1,728,634)	11,104,391
Expenditures for		
Buildings' renovations	(2,381,264)	(158,599)
Equipment	(73,129)	(47,656)
Net cash provided by (used in) investing activities	<u>(4,183,027)</u>	<u>10,898,136</u>
Net increase (decrease) in cash and equivalents	(5,981,086)	7,340,233
Cash and equivalents - beginning of the year	<u>8,024,108</u>	<u>683,875</u>
Cash and equivalents - end of the year	<u>\$ 2,043,022</u>	<u>\$ 8,024,108</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2003 AND 2002

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 adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, in 1997 (see Note 9- Prior Period Adjustment). 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, 2003 AND 2002
(continued)

Note 1 - Organization and Summary of Significant Accounting Policies (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.

Works of art

The League maintains a permanent collection 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 permanent collection is not capitalized. The League has acquired other works by donation which may be sold to benefit ongoing programs.

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.

Investment income and gains and (losses)

The League has adopted the Uniform Management of Institutional Funds Act (UMIFA) as it is promulgated in the State of New York. As a result investment income, realized gains or (losses), and unrealized gains or (losses) net of related investment expense earned on permanently restricted net assets are deemed to be spendable and therefore have been classified as temporarily restricted Net Assets unless otherwise indicated by the donor, or unless individual permanently restricted fund balances drops below historical cost.

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2003 AND 2002
(continued)

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 funds to be held indefinitely, the earnings of which is expendable for support of the League's programs and scholarships.

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, 2003 and 2002, the League's uninsured cash and cash equivalents balances total approximately \$1,943,000 and \$7,824,000, 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, 2003</u>		<u>May 31, 2002</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Index funds	\$10,800,000	\$10,953,465	\$ -	\$ -
Managed Mutual funds	9,069,218	9,034,525	10,290,439	10,202,036
Corporate stocks and bonds	4,457,303	4,469,593	12,300,616	11,789,162
Other investments (REITS)	663,104	798,600	1,345,386	1,536,351
	<u>\$24,989,625</u>	<u>\$25,256,183</u>	<u>\$23,936,441</u>	<u>\$23,527,549</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2003 AND 2002
(continued)

Note 4 - Investments (continued)

A summary of net (losses) on investment transactions are listed below for the years ended May 31, 2003 and 2002:

	<u>May 31,</u> <u>2003</u>	<u>May 31,</u> <u>2002</u>
Unrealized gains	\$ 674,947.	\$ 1,457,756.
Realized (losses)	<u>(2,740,835)</u>	<u>(5,523,358)</u>
	(2,065,888)	(4,065,602)
Less: Investment expense	<u>(56,187)</u>	<u>(36,855)</u>
Total	<u><u>\$(2,122,075)</u></u>	<u><u>\$(4,102,457)</u></u>

Investment income is reflected in the financial statements net of investment expense of \$56,187 and \$36,855 for the years ended May 31, 2003 and 2002, respectively.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>May 31,</u> <u>2003</u>	<u>May 31,</u> <u>2002</u>
Land		
West 57 th Street School	\$200,000	\$200,000
Vytlacil School	381,000	381,000
Building and Improvements		
West 57 th Street School	863,826	1,893,598
Vytlacil School	358,166	214,582
Equipment		
West 57 th Street School	339,292	253,186
Vytlacil School	8,772	4,757
Preconstruction expenditures related to the renovation of the West 57 th Street School	<u>2,366,197</u>	<u>158,599</u>
	4,517,253	3,105,722
Less accumulated depreciation	<u>(680,662)</u>	<u>(753,290)</u>
	<u><u>\$3,836,591</u></u>	<u><u>\$2,352,432</u></u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2003 AND 2002
(continued)

Note 5 - Property and Equipment (continued)

Depreciation expense reflected in the financial statements was \$970,234 and \$187,853 for the years ended May 31, 2003 and 2002, respectively.

In the year ended May 31, 2003 depreciation expense included additional charges for write offs of non-productive property and equipment directly related to the renovation of the West 57th Street Site in the amount of \$907,834.

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.

Note 7 - Contributions In-Kind

The League, in the year ended May 31, 2003, received a contribution of works of art and goods used for a fund raising event whose fair value of \$22,500 and \$1,000, respectively, were recorded both as contributions and as expenses.

Note 8 - Permanently Restricted and Temporarily Restricted Net Assets

Permanently restricted net assets and temporarily restricted net assets are available to satisfy the following purposes as of May 31, 2003:

<u>Purpose</u>	<u>Permanently Restricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>
Facility support and construction	\$ 1,972,859	\$ 5,642,475
Scholarships	7,226,420	2,084,754
General support	<u>2,244,696</u>	<u>684,881</u>
	<u>\$11,443,975</u>	<u>\$ 8,412,110</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2003 AND 2002
(continued)

Note 9- Prior Period Adjustment

In the summer of 2003, the League undertook a study of their donors' files to determine if the League had properly classified contributions according to the donors' instructions and according to generally accepted accounting principles (GAAP).

As a result of this study, the following reclassifications of net assets were made retroactively as of June 1, 2002:

- (1) The adoption of Statement of Financial Accounting Standard No. 116 for Contributions Received and Contributions made (FASB 116) should have taken place in the year ended May 31, 1996 instead of May 31, 1997 and, as a result, certain contributions, investment gains (realized and unrealized) and investment income totaling \$1,686,645 were recorded as permanently restricted revenue instead of temporarily restricted revenue.
- (2) An examination of material from a donor determined that a contribution in 2001 in the amount of \$1,435,429 that was recorded as a temporarily restricted contribution should have been recorded as permanently restricted contribution according to the instructions of the donor
- (3) The League uses fund balance accounting for its internal records. In 2003, as a result of the study mentioned above, a fund in the amount of \$530,809, previously classified as temporarily restricted, was reclassified as unrestricted because no donor restrictions were imposed on the fund.
- (4) In 1987, the League received a \$500,000 contribution from a donor for the sole purpose of endowing the maintenance of an art gallery to bear the name of the donor. The original contribution of \$500,000 was incorrectly recorded as a temporarily restricted contribution. The contribution was held in a separate fund and as of June 30, 2002 its market value was \$1,198,140. The League in 2003, as part of its renovation project of its 57th street facility, held discussions with the donor to see if the original purpose of the contribution could be modified by the donor to meet the current needs of the League. An agreement was reached with the donor in which the entire balance of the fund of \$1,198,140 will be used for the maintenance of the 57th street facility and, of that amount, \$807,239 was set aside as a permanently restricted fund.

Note 10 - Description of Leasing Arrangements

The League, as a result of renovating its 57th Street Site, leased temporary classrooms at two different locations in New York City.

The League's obligations under these leases, which expire through September, 2003, for the year ending May 31, 2004 are \$94,500.

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2003 AND 2002
(continued)

Note 10 - Description of Leasing Arrangements (continued)

In addition, the League leases office equipment. Obligations under these leases are listed below.

<u>Year Ending</u>	<u>Amount</u>
May 31, 2004	\$7,228
May 31, 2005	3,828
May 31, 2006	3,413
May 31, 2007	2,168
May 31, 2008	<u>1,084</u>
Total	<u>\$17,721</u>

Note 11 - Commitments

In May, 2003 the League began renovating its West 57th Street Site.

As of May 31, 2003, the League had made expenditures totaling approximately \$2,366,000 towards the renovation.

The renovation is expected to be completed in the Fall of 2003 with a total cost of approximately \$8,100,000 which the Board of Control plans to finance from internal resources.

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2003
(with comparative totals for 2002)

	Program Services	Management and General	Fundraising	2003	2002
Compensation and related expenses					
Compensation	\$ 600,007	\$ 307,698	\$ 12,196	\$ 919,901	\$ 832,908
Employee benefits and payroll taxes	<u>94,238</u>	<u>51,055</u>	<u>1,421</u>	<u>146,714</u>	<u>116,886</u>
Total Compensation and related expenses	694,245	358,753	13,617	1,066,615	949,794
Other expenses					
Instructors	1,194,369	-	-	1,194,369	1,153,652
Models	430,364	-	-	430,364	431,083
Temporary rental of classrooms	122,735	-	-	122,735	-
Utilities	160,721	-	-	160,721	119,918
Insurance	88,827	27,807	-	116,634	109,016
Professional and consulting fees	-	67,181	39,549	106,730	131,237
Repairs and maintenance supplies	104,427	-	-	104,427	75,348
Office, computer supplies and programming	-	67,235	-	67,235	47,914
Catalogue	60,037	-	-	60,037	69,366
Merit scholarships	55,457	-	-	55,457	68,530
Collections maintenance	80,547	-	-	80,547	43,335
Gallery and exhibitions	43,559	-	-	43,559	35,648
Postage	-	35,183	-	35,183	35,239
Classroom supplies	29,852	-	-	29,852	22,568
Telephone and internet	-	20,155	-	20,155	14,208
Archive	15,209	-	-	15,209	16,951
Member services	14,559	-	-	14,559	33,208
League newsletter	14,449	-	-	14,449	24,711
Advertising	-	8,963	-	8,963	5,714
Miscellaneous	<u>-</u>	<u>80,770</u>	<u>8,704</u>	<u>89,474</u>	<u>96,245</u>
Total other expenses	<u>2,415,112</u>	<u>307,294</u>	<u>48,253</u>	<u>2,770,659</u>	<u>2,533,891</u>
Total expenses before depreciation	3,109,357	666,047	61,870	3,837,274	3,483,685
Depreciation	8,971	23,725	-	32,696	185,107
Non-recurring depreciation- impaired/ write-off of property and equipment as a result of 2003 renovation of 57th Street building	<u>907,834</u>	<u>-</u>	<u>-</u>	<u>907,834</u>	<u>-</u>
Total depreciation	<u>916,805</u>	<u>23,725</u>	<u>-</u>	<u>940,530</u>	<u>185,107</u>
Total expenses	<u>\$ 4,026,162</u>	<u>\$ 689,772</u>	<u>\$ 61,870</u>	<u>\$ 4,777,804</u>	<u>\$ 3,668,792</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
SCHEDULES OF OPERATIONS OF THE ART STORE AND CAFETERIA
FOR THE YEARS ENDED MAY 31, 2003 AND 2002

<u>Art Store</u>	<u>2003</u>	<u>2002</u>
Revenue	\$ 486,233	\$ 494,572
Cost of operations		
Inventory - beginning of year	100,421	58,857
Purchases	<u>262,151</u>	<u>317,806</u>
	362,572	376,663
Inventory - end of year	<u>44,596</u>	<u>100,421</u>
Cost of goods sold	<u>317,976</u>	<u>276,242</u>
Excess	168,257	218,330
Other expenses		
Compensation	79,039	66,749
Fringe benefits and payroll taxes	12,252	10,745
Miscellaneous expenses	<u>29,975</u>	<u>27,432</u>
Total other expenses	<u>121,266</u>	<u>104,926</u>
Excess of revenue over expenses	<u>\$ 46,991</u>	<u>\$ 113,674</u>
<u>Cafeteria</u>		
Revenue	\$ 150,111	\$ 162,400
Cost of operations		
Inventory - beginning of year	4,347	6,892
Purchases	<u>45,252</u>	<u>72,785</u>
	49,599	79,677
Inventory - end of year	<u>1,645</u>	<u>4,347</u>
Cost of goods sold	<u>47,954</u>	<u>75,330</u>
Excess	102,157	87,070
Other expenses		
Compensation	55,462	61,386
Fringe benefits and payroll taxes	6,389	7,731
Miscellaneous expenses	17,820	21,517
Depreciation	<u>29,704</u>	<u>2,746</u>
Total other expenses	<u>109,375</u>	<u>93,380</u>
Excess (deficit) of revenue over expenses	<u>\$ (7,218)</u>	<u>\$ (6,310)</u>