

**THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND SUBSIDIARY**  
**Consolidated Financial Statements**  
**May 31, 2019 and 2018**  
**With Independent Auditor's Report**

**The Art Students League of New York, Inc. and Subsidiary**  
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**May 31, 2019 and 2018**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Consolidated Financial Statements

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, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to 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 audits 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.

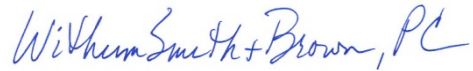
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Art Students League of New York, Inc. and Subsidiary as of May 31, 2019 and 2018, 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.

**Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, in 2019, the Organization and Subsidiary adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Withum Smith + Brown, PC". The signature is written in a cursive, flowing style.

March 11, 2020

**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Statements of Financial Position**  
**May 31, 2019 and 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 3,774,326	\$ -	\$ 3,774,326	\$ 2,240,256	\$ -	\$ 2,240,256
Accounts receivable	36,657	-	36,657	107,374	-	107,374
Inventory	282,041	-	282,041	280,713	-	280,713
Prepaid expenses	166,853	-	166,853	152,286	-	152,286
Asset held for sale	-	450,000	450,000	-	450,000	450,000
Security deposit	5,000	-	5,000	5,000	-	5,000
Total current assets	4,264,877	450,000	4,714,877	2,785,629	450,000	3,235,629
Investments	55,591,021	34,595,688	90,186,709	60,587,513	26,296,147	86,883,660
Property and equipment, at cost, net of accumulated depreciation	5,715,292	-	5,715,292	5,979,302	-	5,979,302
Total assets	\$ 65,571,190	\$ 35,045,688	\$ 100,616,878	\$ 69,352,444	\$ 26,746,147	\$ 96,098,591
<b>Liabilities and Net Assets</b>						
Liabilities						
Current liabilities						
Accounts payable and accrued expenses	\$ 503,085	\$ -	\$ 503,085	\$ 620,475	\$ -	\$ 620,475
Deferred revenue	396,859	-	396,859	475,331	-	475,331
Locker deposits	41,420	-	41,420	35,824	-	35,824
Tuition credits	283,300	-	283,300	276,916	-	276,916
Amounts held until estate probated	-	1,571,851	1,571,851	-	1,016,851	1,016,851
Total liabilities	1,224,664	1,571,851	2,796,515	1,408,546	1,016,851	2,425,397
Net assets						
Without donor restrictions						
Property and equipment, net	5,715,292	450,000	6,165,292	5,979,302	450,000	6,429,302
Board designated	36,615,146	-	36,615,146	37,085,830	-	37,085,830
Undesignated	22,016,088	-	22,016,088	24,878,766	-	24,878,766
Total without donor restrictions	64,346,526	450,000	64,796,526	67,943,898	450,000	68,393,898
With donor restrictions	-	33,023,837	33,023,837	-	25,279,296	25,279,296
Total net assets	64,346,526	33,473,837	97,820,363	67,943,898	25,729,296	93,673,194
Total liabilities and net assets	\$ 65,571,190	\$ 35,045,688	\$ 100,616,878	\$ 69,352,444	\$ 26,746,147	\$ 96,098,591

The Notes to Consolidated Financial Statements are an integral part of these statements.

**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Statements of Activities**  
**For the Years Ended May 31, 2019 and 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities						
Public support and other revenue						
Public support						
Contributions	\$ 1,438,051	\$ 9,294,827	\$ 10,732,878	\$ 182,827	\$ 157,147	\$ 339,974
Donated services and materials	701	-	701	31,406	-	31,406
Fundraising benefit	-	-	-	211,173	-	211,173
Less: Direct costs of fundraising benefit	-	-	-	(194,805)	-	(194,805)
Total public support	<u>1,438,752</u>	<u>9,294,827</u>	<u>10,733,579</u>	<u>230,601</u>	<u>157,147</u>	<u>387,748</u>
Other revenue						
Tuition income	4,589,522	-	4,589,522	4,145,327	-	4,145,327
Store and cafeteria sales	1,526,384	-	1,526,384	1,449,878	-	1,449,878
Less: Cost of goods sold	(927,901)	-	(927,901)	(887,335)	-	(887,335)
Facility rental income	276,788	-	276,788	309,402	-	309,402
Dues and fees	261,115	-	261,115	232,351	-	232,351
Other income	133,966	-	133,966	129,057	-	129,057
Spending policy	<u>4,700,000</u>	<u>-</u>	<u>4,700,000</u>	<u>4,650,229</u>	<u>-</u>	<u>4,650,229</u>
Total other revenue	<u>10,559,874</u>	<u>-</u>	<u>10,559,874</u>	<u>10,028,909</u>	<u>-</u>	<u>10,028,909</u>
Total public support and other revenue	<u>11,998,626</u>	<u>9,294,827</u>	<u>21,293,453</u>	<u>10,259,510</u>	<u>157,147</u>	<u>10,416,657</u>
Expenses						
Program services	<u>9,859,817</u>	<u>-</u>	<u>9,859,817</u>	<u>9,105,998</u>	<u>-</u>	<u>9,105,998</u>
Supporting services						
Management and general	1,258,577	-	1,258,577	1,130,458	-	1,130,458
Fundraising	<u>343,639</u>	<u>-</u>	<u>343,639</u>	<u>509,599</u>	<u>-</u>	<u>509,599</u>
Total supporting services	<u>1,602,216</u>	<u>-</u>	<u>1,602,216</u>	<u>1,640,057</u>	<u>-</u>	<u>1,640,057</u>
Total expenses	<u>11,462,033</u>	<u>-</u>	<u>11,462,033</u>	<u>10,746,055</u>	<u>-</u>	<u>10,746,055</u>
Increase (decrease) in net assets before non-operating activities (carried forward)	<u>536,593</u>	<u>9,294,827</u>	<u>9,831,420</u>	<u>(486,545)</u>	<u>157,147</u>	<u>(329,398)</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Statements of Activities**  
**For the Years Ended May 31, 2019 and 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Increase (decrease) in net assets before non-operating activities (brought forward)	\$ 536,593	\$ 9,294,827	\$ 9,831,420	\$ (486,545)	\$ 157,147	\$ (329,398)
Non-operating activities						
Investment income (loss)	(722,984)	(261,267)	(984,251)	5,226,793	2,008,147	7,234,940
Spending policy	(3,410,981)	(1,289,019)	(4,700,000)	(2,456,162)	(2,194,067)	(4,650,229)
Loss on impairment of asset held for sale	-	-	-	(509,209)	(630,060)	(1,139,269)
Total non-operating activities	(4,133,965)	(1,550,286)	(5,684,251)	2,261,422	(815,980)	1,445,442
Changes in net assets	(3,597,372)	7,744,541	4,147,169	1,774,877	(658,833)	1,116,044
Net assets						
Beginning of year	67,943,898	25,729,296	93,673,194	66,169,021	26,388,129	92,557,150
End of year	\$ 64,346,526	\$ 33,473,837	\$ 97,820,363	\$ 67,943,898	\$ 25,729,296	\$ 93,673,194

The Notes to Consolidated Financial Statements are an integral part of these statements.

**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended May 31, 2019**

	<u>Program Expense</u>	<u>Supporting Services</u>			<u>2019</u>
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total Expenses</u>
Salaries	\$ 2,573,010	\$ 728,432	\$ 230,394	\$ 958,826	\$ 3,531,836
Instructors' compensation	2,524,998	-	-	-	2,524,998
Payroll taxes and employee benefits	823,595	168,418	34,116	202,534	1,026,129
Models fees	837,364	-	-	-	837,364
Consulting and professional fees	623,976	160,011	6,425	166,436	790,412
Store and cafeteria cost of goods sold	927,901	-	-	-	927,901
Grants, stipends and honorariums	117,210	-	-	-	117,210
Advertising	40,411	-	244	244	40,655
Staff development	7,519	2,514	149	2,663	10,182
Repairs and maintenance	361,725	14,371	2,448	16,819	378,544
Utilities	236,768	9,750	1,661	11,411	248,179
Tools and supplies	86,917	40	-	40	86,957
Office supplies and expenses	27,214	23,484	2,777	26,261	53,475
Equipment leasing and maintenance	1,081	20,871	-	20,871	21,952
Printing, copying, and postage	67,493	8,950	15,338	24,288	91,781
Insurance	150,979	52,104	1,059	53,163	204,142
Information technology	184,711	1,845	4,944	6,789	191,500
Subscriptions and memberships	4,755	2,181	6,431	8,612	13,367
Travel and lodging	24,942	6,625	11,454	18,079	43,021
Artwork transportation and handling	113,877	235	31	266	114,143
Overseas workshop expense	140,374	-	-	-	140,374
Space rentals and storage	94,245	6,890	8,293	15,183	109,428
Catering and hospitality	78,534	15,154	13,967	29,121	107,655
Credit card processing fees	148,181	10,592	1,489	12,081	160,262
Restoration and framing	15,795	-	-	-	15,795
Depreciation	532,716	18,186	-	18,186	550,902
Miscellaneous	41,427	7,924	2,419	10,343	51,770
	<u>10,787,718</u>	<u>1,258,577</u>	<u>343,639</u>	<u>1,602,216</u>	<u>12,389,934</u>
Less: Expenses included with revenues on the statements of activities					
Store and cafeteria cost of goods sold	<u>(927,901)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(927,901)</u>
	<u>\$ 9,859,817</u>	<u>\$ 1,258,577</u>	<u>\$ 343,639</u>	<u>\$ 1,602,216</u>	<u>\$ 11,462,033</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.



**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended May 31, 2018**

	Program Expense	Supporting Services			2018
		Management and General	Fundraising	Total	Total Expenses
Salaries	\$ 2,043,002	\$ 590,368	\$ 309,411	\$ 899,779	\$ 2,942,781
Instructors' compensation	2,421,003	-	-	-	2,421,003
Payroll taxes and employee benefits	790,868	104,593	54,817	159,410	950,278
Models fees	729,380	-	-	-	729,380
Consulting and professional fees	803,396	201,552	47,949	249,501	1,052,897
Store and cafeteria cost of goods sold	887,335	-	-	-	887,335
Direct costs of fundraising benefit	-	-	194,805	194,805	194,805
Grants, stipends and honorariums	122,856	-	-	-	122,856
Advertising	60,304	95	4,468	4,563	64,867
Staff development	10,291	7,750	5,277	13,027	23,318
Repairs and maintenance	392,676	15,653	2,667	18,320	410,996
Utilities	245,801	10,122	1,724	11,846	257,647
Tools and supplies	96,667	263	-	263	96,930
Office supplies and expenses	25,148	19,848	5,060	24,908	50,056
Equipment leasing and maintenance	-	20,571	-	20,571	20,571
Printing, copying, and postage	69,345	13,983	45,217	59,200	128,545
Insurance	144,041	50,609	1,010	51,619	195,660
Information technology	183,113	16,343	16,446	32,789	215,902
Subscriptions and memberships	4,235	3,101	124	3,225	7,460
Travel and lodging	15,910	4,135	553	4,688	20,598
Artwork transportation and handling	50,468	-	340	340	50,808
Overseas workshop expense	38,578	-	-	-	38,578
Space rentals and storage	88,732	7,697	-	7,697	96,429
Catering and hospitality	45,976	34,499	10,820	45,319	91,295
Credit card processing fees	141,394	8,434	1,690	10,124	151,518
Restoration and framing	1,965	-	510	510	2,475
Depreciation	540,631	11,471	-	11,471	552,102
Miscellaneous	40,218	9,371	1,516	10,887	51,105
	<u>9,993,333</u>	<u>1,130,458</u>	<u>704,404</u>	<u>1,834,862</u>	<u>11,828,195</u>
Less: Expenses included with revenues on the statements of activities					
Store and cafeteria cost of goods sold	(887,335)	-	-	-	(887,335)
Direct costs of fundraising benefits	-	-	(194,805)	(194,805)	(194,805)
	<u>\$ 9,105,998</u>	<u>\$ 1,130,458</u>	<u>\$ 509,599</u>	<u>\$ 1,640,057</u>	<u>\$ 10,746,055</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**The Art Students League of New York, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended May 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating and non-operating activities</b>		
Change in net assets	\$ 4,147,169	\$ 1,116,044
Adjustments to reconcile change in net assets to net cash provided by (used in) operating and non-operating activities		
Depreciation	550,902	552,102
Impairment loss of asset held for sale	-	1,139,269
Reinvested dividends and capital gains	(4,410,625)	(4,441,146)
Unrealized (gain) loss on investments	4,079,455	(2,962,207)
Realized (gain) loss on sale of investments	1,353	(492,471)
(Increase) decrease in		
Accounts receivable	70,717	(56,115)
Inventory	(1,328)	6,714
Prepaid expenses	(14,567)	(74,890)
Security deposit	-	(1,000)
Increase (decrease) in		
Accounts payable and accrued expenses	(117,390)	(23,778)
Deferred revenue	(78,472)	106,880
Locker deposits	5,596	(21,715)
Tuition credits	6,384	10,442
Amounts held until estate probated	<u>555,000</u>	<u>1,016,851</u>
Net cash provided by (used in) operating and non-operating activities	<u>4,794,194</u>	<u>(4,125,020)</u>
<b>Investing activities</b>		
Purchases of property and equipment	(286,892)	(749,771)
Purchases of investments	(7,673,232)	-
Proceeds from sale of investments	<u>4,700,000</u>	<u>5,400,000</u>
Net cash provided by (used in) investing activities	<u>(3,260,124)</u>	<u>4,650,229</u>
Net change in cash and cash equivalents	1,534,070	525,209
<b>Cash and cash equivalents</b>		
Beginning of year	<u>2,240,256</u>	<u>1,715,047</u>
End of year	<u>\$ 3,774,326</u>	<u>\$ 2,240,256</u>
<b>Supplemental disclosure of cash flow information</b>		
Impairment loss on asset held for sale (see Note 1)	<u>\$ -</u>	<u>\$ 1,139,269</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, 2019 and 2018**

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

**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.

**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.

The Organization and Subsidiary's resources are classified and reported as separate classes of net assets based on the existence or absence of donor-imposed restrictions as follows:

Without donor restrictions - Include expendable resources that are used to carry out the Organization and Subsidiary's operations and are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the Organization and Subsidiary or may be limited by contractual agreements without side parties. In addition, net assets without donor restrictions include board designated funds and property and equipment used in operations.

With donor restrictions - Net assets subject to donor-imposed restrictions that will be met either by the actions of the Organization and Subsidiary or through the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization and Subsidiary, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income may be made available for operations, subject to the Organization and Subsidiary's spending policy.

**Cash and Cash Equivalents**

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

**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).

**The Art Students League of New York, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**May 31, 2019 and 2018**

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In determining fair value, the Organization and Subsidiary use 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 and Subsidiary'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.

**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.

**Inventory**

The Organization and Subsidiary operate 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. Inventory is stated at standard cost, which approximates the lower of historical cost (on a first-in, first-out basis) or net realizable value.

**Property and Equipment**

Property and equipment acquired are recorded at cost. It is the Organization and Subsidiary'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.

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

## Notes to Consolidated Financial Statements

### May 31, 2019 and 2018

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#### **Contributions and Promises to Give**

Grants and contributions are recognized when cash is received or when the donor makes a promise to give to the Organization and Subsidiary that is, in substance, unconditional. Grants and contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions.

The Organization and Subsidiary use the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance was deemed necessary for the years ended May 31, 2019 and 2018.

#### **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.

#### **Advertising Costs**

Advertising costs are charged to operations when the advertising first takes place. Advertising expense for the years ended May 31, 2019 and 2018 was \$40,655 and \$64,867, respectively.

#### **Collections**

The Organization and Subsidiary have 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 and Subsidiary's inception, are not recognized as assets on the consolidated statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired.

#### **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. Significant estimates used in the preparation of these consolidated financial statements include depreciation and fair value of investments. Actual results could differ from those estimates.

#### **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 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 Organization and 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.

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**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. There was no loss recorded for the year ended May 31, 2019.

**New Accounting Pronouncements Adopted in Current Year**

During the year ended May 31, 2019, the Organization and Subsidiary adopted Accounting Standards Update (“ASU”) 2016-14 - *Not-for-profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-For-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows.

The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and presentation of expenses by both their nature and functional classification.

A recap of the net asset classifications driven by the adaption of ASU 2016-14 as of May 31, 2018 and 2017 is as follows:

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
<b>Net Asset Classifications</b>						
As previously presented:						
Unrestricted	\$ 67,943,898	\$ -	\$ 67,943,898	\$ 66,169,021	\$ -	\$ 66,169,021
Temporarily restricted	-	13,657,526	13,657,526	-	13,686,299	13,686,299
Permanently restricted	-	12,071,770	12,071,770	-	12,701,830	12,701,830
Net assets reclassified	\$ 67,943,898	\$ 25,729,296	\$ 93,673,194	\$ 66,169,021	\$ 26,388,129	\$ 92,557,150

**Reclassification**

Certain amounts for the year ended May 31, 2018 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation of the year ended May 31, 2019 consolidated financial statements.

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**2. RESTRICTIONS ON NET ASSETS**

**Net Assets Without Donor Restrictions**

*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 \$36,615,146 and \$37,085,830 as of May 31, 2019 and 2018, 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). There were no transfers during the year ended May 31, 2019.

**Net Assets With Donor Restrictions**

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

	<u>2019</u>	<u>2018</u>
<b>Grants and contributions (subject to expenditure for specific purpose)</b>		
Future periods and programs		
Scholarships	\$ 18,251,266	\$ 8,798,109
Building fund	1,278,060	2,748,460
Acquisition of art work	1,012,195	1,043,907
Other programs	<u>860,546</u>	<u>1,067,050</u>
	<u>21,402,067</u>	<u>13,657,526</u>
 <b>Donor-designated endowments (to be held in perpetuity)</b>		
Donor directed use of investment income		
Scholarships	8,322,508	8,322,508
Other programs	1,892,023	1,892,023
Residency program	1,050,000	1,050,000
Building fund	<u>807,239</u>	<u>807,239</u>
	<u>12,071,770</u>	<u>12,071,770</u>
	<u>\$ 33,473,837</u>	<u>\$ 25,729,296</u>

Donor-designated endowments are net assets restricted by the donor in perpetuity, the investment income from which is without donor restriction. The Organization and Subsidiary's endowment consists of several restricted endowment funds established for specific purposes. As required by 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.

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The Board of Directors of the Organization and Subsidiary 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 and Subsidiary classify as net assets with donor restrictions (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 is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization and Subsidiary in a manner consistent with the standard of prudence prescribed by UPMIFA.

Changes in endowment assets are as follows for the year ended May 31, 2019:

**Donor-designated endowments**

Endowment net assets, May 31, 2018	\$ 12,071,770
Net investment loss	(120,113)
Accumulated endowment earnings	<u>120,113</u>
Endowment net assets, May 31, 2019	<u>\$ 12,071,770</u>

Changes in endowment assets are as follows for the year ended May 31, 2018:

**Donor-designated endowments**

Endowment net assets, May 31, 2017	\$ 12,701,830
Net investment income	922,165
Appropriation from endowment to operations	(922,165)
Loss on impairment of asset held for sale	<u>(630,060)</u>
Endowment net assets, May 31, 2018	<u>\$ 12,071,770</u>

In accordance with UPMIFA, the Organization and Subsidiary consider 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 Subsidiary 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 Subsidiary; and
- g) The investment policy of the Organization and Subsidiary.

**Return Objectives and Risk Parameters**

The Organization and Subsidiary have 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 and Subsidiary allow spending a percentage of current and accumulated income from the endowment.



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**3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES**

As of May 31, 2019, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

Financial Assets	
Cash and cash equivalents	\$ 3,774,326
Accounts receivable	<u>36,657</u>
Total financial assets and liquidity resources available within one year	<u>\$ 3,810,983</u>

The Organization and Subsidiary generate revenue through education programs offering accessible, affordable, high quality education and instruction in painting, drawing, printmaking, sculpture (including welding and bronze casting) and assemblage. In addition, the Organization and Subsidiary have fundraising campaigns to fund operations and other projects. The Organization and Subsidiary have \$22 million of undesignated investments and \$36 million of board-designated net assets that could be used for general operating expenses upon approval by the Board of Directors.

**4. CONCENTRATION OF CREDIT RISK**

The Organization and Subsidiary maintain their 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, 2019, the Organization and Subsidiary's cash and cash equivalents uninsured balances totaled \$5,968. The Organization and Subsidiary have not experienced any losses in these accounts, and do not believe they are exposed to any significant credit risk on cash and cash equivalents.

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, 2019, the Organization and Subsidiary's uninsured investment balances totaled \$92,820,578. In addition, investment accounts are covered under an additional protection program. SIPC and the excess SIPC coverage do not protect against loss due to market fluctuation.

**5. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**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, 2019 and 2018 was \$3,774,326 and \$2,240,256, respectively. Cash and short-term investments carrying amount approximates fair value because of the short maturities of those investments.

**Fair Value Measured on Recurring Basis**

Fair values of assets measured on a recurring basis consist of taxable bond funds, treasury inflation securities, international bonds, U.S. and international equities, growth real estate, small company, aggressive international, energy/natural resources and alternative investments. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. There were no changes in methodologies and there were no transfers between Levels 1 and 2 for the periods presented.

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Investments consist of the following as May 31, 2019:

	<u>Fair Value</u>			<u>Cost</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Total</u>
Taxable bond funds	\$ -	\$ 18,461,027	\$ 18,461,027	\$ 18,374,363
Treasury inflation securities	-	4,752,951	4,752,951	4,735,138
International bonds	-	4,052,023	4,052,023	4,082,839
U.S. equities	27,028,146	-	27,028,146	23,456,136
International equities	9,798,514	-	9,798,514	9,149,415
Growth real estate	-	9,743,947	9,743,947	8,786,579
Small company	-	6,613,184	6,613,184	5,767,399
Aggressive international	-	3,119,766	3,119,766	3,317,657
Energy/natural resources	-	6,390,138	6,390,138	6,590,195
Alternative investments	-	227,013	227,013	242,970
	<u>\$ 36,826,660</u>	<u>\$ 53,360,049</u>	<u>\$ 90,186,709</u>	<u>\$ 84,502,691</u>

Investments consist of the following as May 31, 2018:

	<u>Fair Value</u>			<u>Cost</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Total</u>
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>

**Investment Income (Loss)**

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

	<u>2019</u>	<u>2018</u>
Interest, dividend income and capital gains	\$ 3,303,524	\$ 3,986,722
Realized gain (loss) on sale of investments	(1,353)	492,471
Investment fees	(206,967)	(206,460)
Unrealized gain (loss) on investments	<u>(4,079,455)</u>	<u>2,962,207</u>
Total investment income (loss)	<u>\$ (984,251)</u>	<u>\$ 7,234,940</u>

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**6. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at May 31:

Description	Life/Years	2019	2018
Building and improvements	20-30	\$ 10,427,484	\$ 10,341,904
Equipment and furniture	3-10	2,593,310	2,391,998
Land	N/A	650,000	650,000
Land improvements	25	<u>735,532</u>	<u>735,532</u>
		14,406,326	14,119,434
Less: Accumulated depreciation		<u>(8,241,034)</u>	<u>(7,690,132)</u>
		6,165,292	6,429,302
Less: Asset held for sale		<u>(450,000)</u>	<u>(450,000)</u>
		<u>\$ 5,715,292</u>	<u>\$ 5,979,302</u>

Depreciation expense for the years ended May 31, 2019 and 2017 was \$550,902 and \$552,102, respectively.

During the year ended May 31, 2018, the Board approved the sale of the 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 net assets with donor restrictions for an impairment for market value of the building and \$509,209 decrease in net assets without donor restrictions for building improvements) was recognized in the accompanying consolidated financial statements for the year ended May 31, 2018. The sale was finalized on February 10, 2020.

**7. COMMITMENTS AND CONTINGENCIES**

- a) Government supported programs are subject to audit by the granting agency.
- b) The Organization and Subsidiary 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 May 19, 2020. 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.
- c) The Organization and Subsidiary have been named in several claims for personal injury sustained at the Organization and Subsidiary's premises. The Organization and Subsidiary's insurance company is currently handling the claims. Management believes that the insurance coverage is sufficient to cover any claims which may be realized.
- d) During the year ended May 31, 2018, the Organization and Subsidiary received \$1,016,851 payable-on-death (POD) contribution which bypassed probate court. Since the Organization and Subsidiary may have a legal obligation if the will was probated, the amount was reflected as a liability within the consolidated statements of financial position as of May 31, 2018. The will was probated during the year ended May 31, 2019; the full amount of \$1,016,851 was recorded within the consolidated statements of activities. During the year ended May 31, 2019, the Organization and Subsidiary received an additional \$555,000 for another estate and it is reflected as a liability within the consolidated statements as the case is not finalized.

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**8. CONCENTRATION OF CONTRIBUTIONS**

The Organization and Subsidiary received approximately 95% of the total contributions from one estate for the year ended May 31, 2019.

**9. EMPLOYEE BENEFIT PLAN**

The Organization and Subsidiary currently have a 401(k) salary deferral plan. The plan covers full-time employees. The Organization and Subsidiary match 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, 2019 and 2018, the Organization and Subsidiary contributed \$38,568 and \$34,374, respectively.

**10. NEW ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE**

In June 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-08, *Not-for-Profit Entities*, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The FASB is issuing this ASU to improve and clarify existing guidance on revenue recognition of grants and contracts by not-for-profit organizations ("NFPs") because there is diversity in practice among NFPs with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. This ASU also provides guidance to help determine whether a contribution is conditional or unconditional, and better distinguish a donor-imposed condition from a donor-imposed restriction. This ASU is effective for resource recipients for fiscal years beginning after December 15, 2020.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), which requires the recognition of a "right to use" asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet for all of the Organization and Subsidiary's lease obligations. This ASU is effective for fiscal years beginning after December 15, 2020 (fiscal year 2022).

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied using a retrospective transition method to each period presented.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customer. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU, which was deferred by ASU 2015-14, is effective for annual periods beginning after December 15, 2018 (fiscal year 2019) and interim periods beginning after December 15, 2019 (fiscal year June 30, 2020). The ASU is to be applied retrospectively or using a cumulative effect transition method. Early adoption is permitted.

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The Organization is currently evaluating the effect that these pronouncements will have on its consolidated financial statements and related disclosures.

**11. FUNCTIONAL ALLOCATION OF EXPENSES**

The cost of providing the various programs and supporting services has been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the programs and supporting services based on analysis of personnel time and utilization of related activities if there is not a direct association to one of the functional categories. Management and general expense include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization and Subsidiary. The expenses that are allocated include occupancy, depreciation, which are allocated on a square footage basis, as well as salaries, employee benefits, payroll taxes, office expense, insurance, and other, which are allocated on the basis of estimates of time and effort.

**12. EVALUATION OF SUBSEQUENT EVENTS**

The Organization and Subsidiary have evaluated subsequent events through March 11, 2020, the date which the consolidated financial statements were available to be issued. Management has determined that there are no subsequent events that require recognition or disclosure in these consolidated financial statements, except as discussed in Note 6.