

**THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**CONSOLIDATED SUPPLEMENTAL INFORMATION**  
**MAY 31, 2018 AND 2017**  
**WITH INDEPENDENT AUDITOR'S REPORT**

**The Art Students League of New York, Inc. and Subsidiary**  
**May 31, 2018 and 2017**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of The Art Students League of New York, Inc. (a not-for-profit corporation) (the "Organization") and American Fine Arts Society, Inc. (the "Subsidiary"), which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization and Subsidiary's preparation and fair presentation of the consolidated 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 Organization and Subsidiary'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 consolidated financial statements.

We believe that 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 Subsidiary as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



March 18, 2019

The Art Students League of New York, Inc. and Subsidiary  
Consolidated Statements of Financial Position  
May 31, 2018 and 2017

	2018			2017				
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>Assets</b>								
Current Assets								
Cash and cash equivalents	\$ 2,240,256	\$ -	\$ -	\$ 2,240,256	\$ 1,715,047	\$ -	\$ -	\$ 1,715,047
Accounts receivable	107,374	-	-	107,374	51,259	-	-	51,259
Inventory	280,713	-	-	280,713	287,427	-	-	287,427
Prepaid expenses	152,286	-	-	152,286	77,396	-	-	77,396
Asset held for sale	-	-	450,000	450,000	-	-	-	-
Security deposit	5,000	-	-	5,000	4,000	-	-	4,000
Total Current Assets	2,785,629	-	450,000	3,235,629	2,135,129	-	-	2,135,129
Investments	60,587,513	13,657,526	12,638,621	86,883,660	59,079,767	13,686,299	11,621,770	84,387,836
Property and equipment, at cost, net of accumulated depreciation	5,979,302	-	-	5,979,302	6,290,842	-	1,080,060	7,370,902
<b>Total Assets</b>	<b>\$ 69,352,444</b>	<b>\$ 13,657,526</b>	<b>\$ 13,088,621</b>	<b>\$ 96,098,591</b>	<b>\$ 67,505,738</b>	<b>\$ 13,686,299</b>	<b>\$ 12,701,830</b>	<b>\$ 93,893,867</b>
<b>Liabilities and Net Assets</b>								
Liabilities								
Current Liabilities								
Accounts payable and accrued expenses	\$ 620,475	\$ -	\$ -	\$ 620,475	\$ 644,253	\$ -	\$ -	\$ 644,253
Deferred revenue	475,331	-	-	475,331	368,451	-	-	368,451
Locker deposits	35,824	-	-	35,824	57,539	-	-	57,539
Tuition credits	276,916	-	-	276,916	266,474	-	-	266,474
Amounts held until estate probated	-	-	1,016,851	1,016,851	-	-	-	-
Total Liabilities	1,408,546	-	1,016,851	2,425,397	1,336,717	-	-	1,336,717
Commitments and contingencies								
Net Assets								
Unrestricted								
Property and equipment, net	5,979,302	-	450,000	6,429,302	6,290,842	-	1,080,060	7,370,902
Board designated	37,085,830	-	-	37,085,830	34,878,044	-	-	34,878,044
Undesignated	24,878,766	-	-	24,878,766	25,000,135	-	-	25,000,135
Total Unrestricted Net Assets	67,943,898	-	450,000	68,393,898	66,169,021	-	1,080,060	67,249,081
Temporarily restricted net assets	-	13,657,526	-	13,657,526	-	13,686,299	-	13,686,299
Permanently restricted net assets	-	-	11,621,770	11,621,770	-	-	11,621,770	11,621,770
Total Net Assets	67,943,898	13,657,526	12,071,770	93,673,194	66,169,021	13,686,299	12,701,830	92,557,150
<b>Total Liabilities and Net Assets</b>	<b>\$ 69,352,444</b>	<b>\$ 13,657,526</b>	<b>\$ 13,088,621</b>	<b>\$ 96,098,591</b>	<b>\$ 67,505,738</b>	<b>\$ 13,686,299</b>	<b>\$ 12,701,830</b>	<b>\$ 93,893,867</b>

The Art Students League of New York, Inc. and Subsidiary  
Consolidated Statements of Activities  
For the Years Ended May 31, 2018 and 2017

	2018				2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>Operating Activities</b>								
<b>Public Support and Other Revenue</b>								
Public Support								
Contributions	\$ 182,827	\$ 157,147	\$ -	\$ 339,974	\$ 156,431	\$ 262,511	\$ -	\$ 418,942
Fundraising benefit	211,173	-	-	211,173	335,651	-	-	335,651
Less: direct costs of fundraising benefit	(194,805)	-	-	(194,805)	(119,792)	-	-	(119,792)
Donated services and materials	31,406	-	-	31,406	11,678	-	-	11,678
Total Public Support	230,601	157,147	-	387,748	383,968	262,511	-	646,479
Other Revenue								
Tuition income	4,145,327	-	-	4,145,327	4,102,233	-	-	4,102,233
Store and cafeteria sales, net of cost of goods sold	1,449,878	-	-	1,449,878	1,220,042	-	-	1,220,042
Facility rental income	(887,335)	-	-	(887,335)	(762,556)	-	-	(762,556)
Dues and fees	309,402	-	-	309,402	292,760	-	-	292,760
Other income	232,351	-	-	232,351	172,189	-	-	172,189
Spending policy distribution (draw)	129,057	-	-	129,057	122,297	-	-	122,297
Total Other Revenue	4,650,229	-	-	4,650,229	3,892,171	-	-	3,892,171
Total Public Support and Other Revenue	10,028,909	-	-	10,028,909	9,039,136	-	-	9,039,136
<b>Expenses</b>								
Program Services	8,918,552	-	-	8,918,552	8,407,349	-	-	8,407,349
Supporting Services								
Management and General	1,337,916	-	-	1,337,916	1,416,169	-	-	1,416,169
Fundraising	489,587	-	-	489,587	475,009	-	-	475,009
Total Supporting Services	1,827,503	-	-	1,827,503	1,891,178	-	-	1,891,178
Total Expenses	10,746,055	-	-	10,746,055	10,298,527	-	-	10,298,527
Increase (Decrease) in Net Assets Before Non-Operating Activities	(486,545) *	157,147	-	(329,398)	(875,423) *	262,511	-	(612,912)
<b>Non-Operating Activities</b>								
Investment income	5,226,793	1,085,982	922,165	7,234,940	6,647,652	1,351,077	1,362,357	9,361,086
Excess earnings	-	-	-	-	-	523,810	(523,810)	-
Spending policy distribution (draw)	(2,456,162)	(1,271,902)	(922,165)	(4,650,229)	(2,222,020)	(831,604)	(838,547)	(3,892,171)
Loss on impairment of asset held for sale	(509,209)	-	(630,060)	(1,139,269)	-	-	-	-
Total Non-Operating Activities	2,261,422	(185,920)	(630,060)	1,445,442	4,425,632	1,043,283	-	5,468,915
Increase (Decrease) in Net Assets	1,774,877	(28,773)	(630,060)	1,116,044	3,550,209	1,305,794	-	4,856,003
Net assets, as previously reported, June 1, 2016	-	-	-	-	62,591,946	12,596,663	12,701,830	87,890,439
Prior period adjustments	-	-	-	-	26,866	(216,158)	-	(189,292)
Net Assets Restated, June 1, 2016	-	-	-	-	62,618,812	12,380,505	12,701,830	87,701,147
Net assets, beginning of the year, June 1, 2017	66,169,021	13,686,299	12,701,830	92,557,150				
<b>Net Assets, End of Year</b>	<b>\$ 67,943,898</b>	<b>\$ 13,657,526</b>	<b>\$ 12,071,770</b>	<b>\$ 93,673,194</b>	<b>\$ 66,169,021</b>	<b>\$ 13,686,299</b>	<b>\$ 12,701,830</b>	<b>\$ 92,557,150</b>

\* Includes depreciation expense of \$552,102 (2018) and \$506,812 (2017)  
Increase (Decrease) in net assets before non-operating activities and depreciation

\$ 65,557

\$ (368,611)

**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended May 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating and Non-Operating Activities</b>		
Increase in net assets	\$ 1,116,044	\$ 4,856,003
Adjustments to reconcile increase in net assets to net cash used by operating and non-operating activities:		
Depreciation	552,102	506,812
Loss on impairment of asset held for sale	1,139,269	-
Reinvested dividends and capital gains	(3,424,295)	(1,491,614)
Unrealized gain on investments	(2,962,207)	(6,500,740)
Realized gain on sale of investments	(492,471)	(442,082)
(Increase) Decrease in:		
Accounts receivable	(56,115)	(35,396)
Inventory	6,714	43,629
Prepaid expenses	(74,890)	81,551
Security deposit	(1,000)	-
Unconditional promises to give	-	25,000
Increase (Decrease) in:		
Accounts payable and accrued expenses	(23,778)	5,345
Deferred revenue	106,880	(19,633)
Locker deposits	(21,715)	1,659
Tuition credits	10,442	14,188
Net Cash Used By Operating and Non-Operating Activities	<u>(4,125,020)</u>	<u>(2,955,278)</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(749,771)	(108,829)
Proceeds from sale of investments	5,400,000	4,001,000
Net Cash Provided By Investing Activities	<u>4,650,229</u>	<u>3,892,171</u>
Net increase in cash and cash equivalents	525,209	936,893
Cash and cash equivalents, beginning of year	<u>1,715,047</u>	<u>778,154</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 2,240,256</u></u>	<u><u>\$ 1,715,047</u></u>
<b>Supplemental information</b>		
During the year ended May 31, 2018, an impairment loss was to reflect current fair value (See Note 1o)	<u><u>\$ 1,139,269</u></u>	<u><u>\$ -</u></u>

The notes to consolidated financial statements are an integral part of these statements.

# The Art Students League of New York, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### May 31, 2018 and 2017

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#### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a) Organization

The mission of The Art Students League of New York, Inc. (the "Organization") is to educate students in the language and process of making art in an environment where anyone who wishes to pursue an art education can realize his or her full potential. The Organization fulfills its mission by offering accessible, affordable, high quality education and instruction in painting, drawing, printmaking, sculpture (including welding and bronze casting), and assemblage.

The accompanying consolidated financial statements include the accounts of The Art Students League of New York, Inc. and its wholly owned subsidiary, American Fine Arts Society, Inc. (the "Subsidiary"). The Subsidiary was formed in 1971 as a New York State corporation. The Subsidiary was formed to provide use of its facilities to the Organization. All intercompany balances and transactions have been eliminated upon consolidation.

##### b) Basis of Accounting

The consolidated financial statements of the Organization and Subsidiary have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

##### c) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

##### d) Fair Value Measurements

"Fair Value Measurements and Disclosures" establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. "Fair Value Measurements and Disclosures" defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price" in an orderly transaction between market participants).

In determining fair value, the Organization uses various valuation approaches, including market, income and/or cost approaches. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under "Fair Value Measurements and Disclosures" and the Organization's related types are described below.

*Level 1:* Quoted prices of identical instruments in active markets.

*Level 2:* Quoted prices of similar instruments in active markets; quoted prices of identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

*Level 3:* Significant inputs to the valuation model are unobservable.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2018 and 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) Investments**

Investments in marketable securities are reported at market value in the accompanying consolidated statements of financial position. All investments are stated at their fair value. Unrealized gains and losses are included in change in net assets in the accompanying consolidated statements of activities. Investments received by gift are initially recorded at fair value at the date of receipt. Fair values for stocks, bonds and U.S. government securities are based on quoted market prices. Alternative investments are stated at fair value in the consolidated financial statements at the net asset value based on estimates provided by the management of the funds. The alternative investments are nonmarketable and the funds' management values the assets based upon the net asset value multiplied by the number of shares held. The fair values assigned to these assets do not necessarily represent amounts that might be realized upon their ultimate disposition. The amount of gain or loss associated with these investments is reflected in the accompanying consolidated financial statements. Gains and losses on sales of investments are determined using the average cost method.

**f) Inventory**

The Organization adopted Accounting Standards Update *ASU 2015-11*, Inventory (Topic 330) Simplifying the Measurement of Inventory. In accordance with *ASU 2015-11*, the Organization is required to measure its inventory at the lower of cost and net realizable value. The May 31, 2017 inventory was measured at the lower of cost or market and has not been measured to reflect the change made by *ASU 2015-11*. The Organization operates a cafeteria and a retail store, which sells art supplies and books, 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.

**g) Property and Equipment**

Property and equipment acquired are recorded at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed. Building, equipment and furniture are being depreciated over the useful life of the related asset using the straight-line method.

**h) Contributions and Promises to Give**

Contributions are recognized when received or when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

**i) Revenue Recognition and Deferred Revenue**

Tuition and facility rental income are recognized in the period that the student programs take place. Store and cafeteria sales are recognized when the sale occurs. Dues and fees and other income are recorded in the period to which the fees relate.

Deferred revenue consists of deferred tuition and fees which are all recognized in the period to which the fees relate.

**j) Advertising Costs**

Advertising costs are charged to operations when the advertising first takes place. Advertising expense for the years ended May 31, 2018 and 2017 was \$64,867 and \$33,713, respectively.

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2018 and 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**k) Collections**

The Organization has accumulated certain artwork that has not been reflected in the consolidated financial statements. The collections, which were acquired through purchases and/or contributions since the Organization's inception, are not recognized as assets on the consolidated statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired.

**l) Estimates**

The preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

**m) Financial Statement Presentation**

The Organization and Subsidiary present their consolidated financial statements according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met by actions or by the passage of time. Unrestricted net assets are not subject to donor-imposed stipulations.

**n) Tax Status and Uncertain Tax Positions**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. The Organization's Form 990, *Return of Organization Exempt from Income Tax*, for the years ended May 31, 2017, 2016 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

The Subsidiary is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. The Subsidiary's Form 990, *Return of Organization Exempt from Income Tax*, for the years ended September 30, 2017, 2016 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

The Organization and its Subsidiary believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements. There are no income tax related penalties and interest included in the accompanying consolidated financial statements.

**o) Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the year ended May 31, 2018, an impairment loss in the amount of \$1,139,269 was recognized on the asset held for sale.

**p) Reclassification**

Certain amounts for the year ended May 31, 2017 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation of the year ended May 31, 2018 consolidated financial statements.

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2018 and 2017**

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**2. RESTRICTIONS ON NET ASSETS**

**a) Board Designated Net Assets**

The Board established the Board-designated net assets, which are intended for renovation projects and building maintenance. Transfers of these funds can only occur with Board approval. Income earned on these funds is added to the board-designated net assets. The balance of board-designated net assets was \$37,085,830 and \$34,878,044 as of May 31, 2018 and May 31, 2017, respectively. The funds are maintained in a separate account and all investment earnings are added to the balance of the board-designated net assets. During the year ended May 31, 2018, the Board approved a \$1,000,000 transfer from this fund (\$749,771 to cover property and equipment capitalized with the remaining balance used for facilities and other fees associated with maintenance). During the year ended May 31, 2017, the Board approved a \$300,000 transfer from this fund (\$108,829 to cover property and equipment capitalized with the remaining balance used for facilities and other fees associated with maintenance).

**b) Temporarily Restricted Net Assets**

Temporarily restricted net assets are restricted for the following as of May 31:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 8,798,109	\$ 8,095,021
Building fund	2,748,460	3,074,211
Acquisition of art work	1,043,907	1,171,957
Other programs	1,067,050	1,345,110
	<u>\$ 13,657,526</u>	<u>\$ 13,686,299</u>

**c) Permanently Restricted Net Assets**

Permanently restricted net assets are restricted for the following as of May 31:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 8,322,508	\$ 8,322,508
Other programs	1,892,023	1,892,023
Residency program	1,050,000	1,680,060
Building fund	807,239	807,239
	<u>\$ 12,071,770</u>	<u>\$ 12,701,830</u>

The Organization's endowment consists of several donor-restricted endowment funds established for specific purposes. As required by generally accepted accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations and decrements to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2018 and 2017**

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**2. RESTRICTIONS ON NET ASSETS (CONTINUED)**

**c) Permanently Restricted Net Assets (continued)**

In accordance with UPMIFA, the Organization considers the following facts in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a) The duration and preservation of the fund;
- b) The purposes of the Organization and the donor-restricted endowment fund;
- c) General economic conditions;
- d) The possible effect of inflation and deflation;
- e) The expected total return from income and the appreciation of investments;
- f) Other resources of the Organization; and
- g) The investment policy of the Organization.

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for endowment assets with the primary goal of maintaining the original value of the endowment principal, while providing funding to programs supported by its endowment. Under this policy, the endowment assets are invested in a manner that is intended to produce income and preserve principal while assuming a very low level of investment risk. Because the funds are invested in a manner in which principal preservation is permanent, the Organization allows the spending a percentage of current and accumulated income from the endowment.

**3. CONCENTRATION OF CREDIT RISK**

The Organization and Subsidiary maintain its cash and cash equivalent balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At May 31, 2018, the Organization's and Subsidiary's cash and cash equivalents uninsured balances totaled \$256,423.

The Organization and Subsidiary's investment accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per customer. At May 31, 2018, the Organization's and Subsidiary's uninsured investment balances totaled \$88,120,561. In addition, investment accounts are covered under an additional protection program. The coverage is \$149.5 million for securities and \$2 million for each customer. SIPC and the excess SIPC coverage do not protect against loss due to market fluctuation.

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**a) Fair Value of Financial Instruments**

The fair value and carrying amount of the Organization and Subsidiary's cash and short-term investments as of May 31, 2018 and 2017 was \$2,240,256 and \$1,715,047, respectively. Cash and short-term investments carrying amount approximates fair value because of the short maturities of those investments.

**b) Fair Value Measured on Recurring Basis**

Fair values of assets measured on a recurring basis consist of mutual funds and exchange-traded funds (all Level 1). Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2018 and 2017**

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**b) Fair Value Measured on Recurring Basis (continued)**

Investments consist of the following as May 31, 2018:

	Fair Value			Cost
	Level 1	Portfolio Funds	Total	Total
Taxable bond funds	\$ -	\$ 14,306,999	\$ 14,306,999	\$ 14,576,959
Treasury inflation securities	-	4,788,997	4,788,997	4,854,857
International bonds	-	4,265,052	4,265,052	4,335,075
U.S. equities	24,723,810	-	24,723,810	20,073,476
International equities	10,647,510	-	10,647,510	8,692,656
Growth real estate	-	9,462,267	9,462,267	9,094,181
Small company	-	7,637,130	7,637,130	5,816,613
Aggressive international	-	3,507,769	3,507,769	3,077,529
Energy/natural resources	-	6,946,257	6,946,257	5,872,046
Precious metals/commodities	-	597,869	597,869	726,795
	<u>\$ 35,371,320</u>	<u>\$ 51,512,340</u>	<u>\$ 86,883,660</u>	<u>\$ 77,120,187</u>

Investments consist of the following as May 31, 2017:

	Fair Value			Cost
	Level 1	Portfolio Funds	Total	Total
Taxable bond funds	\$ -	\$ 17,085,185	\$ 17,085,185	\$ 16,998,132
Treasury inflation securities	-	4,801,814	4,801,814	4,758,006
International bonds	-	4,286,463	4,286,463	4,188,156
U.S. equities	20,955,600	-	20,955,600	17,850,485
International equities	11,938,328	-	11,938,328	10,282,724
Growth real estate	-	9,297,852	9,297,852	8,717,722
Small company	-	6,752,388	6,752,388	5,849,315
Aggressive international	-	2,284,947	2,284,947	1,960,649
Energy/natural resources	-	3,462,660	3,462,660	3,169,754
Precious metals/commodities	-	3,522,599	3,522,599	3,811,627
	<u>\$ 32,893,928</u>	<u>\$ 51,493,908</u>	<u>\$ 84,387,836</u>	<u>\$ 77,586,570</u>

**c) Investment Income**

Investment income consists of the following for the years ended May 31:

	2018	2017
Interest, dividend income and capital gains	\$ 3,986,722	\$ 2,615,739
Unrealized gain on investments	2,962,207	6,500,740
Realized gain on sale of investments	492,471	442,082
Investment fees	(206,460)	(197,475)
Total Investment Income	<u>\$ 7,234,940</u>	<u>\$ 9,361,086</u>

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2018 and 2017**

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**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at May 31:

	<u>Life/Years</u>	<u>2018</u>	<u>2017</u>
Building and improvements	20 - 30	\$ 9,910,904	\$ 10,691,404
Equipment and furniture	3 - 10	2,391,998	2,000,996
Land	n/a	1,081,000	1,081,000
Land improvements	25	735,532	735,532
Total		14,119,434	14,508,932
Less: accumulated depreciation		(7,690,132)	(7,138,030)
		6,429,302	7,370,902
Less: asset held for sale		(450,000)	-
		<u>\$ 5,979,302</u>	<u>\$ 7,370,902</u>

Depreciation expense for the years ended May 31, 2018 and 2017 was \$552,102 and \$506,812, respectively.

During the year ended May 31, 2018, the Board approved the sale of residency program building. Since the market value of \$450,000 was less than the carrying value of the property which is reflected as asset held for sale in the accompanying consolidated financial statements as of May 31, 2018. An impairment loss for the difference in the amount of \$1,139,269 (\$630,060 decrease in permanently restricted net assets for an impairment for market value of the building and \$509,209 decrease in unrestricted net assets for building improvements) was recognized in the accompanying consolidated financial statements for the year ended May 31, 2018.

**6. COMMITMENTS AND CONTINGENCIES**

- a) Government supported programs are subject to audit by the granting agency.
- b) The Organization is obligated under one agreement with a key employee. The agreement provides for certain termination provisions. The agreement provides for minimum annual payments as of May 31, 2018:

Payments due during the year ending May 31, 2019	\$ 300,000
Payments due during the year ending May 31, 2020	154,167
Total	<u>\$ 454,167</u>

- c) The Organization obtained a Temporary Certificate of Occupancy during the year ended May 31, 2018. The initial Temporary Certificate of Occupancy was obtained on May 3, 2018 and has been renewed with a current expiration date of April 10, 2019. Each temporary certificate is valid for 90 days. The permanent Certificate of Occupancy will not be available until the exterior work is completed including the scaffolding, sidewalk shed and construction fence.
- d) The Organization has been named in two claims for personal injury sustained at the Organization's premises. The Organization's insurance company is currently handling the claims. Management believes that the insurance coverage is sufficient to cover any claims which may be realized.

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2018 and 2017**

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**6. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

- e) During the year ended May 31, 2018, the Organization received \$1,016,851 payable-on-death (POD) contribution which bypassed probate court. Since the Organization may have a legal obligation if the will is probated, the amount is reflected as a liability within the consolidated statements of financial position.

**7. EMPLOYEE BENEFIT PLAN**

The Organization currently has a 401(k) salary deferral plan. The plan covers full-time employees of the Organization. The Organization matches the employee's contribution amount up to a maximum of 2% of annual salary. Employees may make contributions to the plan up to the maximum amounts allowed by the Internal Revenue Code if they wish. During the years ended May 31, 2018 and May 31, 2017, the Organization contributed \$34,374 and \$38,894, respectively.

**8. DONATED SERVICES AND MATERIALS**

The Organization received donated services and materials during the years ended May 31, 2018 and May 31, 2017 in support of its programs and operations. The fair market value has been recorded in the accompanying consolidated financial statements.

**9. FUNCTIONAL ALLOCATION OF EXPENSES**

The cost of providing the various programs and the supporting services has been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

**10. EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through March 18, 2019, the date which the consolidated financial statements were available to be issued. Management has determined that there are no subsequent events that require disclosure in these consolidated financial statements.

**11. PRIOR PERIOD ADJUSTMENTS**

Net assets as of June 1, 2016 have been adjusted to correct the following misstatements:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
Work of art purchase: incorrectly released from unrestricted net assets	\$ 216,158	\$ (216,158)	\$ -
Deferred income: adjustment due to prior period system conversion	(24,466)	-	(24,466)
Accounts payable: adjustment for amount due for prior period liability	(157,326)	-	(157,326)
Accounts receivable: adjustment to pledge	(7,500)	-	(7,500)
	<u>\$ 26,866</u>	<u>\$ (216,158)</u>	<u>\$ (189,292)</u>

**CONSOLIDATED SUPPLEMENTAL INFORMATION**

## **INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED SUPPLEMENTAL INFORMATION**

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

We have audited the consolidated financial statements of The Art Students League of New York, Inc. and Subsidiary as of and for the years ended May 31, 2018 and 2017, and have issued our report thereon dated March 18, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Schedule of Functional Expenses for the year ended May 31, 2018 with comparative totals for 2017 is presented for the purposes of additional analysis and is not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements as a whole.

*WithumSmith+Brown, PC*

March 18, 2019

**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Schedule of Functional Expenses**  
**For the Year Ended May 31, 2018 with Comparative Totals for 2017**

	Program Expense	Supporting Services			2018	2017
		Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries	\$ 2,229,098	\$ 766,603	\$ 292,411	\$ 1,059,014	\$ 3,288,112	\$ 3,346,397
Instructors compensation	2,075,672	-	-	-	2,075,672	1,982,584
Payroll taxes and employee benefits	762,657	135,816	51,805	187,621	950,278	956,006
Models fees	729,380	-	-	-	729,380	705,974
Consulting and professional fees	803,396	201,552	47,949	249,501	1,052,897	765,499
Grants, stipends and honorariums	122,856	-	-	-	122,856	116,608
Advertising	60,304	95	4,468	4,563	64,867	33,713
Staff development	10,291	7,750	5,277	13,027	23,318	7,268
Repairs and maintenance	392,676	15,653	2,667	18,320	410,996	265,325
Utilities	245,801	10,122	1,724	11,846	257,647	272,655
Tools and supplies	96,667	263	-	263	96,930	119,048
Office supplies and expenses	25,148	19,848	5,060	24,908	50,056	19,856
Equipment leasing and maintenance	-	20,571	-	20,571	20,571	20,356
Printing, copying, and postage	69,345	13,983	45,217	59,200	128,545	130,960
Insurance	144,041	50,609	1,010	51,619	195,660	182,357
Information technology	183,113	16,343	16,446	32,789	215,902	217,014
Subscriptions and memberships	4,235	3,101	124	3,225	7,460	9,871
Travel and lodging	15,910	4,135	553	4,688	20,598	35,950
Artwork transportation and handling	50,468	-	340	340	50,808	40,879
Overseas workshop expense	38,578	-	-	-	38,578	188,489
Space rentals and storage	88,732	7,697	-	7,697	96,429	91,844
Catering and hospitality	45,976	34,499	10,820	45,319	91,295	75,479
Credit card processing fees	141,394	8,434	1,690	10,124	151,518	151,388
Restoration and framing	1,965	-	510	510	2,475	14,064
Miscellaneous	40,218	9,371	1,516	10,887	51,105	42,131
Total expenses before depreciation	8,377,921	1,326,445	489,587	1,816,032	10,193,953	9,791,715
Depreciation	540,631	11,471	-	11,471	552,102	506,812
Total Expenses, 2018	<u>\$ 8,918,552</u>	<u>\$ 1,337,916</u>	<u>\$ 489,587</u>	<u>\$ 1,827,503</u>	<u>\$ 10,746,055</u>	
Total Expenses, 2017	<u>\$ 8,407,349</u>	<u>\$ 1,416,169</u>	<u>\$ 475,009</u>	<u>\$ 1,891,178</u>		<u>\$ 10,298,527</u>