

**The Art Students League of New York and its Subsidiary,  
The American Fine Arts Society, Inc.**

**Financial Report**

**May 31, 2013**

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### **Independent Auditors' Report**

To the Board of Directors of  
**The Art Students League of New York, Inc.**

We have audited the accompanying consolidated financial statements of the Art Students League of New York, Inc. and its subsidiary, the American Fine Arts Society, Inc. ("the League"), both not-for-profit organizations, which comprise the consolidated statements of financial position as of May 31, 2013 and 2012, and related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Art Students League of New York, Inc. and its subsidiary, the American Fine Arts Society, Inc., as of May 31, 2013 and 2012, and the changes in its net assets, its cash flows, and its functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary schedules of the art store and cafeteria operations on page 18 are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Morgan + Company*

October 1, 2013

**THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND ITS SUBSIDIARY**  
**Consolidated Statements of Financial Position**  
**As of May 31, 2013 and 2012**

|  | <u>2013</u>          | <u>2012</u>          |
|--|----------------------|----------------------|
| <b>ASSETS</b>                            |                      |                      |
| <b>CURRENT ASSETS</b>                    |                      |                      |
| Cash and cash equivalents                | \$ 294,329           | \$ 64,338            |
| Investments                              | 47,751,018           | 42,892,543           |
| Grants and contributions receivable      | 106,250              | 127,001              |
| Miscellaneous receivables                | 52,761               | 40,258               |
| Accrued interest and dividends           | -                    | -                    |
| Prepaid expenses:                        |                      |                      |
| Catalogue                                | 18,490               | 20,138               |
| Insurance                                | 45,186               | 41,706               |
| Publishing                               | -                    | -                    |
| Other                                    | 25,438               | 37,721               |
| Inventories:                             |                      |                      |
| Art store                                | 248,850              | 224,518              |
| Cafeteria                                | 4,655                | 4,484                |
| Print portfolio                          | 14,462               | 14,462               |
| Total current assets                     | <u>48,561,439</u>    | <u>43,467,169</u>    |
| Grants and contributions receivable, net | 185,941              | 272,325              |
| Property and equipment, net              | 8,517,110            | 8,987,452            |
| Works of art                             | 216,158              | 216,158              |
| Security deposit                         | <u>4,000</u>         | <u>4,000</u>         |
| Total assets                             | <u>\$ 57,484,648</u> | <u>\$ 52,947,104</u> |
| <b>LIABILITIES AND NET ASSETS</b>        |                      |                      |
| <b>LIABILITIES</b>                       |                      |                      |
| Accounts payable and accrued expenses    | \$ 289,290           | \$ 359,598           |
| Deferred revenue                         | 395,496              | 395,926              |
| Locker deposits                          | 45,135               | 42,887               |
| Tuition credits                          | <u>150,803</u>       | <u>135,308</u>       |
| Total liabilities                        | <u>880,724</u>       | <u>933,719</u>       |
| <b>NET ASSETS</b>                        |                      |                      |
| Unrestricted                             | 32,832,953           | 30,189,888           |
| Temporarily restricted                   | 11,069,141           | 9,121,667            |
| Permanently restricted                   | <u>12,701,830</u>    | <u>12,701,830</u>    |
| Total net assets                         | <u>56,603,924</u>    | <u>52,013,385</u>    |
| Total liabilities and net assets         | <u>\$ 57,484,648</u> | <u>\$ 52,947,104</u> |

*See independent auditors' report.*

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

**THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND ITS SUBSIDIARY**  
**Consolidated Statements of Activities**  
**For the Years Ended May 31, 2013 and 2012**

|  | 2013          |                        |                        | 2012          |               |                        |                        |               |
|--|---------------|------------------------|------------------------|---------------|---------------|------------------------|------------------------|---------------|
|  | Unrestricted  | Temporarily Restricted | Permanently Restricted | Total         | Unrestricted  | Temporarily Restricted | Permanently Restricted | Total         |
| <b>REVENUES AND SUPPORT</b>                                    |               |                        |                        |               |               |                        |                        |               |
| Tuition  | \$ 3,597,705  | \$ -                   | \$ -                   | \$ 3,597,705  | \$ 3,288,526  | \$ -                   | \$ -                   | \$ 3,288,526  |
| Contributions  | 445,442       | 249,551                | -                      | 694,993       | 265,502       | 286,679                | -                      | 552,181       |
| Donated goods and services                                     | -             | -                      | -                      | -             | 11,429        | -                      | -                      | 11,429        |
| Fees and other income  | 586,586       | 15,541                 | -                      | 602,127       | 480,748       | 15,000                 | -                      | 495,748       |
| Special event:   |               |                        |                        |               |               |                        |                        |               |
| Event revenue  | 155,572       | -                      | -                      | 155,572       | 815           | -                      | -                      | 815           |
| Less: costs of direct benefit to donors                        | (103,041)     | -                      | -                      | (103,041)     | -             | -                      | -                      | -             |
| Investment income, net   | 734,266       | 587,288                | -                      | 1,321,554     | 821,468       | 522,499                | -                      | 1,343,967     |
| Unrealized and realized gains and (losses) on investments, net | 3,246,343     | 2,799,643              | -                      | 6,045,986     | (896,921)     | (1,482,622)            | -                      | (2,379,543)   |
| Other revenues net of expenses:                                |               |                        |                        |               |               |                        |                        |               |
| Art store  | 88,766        | -                      | -                      | 88,766        | 79,605        | -                      | -                      | 79,605        |
| Cafeteria  | 7,755         | -                      | -                      | 7,755         | (2,467)       | -                      | -                      | (2,467)       |
|  | 8,759,394     | 3,652,023              | -                      | 12,411,417    | 4,048,705     | (658,444)              | -                      | 3,390,261     |
| Net assets released from restrictions                          | 1,704,549     | (1,704,549)            | -                      | -             | 1,227,400     | (1,227,400)            | -                      | -             |
| Total revenues and support                                     | 10,483,943    | 1,947,474              | -                      | 12,431,417    | 5,276,105     | (1,885,844)            | -                      | 3,390,261     |
| <b>EXPENSES</b>  |               |                        |                        |               |               |                        |                        |               |
| Program services   | 6,303,270     | -                      | -                      | 6,303,270     | 6,388,445     | -                      | -                      | 6,388,445     |
| Supporting services:   |               |                        |                        |               |               |                        |                        |               |
| Management and general   | 1,062,853     | -                      | -                      | 1,062,853     | 1,076,831     | -                      | -                      | 1,076,831     |
| Fundraising  | 454,755       | -                      | -                      | 454,755       | 485,159       | -                      | -                      | 485,159       |
| Total expenses   | 7,820,878     | -                      | -                      | 7,820,878     | 7,950,435     | -                      | -                      | 7,950,435     |
| Change in net assets   | 2,643,065     | 1,947,474              | -                      | 4,590,539     | (2,674,330)   | (1,865,844)            | -                      | (4,560,174)   |
| Net assets, beginning of year                                  | 30,189,888    | 9,121,667              | 12,701,830             | 52,013,385    | 32,864,218    | 11,007,511             | 12,701,830             | 56,573,559    |
| Net assets, end of year  | \$ 32,832,953 | \$ 11,069,141          | \$ 12,701,830          | \$ 56,603,924 | \$ 30,189,888 | \$ 9,121,667           | \$ 12,701,830          | \$ 52,013,385 |

See independent auditors' report.  
The accompanying notes are an integral part of these financial statements.

**THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND ITS SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended May 31, 2013 and 2012**

|  | <u>2013</u>       | <u>2012</u>        |
|--|-------------------|--------------------|
| Cash flows from operating activities:  |                   |                    |
| Change in net assets   | \$ 4,590,539      | \$ (4,560,174)     |
| Adjustments to reconcile changes in net assets to cash provided by operating activities: |                   |                    |
| Depreciation expense   | 573,274           | 571,939            |
| Unrealized (gains) losses on investments   | (5,772,370)       | 2,788,526          |
| Realized (gains) on investments  | (297,244)         | (449,343)          |
| Changes in operating assets and liabilities:   |                   |                    |
| Decrease in grants and contributions receivable  | 107,135           | 67,832             |
| (Increase) in miscellaneous receivable   | (12,503)          | (779)              |
| Decrease in accrued interest receivable  | -                 | 10,701             |
| Decrease (increase) in prepaid expenses  | 10,451            | (22,806)           |
| (Increase) in inventories  | (24,503)          | (10,654)           |
| (Decrease) in accounts payable and accrued expenses                                      | (70,308)          | (54,111)           |
| (Decrease) increase in deferred revenues   | (430)             | 85,207             |
| Increase in other liabilities  | 17,743            | 17,818             |
|  | <u>(878,216)</u>  | <u>(1,555,844)</u> |
| Net cash (used in) operating activities  |                   |                    |
| Cash flows from investing activities:  |                   |                    |
| Decrease in investments, net   | 1,211,139         | 1,963,173          |
| Purchase of property and equipment   | (102,932)         | (734,438)          |
|  | <u>1,108,207</u>  | <u>1,228,735</u>   |
| Net cash provided by investing activities  |                   |                    |
|  | <u>229,991</u>    | <u>(327,109)</u>   |
| Net increase (decrease) in cash and cash equivalents                                     |                   |                    |
| Cash and cash equivalents, beginning of year   | <u>64,338</u>     | <u>391,447</u>     |
| Cash and cash equivalents, end of year   | <u>\$ 294,329</u> | <u>\$ 64,338</u>   |

*See independent auditors' report.*

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

**THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND ITS SUBSIDIARY**  
**Consolidated Statements of Functional Expenses**  
**For the Years Ended May 31, 2013 and 2012**

|   | 2013                |                        |                     |                | 2012                |                        |                     |                |
|---|---------------------|------------------------|---------------------|----------------|---------------------|------------------------|---------------------|----------------|
|   | Supporting Services |                        | Supporting Services |                | Supporting Services |                        | Supporting Services |                |
|   | Program Services    | Management and General | Fundraising         | Total Expenses | Program Services    | Management and General | Fundraising         | Total Expenses |
| Salaries                                  | \$ 1,556,593        | \$ 600,450             | \$ 266,582          | \$ 2,423,625   | \$ 1,652,043        | \$ 614,250             | \$ 248,829          | \$ 2,515,122   |
| Payroll taxes/fringe benefits             | 305,488             | 159,005                | 43,206              | 507,699        | 322,868             | 152,671                | 37,243              | 512,782        |
| Total salaries and fringe benefits        | 1,862,081           | 759,455                | 309,788             | 2,931,324      | 1,974,911           | 766,921                | 286,072             | 3,027,904      |
| Other expenses                            | 1,707,207           | -                      | -                   | 1,707,207      | 1,657,505           | -                      | -                   | 1,657,505      |
| Instructors                               | 607,393             | -                      | -                   | 607,393        | 616,379             | -                      | -                   | 616,379        |
| Models                                    | 201,280             | 116,516                | 41,661              | 359,457        | 156,199             | 71,741                 | 51,915              | 279,855        |
| Professional and consulting fees          | 214,895             | 4,570                  | -                   | 219,465        | 263,639             | 3,135                  | -                   | 266,774        |
| Repairs and maintenance                   | 244,168             | -                      | -                   | 244,168        | 252,911             | -                      | -                   | 252,911        |
| Utilities                                 | 175,736             | -                      | -                   | 175,736        | 221,816             | -                      | -                   | 221,816        |
| Model to monument insurance               | 109,608             | 21,234                 | -                   | 130,842        | 107,039             | 16,306                 | -                   | 123,345        |
| Credit cards                              | 94,639              | 55                     | 795                 | 95,489         | 85,637              | -                      | 888                 | 86,525         |
| Merit scholarships and cash grants        | 90,897              | -                      | -                   | 90,897         | 85,974              | -                      | -                   | 85,974         |
| Permanent collection                      | 86,635              | -                      | -                   | 86,635         | 85,454              | -                      | -                   | 85,454         |
| Office, computer supplies and programming | 26,669              | 38,680                 | 19,897              | 85,246         | 26,653              | 33,498                 | 16,246              | 76,397         |
| Catalogue                                 | 77,387              | -                      | -                   | 77,387         | 69,331              | -                      | -                   | 69,331         |
| Printing                                  | 6,082               | 2,578                  | 26,188              | 34,848         | 3,883               | 4,159                  | 57,295              | 65,337         |
| Classroom materials                       | 70,509              | -                      | -                   | 70,509         | 56,369              | -                      | -                   | 56,369         |
| Gallery and exhibitions                   | 83,863              | -                      | -                   | 83,863         | 47,598              | -                      | -                   | 47,598         |
| Advertising                               | 7,144               | 1,125                  | 21,858              | 30,127         | 9,355               | -                      | 31,370              | 40,725         |
| Telephone and internet                    | 6,706               | 18,719                 | -                   | 25,425         | 7,282               | 27,768                 | -                   | 35,050         |
| Transportation                            | 16,936              | 3,590                  | 80                  | 20,606         | 19,650              | 6,261                  | 100                 | 26,011         |
| Postage                                   | 1,258               | 3,464                  | 7,948               | 12,670         | 1,973               | 2,205                  | 14,585              | 18,763         |
| Member services                           | 9,985               | -                      | -                   | 9,985          | 13,791              | -                      | -                   | 13,791         |
| Archives                                  | 10,211              | -                      | -                   | 10,211         | 10,387              | -                      | -                   | 10,387         |
| Miscellaneous                             | 77,896              | 71,383                 | 4,430               | 153,709        | 109,544             | 111,810                | 8,855               | 230,209        |
| Total other expenses                      | 3,927,114           | 281,814                | 122,857             | 4,331,785      | 3,907,169           | 276,883                | 181,254             | 4,365,306      |
| Total expenses before depreciation        | 5,789,195           | 1,041,269              | 432,645             | 7,263,109      | 5,882,080           | 1,043,804              | 467,326             | 7,393,210      |
| Depreciation                              | 514,075             | 21,584                 | 22,110              | 557,769        | 506,365             | 33,027                 | 17,833              | 557,225        |
| Total expenses                            | \$ 6,303,270        | \$ 1,062,853           | \$ 454,755          | \$ 7,820,878   | \$ 6,388,445        | \$ 1,076,831           | \$ 485,159          | \$ 7,950,435   |

See independent auditors' report.  
The accompanying notes are an integral part of these financial statements.



**THE ART STUDENTS LEAGUE OF NEW YORK, INC.  
AND ITS SUBSIDIARY**  
**Notes to Financial Statements**  
**May 31, 2013 and 2012**

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**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 509(a)(1) of the Internal Revenue code and a similar provision of the New York State income tax laws.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in Accounting Standards Codification ("ASC") 958, Financial Statements of Not-for-Profit Organizations. Under ASC 958, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by 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 donor-imposed stipulations that will be met either by actions of the League and/or the passage of time.

Contributions with donor-imposed restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when purpose or time restrictions are met, and recorded in the accompanying financial statements as net assets released from restrictions.

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Permanently Restricted

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

**Principles of Consolidation**

The consolidated financial statements include the accounts of 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. ("AFAS") is consolidated with the League since the League owns all of the outstanding shares of AFAS.

**Cash and Cash Equivalents**

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

**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.

**Endowments**

The League adopted Accounting Standards Codification ("ASC") 958-205 (formerly FASB Staff Position FAS 117-1), *Endowments of Not-For-Profit Organizations: Net Asset Clarification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowment Funds*.

ASC 958-205 provides guidance on the net asset clarification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA); and improves disclosures about an organization's endowment funds (both donor restricted funds and funds functioning as an endowment), regardless of whether it is subject to UPMIFA. UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation.

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The League's endowment consists of approximately forty individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the League to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2010, New York State passed the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), its version of UPMIFA. The new law eliminates the historical dollar threshold and establishes prudent spending guidelines that consider both the duration and preservation of the fund. As a result of this enactment, subject to the donor's intent as expressed in the gift agreement or similar document, a New York charitable organization may now spend the amount of the principal and the income of an endowment fund, even from an underwater fund, after considering the factors listed in the act.

Investment policy

The League shall be responsible for maintaining a policy of prudent investment in stocks, bonds, real estate, mutual funds, non-marketable securities such as private placements and limited partnerships, and other similar financial and trust instruments or interests. The League shall make the decisions leading to the timely purchase or sale of securities, interests, or instruments and shall make analyses of the market conditions as will, in the League's judgment, provide for both short-term and long-term investment strategies. Investments may be made on behalf of the League by independent investment managers selected by the League and regularly reviewed for performance.

Spending policy

The League can spend all investment earnings on invested funds for the restricted purposes associated with the endowment.

**Fair Value of Financial Instruments**

The League adopted guidance under ASC 820 (formerly FAS 157, *Fair Value Measurements*) that established a framework for measuring fair value and expanding its disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

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Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable for the assets or liability and includes situations where there is little (if any) market activity for the assets or liability. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

**Inventories**

The League operates a store, which sells art supplies and books, and a cafeteria for the benefit 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.

**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  |

**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.

**Grants and Contributions**

The League records contributions and grants, both cash and in-kind, when an unconditional promise to give such assets is received from a donor. Contributions and grants are recorded at the fair market value of the assets received and are classified as either unrestricted, temporarily restricted, or permanently restricted, depending on whether the donor has imposed a restriction on the use of such assets.

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Contributions and grants receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using a risk-free interest rate determined in the year in which the contribution originates. Amortization of the discount is included in contribution revenue.

**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.

**Functional Expense Allocations**

The costs of providing the various programs and other activities of the League have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting service benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable bases.

**Income Taxes**

The League has adopted ASC 740, *Income Taxes*. ASC 740 requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The adoption of this guidance did not have an impact on the League's financial statements, as management believes that there are no uncertain tax positions within its financial statements. The League has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions.

The League's Forms 990, *Return of Organization Exempt for Income Tax*, for the years ended May 31, 2010, 2011, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.  
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**Concentrations of Credit Risk**

Financial instruments that potentially subject the League to concentrations of credit risk consist primarily of cash and cash equivalents. The League maintains cash and cash equivalent balances in various bank accounts that, at times, may exceed federally insured limits. The League's cash accounts were placed with high credit quality financial institutions. The League has not experienced, nor does it anticipate, any losses in such accounts. The League was in excess of federally insured limits by \$36,479 as of May 31, 2013, but was not in excess of federally insured limits as of May 31, 2012.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in 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 statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

For comparative purposes, certain amounts previously reported have been reclassified to conform to current year presentations.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents in the operating accounts and held at financial institutions at May 31, 2013 and 2012 were as follows:

|                        | <u>2013</u>       | <u>2012</u>      |
|------------------------|-------------------|------------------|
| Operating accounts     | \$ 293,215        | \$ 64,338        |
| Financial institutions | <u>1,114</u>      | <u>-</u>         |
|                        | <u>\$ 294,329</u> | <u>\$ 64,338</u> |

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.  
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**4. GRANTS AND CONTRIBUTIONS RECEIVABLE, NET**

Grants and contributions receivable at May 31, 2013 and 2012 consisted of current and multiyear promises to give which are collectible as follows:

|   | <u>2013</u>       | <u>2012</u>       |
|---|-------------------|-------------------|
| One year or less  | \$ 106,250        | \$ 127,001        |
| One to four years, net of present value discount of \$14,059 and \$27,675 (5% risk-free rate of return) | <u>185,941</u>    | <u>272,325</u>    |
|   | <u>\$ 292,191</u> | <u>\$ 399,326</u> |

**5. INVESTMENTS**

Investments at fair value held by the League at May 31, 2013 and 2012 consisted of the following:

|                      | <u>2013</u>          |                      | <u>2012</u>          |                      |
|----------------------|----------------------|----------------------|----------------------|----------------------|
|                      | Cost                 | Market               | Cost                 | Market               |
| Managed mutual funds | \$ 12,209,313        | \$ 13,810,419        | \$ 12,830,213        | \$ 13,263,846        |
| Index funds          | <u>27,869,796</u>    | <u>33,940,598</u>    | <u>28,162,792</u>    | <u>29,628,697</u>    |
| Total investments    | <u>\$ 40,079,109</u> | <u>\$ 47,751,017</u> | <u>\$ 40,993,005</u> | <u>\$ 42,892,543</u> |

The following table summarizes investments by fair value hierarchy levels as of May 31, 2013:

|                      | <u>Level 1</u>       | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>         |
|----------------------|----------------------|----------------|----------------|----------------------|
| Managed mutual funds | \$ 13,810,419        | \$ -           | \$ -           | \$ 13,810,419        |
| Index funds          | <u>33,940,598</u>    | <u>-</u>       | <u>-</u>       | <u>33,940,598</u>    |
| Total investments    | <u>\$ 47,751,017</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 47,751,017</u> |

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.  
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The following table summarizes investments by fair value hierarchy levels as of May 31, 2012:

|                      | Level 1              | Level 2     | Level 3     | Total                |
|----------------------|----------------------|-------------|-------------|----------------------|
| Managed mutual funds | \$ 13,263,846        | \$ -        | \$ -        | \$ 13,263,846        |
| Index funds          | <u>29,628,697</u>    | <u>-</u>    | <u>-</u>    | <u>29,628,697</u>    |
| Total investments    | <u>\$ 42,892,543</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 42,892,543</u> |

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

|                           | 2013                | 2012                  |
|---------------------------|---------------------|-----------------------|
| Unrealized gains (losses) | \$ 5,772,370        | \$ (2,788,526)        |
| Realized gains            | <u>297,244</u>      | <u>449,343</u>        |
|                           | 6,069,614           | (2,339,183)           |
| Less: investment expenses | <u>(23,628)</u>     | <u>(40,359)</u>       |
|                           | <u>\$ 6,045,986</u> | <u>\$ (2,379,542)</u> |

Investment income is reported in the statement of activities net of investment expenses of and \$23,628 and \$40,363 for the years ended May 31, 2013 and 2012, respectively.

**6. PROPERTY AND EQUIPMENT, NET**

A summary of property and equipment at May 31, 2013 and 2012 is as follows:

|                                | 2013                | 2012                |
|--------------------------------|---------------------|---------------------|
| Building and improvements      | \$ 10,385,464       | \$ 10,381,277       |
| Land and improvements          | 1,811,972           | 1,811,972           |
| Equipment and furniture        | <u>1,496,586</u>    | <u>1,397,841</u>    |
|                                | 13,694,022          | 13,591,090          |
| Less: accumulated depreciation | <u>(5,176,912)</u>  | <u>(4,603,638)</u>  |
|                                | <u>\$ 8,517,110</u> | <u>\$ 8,987,452</u> |

Total depreciation expense for the years ended May 31, 2013 and 2012 amounted to \$573,274 and \$571,939, respectively. Depreciation related to the art store and cafeteria is netted against their respective revenues on the statement of activities.



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**7. COMMITMENTS**

The League entered into a non-cancelable operating lease for office equipment, requiring monthly payments of \$340 through December 2014.

Future minimum lease payments pursuant to the equipment lease as of May 31, 2013, amounted to:

|                     |      |                 |
|---------------------|------|-----------------|
| Year ending May 31, | 2014 | \$ 4,080        |
|                     | 2015 | <u>2,380</u>    |
| Total payments      |      | <u>\$ 6,460</u> |

**8. PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS**

Permanently and temporarily restricted net assets at May 31, 2013 and 2012 are available to satisfy the following purposes:

|                                    | <u>2013</u>          | <u>2012</u>          |
|------------------------------------|----------------------|----------------------|
| Permanently restricted net assets: |                      |                      |
| Scholarships                       | \$ 8,322,509         | \$ 8,322,509         |
| Other support                      | <u>4,379,322</u>     | <u>4,379,322</u>     |
|                                    | <u>\$ 12,701,831</u> | <u>\$ 12,701,831</u> |
| Temporarily restricted net assets: |                      |                      |
| Scholarships                       | \$ 5,461,915         | \$ 3,958,799         |
| Other support                      | <u>5,607,226</u>     | <u>5,162,868</u>     |
|                                    | <u>\$ 11,069,141</u> | <u>\$ 9,121,667</u>  |

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**9. CHANGES IN ENDOWMENT NET ASSETS**

Changes on the permanently restricted net assets for the years ended May 31, 2013 and 2012 were as follows:

|   | <u>2013</u>          | <u>2012</u>          |
|---|----------------------|----------------------|
| Endowment net assets, beginning of year     | \$ 12,701,830        | \$ 12,701,830        |
| Increase by:                                |                      |                      |
| Contributions                               | -                    | -                    |
| Investment returns:                         |                      |                      |
| Interest and dividends, net                 | 351,839              | 360,855              |
| Realized gains, net                         | 66,953               | 109,812              |
| Unrealized gains                            | 1,564,758            | -                    |
| Transfers from temporarily restricted funds | -                    | <u>278,052</u>       |
|   | <u>1,983,550</u>     | <u>748,719</u>       |
|   | <u>14,685,380</u>    | <u>13,450,549</u>    |
| Decrease by:                                |                      |                      |
| Realized losses                             | -                    | -                    |
| Unrealized losses                           | -                    | 748,719              |
| Transfers to temporarily restricted funds   | <u>1,983,550</u>     | -                    |
|   | <u>1,983,550</u>     | <u>748,719</u>       |
| Endowment net assets, end of year           | <u>\$ 12,701,830</u> | <u>\$ 12,701,830</u> |

**10. DONATED SERVICES AND PROPERTY**

Listed below is a description of donated services and property the League received in the years ended May 31, 2013 and 2012:

|                | <u>2013</u> | <u>2012</u>      |
|----------------|-------------|------------------|
| Legal services | <u>\$ -</u> | <u>\$ 11,429</u> |

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**11. SUBSEQUENT EVENTS**

The League evaluated its May 31, 2013 financial statements for subsequent events through October 1, 2013, the date the financial statements were available to be issued. The League is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND ITS SUBSIDIARY**  
**Supplementary Schedules of Art Store and Cafeteria Operations**  
**For the Years Ended May 31, 2013 and 2012**

|                                    | <u>2013</u>      | <u>2012</u>       |
|------------------------------------|------------------|-------------------|
| Art store                          |                  |                   |
| Revenues                           | \$ 853,478       | \$ 860,237        |
| Cost of operations:                |                  |                   |
| Inventory, beginning of year       | 224,518          | 214,194           |
| Purchases                          | <u>540,012</u>   | <u>525,632</u>    |
|                                    | 764,530          | 739,826           |
| Inventory, end of year             | <u>248,850</u>   | <u>224,518</u>    |
| Cost of goods sold                 | <u>515,680</u>   | <u>515,308</u>    |
| Excess                             | 337,798          | 344,929           |
| Other expenses:                    |                  |                   |
| Salaries                           | 160,016          | 168,983           |
| Payroll taxes/fringe benefits      | 48,604           | 48,563            |
| Credit card charges                | 22,785           | 29,458            |
| Miscellaneous                      |                  |                   |
| Office and computers               | 5,340            | 5,011             |
| Subscriptions                      | -                | 1,100             |
| Postage                            | -                | 165               |
| Miscellaneous                      | <u>430</u>       | <u>978</u>        |
|                                    | 5,770            | 7,254             |
| Depreciation                       | <u>11,857</u>    | <u>11,066</u>     |
| Total other expenses               | <u>249,032</u>   | <u>265,324</u>    |
| Excess of revenues over expenses   | <u>\$ 88,766</u> | <u>\$ 79,605</u>  |
| Cafeteria:                         |                  |                   |
| Revenues                           | \$ 190,444       | \$ 249,688        |
| Cost of operations:                |                  |                   |
| Inventory, beginning of year       | 4,512            | 4,154             |
| Purchases                          | <u>82,856</u>    | <u>107,600</u>    |
|                                    | 87,368           | 111,754           |
| Inventory, end of year             | <u>4,655</u>     | <u>4,512</u>      |
| Cost of goods sold                 | <u>82,713</u>    | <u>107,242</u>    |
| Excess                             | 107,731          | 142,446           |
| Other expenses:                    |                  |                   |
| Salaries                           | 75,948           | 109,909           |
| Payroll taxes/fringe benefits      | 13,210           | 22,589            |
| Miscellaneous                      | 7,170            | 8,767             |
| Depreciation                       | <u>3,648</u>     | <u>3,648</u>      |
| Total other expenses               | <u>99,976</u>    | <u>144,913</u>    |
| Excess of (expenses) over revenues | <u>\$ 7,755</u>  | <u>\$ (2,467)</u> |

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