

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

Financial Report

May 31, 2016

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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, 2016 and 2015, and related consolidated statements of activities, functional expenses, and cash flows 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, 2016 and 2015, and the changes in its net assets, functional expenses, and cash flows 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 Vytlacil operations and the art store and cafeteria operations on pages 17 and 18, 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.

Correction of Error

As discussed in Note 10 to the financial statements, consistent with industry practices, and discovered by management of the organization during the current year, a certain error resulting in overstatement in the amount of \$216, 158 was previously reported for Works of Art and Unrestricted Net Assets as of May 31, 2015. Accordingly, amounts reported for Works of Art and Unrestricted Net Assets have been restated in 2015 financial statements now presented, and an adjustment has been made to Unrestricted Net Assets as of June 1, 2014, to correct the error. Our opinion is not modified with respect to that matter.

October 13, 2016

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
AND ITS SUBSIDIARY**
Consolidated Statements of Financial Position
As of May 31, 2016 and 2015

| | 2016 | (Restated) 2015 |
|---------------------------------------|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 778,154 | \$ 160,428 |
| Investments | 79,954,400 | 82,390,359 |
| Grants and contributions receivable | 32,500 | 100,000 |
| Miscellaneous receivables | 15,863 | 21,089 |
| Prepaid expenses: | | |
| Catalogue | 58,295 | 19,370 |
| Insurance | 48,968 | 52,379 |
| Other | 51,684 | 29,121 |
| Inventories: | | |
| Art store | 312,416 | 300,703 |
| Cafeteria | 4,178 | 4,903 |
| Print portfolio | 14,462 | 14,462 |
| Total current assets | <u>81,270,920</u> | <u>83,092,814</u> |
| Property and equipment, net | 7,768,885 | 7,972,044 |
| Security deposit | 4,000 | 4,000 |
| Total assets | <u>\$ 89,043,804</u> | <u>\$ 91,068,858</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 481,582 | \$ 345,072 |
| Deferred revenue | 425,345 | 387,954 |
| Locker deposits | 51,935 | 48,851 |
| Tuition credits | 194,504 | 173,460 |
| Total liabilities | <u>1,153,365</u> | <u>955,337</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Board-designated | 31,829,835 | 30,663,107 |
| Undesignated | <u>30,762,111</u> | <u>33,597,305</u> |
| Total unrestricted | 62,591,946 | 64,260,412 |
| Temporarily restricted | 12,596,663 | 13,151,279 |
| Permanently restricted | <u>12,701,830</u> | <u>12,701,830</u> |
| Total net assets | <u>87,890,439</u> | <u>90,113,521</u> |
| Total liabilities and net assets | <u>\$ 89,043,804</u> | <u>\$ 91,068,858</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, 2016 and 2015**

| | 2016 | | | 2015 | | | |
|--|----------------------|------------------------|------------------------|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUES AND SUPPORT | | | | | | | |
| Tuition | \$ 3,512,644 | \$ - | \$ - | \$ 3,588,636 | \$ - | \$ - | \$ 3,588,636 |
| Contributions | 309,424 | 197,364 | - | 263,904 | 447,985 | - | 711,889 |
| Sale of air rights: | | | | | | | |
| Revenue | - | - | - | 31,800,000 | - | - | 31,800,000 |
| Less: related costs of sale | - | - | - | (1,323,334) | - | - | (1,323,334) |
| Fees and other income | 622,736 | - | - | 547,032 | 15,000 | - | 562,032 |
| Special event: | | | | | | | |
| Event revenue | 37,410 | - | - | 159,466 | - | - | 159,466 |
| Less: costs of direct benefit to donors | (9,553) | - | - | (63,238) | - | - | (63,238) |
| Investment income, net | 1,389,356 | 533,184 | - | 1,185,643 | 533,756 | - | 1,719,399 |
| Unrealized and realized gains and (losses) on investments, net | 618,384 | 117,368 | - | 1,474,926 | 533,077 | - | 2,008,003 |
| Other revenues net of expenses: | | | | | | | |
| Art store | 61,901 | - | - | 129,798 | - | - | 129,798 |
| Cafeteria | (11,104) | - | - | 3,578 | - | - | 3,578 |
| | 6,531,198 | 847,916 | - | 37,766,411 | 1,529,818 | - | 39,296,229 |
| Net assets released from restrictions | 1,402,532 | (1,402,532) | - | 896,244 | (998,244) | - | - |
| Total revenues and support | <u>7,933,730</u> | <u>(554,616)</u> | <u>-</u> | <u>38,664,655</u> | <u>631,574</u> | <u>-</u> | <u>39,296,229</u> |
| EXPENSES | | | | | | | |
| Program services | 6,772,268 | - | - | 6,613,259 | - | - | 6,613,259 |
| Supporting services: | | | | | | | |
| Management and general | 2,486,412 | - | - | 1,914,944 | - | - | 1,914,944 |
| Fundraising | 343,516 | - | - | 346,768 | - | - | 346,768 |
| Total expenses | <u>9,602,196</u> | <u>-</u> | <u>-</u> | <u>8,874,970</u> | <u>-</u> | <u>-</u> | <u>8,874,970</u> |
| Change in net assets | (1,668,466) | (554,616) | - | 29,789,685 | 631,574 | - | 30,421,259 |
| Net assets, beginning of year as previously stated | 64,260,412 | 13,151,279 | 12,701,830 | 34,688,885 | 12,519,705 | 12,701,830 | 59,908,420 |
| Prior period adjustment | - | - | - | (216,158) | - | - | (216,158) |
| Net assets, end of year | <u>\$ 62,591,946</u> | <u>\$ 12,596,663</u> | <u>\$ 12,701,830</u> | <u>\$ 64,260,412</u> | <u>\$ 13,151,279</u> | <u>\$ 12,701,830</u> | <u>\$ 90,113,521</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, 2016 and 2015**

| | 2016 | | | | 2015 | | | |
|-------------------------------------|------------------------|--------------|----------------|------------------|------------------------|-------------|----------------|--|
| | Supporting Services | | Total Expenses | Program Services | Supporting Services | | Total Expenses | |
| | Management and General | Fundraising | | | Management and General | Fundraising | | |
| Salaries | \$ 1,755,772 | \$ 868,351 | \$ 177,377 | \$ 1,673,774 | \$ 733,368 | \$ 159,460 | \$ 2,566,602 | |
| Payroll taxes/fringe benefits | 393,062 | 227,126 | 27,362 | 339,331 | 191,220 | 27,637 | 558,188 | |
| Total salaries and fringe benefits | 2,148,834 | 1,095,477 | 204,739 | 2,013,105 | 924,588 | 187,097 | 3,124,790 | |
| Other expenses | 1,773,671 | - | - | 1,862,176 | - | - | 1,862,176 | |
| Instructors | 63,172 | 944,375 | 78,906 | 82,621 | 552,535 | 74,306 | 709,462 | |
| Professional and consulting fees | 664,354 | - | - | 668,137 | - | - | 688,137 | |
| Models | 353,945 | 4,794 | - | 280,873 | 3,190 | 100 | 284,163 | |
| Repairs and maintenance | 231,688 | - | - | 209,444 | - | - | 209,444 | |
| Model to monument | 225,431 | - | - | 241,060 | - | - | 241,060 | |
| Utilities | 23,759 | 157,646 | 15,759 | 1,303 | 167,894 | 16,682 | 185,879 | |
| Information technology | 124,608 | 26,827 | - | 125,385 | 25,816 | - | 151,201 | |
| Insurance | 89,819 | - | - | 91,018 | 97,762 | - | 97,762 | |
| Permanent collection | 89,750 | - | 1,181 | 94,523 | 290 | 670 | 95,483 | |
| Credit card fees | 80,793 | - | 500 | 74,000 | - | - | 74,000 | |
| Mentor scholarships and cash grants | 76,966 | - | - | 69,656 | - | - | 69,656 | |
| Gallery and exhibitions | 60,670 | - | - | 72,119 | 779 | - | 72,898 | |
| Classroom materials | 2,455 | - | - | 61,554 | - | - | 61,554 | |
| Catalogue | 7,172 | 39,237 | 18,356 | 1,539 | 20,240 | 14,438 | 36,217 | |
| Telephone and internet | 40,539 | - | - | 7,425 | 39,765 | 120 | 47,310 | |
| Seeds of the league | 9,014 | 22,535 | 1,104 | 33,234 | - | - | 33,234 | |
| Office expenses | 567 | 16,710 | 6,348 | 9,136 | 24,306 | 9,822 | 43,264 | |
| Postage | 4,918 | 15,019 | 1,700 | 1,023 | 15,700 | 5,739 | 22,462 | |
| Advertising | 19,693 | 267 | 507 | 2,853 | 18,526 | 2,450 | 23,629 | |
| Transportation | 19,404 | - | - | 23,114 | 1,195 | 6,870 | 31,179 | |
| Member services | 14,041 | - | - | 11,961 | - | - | 11,961 | |
| Archives | 86,361 | 113,193 | 13,983 | 81,305 | 117,318 | 19,134 | 217,757 | |
| Miscellaneous | 4,153,808 | 1,370,294 | 138,354 | 4,143,706 | 987,554 | 150,331 | 5,281,591 | |
| Total other expenses | 6,302,642 | 2,465,771 | 343,093 | 6,156,811 | 1,912,142 | 337,428 | 8,406,381 | |
| Total expenses before depreciation | 469,626 | 20,641 | 423 | 456,448 | 2,802 | 9,340 | 468,590 | |
| Depreciation | 6,772,268 | 2,486,412 | 343,516 | 6,613,259 | 1,914,944 | 346,768 | 8,874,970 | |
| Total expenses | \$ 6,772,268 | \$ 2,486,412 | \$ 343,516 | \$ 6,613,259 | \$ 1,914,944 | \$ 346,768 | \$ 8,874,970 | |

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, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (2,223,082) | \$ 30,421,259 |
| Adjustments to reconcile changes in net assets to cash provided by operating activities: | | |
| Depreciation expense | 490,690 | 473,484 |
| Unrealized (gains) on investments | (1,668,724) | (885,893) |
| Realized losses (gains) on investments | 855,285 | (1,149,022) |
| Changes in operating assets and liabilities: | | |
| Decrease in grants and contributions receivable | 67,500 | 101,488 |
| Decrease (increase) in miscellaneous receivable | 5,226 | (5,157) |
| (Increase) decrease in prepaid expenses | (58,077) | 1,139,084 |
| (Increase) in inventories | (10,988) | (45,731) |
| Increase in accounts payable and accrued expenses | 136,510 | 145,221 |
| Increase (decrease) in deferred revenues | 37,391 | (43,914) |
| Increase in other liabilities | 24,128 | 7,943 |
| Net cash (used in) provided by operating activities | <u>(2,344,143)</u> | <u>30,158,762</u> |
| Cash flows from investing activities: | | |
| Decrease (increase) in investments, net | 3,249,400 | (30,571,323) |
| Purchase of property and equipment | <u>(287,531)</u> | <u>(288,934)</u> |
| Net cash provided by (used in) investing activities | <u>2,961,869</u> | <u>(30,860,257)</u> |
| Net increase (decrease) in cash and cash equivalents | 617,726 | (701,495) |
| Cash and cash equivalents, beginning of year | <u>160,428</u> | <u>861,923</u> |
| Cash and cash equivalents, end of year | <u>\$ 778,154</u> | <u>\$ 160,428</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**
Notes to Financial Statements
May 31, 2016 and 2015

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, welding, ceramics, and 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.

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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Notes to Financial Statements
May 31, 2016 and 2015

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

Donor-designated 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.

Since 2010, the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the State's version of UPMIFA, the historical dollar threshold was eliminated and prudent spending

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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Notes to Financial Statements
May 31, 2016 and 2015

guidelines that consider both the duration and preservation of the fund was established. As a result, subject to the donor's intent as expressed in the gift agreement or similar document, a

New York charitable organization may 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, and non-marketable securities. 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.

Board-designated Endowment

The Board of Control of the League designated unrestricted assets from the net proceeds of the sale of the cantilever and development rights for future renovations of the 57th Street building. These funds are held in a separate investment account, invested in low-risk investments, and will operate as a quasi-endowment. Investment income, including capital gains and losses net of investment expenses, will accumulate in the fund. The Board votes to release funds to spend on approved renovation projects.

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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May 31, 2016 and 2015

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.
- 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 |

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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Notes to Financial Statements
May 31, 2016 and 2015

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 value of the League's collection has been excluded from the Statement of Financial Position, and gifts of art objects are excluded from revenue in the Statement of Activities. When art works are purchased for the permanent collection, they are recorded as an expense in the Statement of Activities.

Contributions

The League records contributions, both cash and in-kind, when an unconditional promise to give such assets is received from a donor. Contributions 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 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 as payments are collected.

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 revenue 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 program and supporting services 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

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
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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, 2013, 2014, and 2015 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 \$34,575 as of May 31, 2016 and was not in excess of federally insured limits as of May 31, 2015.

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, 2016 and 2015 were as follows:

**THE ART STUDENTS LEAGUE OF NEW YORK, INC.
AND ITS SUBSIDIARY**
Notes to Financial Statements
May 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|------------------------|-------------------|-------------------|
| Operating accounts | \$ 291,789 | \$ 135,154 |
| Financial institutions | <u>486,365</u> | <u>25,274</u> |
| | <u>\$ 778,154</u> | <u>\$ 160,428</u> |

4. GRANTS AND CONTRIBUTIONS RECEIVABLE, NET

Grants and contributions receivable at May 31, 2016 and 2015 consisted of current and multiyear promises to give which are collectible as follows:

| | <u>2016</u> | <u>2015</u> |
|------------------|------------------|-------------------|
| One year or less | <u>\$ 32,500</u> | <u>\$ 100,000</u> |

5. INVESTMENTS

Investments at fair value held by the League at May 31, 2016 and 2015 consisted of the following:

| | <u>2016</u> | | <u>2015</u> | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>Cost</u> | <u>Market</u> | <u>Cost</u> | <u>Market</u> |
| Managed mutual funds | \$ 58,409,830 | \$ 58,702,993 | \$ 29,013,856 | \$ 31,018,423 |
| Exchange Traded Funds (ETFs) | 1,083,003 | 1,136,302 | - | - |
| Index funds | <u>18,667,316</u> | <u>20,104,855</u> | <u>41,952,659</u> | <u>51,370,109</u> |
| Total investments | <u>\$ 78,160,149</u> | <u>\$ 79,944,150</u> | <u>\$ 70,966,515</u> | <u>\$ 82,388,532</u> |

The following table summarizes investments by fair value hierarchy levels as of May 31, 2016 and 2015:

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| | 2016 | | | |
|------------------------------|----------------------|-------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Managed mutual funds | \$ 58,702,993 | \$ - | \$ - | \$ 58,702,993 |
| Exchange traded funds (ETFs) | 1,136,302 | - | - | \$ - |
| Index funds | 20,104,855 | - | - | 20,104,855 |
| Total investments | <u>\$ 79,944,150</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 79,944,150</u> |

| | 2015 | | | |
|------------------------------|----------------------|-------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Managed mutual funds | \$ 31,018,423 | \$ - | \$ - | \$ 31,018,423 |
| Exchange traded funds (ETFs) | - | - | - | - |
| Index funds | 51,370,109 | - | - | 51,370,109 |
| Total investments | <u>\$ 82,388,532</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 82,388,532</u> |

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

| | 2016 | 2015 |
|---------------------------|-------------------|---------------------|
| Unrealized gains (losses) | \$ 1,668,724 | \$ 885,893 |
| Realized (losses) gains | (855,285) | 1,149,022 |
| | 813,438 | 2,034,915 |
| Less: investment expenses | (77,686) | (26,912) |
| | <u>\$ 735,753</u> | <u>\$ 2,008,003</u> |

Investment income is reported in the statement of activities net of investment expenses of \$155,371 and \$26,193 for the years ended May 31, 2016 and 2015, respectively.

6. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at May 31, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|--------------------------------|---------------------|---------------------|
| Building and improvements | \$ 10,642,555 | \$ 10,635,873 |
| Land and improvements | 1,816,532 | 1,816,532 |
| Equipment and furniture | 1,967,936 | 1,684,666 |
| | 14,427,023 | 14,137,071 |
| Less: accumulated depreciation | (6,658,138) | (6,165,027) |
| | <u>\$ 7,768,885</u> | <u>\$ 7,972,044</u> |

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Total depreciation expense for the years ended May 31, 2016 and 2015 amounted to \$493,110 and \$473,484, respectively. Depreciation related to the art store and cafeteria is netted against their respective revenues on the statement of activities.

7. COMMITMENTS

In October 2014, the League entered into a non-cancelable operating lease for a vehicle for use at its Vytlacil location, requiring monthly payments of \$633 through November 2018.

Future minimum lease payments pursuant to the vehicle lease as of May 31, 2016, amounted to:

| | | |
|--------------------------|----|---------------|
| Year ending May 31, 2017 | \$ | 7,594 |
| 2018 | | 7,594 |
| 2019 | | 3,164 |
| 2020 | | <u>-</u> |
| Total payments | \$ | <u>18,352</u> |

8. PERMANENTLY AND TEMPORARILY RESTRICTED NET ASSETS

Permanently and temporarily restricted net assets at May 31, 2016 and 2015 are available to satisfy the following purposes:

| | 2016 | 2015 |
|------------------------------------|----------------------|----------------------|
| 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 | \$ 7,379,629 | \$ 7,255,003 |
| Other support | <u>5,217,034</u> | <u>5,896,276</u> |
| | <u>\$ 12,596,663</u> | <u>\$ 13,151,279</u> |

9. CHANGES IN ENDOWMENT NET ASSETS

In July 2014, the Board of Control of the League designated the net proceeds from the sale of the cantilever and development rights of the 57th Street building, in the amount of \$30,476,666 for the purposes of renovating the 57th Street building. Investment income, including capital gains and losses net of investment expenses, have accumulated in the fund.

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Composition of and changes in the Board-designated endowment net assets for the year ended May 31, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Board-designated endowment net assets, beginning of year | \$ 30,663,107 | \$ - |
| Contributions | - | 30,476,666 |
| Investment income, net | 767,903 | 525,367 |
| Realized gains (losses), net | 16,850 | (1,956) |
| Unrealized gains (losses) | 837,716 | (95,999) |
| Amounts appropriated for expenditure | <u>(455,741)</u> | <u>(240,971)</u> |
| Board-designated endowment net assets, end of year | <u>\$ 31,829,835</u> | <u>\$ 30,663,107</u> |

Composition of and changes in the permanently restricted net assets for the years ended May 31, 2016 and 2015 were as follows:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Endowment net assets, beginning of year | \$ 12,701,830 | \$ 12,701,830 |
| Increase by: | | |
| Contributions | - | - |
| Investment returns: | | |
| Interest and dividends, net | 274,980 | 401,382 |
| Realized gains, net | 2,476,482 | 261,949 |
| Unrealized (losses) gains | <u>(2,504,772)</u> | <u>208,806</u> |
| Total | <u>246,690</u> | <u>872,137</u> |
| | <u>12,948,520</u> | <u>13,573,967</u> |
| Decrease by: | | |
| Realized losses | - | - |
| Unrealized losses | - | - |
| Transfers to temporarily restricted funds | <u>(246,690)</u> | <u>(872,137)</u> |
| Total | <u>(246,690)</u> | <u>872,137</u> |
| Endowment net assets, end of year | <u>\$ 12,701,830</u> | <u>\$ 12,701,830</u> |

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10. PRIOR PERIOD ADJUSTMENT

Consistent with industry practices, and discovered by management of the organization during the current year, a certain error resulting in overstatement in the amount of \$216,158 was previously reported for Works of Art and Unrestricted Net Assets as of May 31, 2015. Accordingly, amounts reported for Works of Art and Unrestricted Net Assets have been restated in 2015 financial statements now presented, and an adjustment has been made to Unrestricted Net Assets as of June 1, 2014, to correct the error.

11. SUBSEQUENT EVENTS

The League evaluated its May 31, 2016 financial statements for subsequent events through October 13, 2016, the date the financial statements were available to be issued. Beginning October 1, 2016, the League has suspended the Vytlačil artist residency program. The League continues to own and maintain the Vytlačil campus in Rockland County and operates select artistic programs at the facility.

**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, 2016 and 2015**

| | 57th Street | | Vytlacil | |
|---|----------------|----------------|--------------|--------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Tuition | \$ 3,434,154 | \$ 3,514,687 | \$ 78,490 | \$ 73,950 |
| Scholarship funding released from restriction | 654,335 | 663,666 | 148,306 | 142,278 |
| Fees and other income | 591,657 | 543,226 | 31,079 | 18,805 |
| Total revenues | 4,680,146 | 4,721,579 | 257,875 | 235,033 |
| Expenses: | | | | |
| Salaries | 2,608,868 | 2,362,562 | 192,632 | 204,040 |
| Payroll taxes/fringe benefits | 596,254 | 507,742 | 51,296 | 50,445 |
| Total salaries and related expenses | 3,205,122 | 2,870,304 | 243,928 | 254,485 |
| Other expenses: | | | | |
| Instructors | 1,749,012 | 1,838,715 | 24,659 | 23,461 |
| Professional and consulting fees | 1,086,454 | 685,602 | | 23,860 |
| Models | 664,354 | 687,350 | | 787 |
| Repairs and maintenance | 334,914 | 261,862 | 23,825 | 22,301 |
| Utilities | 231,688 | 204,278 | 23,157 | 36,782 |
| Model to monument | 202,274 | 209,444 | | - |
| information technology | 196,428 | 185,750 | 735 | 129 |
| Insurance | 141,848 | 138,473 | 9,588 | 12,728 |
| Permanent collection | 91,018 | 97,762 | | - |
| Credit card fees | 90,004 | 94,765 | 1,006 | 718 |
| Merit scholarships and cash grants | 90,000 | 72,500 | 250 | 1,500 |
| Gallery and exhibitions | 80,793 | 69,656 | | - |
| Classroom materials | 68,623 | 69,954 | 8,343 | 2,944 |
| Catalogue | 60,670 | 61,554 | | - |
| Printing | 50,255 | 35,471 | 246 | 746 |
| Seeds of the league | 40,539 | 33,234 | | - |
| Telephone and internet | 39,935 | 40,210 | 6,473 | 7,100 |
| Office expenses | 30,393 | 41,517 | 2,261 | 1,747 |
| Postage | 23,402 | 22,193 | 222 | 269 |
| Member services | 19,404 | 11,961 | | - |
| Advertising | 16,719 | 21,396 | 4,918 | 2,233 |
| Archives | 14,041 | 11,703 | | - |
| Transportation | 9,960 | 14,372 | 10,507 | 16,807 |
| Miscellaneous | 204,662 | 202,859 | 18,427 | 14,898 |
| Total other expenses | 5,537,392 | 5,112,581 | 134,617 | 169,010 |
| Total expenses before depreciation | 8,742,514 | 7,982,885 | 378,545 | 423,495 |
| Depreciation | 432,036 | 411,441 | 58,654 | 57,149 |
| Total expenses | 9,174,550 | 8,394,326 | 437,199 | 480,644 |
| Excess of (expenses) over revenues | \$ (4,494,403) | \$ (3,672,747) | \$ (179,324) | \$ (245,611) |

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, 2016 and 2015**

| | 2016 | 2015 |
|----------------------------------|-------------|------------|
| Art store | | |
| Revenues | \$ 890,619 | \$ 927,176 |
| Cost of operations: | | |
| Inventory, beginning of year | 300,703 | 254,899 |
| Purchases | 578,469 | 600,648 |
| | 879,172 | 855,547 |
| Inventory, end of year | 312,416 | 300,703 |
| Cost of goods sold | 566,756 | 554,844 |
| Excess | 323,864 | 372,332 |
| Other expenses: | | |
| Salaries | 176,078 | 163,496 |
| Payroll taxes/fringe benefits | 55,584 | 48,264 |
| Credit card fees | 21,965 | 23,165 |
| Miscellaneous | 7,007 | 6,280 |
| Depreciation | 1,329 | 1,329 |
| Total other expenses | 261,963 | 242,534 |
| Excess of revenues over expenses | \$ 61,901 | \$ 129,798 |
| Cafeteria: | | |
| Revenues | \$ 232,009 | \$ 213,778 |
| Cost of operations: | | |
| Inventory, beginning of year | 4,903 | 4,976 |
| Purchases | 90,477 | 91,177 |
| | 95,380 | 96,153 |
| Inventory, end of year | (4,178) | 4,903 |
| Cost of goods sold | 91,202 | 91,250 |
| Excess | 140,807 | 122,528 |
| Other expenses: | | |
| Salaries | 106,320 | 92,702 |
| Payroll taxes/fringe benefits | 25,514 | 13,914 |
| Credit card fees | 4,544 | 1,894 |
| Miscellaneous | 14,370 | 6,875 |
| Depreciation | 1,163 | 3,565 |
| Total other expenses | 151,911 | 118,950 |
| Excess of revenue over expenses | \$ (11,104) | \$ 3,578 |

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