

FINANCIAL STATEMENTS TOGETHER WITH  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

For the years ended May 31, 2007 and 2006

The Art Students League of New York and its Subsidiary

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2007 and 2006

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To The Trustees of  
**The Art Students League of New York**

We have audited the accompanying statements of financial position of The Art Students League of New York and its subsidiary The American Fine Arts Society, Inc. (the "League") as of May 31, 2007 and 2006 and the related statements of activities and cash flows for the year then ended. The financial statement is the responsibility of the League's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of the internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the League's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 The Art Students League of New York as of May 31, 2007 and 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the League as of and for the year ended May 31, 2007 and 2006 taken as a whole.

The supplementary schedules of functional expenses and the art store and cafeteria operations on pages 12 and 13 are presented for the purposes of additional analysis and is not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

*Marcel Plummer*

New York, New York  
November 15, 2007

Art Students League of New York and Subsidiary

**STATEMENTS OF FINANCIAL POSITION**

As of May 31, 2007 and 2006

	<u>ASSETS</u>	
	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 816,631	\$ 351,665
Certificate of deposit	-	23,416,200
Investments	50,306,605	22,431,104
Miscellaneous receivables	42,329	39,129
Accrued interest and dividends	27,716	62,737
Prepaid expenses:		
Catalogue	70,353	74,628
Insurance	41,052	37,868
Others	55,037	33,225
Inventories:		
Art store	165,090	140,216
Cafeteria	3,175	3,502
Print portfolio	14,462	14,462
Total current assets	<u>51,542,450</u>	46,604,736
Property and equipment	9,300,042	9,037,421
Works of art	<u>216,158</u>	<u>216,158</u>
Total assets	<u>\$ 61,058,650</u>	<u>\$ 55,858,315</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Liabilities:		
Accounts payable and accrued expenses	\$ 267,324	\$ 243,605
Deferred revenue	247,751	199,007
Locker deposits	26,293	23,594
Tuition credits	73,210	70,422
Total liabilities	<u>614,578</u>	<u>536,628</u>
Net assets:		
Unrestricted	39,411,626	37,908,480
Temporarily restricted	8,460,724	5,969,232
Permanently restricted	<u>12,571,722</u>	<u>11,443,975</u>
Total net assets	<u>60,444,072</u>	<u>55,321,687</u>
Total liabilities and net assets	<u>\$ 61,058,650</u>	<u>\$ 55,858,315</u>

*The accompanying notes are an integral part of these financial statements.*

Art Students League of New York and Subsidiary

STATEMENTS OF ACTIVITIES

For the years ended May 31, 2007 and 2006

	2007		2006		Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Unrestricted	Temporarily Restricted	Temporarily Restricted	Permanently Restricted					
Revenues and support:									
Tuition	\$ 2,848,092	\$ -	\$ -	\$ 90,000	\$ 2,848,092	\$ 2,527,628	\$ -	\$ -	\$ 2,527,628
Contributions	233,804	225,673	500,000	-	549,477	236,839	104,920	-	341,759
Donated, land	-	500,000	-	-	500,000	-	-	-	-
Fees	362,696	-	-	-	362,696	308,696	-	-	308,696
Investment income, net	1,235,770	680,606	-	-	1,916,376	672,416	445,085	-	1,117,501
Unrealized and realized gains and (losses), net	3,161,690	1,330,577	-	-	4,492,267	315,574	778,105	-	1,093,679
Other revenue (net of expenses):									
Art store	128,612	-	-	-	128,612	97,847	-	-	97,847
Cafeteria	(8,446)	-	-	-	(8,446)	(10,496)	-	-	(10,496)
Other income:									
Sale of work of art, net	5,690	-	-	-	5,690	575,370	-	-	575,370
Sale of development rights, net	-	-	-	-	-	22,505,991	-	-	22,505,991
	7,967,908	2,736,856	90,000	-	10,794,764	27,241,363	1,328,110	-	28,569,493
Net assets released from restrictions:									
Satisfaction of program restrictions	245,364	(245,364)	-	-	-	412,450	(412,450)	-	-
Total revenues and support	8,213,272	2,491,492	90,000	-	10,794,764	27,653,833	915,660	-	28,569,493
Expenses:									
Program services	4,647,472	-	-	-	4,647,472	4,360,491	-	-	4,360,491
Supporting services:									
Management and general	798,576	-	-	-	798,576	714,802	-	-	714,802
Fundraising	226,331	-	-	-	226,331	111,564	-	-	111,564
Total expenses	5,672,379	-	-	-	5,672,379	5,186,857	-	-	5,186,857
Change in net assets	2,540,893	2,491,492	90,000	-	5,122,385	22,466,976	915,660	-	23,382,636
Restoration of deficits in permanently restricted net assets	(1,037,747)	-	1,037,747	-	-	-	-	-	-
Net assets, beginning of year	37,908,480	5,969,232	11,443,975	-	55,321,687	15,441,504	5,053,572	11,443,975	31,939,051
Net assets, end of year	\$ 39,411,626	\$ 8,460,724	\$ 12,571,722	\$ -	\$ 60,444,072	\$ 37,908,480	\$ 5,969,232	\$ 11,443,975	\$ 55,321,687

The accompanying notes are an integral part of this financial statements.

Art Students League of New York and its Subsidiary

**STATEMENTS OF CASH FLOWS**

For the years ended May 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Changes in net assets	\$ 5,122,385	\$ 301,275
Adjustments to reconcile changes in net assets to cash provided by:		
operating activities:		
Depreciation expense	404,897	405,254
Unrealized gains on investments	(3,583,281)	(53,038)
Donated-land	(500,000)	-
Changes in operating assets and liabilities:		
(Increase) in miscellaneous receivables	(3,200)	(12,790)
Decrease (increase) in accrued interest and dividends	35,021	(55,805)
(Increase) decrease in prepaid expenses	(20,721)	101,336
(Increase) in inventories	(24,547)	(1,578)
Increase in accounts payable and accrued expenses	23,719	6,586
Increase in deferred revenues	48,744	33,427
Increase in other liabilities	5,487	14,712
Net cash provided by operation activities	<u>1,508,504</u>	<u>739,379</u>
Cash flows from investing activities:		
(Increase) decrease in investments, net	(24,292,220)	(204,405)
Sale of development rights, net	-	22,505,991
Sale of works of art, net	-	575,370
Purchase of property and equipment	<u>(167,518)</u>	<u>(137,428)</u>
Net cash (used in) provided by investment activities	<u>(24,459,738)</u>	<u>22,739,528</u>
Net (decrease) increase in cash and cash equivalents	<u>(22,951,234)</u>	23,478,907
Cash and cash equivalents, beginning of year	<u>23,767,865</u>	288,958
Cash and cash equivalents, end of year	<u>\$ 816,631</u>	<u>\$ 23,767,865</u>

*The accompanying notes are an integral part of this financial statements.*

The Art Students League of New York and its Subsidiary

**NOTES TO FINANCIAL STATEMENTS**

May 31, 2007 and 2006

**NOTE 1 - ORGANIZATION**

The Art Students League of New York and its wholly owned subsidiary, The American Fine Arts Society, (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.

For Federal income tax purposes, the organization is classified as a 501(c)(3) organization and is exempt under Section 501(a) of the Internal Revenue code and a similar provision of the New York State income tax laws.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statement of the League has been prepared on the accrual basis of accounting in accordance with principles generally accepted in the United States of America. The significant accounting policies are described below.

A. Basis of Presentation

The net assets of the League are reported as follows:

Unrestricted

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by the donor-imposed stipulations and are available for the general operations of the League.

Temporarily Restricted

Temporarily restricted net assets include gifts of cash and other assets received with the donor stipulations that limit the use of the donated assets. When the donor restriction expires or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.



The Art Students League of New York and its Subsidiary

**NOTES TO FINANCIAL STATEMENTS (continued)**

May 31, 2007 and 2006

**NOTE 2 - (continued)**

Permanently Restricted

Permanently restricted net assets include funds that have been restricted by the donor to be held in perpetuity.

**B. Principles of Consolidation**

The consolidated financial statements include the accounts of the The Art Students League of New York and its subsidiary The American Fine Arts Society, Inc. (A not for profit organization). The American Fine Arts Society, Inc. ("AFS") is consolidated with the League since the League owns all of the outstanding shares of AFS.

**C. Cash and Cash Equivalents**

The League considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

**D. Investment Policy and Objective**

Investments in equity securities, mutual funds, corporate bonds, and other investments are measured at fair value in the accompanying statements of financial position. Realized gains and losses (net of investment expenses) and unrealized gains and losses are reported in the statements of activities as an increases or decreases in net assets.

The League's primary investment objective is to maximize total return with minimal risk. The stated goal is to preserve capital that is intended for the League's charitable mission while generating cash flow to support current operations.

The League, as part of its investment policy, has adopted the Uniform Management of Institutional Fund Act ("UMIFA"). UMIFA allows investment income and unrealized and realized gains and losses from its investing of its permanently restricted net assets to be recorded as temporarily restricted revenue on its statement of activity. These earnings must still be used only for the purposes stipulated by the donors.

The Art Students League of New York and its Subsidiary

**NOTES TO FINANCIAL STATEMENTS (continued)**

May 31, 2007 and 2006

**NOTE 2 - (continued)**

E. Inventories

The League operates a store, which sells art supplies and books, and a cafeteria for the benefits of its students. The store's inventory consists of art supplies and books. The cafeteria's inventory consists of food products and related supplies. Inventories are stated at the lower of first-in, first-out cost or market.

F. Tuition and fees

Tuition and fees are usually collected from the students prior to beginning of each monthly session. Upon completion of the course by each student the related tuition and fees are recorded as revenue. Tuition and fees collected for courses commencing after the fiscal year end are recorded as deferred revenues on the statements of financial position.

G. Property and Equipment

The League capitalizes property and equipment at cost and a useful life of more than one year. Depreciation of property and equipment is provided on the straight-line method over the expected useful lives of the assets as follows:

Building and improvements	25-50 years
Property and equipment	3-10 years

H. 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.

The Art Students League of New York and its Subsidiary

**NOTES TO FINANCIAL STATEMENTS (continued)**

May 31, 2007 and 2006

**NOTE 2 - (continued)**

I. In-Kind Contributions

In-kind contributions are reflected in the accompanying financial statements at the estimated fair value at the time of donation.

J. Functional Expenses Allocations

The cost of providing the classes and other activities of the League has been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated to providing classes and to supporting services benefited. Such allocations are determined by management in accordance with donor's stipulations and/or another equitable basis.

K. Use of Estimates

The preparation of the financial statement in conformity with accounting principles generally accepted on the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The League maintains cash and cash equivalents balances in financial institutions which, at times, may exceed federally insured limits. The League has not experienced any losses in such accounts.

**NOTE 4 - CERTIFICATE OF DEPOSIT**

The certificate of deposit at May 31, 2006 was \$23,416,200 was purchased with the net proceeds from the sale of the American Fine Arts Society, Inc. sale of its development rights in December 2005.

The Art Students League of New York and its Subsidiary

**NOTES TO FINANCIAL STATEMENTS (continued)**

May 31, 2007 and 2006

**NOTE 5 - INVESTMENTS**

Investments held by the League at May 31, 2007 and 2006 consisted of the following:

	2007		2006	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Managed mutual funds	\$ 26,370,766	\$ 28,283,297	\$ 10,474,795	\$ 11,156,379
Index funds	7,257,536	9,269,486	4,916,203	5,962,535
Corporate stocks and bonds	9,420,536	11,112,127	4,159,991	4,646,888
Other investments - REITS	1,230,921	1,641,695	453,470	665,302
	<u>\$ 44,279,759</u>	<u>\$ 50,306,605</u>	<u>\$ 20,004,459</u>	<u>\$ 22,431,104</u>

A summary of net gains on investment transactions is described below:

	<u>2007</u>	<u>2006</u>
Unrealized gains	\$ 3,583,281	\$ 53,038
Realized gains	<u>984,414</u>	<u>1,077,909</u>
	4,567,695	1,130,947
Less: investment expenses	<u>(75,428)</u>	<u>(37,268)</u>
	<u>\$ 4,492,267</u>	<u>\$ 1,093,679</u>

Investment incomes are reported in the statement of activities net of investment expenses of \$75,427 and \$38,267 for the years ended May 31, 2007 and 2006, respectively.

**NOTE 6 - PROPERTY AND EQUIPMENT, NET**

A summary of property and equipment at May 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Buildings and improvements	\$ 9,600,137	\$ 9,560,448
Land and improvements	1,111,678	600,762
Property and equipment	<u>643,307</u>	<u>525,096</u>
	11,355,122	10,686,306
Less: accumulated depreciation	<u>(2,055,080)</u>	<u>(1,648,885)</u>
	<u>\$ 9,300,042</u>	<u>\$ 9,037,421</u>

The Art Students League of New York and its Subsidiary

**NOTES TO FINANCIAL STATEMENTS (continued)**

May 31, 2007 and 2006

**NOTE 7 - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS**

Permanently and temporarily restricted net assets at May 31, 2007 and 2006 are available to satisfy the following purposes:

<u>Permanently restricted net assets:</u>	<u>2007</u>	<u>2006</u>
Facility support	\$ 1,972,859	\$ 1,972,859
Scholarships	7,658,450	7,379,970
General support	<u>2,940,413</u>	<u>2,091,146</u>
	<u>\$ 12,571,722</u>	<u>\$ 11,443,975</u>
<u>Temporarily restricted net assets:</u>		
Facility support	460,888	396,372
Scholarships	4,532,416	3,456,574
General support	<u>3,467,420</u>	<u>2,116,286</u>
	<u>\$ 8,460,724</u>	<u>\$ 5,969,232</u>

At May 31, 2006 certain permanently restricted fund fair market value was less than the donors' basis. In 2007, in order to make these permanently restricted funds equal the donors' original basis the League transferred funds from their unrestricted net assets.

**NOTE 8 - SALE OF DEVELOPMENT RIGHTS**

In December 2005, the American Fine Arts Society, Inc. (AFS) sold its development rights on West 57<sup>th</sup> Street building in New York City for \$23,100,000.

If the acquirer of AFS development rights does not construct a building within five years of the date of the closing, the AFS will be entitled to 25% of the proceeds from the sale of the development rights to a third party.

**NOTE 9 - DONATED LAND**

In 2007, a donor contributed land to the League. Its fair market value at the date of its contribution was \$500,000.

Art Students League of New York and Subsidiary

**SCHEDULE OF FUNCTIONAL EXPENSES**

For the year ended May 31, 2007  
with comparative totals for the year ended May 31, 2006

	Supporting Services			2006 Total Expenses
	Program Services	Management and General	Fundraising	
Compensation	\$ 949,739	\$ 449,355	\$ 103,182	\$ 1,502,276
Payroll taxes/ fringe benefits	183,426	72,169	14,046	269,641
Total compensation and related expenses	1,133,165	521,524	117,228	1,771,917
Other expenses:				
Instructors	1,438,949	-	-	1,438,949
Models	494,911	-	-	494,911
Utilities	216,490	-	-	216,490
Repairs and maintenance	216,042	-	-	216,042
Professional and consulting fees	55,636	72,254	82,746	210,636
Classroom materials	117,179	-	-	117,179
Insurance	81,046	15,530	-	96,576
Office, computer supplies and programming	22,205	68,072	268	90,545
Merit scholarships and travel grants	78,000	-	-	78,000
Permanent collection	69,137	-	-	69,137
Catalogue	69,030	-	-	69,030
Member services	67,000	-	-	67,000
Gallery and exhibitions	52,570	-	-	52,570
Credit card charges	51,902	473	-	52,375
Telephone and internet	29,995	21,630	-	51,625
Advertising	11,313	5,697	-	17,010
Archives	10,558	-	-	10,558
Postage	654	4,769	3,088	8,511
Printing	5,539	2,555	203	8,297
130th Anniversary Celebration	-	-	-	-
Miscellaneous	65,800	46,033	21,745	133,578
Total other expenses	3,153,956	237,013	108,050	3,499,019
Total expenses before depreciation	4,287,121	758,537	225,278	5,270,936
Depreciation	360,351	40,039	1,053	401,443
Total expenses	\$ 4,647,472	\$ 798,576	\$ 226,331	\$ 5,672,379

This schedule should be read in conjunction with the accompanying financial statements and the notes thereto.

Art Students League of New York and its Subsidiary

**SCHEDULES OF ART STORE AND CAFETERIA OPERATIONS**

For the years ended May 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Art store		
Revenues	\$ 738,568	\$ 649,002
Cost of operations:		
Inventory, beginning of year	140,216	138,507
Purchases	<u>478,201</u>	<u>401,567</u>
	618,417	540,074
Inventory, end of year	<u>165,090</u>	<u>140,216</u>
Cost of goods sold	<u>453,327</u>	<u>399,858</u>
Excess	285,241	249,144
Other expenses:		
Compensation	115,094	112,182
Payroll taxes/fringe benefits	17,043	16,872
Credit card charges	12,453	11,654
Miscellaneous	9,402	8,127
Depreciation	<u>2,637</u>	<u>2,452</u>
Total other expenses	<u>156,629</u>	<u>151,287</u>
Excess of revenue over expenses	<u>\$ 128,612</u>	<u>\$ 97,857</u>
Cafeteria		
Revenues	\$ 193,680	\$ 182,022
Cost of operations:		
Inventory, beginning of year	3,502	3,632
Purchases	<u>91,935</u>	<u>87,417</u>
	95,437	91,049
Inventory, end of year	<u>3,175</u>	<u>3,502</u>
Cost of goods sold	<u>92,262</u>	<u>87,547</u>
Excess	101,418	94,475
Other expenses:		
Compensation	85,712	84,082
Payroll taxes/fringe benefits	18,841	15,825
Miscellaneous	4,494	4,632
Depreciation	<u>817</u>	<u>432</u>
Total other expenses	<u>109,864</u>	<u>104,971</u>
Excess (deficiency) of revenues over expenses	<u>\$ (8,446)</u>	<u>\$ (10,496)</u>

*This schedule should be read in conjunction with the accompanying financial statements and notes thereto.*