

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, 2008 and 2007

The Art Students League of New York and its Subsidiary

NOTES TO FINANCIAL STATEMENTS

May 31, 2008 and 2007

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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, 2008 and 2007 and the related statements of activities and cash flows for the years 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, 2008 and 2007 and the results of its operations and its cash flows for the years 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, 2008 and 2007 taken as a whole.

The supplementary schedules of functional expenses and the art store and cafeteria operations on pages 13 and 14 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.

Manuel + Company

New York, New York
November 30, 2008

Art Students League of New York and Subsidiary

STATEMENTS OF FINANCIAL POSITION

As of May 31, 2008 and 2007

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 1,139,623	\$ 816,631
Investments	47,617,712	50,306,605
Miscellaneous receivables	37,050	42,329
Accrued interest and dividends	19,445	27,716
Prepaid expenses:		
Catalogue	71,919	70,353
Insurance	42,066	41,052
Other	126,134	55,037
Inventories:		
Art store	175,308	165,090
Cafeteria	3,492	3,175
Print portfolio	14,462	14,462
Total current assets	<u>49,247,211</u>	<u>51,542,450</u>
Property and equipment, net	9,343,416	9,300,042
Works of art	<u>216,158</u>	<u>216,158</u>
Total assets	<u>\$ 58,806,785</u>	<u>\$ 61,058,650</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 187,877	\$ 267,324
Deferred revenue	230,663	247,751
Locker deposits	29,767	26,293
Tuition credits	81,099	73,210
Total liabilities	<u>529,406</u>	<u>614,578</u>
Net assets:		
Unrestricted	36,947,595	39,411,626
Temporarily restricted	8,758,062	8,460,724
Permanently restricted	12,571,722	12,571,722
Total net assets	<u>58,277,379</u>	<u>60,444,072</u>
Total liabilities and net assets	<u>\$ 58,806,785</u>	<u>\$ 61,058,650</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, 2008 and 2007

	2008			2007				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Tuition	\$ 3,024,269	\$ -	\$ -	\$ 3,024,269	\$ 2,848,092	\$ -	\$ -	\$ 2,848,092
Contributions	379,291	649,142	-	1,028,433	233,804	225,673	90,000	549,477
Donated Services	45,936	-	-	45,936	-	500,000	-	500,000
Land	-	-	-	-	-	-	-	362,696
Fees and other income	347,779	-	-	347,779	362,696	-	-	1,916,376
Investment income, net	904,996	559,138	-	1,464,134	1,235,770	680,606	-	4,492,267
Unrealized and realized gains and (losses) on investments, net	(1,260,259)	(785,398)	-	(2,045,657)	3,161,690	1,330,577	-	128,612
Other revenue (net of expenses):								
Art store	118,482	-	-	118,482	128,612	-	-	(8,446)
Cafeteria	(10,785)	-	-	(10,785)	(8,446)	-	-	5,690
Other income:								
Sale of works of art, net	-	19,221	-	19,221	5,690	-	-	2,736,856
	3,549,709	442,103	-	3,991,812	7,967,908	2,736,856	90,000	10,794,764
Net assets released from restrictions	144,765	(144,765)	-	-	245,364	(245,364)	-	-
Total revenues and support	3,694,474	297,338	-	3,991,811	8,213,272	2,491,492	90,000	10,794,764
Expenses:								
Program services	5,189,415	-	-	5,189,415	4,647,472	-	-	4,647,472
Supporting services:								
Management and general	741,489	-	-	741,489	798,576	-	-	798,576
Fundraising	227,600	-	-	227,600	226,331	-	-	226,331
Total expenses	6,158,504	-	-	6,158,504	5,672,379	-	-	5,672,379
Change in net assets	(2,464,031)	297,338	-	(2,166,693)	2,540,893	2,491,492	90,000	5,122,385
Restoration of deficits in permanently restricted net assets	-	-	-	-	(1,037,747)	-	1,037,747	-
Net assets, beginning 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
Net assets, end of year	\$ 36,947,595	\$ 8,758,062	\$ 12,571,722	\$ 58,277,379	\$ 39,411,626	\$ 8,460,724	\$ 12,571,722	\$ 60,444,072

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Changes in net assets	\$ (2,166,693)	\$ 5,122,385
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation expense	417,692	404,897
Unrealized (losses) gains on investments	3,362,691	(3,583,281)
Donated-land	-	(500,000)
Changes in operating assets and liabilities:		
Decrease (increase) in miscellaneous receivables	5,279	(3,200)
Decrease in accrued investment income	8,271	35,021
(Increase) in prepaid expenses	(73,677)	(20,721)
(Increase) in inventories	(10,535)	(24,547)
(Decrease) increase in accounts payable and accrued expenses	(79,488)	23,719
(Decrease) increase in deferred revenues	(17,088)	48,744
Increase in other liabilities	11,404	5,487
Net cash provided by operating activities	<u>1,457,856</u>	<u>1,508,504</u>
Cash flows from investing activities:		
(Increase) in investments, net	(673,798)	(24,292,220)
Purchase of property and equipment	<u>(461,066)</u>	<u>(167,518)</u>
Net cash (used in) investing activities	<u>(1,134,864)</u>	<u>(24,459,738)</u>
Net increase (decrease) in cash and cash equivalents	322,992	(22,951,234)
Cash and cash equivalents, beginning of year	<u>816,631</u>	<u>23,767,865</u>
Cash and cash equivalents, end of year	<u>\$ 1,139,623</u>	<u>\$ 816,631</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, 2008 and 2007

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.

Permanently Restricted

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

The Art Students League of New York and its Subsidiary

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2008 and 2007

NOTE 2 - (continued)

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.

E. Endowment

The League's endowment consists of approximately 40 individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Art Students League of New York and its Subsidiary

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2007 and 2006

NOTE 2 - (continued)

The Board of Control of the League has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the League classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the League in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the League considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of Investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

F. 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.

G. 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.

The Art Students League of New York and its Subsidiary

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2008 and 2007

NOTE 2 - (continued)

H. 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

I. 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.

J. In-Kind Contributions

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

K. 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.

L. 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.

The Art Students League of New York and its Subsidiary

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2008 and 2007

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 - INVESTMENTS

Investments held by the League at May 31, 2008 and 2007 consisted of the following:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Managed mutual funds	\$ 27,957,977	\$ 28,429,278	\$ 26,370,766	\$ 28,283,297
Index funds	7,194,608	8,838,486	7,257,536	9,269,486
Corporate stocks and bonds	9,798,661	10,349,948	9,420,536	11,112,127
Other investments - REITS	-	-	1,230,921	1,641,695
	<u>\$ 44,951,246</u>	<u>\$ 47,617,712</u>	<u>\$ 44,279,759</u>	<u>\$ 50,306,605</u>

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

	<u>2008</u>	<u>2007</u>
Unrealized (losses) gains	\$ (3,362,691)	\$ 3,583,281
Realized gains	<u>1,406,323</u>	<u>984,414</u>
	(1,956,368)	4,567,695
Less: investment expenses	<u>(89,289)</u>	<u>(75,428)</u>
	<u>\$ (2,045,657)</u>	<u>\$ 4,492,267</u>

Investment incomes are reported in the statement of activities net of investment expenses of \$89,289 and \$75,428 for the years ended May 31, 2008 and 2007, respectively.

The Art Students League of New York and its Subsidiary

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2008 and 2007

NOTE 5 - PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at May 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Building and improvements	\$ 9,690,924	\$ 9,600,137
Land and improvements	1,133,145	1,111,678
Equipment and furniture	<u>994,592</u>	<u>643,307</u>
	11,818,661	11,355,122
Less: accumulated depreciation	<u>(2,475,245)</u>	<u>(2,055,080)</u>
	<u>\$ 9,343,416</u>	<u>\$ 9,300,042</u>

NOTE 6 - PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

Permanently and temporarily restricted net assets at May 31, 2008 and 2007 are available to satisfy the following purposes:

<u>Permanently restricted net assets:</u>	<u>2008</u>	<u>2007</u>
Facility support	\$ 1,972,859	\$ 1,972,859
Scholarships	7,658,450	7,658,450
General support	<u>2,940,413</u>	<u>2,940,413</u>
	<u>\$ 12,571,722</u>	<u>\$ 12,571,722</u>
<u>Temporarily restricted net assets:</u>		
Facility support	1,561,246	1,069,667
Scholarships	4,260,461	4,532,416
General support	<u>2,936,355</u>	<u>2,858,641</u>
	<u>\$ 8,758,062</u>	<u>\$ 8,460,724</u>

At May 31, 2007 certain permanently restricted fund fair market value was less than the donors' basis. In 2008, in order to make these permanently restricted funds equal the donors' original basis, the League transferred funds from their unrestricted net assets.

The Art Students League of New York and its Subsidiary

NOTES TO FINANCIAL STATEMENTS (continued)

May 31, 2008 and 2007

NOTE 7 – CHANGES IN ENDOWMENT NET ASSETS

	<u>Permanently Restricted</u>
Endowment in net assets, beginning of year	\$ 12,571,222
Increase by:	
Investment returns:	
Interest and dividends, net	389,973
Realized gains, net	<u>348,095</u>
	735,068
	<u>13,306,290</u>
Decrease by:	
Unrealized losses	540,672
Transfers to temporarily restricted funds	<u>194,396</u>
	<u>735,068</u>
Endowment in net assets, end of year	<u>\$ 12,571,222</u>

NOTE 8 – DONATED SERVICES AND PROPERTY

Listed below is a description of donated services and property the League received in the years ended May 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Legal services	\$ 45,936	\$ -
Land	<u>-</u>	<u>500,000</u>
	<u>\$ 45,936</u>	<u>\$ 500,000</u>

Art Students League of New York and Subsidiary

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended May 31, 2008
with comparative totals for the year ended May 31, 2007

	Program Services	Supporting Services		2008 Total Expenses	2007 Total Expenses
		Management and General	Fundraising		
Compensation	\$ 1,272,294	\$ 449,356	\$ 107,623	\$ 1,829,273	\$ 1,502,276
Payroll taxes/ fringe benefits	<u>246,808</u>	<u>71,762</u>	<u>14,575</u>	<u>333,145</u>	<u>269,641</u>
Total compensation and related expenses	1,519,102	521,118	122,198	2,162,418	1,771,917
Other expenses:					
Instructors	1,430,105	-	-	1,430,105	1,438,949
Models	540,766	-	-	540,766	494,911
Utilities	229,032	-	-	229,032	216,490
Repairs and maintenance	193,262	3,355	1,079	197,696	216,042
Classroom materials	177,385	-	-	177,385	117,179
Professional and consulting fees	58,285	41,719	48,251	148,255	210,636
Insurance	88,645	16,983	-	105,628	96,576
Merit scholarships and travel grants	94,000	-	-	94,000	78,000
Permanent collection	84,585	-	-	84,585	69,137
Member services	73,042	-	-	73,042	67,000
Catalogue	70,742	-	-	70,742	69,030
Office, computer supplies and programming	12,287	38,228	17,912	68,427	90,545
Credit card charges	63,397	-	578	63,975	52,375
Gallery and exhibitions	62,853	-	-	62,853	52,570
Telephone and internet	10,145	12,384	-	22,529	51,625
Advertising	12,278	-	8,348	20,626	17,010
Archives	9,471	-	-	9,471	10,558
Printing	1,417	1,414	1,799	4,630	8,297
Postage	627	2,744	193	3,564	8,511
Miscellaneous	<u>90,309</u>	<u>57,492</u>	<u>26,600</u>	<u>174,401</u>	<u>133,578</u>
Total other expenses	3,302,633	174,319	104,760	3,581,712	3,499,019
Total expenses before depreciation	4,821,735	695,437	226,958	5,744,130	5,270,936
Depreciation	367,680	46,052	642	414,374	401,443
Total expenses	<u>\$ 5,189,415</u>	<u>\$ 741,489</u>	<u>\$ 227,600</u>	<u>\$ 6,158,504</u>	<u>\$ 5,672,379</u>

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Art store		
Revenues	\$ 799,025	\$ 738,568
Cost of operations:		
Inventory, beginning of year	165,090	140,216
Purchases	<u>524,721</u>	<u>478,201</u>
	689,811	618,417
Inventory, end of year	<u>175,308</u>	<u>165,090</u>
Cost of goods sold	<u>514,503</u>	<u>453,327</u>
Excess	284,522	285,241
Other expenses:		
Compensation	125,718	115,094
Payroll taxes/fringe benefits	17,813	17,043
Credit card charges	14,860	12,453
Miscellaneous	4,148	9,402
Depreciation	<u>3,501</u>	<u>2,637</u>
Total other expenses	<u>166,040</u>	<u>156,629</u>
Excess of revenue over expenses	<u>\$ 118,482</u>	<u>\$ 128,612</u>
Cafeteria		
Revenues	\$ 203,650	\$ 193,680
Cost of operations:		
Inventory, beginning of year	3,175	3,502
Purchases	<u>95,558</u>	<u>91,935</u>
	98,733	95,437
Inventory, end of year	<u>3,492</u>	<u>3,175</u>
Cost of goods sold	<u>95,241</u>	<u>92,262</u>
Excess	108,409	101,418
Other expenses:		
Compensation	88,144	85,712
Payroll taxes/fringe benefits	27,946	18,841
Miscellaneous	2,287	4,494
Depreciation	<u>817</u>	<u>817</u>
Total other expenses	<u>119,194</u>	<u>109,864</u>
Excess (deficiency) of revenues over expenses	<u>\$ (10,785)</u>	<u>\$ (8,446)</u>

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