THE ART STUDENTS LEAGUE OF NEW YORK, INC. AND SUBSIDIARY
Consolidated Financial Statements
May 31, 2020 and 2019
With Independent Auditor's Report

withum
ADVISORY TAX AUDIT

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ADVISORY TAX AUDIT

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, 2020 and 2019, 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, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, in 2020, the Organization and Subsidiary adopted new accounting guidance in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958) and FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to these matters.

As discussed in Note 12 to the consolidated financial statements, management continues to evaluate the introduction of the COVID-19 virus to the United States and its impact on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization and Subsidiary's financial condition and results of operations, the specific impact is not readily determinable as of the date of these consolidated financial statements. Our opinion is not modified with respect to this matter.

Withum Smith + Brown, PC

March 16, 2021

The Art Students League of New York, Inc. and Subsidiary
Consolidated Statements of Financial Position
May 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Current assets						
Cash and cash equivalents	$ 6,182,037	$ -	$ 6,182,037	$ 3,774,326	$ -	$ 3,774,326
Accounts receivable	60,536	-	60,536	36,657	-	36,657
Inventory	329,844	-	329,844	282,041	-	282,041
Prepaid expenses	96,865	-	96,865	166,853	-	166,853
Security deposit	5,000	-	5,000	5,000	-	5,000
Asset held for sale	-	-	-	-	450,000	450,000
Total current assets	6,674,282	-	6,674,282	4,264,877	450,000	4,714,877
Investments	53,043,343	33,450,296	86,493,639	55,591,021	34,595,688	90,186,709
Property and equipment, at cost, net of accumulated depreciation	5,338,207	-	5,338,207	5,715,292	-	5,715,292
Total assets	$ 65,055,832	$ 33,450,296	$ 98,506,128	$ 65,571,190	$ 35,045,688	$ 100,616,878
Liabilities and Net Assets						
Liabilities						
Current liabilities						
Accounts payable and accrued expenses	$ 726,242	$ -	$ 726,242	$ 503,085	$ -	$ 503,085
PPP loan payable	1,407,150	-	1,407,150	-	-	-
Deferred revenue	291,626	-	291,626	396,859	-	396,859
Locker deposits	46,688	-	46,688	41,420	-	41,420
Tuition credits	429,347	-	429,347	283,300	-	283,300
Amounts held until estate probated	-	1,571,851	1,571,851	-	1,571,851	1,571,851
Total liabilities	2,901,053	1,571,851	4,472,904	1,224,664	1,571,851	2,796,515
Net assets						
Without donor restrictions						
Property and equipment, net	5,338,207	-	5,338,207	5,715,292	450,000	6,165,292
Board designated	37,042,102	-	37,042,102	36,615,146	-	36,615,146
Undesignated	19,774,470	-	19,774,470	22,016,088	-	22,016,088
Total without donor restrictions	62,154,779	-	62,154,779	64,346,526	450,000	64,796,526
With donor restrictions	-	31,878,445	31,878,445	-	33,023,837	33,023,837
Total net assets	62,154,779	31,878,445	94,033,224	64,346,526	33,473,837	97,820,363
Total liabilities and net assets	$ 65,055,832	$ 33,450,296	$ 98,506,128	$ 65,571,190	$ 35,045,688	$ 100,616,878

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
Years Ended May 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities						
Public support and other revenue						
Public support						
Contributions	$ 870,494	$ 403,106	$ 1,273,600	$ 1,438,752	$ 9,294,827	$ 10,733,579
Fundraising benefit	366,484	-	366,484	-	-	-
Less: Direct costs of fundraising benefit	(191,836)	-	(191,836)	-	-	-
Total public support	1,045,142	403,106	1,448,248	1,438,752	9,294,827	10,733,579
Other revenue						
Tuition income	3,520,799	-	3,520,799	4,589,522	-	4,589,522
Store and cafeteria sales	1,145,319	-	1,145,319	1,526,384	-	1,526,384
Less: Cost of goods sold	(658,361)	-	(658,361)	(927,901)	-	(927,901)
Dues and fees	286,501	-	286,501	261,115	-	261,115
Facility rental income	210,796	-	210,796	276,788	-	276,788
Other income	67,832	-	67,832	133,966	-	133,966
Spending policy	3,530,692	-	3,530,692	4,700,000	-	4,700,000
Total other revenue	8,103,578	-	8,103,578	10,559,874	-	10,559,874
Total public support and other revenue	9,148,720	403,106	9,551,826	11,998,626	9,294,827	21,293,453
Expenses						
Program services	9,500,117	-	9,500,117	9,859,817	-	9,859,817
Supporting services						
Management and general	1,465,062	-	1,465,062	1,258,577	-	1,258,577
Fundraising	558,063	-	558,063	343,639	-	343,639
Total supporting services	2,023,125	-	2,023,125	1,602,216	-	1,602,216
Total expenses	11,523,242	-	11,523,242	11,462,033	-	11,462,033
Change in net assets before non-operating activities (carried forward)	(2,374,522)	403,106	(1,971,416)	536,593	9,294,827	9,831,420

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
Years Ended May 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Change in net assets before non-operating activities (brought forward)	$ (2,374,522)	$ 403,106	$ (1,971,416)	$ 536,593	$ 9,294,827	$ 9,831,420
Non-operating activities						
Investment income (loss)	1,086,996	627,973	1,714,969	(722,984)	(261,267)	(984,251)
Spending policy	(1,354,221)	(2,176,471)	(3,530,692)	(3,410,981)	(1,289,019)	(4,700,000)
Net assets released from restriction						
Asset held for sale	450,000	(450,000)	-	-	-	-
Total non-operating activities	182,775	(1,998,498)	(1,815,723)	(4,133,965)	(1,550,286)	(5,684,251)
Changes in net assets	(2,191,747)	(1,595,392)	(3,787,139)	(3,597,372)	7,744,541	4,147,169
Net assets						
Beginning of year	64,346,526	33,473,837	97,820,363	67,943,898	25,729,296	93,673,194
End of year	$ 62,154,779	$ 31,878,445	$ 94,033,224	$ 64,346,526	$ 33,473,837	$ 97,820,363

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
Year Ended May 31, 2020

	Program Expense	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total	Total Expenses
Salaries	$ 2,756,435	$ 772,339	$ 389,032	$ 1,161,371	$ 3,917,806
Instructors' compensation	2,578,128	-	-	-	2,578,128
Payroll taxes and employee benefits	886,810	128,392	64,672	193,064	1,079,874
Models fees	830,016	-	-	-	830,016
Consulting and professional fees	445,350	280,872	5,599	286,471	731,821
Fundraising benefit expenses	-	-	199,349	199,349	199,349
Store and cafeteria cost of goods sold	658,361	-	-	-	658,361
Grants, stipends and honorariums	93,347	-	-	-	93,347
Advertising	37,315	-	1,600	1,600	38,915
Staff development	3,619	1,248	362	1,610	5,229
Repairs and maintenance	249,588	9,773	1,665	11,438	261,026
Utilities	234,978	9,676	1,648	11,324	246,302
Tools and supplies	92,308	677	-	677	92,985
Office supplies and expenses	20,223	19,959	2,492	22,451	42,674
Equipment leasing and maintenance	26	25,408	-	25,408	25,434
Printing, copying, and postage	66,766	14,694	18,533	33,227	99,993
Insurance	158,890	48,428	1,115	49,543	208,433
Information technology	92,375	40,665	27,000	67,665	160,040
Subscriptions and memberships	9,892	573	9,371	9,944	19,836
Travel and lodging	15,769	12,757	14,117	26,874	42,643
Artwork transportation and handling	59,497	1,125	55	1,180	60,677
Overseas workshop expense	27,764	-	-	-	27,764
Space rentals and storage	88,212	7,348	-	7,348	95,560
Catering and hospitality	26,264	14,011	3,588	17,599	43,863
Credit card processing fees	122,700	8,842	5,235	14,077	136,777
Restoration and framing	3,730	-	400	400	4,130
Depreciation	545,677	21,367	3,641	25,008	570,685
Miscellaneous	54,438	46,908	425	47,333	101,771
	10,158,478	1,465,062	749,899	2,214,961	12,373,439
Less: Expenses included with revenues on the statements of activities					
Direct costs of fundraising benefits	-	-	(191,836)	(191,836)	(191,836)
Store and cafeteria cost of goods sold	(658,361)	-	-	-	(658,361)
	$ 9,500,117	$ 1,465,062	$ 558,063	$ 2,023,125	$ 11,523,242

The Notes to Consolidated Financial Statements are an integral part of this statement.

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

	Program Expense	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total	Total Expenses
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
	10,787,718	1,258,577	343,639	1,602,216	12,389,934
Less: Expenses included with revenues on the statements of activities					
Store and cafeteria cost of goods sold	(927,901)	-	-	-	(927,901)
	$ 9,859,817	$ 1,258,577	$ 343,639	$ 1,602,216	$ 11,462,033

The Notes to Consolidated Financial Statements are an integral part of this statement.

The Art Students League of New York, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended May 31, 2020 and 2019

	2020	2019
Operating and non-operating activities		
Change in net assets	$ (3,787,139)	$ 4,147,169
Adjustments to reconcile change in net assets to		
net cash provided by (used in) operating and non-operating activities		
Depreciation	570,685	550,902
Loss on disposal of equipment	54,074	-
Reinvested dividends and capital gains	(246,912)	(4,410,625)
Unrealized loss on investments	10,391,911	4,079,455
Realized (gain) loss on sale of investments	(10,251,929)	1,353
Change in		
Accounts receivable	(23,879)	70,717
Inventory	(47,803)	(1,328)
Prepaid expenses	69,988	(14,567)
Change in		
Accounts payable and accrued expenses	223,157	(117,390)
Deferred revenue	(105,233)	(78,472)
Locker deposits	5,268	5,596
Tuition credits	146,047	6,384
Amounts held until estate probated	-	555,000
Net cash provided by (used in) operating and non-operating activities	(3,001,765)	4,794,194
Investing activities		
Purchases of property and equipment	(247,674)	(286,892)
Sale of property	450,000	-
Proceeds from sale of investments	3,800,000	4,700,000
Purchases of investments	-	(7,673,232)
Net cash provided by (used in) investing activities	4,002,326	(3,260,124)
Financing activities		
PPP loan proceeds received	1,407,150	-
Net cash provided by financing activities	1,407,150	-
Net change in cash and cash equivalents	2,407,711	1,534,070
Cash and cash equivalents		
Beginning of year	3,774,326	2,240,256
End of year	$ 6,182,037	$ 3,774,326

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

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.

Due to the impacts of COVID-19, the Organization temporarily ceased in-person classes on March 12, 2020 and subsequently switched to online interactive classes. The Organization has resumed some in-person classes as of the date of these consolidated financial statements.

Principles of Consolidation

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

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

Net assets without donor restrictions: Net assets that include expendable resources that are used to carry out the Organization’s operations and are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the Organization 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.

Net assets with restrictions: Net assets subject to donor-imposed restrictions that will be met either by the actions of the Organization 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, 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’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).

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 Organization's investments consist primarily of interest in global equity funds, fixed income, hedge funds, common stocks, and private equity investment funds, which are all recorded at their estimated fair value (see Note 5). The investment funds are generally not traded in a public market and are subject to restriction on resale. The investment funds may also have risk associated with their concentration of investments in certain geographic regions and in certain industries. The fair values are determined in good faith by the General Partner of the fund the Organization invested in, in accordance with the terms of the agreement, which are usually net asset values provided to the General Partner by each fund and the independently audited financial statements of the fund. For those funds for which independently audited financial statements are not provided, the General Partner bases its estimate of fair value on the unaudited information provided by the respective fund's management and reported to the General Partner. Such values may be determined through various methods, including consideration of the initial cost of investments, recent transactions in the same or comparable securities, or analytical techniques. Considerable judgment is required to interpret the factors used by the General Partner to develop such estimates of fair value. Accordingly, it is possible that the fund's results may subsequently be adjusted, and the adjustments may be material to the Organization. Investments held in foreign currencies are translated at the exchange rate of each period end.

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 for the benefit of its students. The store's inventory consists of art supplies and books. Inventory is stated at net realizable value. Due to the impacts of COVID-19, the Organization is currently not receiving income from cafeteria sales.

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.

Advertising Costs

Advertising costs are charged to operations when the advertising first takes place. Advertising expense for the years ended May 31, 2020 and 2019 was $38,915 and $40,655, respectively.

Collections

The collections consist of student and instructor works: drawings, paintings, prints, sculptures and mixed media assembled over the life of the Organization. The primary focus of the collection is to educate and engage students, instructors and visitors with art taught at the League, primarily through exhibitions. Works in the collections acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in net assets without donor restrictions if purchased with net assets without donor restrictions and as decreases in net assets with donor restrictions if purchased with donor-restricted funds. Contributions of collection items are not recognized in the consolidated statements of activities and changes in net assets. Proceeds from deaccessions or insurance recoveries are reflected in the consolidated statements of activities and changes in net assets based on the absence or existence and nature of donor-imposed restrictions. There were no sales or deaccessions in fiscal years 2020 and 2019. Donations and acquisitions of artworks for inclusion in the collections are not required to be recognized since they are added to collections that are held for educational purposes and public exhibition in furtherance of the mission of the Organization rather than financial gain; are protected, kept encumbered, cared for and preserved; and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for the collections.

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.

New Accounting Pronouncements Adopted in Current Year

The Financial Accounting Standards Board ("FASB") issued new guidance that created Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), in the Accounting Standards Codification ("ASC"). ASC 606 supersedes the prior revenue recognition requirements (codified as ASC 605, Revenue Recognition). ASC 606 established a core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In doing so, companies need to use more judgment and make more estimates than under prior guidance. Judgments include identifying performance obligations in the contract, estimating the amount of consideration to include in the transaction price, and allocating the transaction price to each performance obligation. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, which requires the deferral of incremental costs (primarily commissions) of obtaining a contract with a customer. All references to the "new guidance" include ASC 606 and/or ASC 340-40.

The Organization adopted the requirements of the new guidance as of June 1, 2019, utilizing the modified retrospective method of transition. No adjustment to net assets as of June 1, 2019 was necessary. The Organization applied the new guidance using the practical expedient provided in ASC 606 that allows the guidance to be applied only to contracts that were not complete as of June 1, 2019. Adoption of the new guidance resulted in minimal changes to the Organization's accounting policies for revenue recognition, trade and other receivables and contract liabilities.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was issued to improve and clarify existing guidance on revenue recognition of grants and contracts by not-for-profit organizations ("NFPs") because there was 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. ASU 2018-08 was adopted using the modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Revenue and Support Recognition

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 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 and grants 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 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.

Revenue from contracts with customers - The Organization accounts for tuition income, dues and fees and store and cafeteria sales as exchange transactions in the statements of activities and changes in net assets. Revenue from contracts with customers are treated as revenues without donor restrictions. Funds received in advance from customers for services that have not been performed have been recorded as contract liabilities and recorded as deferred income in the statements of financial position.

Other revenues are obtained from facility rental income, investment and other income. These revenues are used to offset program, management and general, and fundraising expenses. Revenue from these sources are recognized when earned. Certain investment income has been classified as with donor restrictions based on donor stipulations.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Organization performs the following steps (i) identify contracts with customers; (ii) Identify performance obligations; (iii) determine the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Organization satisfies each performance obligation.

The following summarizes the Organization's performance obligations:

Tuition Income
Tuition income represents income received for customer participation in education programs. Fees for tuition services are set by the Organization and are set forth in the agreements with customers. Fees for tuition will vary based on program selection. Payments received in advance for education programs are recorded as deferred tuition income by the Organization. Advanced education payments are recorded as revenue when the education program is complete. Tuition is refundable under certain circumstances, such as cancellation of the program. The total yearly adjustment for refunded tuition is immaterial to the Organization. The Organization provides scholarships which are netted against the tuition income. Tuition income is recognized over a period of time, which is the length of the education program.

Other Exchange Transactions
Dues and fees are recognized in the period to which the fees relate. Store and cafeteria sales are recognized in the period the sale takes place.

The timing of revenue recognition, billings and cash collections results in contract liabilities which are shown as deferred revenue, tuition credits and locker deposits on the consolidated statements of financial position. Contract liabilities as of May 31, 2020 and 2019 were $767,661 and $721,579, respectively.

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 $37,042,102 and $36,615,146 as of May 31, 2020 and 2019, respectively. Investment earnings are added to the balance of the board-designated net assets. During the year ended May 31, 2020, the Board approved a $269,309 transfer from this fund to cover property and equipment capitalized. 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:

	2020	2019
Grants and contributions (subject to expenditure for specific purpose)		
Future periods and programs		
Scholarships	$ 17,064,274	$ 18,251,266
Building fund	1,153,342	1,278,060
Acquisition of art work	968,478	1,012,195
Other programs	1,070,581	860,546
	20,256,675	21,402,067
Donor-designated endowments (to be held in perpetuity)		
Donor directed use of investment income		
Scholarships	8,622,508	8,322,508
Other programs	2,192,023	1,892,023
Building fund	807,239	807,239
Residency program	-	1,050,000
	11,621,770	12,071,770
	$ 31,878,445	$ 33,473,837

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.

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, 2020:

Endowment net assets, May 31, 2019	$ 12,071,770
Net investment income	220,997
Appropriation from endowment to operations	(220,997)
Sale of asset held for sale	(450,000)
Endowment net assets, May 31, 2020	$ 11,621,770

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

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

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.

Endowment Spending Policy
The percentage allowed to be utilized towards the Organization’s operations within the Organization’s endowment spending policy is up to an amount equal to 5% of the portfolio’s average market value over the prior 12 quarters. Any net excess investment earnings over the spending policy on donor-designated endowments is reflected within net assets with donor restrictions to be utilized in future periods and/or programs, with any losses reducing net assets with donor restrictions. Net excess investment income from endowment funds is reflected within net assets with donor restrictions as of May 31, 2020 and 2019.

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of May 31, 2020 and 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:

	2020	2019
Financial assets		
Cash and cash equivalents	$ 6,182,037	$ 3,774,326
Accounts receivable	60,536	36,657
Total financial assets and liquidity resources available within one year	$ 6,242,573	$ 3,810,983

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 $16 million of undesignated investments and $37 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 two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution. At May 31, 2020, the Organization and Subsidiary's cash and cash equivalents uninsured balances totaled $570,866. 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, 2020, the Organization and Subsidiary's uninsured investment balances totaled $91,246,767.

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, 2020 and 2019 was $6,182,037 and $3,774,326, 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

The following tables summarize the assets which have been accounted for at fair value on a recurring basis as of May 31, 2020 and 2019, along with the basis for the determination of fair value. Certain investments that are measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy. There were no changes in investment leveling methodology for the years ended May 31, 2020 and 2019. In addition, there were no transfers between investment leveling classifications during the years ended May 31, 2020 and 2019. There were no transfers out of level 3 in the fair value table to investments measured at net present value using the practical expedient.

Investments consist of the following as May 31, 2020:

	Fair Value				NAV	Cost
	Level 1	Level 2	Level 3	Total		Total
Global equity funds	$ 12,397,357	$ -	$ -	$ 12,397,357		$ 12,729,363
Emerging markets	2,175,856	-	-	2,175,856		2,586,112
	$ 14,573,213	$ -	$ -	$ 14,573,213		$ 15,315,475
Investments measured at net asset value (1)					71,920,426	75,494,938
				Total investments	**$ 86,493,639**	**$ 90,810,413**

Investments consist of the following as May 31, 2019:

	Fair Value				NAV	Cost
	Level 1	Level 2	Level 3	Total		Total
Global equity funds	$ 36,826,660	$ 4,052,023	$ -	$ 40,878,683		$ 36,688,390
Bond funds	-	18,461,027	-	18,461,027		18,374,363
	$ 36,826,660	$ 22,513,050	$ -	$ 59,339,710		$ 55,062,753
Investments measured at net asset value (1)					30,846,999	29,439,938
				Total investments	**$ 90,186,709**	**$ 84,502,691**

(1) In accordance with subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

Investment Income (Loss)

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

	2020	2019
Realized gain (loss) on sale of investments	$ 10,251,929	$ (1,353)
Interest, dividend income and capital gains	2,040,212	3,303,524
Investment fees	(185,261)	(206,967)
Unrealized gain (loss) on investments	(10,391,911)	(4,079,455)
Total investment income (loss)	$ 1,714,969	$ (984,251)

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at May 31:

Description	Life/Years	2020	2019
Building and improvements	20-30	$ 9,945,638	$ 10,427,484
Equipment and furniture	3-10	2,591,453	2,593,310
Land	N/A	200,000	650,000
Land improvements	25	678,827	735,532
		13,415,918	14,406,326
Less: Accumulated depreciation		(8,077,711)	(8,241,034)
		5,338,207	6,165,292
Less: Asset held for sale		-	(450,000)
		$ 5,338,207	$ 5,715,292

Depreciation expense for the years ended May 31, 2020 and 2019 was $570,685 and $550,902, respectively.

During the year ended May 31, 2018, the Board approved the sale of the residency program building. 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, 2020. The initial Temporary Certificate of Occupancy was obtained on May 3, 2018 and has been renewed with a current expiration date of May 17, 2021. 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) 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 financial statements as the case is not finalized.

d) Subsequent to May 31, 2020, and as of March 16, 2021, the date which the consolidated financial statements were available to be issued, the Organization started a process of obtaining a 12-month revolving line of credit with a financial institution with a maximum availability of $3,000,000, bearing interest at the 1 Month LIBOR + 1.27%. The line of credit will be collateralized by Organization's investments held by the financial institution.

8. CONCENTRATION OF CONTRIBUTIONS

The Organization and Subsidiary received approximately 94% of the total contributions from one donor 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 4% 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, 2020 and 2019, the Organization and Subsidiary contributed $85,375 and $38,568, respectively. Due to COVID-19, the Organization temporarily suspended employer contributions under this plan.

10. 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 footnote 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.

11. PAYCHECK PROTECTION PROGRAM

On April 6, 2020, the Organization issued an unsecured promissory note (the “PPP Loan”) for $1,407,150 through the Paycheck Protection Program ("PPP") established under the CARES Act, and administered by the U.S. Small Business Administration (“SBA”). The PPP Loan is guaranteed by the SBA. The PPP Loan may be forgiven, in whole or in part, if the Organization was eligible for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within the defined 24-week period after the PPP loan was disbursed (“Covered Period”), and otherwise satisfied PPP requirements. The PPP Loan was made through Chase (the “Lender”), has a two-year term, bears interest at 0.98% per annum, and matures on April 6, 2022. If the PPP Loan is not forgiven, monthly principal and interest payments are deferred until ten months after the end of the Covered Period. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. Accordingly, the Organization has reflected the PPP Loan as short-term debt in the accompanying statement of financial position.

The Organization submitted its application for forgiveness of the PPP Loan. The Organization will record the forgiveness of the loan as a gain on extinguishment in the period in which legal release is received. There is no certainty that any or all of the PPP Loan will be forgiven.

12. EMPHASIS OF A MATTER

Management continues to evaluate the introduction of the COVID-19 virus to the United States and its impact on the industry and has concluded that that while it is reasonably possible that the virus could have a negative effect on the Organization and Subsidiary’s financial condition and results of operations, the specific impact is not readily determinable as of the date of these consolidated financial statements.

13. EVALUATION OF SUBSEQUENT EVENTS

The Organization and Subsidiary have evaluated subsequent events through March 16, 2021, the date which the consolidated financial statements were available to be issued. Management has determined that there are no subsequent events that require adjustment to or disclosure in the financial statements, except as discussed in Note 7d.