

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

Financial Report

May 31, 2014

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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, 2014 and 2013, 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, 2014 and 2013, 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 57th Street School and Vytlačil operations and the art store and cafeteria operations on pages 18 and 19, respectively, 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.

Manger & Company

September 30, 2014

THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND ITS SUBSIDIARY
Consolidated Statements of Financial Position
As of May 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 861,923	\$ 294,329
Investments	49,784,121	47,751,018
Grants and contributions receivable	106,250	106,250
Miscellaneous receivables	15,932	52,761
Prepaid expenses:		
Catalogue	61,385	18,490
Insurance	49,050	45,186
Air rights transaction	1,060,577	-
Other	68,942	25,438
Inventories:		
Art store	254,899	248,850
Cafeteria	4,976	4,655
Print portfolio	14,462	14,462
Total current assets	<u>52,282,517</u>	<u>48,561,439</u>
Grants and contributions receivable, net	95,238	185,941
Property and equipment, net	8,156,594	8,517,110
Works of art	216,158	216,158
Security deposit	<u>4,000</u>	<u>4,000</u>
Total assets	<u>\$ 60,754,507</u>	<u>\$ 57,484,648</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 199,851	\$ 289,290
Deferred revenue	431,868	395,496
Locker deposits	48,491	45,135
Tuition credits	<u>165,877</u>	<u>150,803</u>
Total liabilities	<u>846,087</u>	<u>880,724</u>
NET ASSETS		
Unrestricted	34,686,885	32,832,953
Temporarily restricted	12,519,705	11,069,141
Permanently restricted	<u>12,701,830</u>	<u>12,701,830</u>
Total net assets	<u>59,908,420</u>	<u>56,603,924</u>
Total liabilities and net assets	<u>\$ 60,754,507</u>	<u>\$ 57,484,648</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, 2014 and 2013

	2014		2013		Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	Unrestricted	Temporarily Restricted	Temporarily Restricted	Permanently Restricted					
REVENUES AND SUPPORT									
Tuition	\$ 3,633,768	\$ -	\$ -	\$ 3,597,705	\$ 3,633,768	\$ 3,597,705	\$ -	\$ -	\$ 3,597,705
Contributions	443,034	338,694	-	445,442	781,728	445,442	-	249,551	694,993
Fees and other income	542,415	15,116	-	586,586	557,531	586,586	-	15,541	602,127
Special event:									
Event revenue	-	-	-	155,572	-	155,572	-	-	155,572
Less: costs of direct benefit to donors	-	-	-	(103,041)	-	(103,041)	-	-	(103,041)
Investment income, net	731,818	569,223	-	734,266	1,301,041	734,266	-	587,288	1,321,554
Unrealized and realized gains and (losses) on investments, net	2,716,558	2,016,282	-	3,246,343	4,732,840	3,246,343	-	2,799,643	6,045,986
Other revenues net of expenses:									
Art store	81,773	-	-	88,766	81,773	88,766	-	-	88,766
Cafeteria	8,084	-	-	7,755	8,084	7,755	-	-	7,755
	8,157,450	2,939,315	-	8,759,394	11,096,765	8,759,394	-	3,652,023	12,411,417
Net assets released from restrictions	1,488,751	(1,488,751)	-	1,704,549	-	1,704,549	-	(1,704,549)	-
Total revenues and support	9,646,201	1,450,564	-	10,463,943	11,096,765	10,463,943	-	1,947,474	12,411,417
EXPENSES									
Program services	6,390,246	-	-	6,303,270	6,390,246	6,303,270	-	-	6,303,270
Supporting services:									
Management and general	964,672	-	-	1,062,853	964,672	1,062,853	-	-	1,062,853
Fundraising	437,351	-	-	454,755	437,351	454,755	-	-	454,755
Total expenses	7,792,269	-	-	7,820,878	7,792,269	7,820,878	-	-	7,820,878
Change in net assets	1,853,932	1,450,564	-	2,643,065	3,304,496	2,643,065	-	1,947,474	4,590,539
Net assets, beginning of year	32,832,953	11,069,141	12,701,830	30,189,888	56,603,924	30,189,888	12,701,830	9,121,667	52,013,385
Net assets, end of year	\$ 34,686,885	\$ 12,519,705	\$ 12,701,830	\$ 32,832,953	\$ 59,908,420	\$ 32,832,953	\$ 12,701,830	\$ 11,069,141	\$ 56,603,924

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,304,496	\$ 4,590,539
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation expense	514,631	573,274
Unrealized (gains) on investments	(2,864,215)	(5,772,370)
Realized (gains) on investments	(1,893,683)	(297,244)
Changes in operating assets and liabilities:		
Decrease in grants and contributions receivable	90,703	107,135
Decrease (increase) in miscellaneous receivable	36,829	(12,503)
(Increase) decrease in prepaid expenses	(1,150,840)	10,451
(Increase) in inventories	(6,370)	(24,503)
(Decrease) in accounts payable and accrued expenses	(89,439)	(70,308)
Increase (decrease) in deferred revenues	36,372	(430)
Increase in other liabilities	18,430	17,743
Net cash (used in) operating activities	<u>(2,003,086)</u>	<u>(878,216)</u>
Cash flows from investing activities:		
Decrease in investments, net	2,724,795	1,211,139
Purchase of property and equipment	<u>(154,115)</u>	<u>(102,932)</u>
Net cash provided by investing activities	<u>2,570,680</u>	<u>1,108,207</u>
Net increase in cash and cash equivalents	567,594	229,991
Cash and cash equivalents, beginning of year	<u>294,329</u>	<u>64,338</u>
Cash and cash equivalents, end of year	<u>\$ 861,923</u>	<u>\$ 294,329</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, 2014 and 2013

	2014			2013		
	Program Services	Supporting Services		Program Services	Supporting Services	
		Management and General	Fundraising		Management and General	Fundraising
Salaries	\$ 1,561,881	\$ 530,480	\$ 277,532	\$ 1,556,593	\$ 600,450	\$ 2,157,043
Payroll taxes/fringe benefits	325,588	162,473	45,559	305,488	159,005	464,493
Total salaries and fringe benefits	1,887,469	692,953	323,091	1,862,081	759,455	2,621,536
Other expenses	1,731,428	-	-	1,707,207	-	1,707,207
Instructors	614,640	-	-	607,393	-	607,393
Models	245,741	-	-	244,168	-	244,168
Utilities	235,147	3,593	-	214,895	4,570	219,465
Repairs and maintenance	238,187	-	-	175,736	-	175,736
Model to monument	91,927	74,687	19,173	101,462	110,970	212,432
Professional and consulting fees	117,775	19,107	31,240	121,944	18,080	140,024
Information technology	115,679	23,801	-	109,608	21,234	130,842
Insurance	95,749	-	-	70,509	-	70,509
Classroom materials	91,783	-	277	94,639	55	95,489
Credit card fees	80,261	-	-	86,635	-	86,635
Permanent collection	64,999	-	-	90,897	-	90,897
Ment scholarships and cash grants	63,602	-	-	83,863	-	83,863
Gallery and exhibitions	57,882	-	-	77,387	-	77,387
Catalogue	4,285	3,548	25,543	6,092	2,578	8,670
Printing	8,931	20,226	1,357	4,543	26,046	30,589
Office expenses	7,046	19,027	-	6,706	18,719	25,425
Telephone and internet	22,105	1,877	417	16,936	3,590	20,526
Transportation	586	10,510	8,065	1,258	3,464	4,722
Postage	15,910	-	-	9,985	-	9,985
Member services	1,949	-	13,748	7,144	1,125	8,269
Advertising	11,658	-	-	10,211	-	10,211
Archives	85,777	95,343	4,906	77,896	71,383	149,279
Miscellaneous	4,003,059	271,719	104,726	3,927,114	281,814	4,208,928
Total other expenses	5,890,528	964,672	427,817	5,789,195	1,041,269	6,830,464
Total expenses before depreciation	499,718	9,534	-	514,075	21,584	535,659
Depreciation	6,390,246	964,672	437,351	6,303,270	1,062,853	7,366,123
Total expenses	\$ 6,890,246	\$ 964,672	\$ 437,351	\$ 6,303,270	\$ 1,062,853	\$ 7,366,123

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, 2014 and 2013

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.

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.

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

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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

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 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.

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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.
- 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.

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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Notes to Financial Statements
May 31, 2014 and 2013

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.

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 ART STUDENTS LEAGUE OF NEW YORK, INC.
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The League's Forms 990, *Return of Organization Exempt for Income Tax*, for the years ended May 31, 2011, 2012, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

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 \$579,566 and \$36,479 as of May 31, 2014 and 2013, respectively.

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, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Operating accounts	\$ 860,853	\$ 293,215
Financial institutions	1,070	1,114
	<u>\$ 861,923</u>	<u>\$ 294,329</u>

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

Grants and contributions receivable at May 31, 2014 and 2013 consisted of current and multiyear promises to give which are collectible as follows:

	<u>2014</u>	<u>2013</u>
One year or less	\$ 106,250	\$ 106,250
One to four years, net of present value discount of \$4,762 and \$14,059 (5% risk-free rate of return)	<u>95,238</u>	<u>185,941</u>
	<u>\$ 201,488</u>	<u>\$ 292,191</u>

5. INVESTMENTS

Investments at fair value held by the League at May 31, 2014 and 2013 consisted of the following:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Managed mutual funds	\$ 12,896,570	\$ 14,931,055	\$ 12,209,313	\$ 13,810,420
Index funds	<u>26,351,427</u>	<u>34,853,066</u>	<u>27,869,796</u>	<u>33,940,598</u>
Total investments	<u>\$ 39,247,997</u>	<u>\$ 49,784,121</u>	<u>\$ 40,079,109</u>	<u>\$ 47,751,018</u>

The following table summarizes investments by fair value hierarchy levels as of May 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Managed mutual funds	\$ 14,931,055	\$ -	\$ -	\$ 14,931,055
Index funds	<u>34,853,066</u>	<u>-</u>	<u>-</u>	<u>34,853,066</u>
Total investments	<u>\$ 49,784,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,784,121</u>

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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Notes to Financial Statements
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The following table summarizes investments by fair value hierarchy levels as of May 31, 2013:

	Level 1	Level 2	Level 3	Total
Managed mutual funds	\$ 13,810,420	\$ -	\$ -	\$ 13,810,420
Index funds	33,940,598	-	-	33,940,598
Total investments	<u>\$ 47,751,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,751,018</u>

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

	2014	2013
Unrealized gains (losses)	\$ 2,864,215	\$ 5,772,370
Realized gains	1,893,683	297,244
	4,757,898	6,069,614
Less: investment expenses	(25,058)	(23,628)
	<u>\$ 4,732,840</u>	<u>\$ 6,045,986</u>

Investment income is reported in the statement of activities net of investment expenses of \$25,058 and \$23,628 for the years ended May 31, 2014 and 2013, respectively.

6. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at May 31, 2014 and 2013 is as follows:

	2014	2013
Building and improvements	\$ 10,481,429	\$ 10,385,464
Land and improvements	1,811,972	1,811,972
Equipment and furniture	1,554,736	1,496,586
	13,848,137	13,694,022
Less: accumulated depreciation	(5,691,543)	(5,176,912)
	<u>\$ 8,156,594</u>	<u>\$ 8,517,110</u>

Total depreciation expense for the years ended May 31, 2014 and 2013 amounted to \$514,631 and \$573,274, 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, 2014, amounted to:

Year ending May 31, 2015	<u>\$ 2,380</u>
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8. PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

Permanently and temporarily restricted net assets at May 31, 2014 and 2013 are available to satisfy the following purposes:

	<u>2014</u>	<u>2013</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	\$ 6,487,415	\$ 5,461,915
Other support	<u>6,032,290</u>	<u>5,607,226</u>
	<u>\$ 12,519,705</u>	<u>\$ 11,069,141</u>

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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9. CHANGES IN ENDOWMENT NET ASSETS

Changes on the permanently restricted net assets for the years ended May 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Endowment net assets, beginning of year	\$ 12,701,830	\$ 12,701,830
Increase by:		
Contributions	-	-
Investment returns:		
Interest and dividends, net	338,515	351,839
Realized gains, net	486,194	66,953
Unrealized gains	745,235	1,564,758
Transfers from temporarily restricted funds	-	-
	<u>1,569,944</u>	<u>1,983,550</u>
	<u>14,271,774</u>	<u>14,685,380</u>
Decrease by:		
Realized losses	-	-
Unrealized losses	-	-
Transfers to temporarily restricted funds	<u>1,569,944</u>	<u>1,983,550</u>
	<u>1,569,944</u>	<u>1,983,550</u>
Endowment net assets, end of year	<u>\$ 12,701,830</u>	<u>\$ 12,701,830</u>

10. SUBSEQUENT EVENTS

The League evaluated its May 31, 2014 financial statements for subsequent events through September 30, 2014, 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, except for the following transaction:

American Fine Arts Society, Inc., subsidiary of the Art Students League of New York, Inc, entered into an agreement on December 26, 2013 to transfer cantilever and development rights to a developer for \$31,800,000. The subsidiary retained 12,200 square feet of development rights for possible use in or on the AFAS building in the future and 4,000 square feet of landmark development rights.

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The League incurred expenses totaling \$1,273,039 in connection with the sale, and the net proceeds were transferred into the League's bank account in July 2014. The League plans to put the net proceeds from the sale of rights into a Board-designated fund to be used for capital improvements to its 57th street location.

THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND ITS SUBSIDIARY
Supplementary Schedules of 57th Street School and Vytlacil Operations
For the Years Ended May 31, 2014 and 2013

	57th Street		Vytlacil	
	2014	2013	2014	2013
Revenues:				
Tuition	\$ 3,571,128	\$ 3,515,474	\$ 62,640	\$ 82,243
Scholarship funding released from restriction	714,961	638,072	137,352	109,978
Fees and other income	539,037	587,494	18,494	14,633
Total revenues	4,825,126	4,741,040	218,486	206,854
Expenses:				
Salaries	2,154,794	2,199,854	215,099	223,771
Payroll taxes/fringe benefits	485,509	465,485	48,111	42,214
Total salaries and related expenses	2,640,303	2,665,339	263,210	265,985
Other expenses:				
Instructors	1,709,268	1,685,026	22,160	22,181
Models	612,860	606,393	1,780	1,000
Model to monument	238,187	175,736	-	-
Repairs and maintenance	214,131	193,802	24,609	25,663
Utilities	207,907	211,244	37,834	32,924
Professional and consulting fees	185,787	236,548	-	12,000
Information technology	168,068	162,131	54	746
Insurance	130,281	120,126	9,199	10,716
Credit card fees	91,310	94,613	750	876
Classroom materials	88,070	60,500	7,679	10,009
Permanent collection	80,261	86,635	-	-
Merit scholarships and cash grants	64,999	90,897	-	-
Gallery and exhibitions	63,602	83,863	-	-
Catalogue	57,882	77,387	-	-
Printing	30,765	34,155	2,621	703
Office expenses	29,023	31,971	1,491	1,207
Telephone and internet	19,162	18,719	6,911	6,706
Postage	19,041	12,507	122	163
Member services	15,910	9,985	-	-
Advertising	13,917	24,121	1,780	6,006
Archives	11,658	10,211	-	-
Transportation	8,081	9,151	16,318	11,455
Miscellaneous	169,495	134,109	16,530	19,600
Total other expenses	4,229,665	4,169,830	149,838	161,955
Total expenses before depreciation	6,869,968	6,835,169	413,048	427,940
Depreciation	452,971	500,949	56,282	56,820
Total expenses	7,322,939	7,336,118	469,330	484,760
Excess of (expenses) over revenues	\$ (2,497,813)	\$ (2,595,078)	\$ (250,844)	\$ (277,906)

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

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, 2014 and 2013

	2014	2013
Art store		
Revenues	\$ 868,373	\$ 853,478
Cost of operations:		
Inventory, beginning of year	248,850	224,518
Purchases	551,159	540,012
	<u>800,009</u>	<u>764,530</u>
Inventory, end of year	254,899	248,850
Cost of goods sold	<u>545,110</u>	<u>515,680</u>
Excess	323,263	337,798
Other expenses:		
Salaries	169,440	160,016
Payroll taxes/fringe benefits	45,127	48,604
Credit card charges	19,992	22,785
Miscellaneous	5,201	5,770
Depreciation	1,730	11,857
Total other expenses	<u>241,490</u>	<u>249,032</u>
Excess of revenues over expenses	<u>\$ 81,773</u>	<u>\$ 88,766</u>
Cafeteria:		
Revenues	\$ 190,798	\$ 190,444
Cost of operations:		
Inventory, beginning of year	4,655	4,512
Purchases	82,687	82,856
	<u>87,342</u>	<u>87,368</u>
Inventory, end of year	4,976	4,655
Cost of goods sold	<u>82,366</u>	<u>82,713</u>
Excess	108,432	107,731
Other expenses:		
Salaries	75,978	75,948
Payroll taxes/fringe benefits	12,394	13,210
Credit card charges	2,544	2,179
Miscellaneous	5,784	4,991
Depreciation	3,648	3,648
Total other expenses	<u>100,348</u>	<u>99,976</u>
Excess of (expenses) over revenues	<u>\$ 8,084</u>	<u>\$ 7,755</u>

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