



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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
MAY 31, 2004
(WITH COMPARATIVE TOTALS FOR 2003)

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED MAY 31, 2004

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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 statement of financial position of Art Students League of New York and its subsidiary the American Fine Arts Society, Inc. (the "League") as of May 31, 2004 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the League's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the League's 2003 financial statements and, in our report dated September 22, 2003; we expressed an unqualified opinion on those financial statements.

We conducted our audit 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, 2004 and the changes in net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 11 and 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 audit 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
October 4, 2004

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
STATEMENT OF FINANCIAL POSITION
MAY 31, 2004
(with comparative totals for 2003)

	<u>2004</u>	<u>2003</u>
Assets		
Cash and equivalents	\$ 381,087	\$ 2,043,022
Investments - at market	21,630,784	25,256,183
Accrued interest and dividends	10,447	4,726
Prepaid expenses:		
Catalogue	69,366	66,494
Insurance	36,593	48,184
Others	23,452	22,656
Inventories:		
Art store	103,103	44,596
Cafeteria	3,208	1,645
Print portfolio	14,462	14,462
	<u>22,272,502</u>	<u>27,501,968</u>
Property and equipment (net)	9,598,382	3,836,591
Works of art	213,108	213,108
Security deposits	<u>-</u>	<u>70,125</u>
Total assets	<u>\$ 32,083,992</u>	<u>\$ 31,621,792</u>
Liabilities		
Accounts payable	\$ 248,630	\$ 789,603
Deferred revenue	162,222	48,415
Sales tax payable	16,234	9,504
Locker deposits	17,452	8,959
Tuition credits	47,437	42,355
Other liabilities	<u>57,872</u>	<u>38,960</u>
Total liabilities	<u>549,847</u>	<u>937,796</u>
Net assets		
Unrestricted	16,513,644	10,827,911
Temporarily restricted	3,576,526	8,412,110
Permanently restricted	<u>11,443,975</u>	<u>11,443,975</u>
Total net assets	<u>31,534,145</u>	<u>30,683,996</u>
	<u>\$ 32,083,992</u>	<u>\$ 31,621,792</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2004
(with comparative totals for 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2004</u>	<u>2003</u>
Revenues, gains (losses) and other support					
Tuition	\$ 1,962,740	\$ -	\$ -	\$ 1,962,740	\$ 2,111,732
Fees	194,889	-	-	194,889	235,423
Contributions	194,184	22,764	-	216,948	286,405
Investment income - net	268,875	411,979	-	680,854	958,416
Net unrealized and realized gains (losses)	599,571	1,083,514	-	1,683,085	(2,122,075)
Other revenue (net of expenses)					
Art store	48,666	-	-	48,666	46,991
Cafeteria	8,682	-	-	8,682	(7,218)
Special events (net of expenses)	11,648	-	-	11,648	20,202
Miscellaneous	67,945	-	-	67,945	34,912
Net assets released from restrictions:					
Satisfaction of purpose	776,547	(776,547)	-	-	-
Renovation expenditures	5,577,294	(5,577,294)	-	-	-
	<u>9,711,041</u>	<u>(4,835,584)</u>	<u>-</u>	<u>4,875,457</u>	<u>1,564,788</u>
Expenses					
Program services	3,272,835	-	-	3,272,835	4,026,162
Management and general	657,453	-	-	657,453	689,772
Fundraising	95,020	-	-	95,020	61,870
Total expenses	<u>4,025,308</u>	<u>-</u>	<u>-</u>	<u>4,025,308</u>	<u>4,777,804</u>
Increase (decrease) in net assets	5,685,733	(4,835,584)	-	850,149	(3,213,016)
Net assets - beginning of the year	10,827,911	8,412,110	11,443,975	30,683,996	33,897,012
Net assets - end of the year	<u>\$ 16,513,644</u>	<u>\$ 3,576,526</u>	<u>\$ 11,443,975</u>	<u>\$ 31,534,145</u>	<u>\$ 30,683,996</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2004
(with comparative totals for 2003)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 850,149	\$ (3,931,128)
Adjustment to reconcile increase (decrease) in net assets to net cash (used in) operating activities		
Realized (gains) losses	(588,029)	2,740,835
Unrealized (gains) losses	(1,095,056)	(618,760)
Depreciation	252,533	970,234
(Increase) decrease		
Accrued interest and dividends	(5,721)	5,487
Prepaid expenses	7,923	(23,116)
Inventories	(60,070)	63,608
Security deposits	70,125	(70,125)
Increase (decrease)		
Accounts payable	(540,973)	596,305
Deferred revenue	113,807	(116,509)
Other liabilities	<u>39,315</u>	<u>(10,927)</u>
Net cash (used in) operating activities	<u>(955,997)</u>	<u>(394,096)</u>
Cash flows provided by (used in) investing activities		
(Increase) decrease in investments - net	5,308,484	(3,132,597)
Buildings' renovations	(5,950,035)	(2,381,264)
Equipment purchases	<u>(64,387)</u>	<u>(73,129)</u>
Net cash (used in) investing activities	<u>(705,938)</u>	<u>(5,586,990)</u>
Net (decrease) in cash and equivalents	(1,661,935)	(5,981,086)
Cash and equivalents - beginning of the year	<u>2,043,022</u>	<u>8,024,108</u>
Cash and equivalents - end of the year	<u>\$ 381,087</u>	<u>\$ 2,043,022</u>

See accompanying notes to financial statements

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004

Note 1 - Organization and Summary of Significant Accounting Policies

Art Students League of New York and its wholly owned subsidiary, American Fine Arts Society, Inc., (the "League") 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.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its 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.

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 equivalent 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, 2004
(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

Buildings, building improvements and equipment are capitalized at cost. 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, 2004
(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, 2004, the League's uninsured cash and cash equivalents balances total approximately \$191,000.

Note 4 - Investments

Investments are reflected in the financial statements at market value.

Investments are composed of the following as of:

	<u>May 31, 2004</u>		<u>May 31, 2003</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Managed Mutual funds	\$10,139,987	\$10,396,250	\$ 9,069,218	\$ 9,034,525
Index funds	5,900,932	6,428,237	10,800,000	10,953,465
Corporate stocks and bonds	3,704,426	4,240,723	4,457,303	4,469,593
Other investments (REITS)	523,235	565,574	663,104	798,600
	<u>\$20,268,580</u>	<u>\$21,630,784</u>	<u>\$24,989,625</u>	<u>\$25,256,183</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004
(continued)

Note 4 - Investments (continued)

A summary of net (losses) on investment transactions are listed below for the years ended May 31, 2004 and 2003:

	<u>May 31,</u> <u>2004</u>	<u>May 31,</u> <u>2003</u>
Unrealized gains	\$ 1,095,055	\$ 674,947.
Realized (losses)	<u>625,565</u>	<u>(2,740,835)</u>
	1,720,620	(2,065,888)
Less: Investment expense	<u>(37,536)</u>	<u>(56,187)</u>
Total	<u>\$1,683,084</u>	<u>\$(2,122,075)</u>

Investment income is reflected in the financial statements net of investment expense of \$37,536 and \$56,187 for the years ended May 31, 2004 and 2003, respectively.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>May 31,</u> <u>2004</u>	<u>May 31,</u> <u>2003</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	9,040,261	863,826
Vytlacil School	407,957	358,166
Equipment		
West 57 th Street School	403,679	339,292
Vytlacil School	8,772	8,772
Preconstruction expenditures related to the renovation of the West 57 th Street School	<u>-</u>	<u>2,366,197</u>
	10,441,669	4,517,253
Less accumulated depreciation	<u>(843,287)</u>	<u>(680,662)</u>
	<u>\$9,598,382</u>	<u>\$3,836,591</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004
(continued)

Note 5 - Property and Equipment (continued)

Depreciation expense reflected in the financial statements was \$252,533 and \$970,234 for the years ended May 31, 2004 and 2003, 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 - Contributions In-Kind

The League, in the year ended May 31, 2004, received a contribution of goods used for a fund raising event whose fair value of \$5,300 and was recorded both as contributions and as expenses.

Note 7 - 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, 2004:

<u>Purpose</u>	<u>Permanently Restricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>
Facility support and construction	\$ 1,972,859	\$ 479,541
Scholarships	7,724,093	2,542,617
General Support	<u>1,747,023</u>	<u>554,368</u>
	<u>\$11,443,975</u>	<u>\$3,576,526</u>

Certain permanently restricted funds are reflected in the Statement of Financial Position, as of May 31, 2004, at less than original cost. The total aggregate amount of the deficiencies, at May 31, 2004, was approximately \$291,000. The league has adopted a policy of limiting expenditures on these funds until there are no deficiencies.

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2004
(continued)

Note 8 - 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 expired in September 2003. The rent expense under these leases for the year ended May 31, 2004 was \$73,036.

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

<u>Year Ending</u>	<u>Amount</u>
May 31, 2005	\$3,828
May 31, 2006	3,413
May 31, 2007	2,168
May 31, 2008	<u>1,084</u>
Total	<u>\$10,493</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MAY 31, 2004
(with comparative totals for 2003)

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fundraising</u>	<u>2004</u>	<u>2003</u>
Compensation and related expenses					
Compensation	\$ 716,128	\$ 323,537	\$ 63,456	\$ 1,103,121	\$ 919,901
Employee benefits and payroll taxes	<u>127,209</u>	<u>45,290</u>	<u>6,112</u>	<u>178,611</u>	<u>146,714</u>
Total Compensation and related expenses	843,337	368,827	69,568	1,281,732	1,066,615
Other expenses					
Instructors	1,089,458	-	-	1,089,458	1,194,369
Models	415,590	-	-	415,590	430,364
Repairs and maintenance supplies	137,747	-	-	137,747	104,427
Utilities	136,057	-	-	136,057	160,721
Insurance	98,794	29,612	-	128,406	116,634
Temporary rental of classrooms	73,036	-	-	73,036	122,735
Catalogue	63,518	-	-	63,518	60,037
Professional and consulting fees	-	42,163	14,000	56,163	106,730
Collections maintenance	54,283	-	-	54,283	80,547
Office, computer supplies and programming	-	47,614	-	47,614	67,235
Merit scholarships	39,798	-	-	39,798	55,457
Gallery and exhibitions	36,760	-	-	36,760	43,559
League newsletter	24,292	-	-	24,292	14,449
Classroom supplies	23,336	-	-	23,336	29,852
Telephone and internet	-	22,431	-	22,431	20,155
Postage	-	17,512	-	17,512	35,183
Archive	17,046	-	-	17,046	15,209
Member services	10,628	-	-	10,628	14,559
Advertising	-	4,680	-	4,680	8,963
Miscellaneous	<u>-</u>	<u>81,236</u>	<u>11,452</u>	<u>92,688</u>	<u>89,474</u>
Total other expenses	<u>2,220,343</u>	<u>245,248</u>	<u>25,452</u>	<u>2,491,043</u>	<u>2,770,659</u>
Total expenses before depreciation	3,063,680	614,075	95,020	3,772,775	3,837,274
Depreciation	209,155	43,378	-	252,533	32,696
Non-recurring depreciation- impaired/ write-off of property and equipment as a result of 2003 renovation of 57th Street building	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>907,834</u>
Total depreciation	<u>209,155</u>	<u>43,378</u>	<u>-</u>	<u>252,533</u>	<u>940,530</u>
Total expenses	<u>\$ 3,272,835</u>	<u>\$ 657,453</u>	<u>\$ 95,020</u>	<u>\$ 4,025,308</u>	<u>\$ 4,777,804</u>

ART STUDENTS LEAGUE OF NEW YORK AND SUBSIDIARY
SCHEDULES OF OPERATIONS OF THE ART STORE AND CAFETERIA
FOR THE YEARS ENDED MAY 31, 2004 AND 2003

<u>Art Store</u>	<u>2004</u>	<u>2003</u>
Revenue	\$ 430,439	\$ 486,233
Cost of operations		
Inventory - beginning of year	44,596	100,421
Purchases	307,202	262,151
	<u>351,798</u>	<u>362,572</u>
Inventory - end of year	103,103	44,596
Cost of goods sold	<u>248,695</u>	<u>317,976</u>
Excess	181,744	168,257
Other expenses		
Compensation	100,590	79,039
Fringe benefits and payroll taxes	18,808	12,252
Miscellaneous expenses	13,680	29,975
Total other expenses	<u>133,078</u>	<u>121,266</u>
Excess of revenue over expenses	<u>\$ 48,666</u>	<u>\$ 46,991</u>
<u>Cafeteria</u>		
Revenue	\$ 135,302	\$ 150,111
Cost of operations		
Inventory - beginning of year	1,645	4,347
Purchases	59,260	45,252
	<u>60,905</u>	<u>49,599</u>
Inventory - end of year	3,208	1,645
Cost of goods sold	<u>57,697</u>	<u>47,954</u>
Excess	77,605	102,157
Other expenses		
Compensation	45,751	55,462
Fringe benefits and payroll taxes	6,413	6,389
Miscellaneous expenses	16,603	17,820
Depreciation	156	29,704
Total other expenses	<u>68,923</u>	<u>109,375</u>
Excess of revenue over expenses	<u>\$ 8,682</u>	<u>\$ (7,218)</u>