

**ART ACADEMY OF CINCINNATI  
AND AFFILIATE**

**May 31, 2019**

*CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT INCLUDING  
SUPPLEMENTARY INFORMATION*



**ART ACADEMY OF CINCINNATI AND AFFILIATE  
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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Art Academy of Cincinnati and Affiliate  
Cincinnati, Ohio

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the Art Academy of Cincinnati and Affiliate (a nonprofit organization), 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 the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' 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 from 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Art Academy of Cincinnati and Affiliate as of May 31, 2019 and 2018, and the changes in their consolidated net assets and their consolidated 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 the notes to the consolidated financial statements, during fiscal year 2019, the Art Academy of Cincinnati and Affiliate adopted Accounting Standards Update (ASU) No 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 these matters.

**Other Matters**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and the consolidating statement of activities on pages 24 and 25 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*VonLehman & Company Inc.*

Fort Wright, Kentucky  
August 26, 2019

**ART ACADEMY OF CINCINNATI AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**May 31, 2019**

**ASSETS**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 50,355	\$ 99,666	\$ 150,021
Accounts Receivable, Net	218,679	-	218,679
Investments	40,630	80,374	121,004
Endowment Investments	523,061	-	523,061
Grants Receivable	12,000	40,000	52,000
Pledges Receivable	-	15,500	15,500
Due (To) From Funds	(36,344)	36,344	-
Prepaid Expenses	86,722	-	86,722
Total Current Assets	895,103	271,884	1,166,987
<b>Property and Equipment, Net</b>	3,066,874	-	3,066,874
<b>Endowment Investments</b>	-	1,537,963	1,537,963
<b>Art Inventory</b>	49,980	-	49,980
<b>Grant Receivable</b>	-	320,000	320,000
<b>Beneficial Interest in Perpetual Trust</b>	-	187,253	187,253
<b>Beneficial Interest in Charitable Remainder Trusts</b>	-	19,015	19,015
<b>Deposits</b>	17,475	-	17,475
<b>Total Assets</b>	\$ 4,029,432	\$ 2,336,115	\$ 6,365,547

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>			
Line of Credit	\$ 755,000	\$ -	\$ 755,000
Accounts Payable	231,992	-	231,992
Accrued Expenses	182,933	-	182,933
Capital Lease Obligations	1,064	-	1,064
Note Payable	14,540	-	14,540
Total Current Liabilities	1,185,529	-	1,185,529
<b>Long-Term Liabilities (Less Current Portion)</b>			
Charitable Remainder Trust	-	1,141	1,141
Deferred Revenue	-	360,000	360,000
Note Payable	114,915	-	114,915
Total Long-Term Liabilities	114,915	361,141	476,056
Total Liabilities	1,300,444	361,141	1,661,585
<b>Net Assets</b>			
Without Donor Restrictions	2,728,988	-	2,728,988
With Donor Restrictions			
Time or Purpose Restricted	-	561,908	561,908
Restricted into Perpetuity	-	1,413,066	1,413,066
Total Net Assets With Donor Restrictions	-	1,974,974	1,974,974
Total Net Assets	2,728,988	1,974,974	4,703,962
<b>Total Liabilities and Net Assets</b>	\$ 4,029,432	\$ 2,336,115	\$ 6,365,547

See accompanying notes.

**ART ACADEMY OF CINCINNATI AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**May 31, 2018**

**ASSETS**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 42,837	\$ 73,672	\$ 116,509
Accounts Receivable, Net	286,633	-	286,633
Investments	45,262	89,537	134,799
Endowment Investments	601,130	-	601,130
Grants Receivable	-	40,000	40,000
Pledges Receivable	-	8,822	8,822
Due (To) From Funds	(18,277)	18,277	-
Prepaid Expenses	88,895	-	88,895
	1,046,480	230,308	1,276,788
<b>Property and Equipment, Net</b>	3,206,583	-	3,206,583
<b>Endowment Investments</b>	-	1,544,856	1,544,856
<b>Art Inventory</b>	153,957	-	153,957
<b>Grant Receivable</b>	-	360,000	360,000
<b>Beneficial Interest in Perpetual Trust</b>	-	194,476	194,476
<b>Beneficial Interest in Charitable Remainder Trusts</b>	-	24,097	24,097
<b>Deposits</b>	12,775	-	12,775
	4,419,795	2,353,737	6,773,532
<b>Total Assets</b>	\$ 4,419,795	\$ 2,353,737	\$ 6,773,532

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>			
Line of Credit	\$ 860,000	\$ -	\$ 860,000
Accounts Payable	201,247	-	201,247
Accrued Expenses	310,172	-	310,172
Capital Lease Obligations	3,956	-	3,956
Note Payable	13,972	-	13,972
	1,389,347	-	1,389,347
<b>Long-Term Liabilities (Less Current Portion)</b>			
Charitable Remainder Trust	-	1,838	1,838
Deferred Revenue	-	400,000	400,000
Capital Lease Obligations	1,077	-	1,077
Note Payable	129,432	-	129,432
	130,509	401,838	532,347
<b>Total Long-Term Liabilities</b>	130,509	401,838	532,347
<b>Total Liabilities</b>	1,519,856	401,838	1,921,694
<b>Net Assets</b>			
Without Donor Restrictions	2,899,939	-	2,899,939
With Donor Restrictions			
Time or Purpose Restricted	-	531,610	531,610
Restricted into Perpetuity	-	1,420,289	1,420,289
	-	1,951,899	1,951,899
<b>Total Net Assets With Donor Restrictions</b>	-	1,951,899	1,951,899
<b>Total Net Assets (As Restated)</b>	2,899,939	1,951,899	4,851,838
<b>Total Liabilities and Net Assets</b>	\$ 4,419,795	\$ 2,353,737	\$ 6,773,532

See accompanying notes.

**ART ACADEMY OF CINCINNATI AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED MAY 31, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue, Support, and Gains</b>			
Grants, Contributions and Gifts	\$ 467,608	\$ 95,586	\$ 563,194
Tuition and Fees Income	6,269,054	-	6,269,054
Community Education	260,683	-	260,683
Net Investment Return	(3,841)	6,667	2,826
Gain on Sale of Art Inventory	39,045	-	39,045
Other Income	351,249	-	351,249
	<hr/>	<hr/>	<hr/>
Total Revenue, Support, and Gains	7,383,798	102,253	7,486,051
<b>Net Assets Released From Restrictions</b>			
	<hr/>	<hr/>	<hr/>
	84,326	(84,326)	-
	<hr/>	<hr/>	<hr/>
Total Revenue, Support, Gains, and Reclassifications	7,468,124	17,927	7,486,051
<b>Expenses</b>			
Program Services	6,443,938	-	6,443,938
Management and General	911,762	-	911,762
Fundraising	266,619	-	266,619
	<hr/>	<hr/>	<hr/>
Total Expenses	7,622,319	-	7,622,319
(Deficit) Excess of Revenue, Support, Gains, and Reclassifications Over Expenses	(154,195)	17,927	(136,268)
<b>Interfund Equity Transfers</b>	(16,756)	16,756	-
<b>Change in Beneficial Interest in Perpetual Trust</b>	-	(7,223)	(7,223)
<b>Change in Beneficial Interest in Charitable Remainder Trusts</b>	<hr/>	<hr/>	<hr/>
	-	(4,385)	(4,385)
Change in Net Assets	(170,951)	23,075	(147,876)
<b>Net Assets, Beginning of Year (As Restated)</b>	<hr/>	<hr/>	<hr/>
	2,899,939	1,951,899	4,851,838
<b>Net Assets, End of Year</b>	<hr/>	<hr/>	<hr/>
	\$ 2,728,988	\$ 1,974,974	\$ 4,703,962

See accompanying notes.

**ART ACADEMY OF CINCINNATI AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED MAY 31, 2018  
(AS RESTATED)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue, Support, and Gains</b>			
Grants, Contributions and Gifts	\$ 353,001	\$ 375,376	\$ 728,377
Tuition and Fees Income	5,358,792	-	5,358,792
Community Education	170,550	-	170,550
Net Investment Return	56,866	114,448	171,314
Loss on Sale of Art Inventory	(30,182)	-	(30,182)
Other Income	180,459	-	180,459
	6,089,486	489,824	6,579,310
Total Revenue, Support, and Gains			
<b>Net Assets Released From Restrictions</b>	37,237	(37,237)	-
Total Revenue, Support, Gains, and Reclassifications	6,126,723	452,587	6,579,310
<b>Expenses</b>			
Program Services	5,429,578	-	5,429,578
Management and General	1,233,663	-	1,233,663
Fundraising	197,734	-	197,734
	6,860,975	-	6,860,975
Total Expenses			
(Deficit) Excess of Revenue, Support, Gains, and Reclassifications Over Expenses	(734,252)	452,587	(281,665)
<b>Interfund Equity Transfers</b>	(122,482)	122,482	-
<b>Change in Beneficial Interest in Perpetual Trust</b>	-	(1,587)	(1,587)
<b>Change in Beneficial Interest in Charitable Remainder Trusts</b>	-	(6,434)	(6,434)
Change in Net Assets	(856,734)	567,048	(289,686)
<b>Net Assets, Beginning of Year</b>	3,756,673	1,384,851	5,141,524
<b>Net Assets, End of Year</b>	\$ 2,899,939	\$ 1,951,899	\$ 4,851,838

See accompanying notes.



**ART ACADEMY OF CINCINNATI AND AFFILIATE  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

Years Ended May 31,

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,566,703	\$ 427,528	\$ 77,203	\$ 2,071,434	\$ 1,575,545	\$ 591,217	\$ 127,919	\$ 2,294,681
Payroll Taxes	84,043	77,303	5,301	166,647	67,254	94,066	11,669	172,989
Employee Benefits	94,140	82,642	4,767	181,549	79,045	128,025	11,376	218,446
Rent	225,291	-	-	225,291	183,592	-	-	183,592
Telephone	1,327	17,220	-	18,547	-	-	-	-
Utilities	288,622	-	-	288,622	233,640	469	-	234,109
Security	155,269	-	-	155,269	212,706	-	-	212,706
Insurance	33,950	10,360	-	44,310	135	39,830	-	39,965
Bank Charges	8,147	9,490	985	18,622	6,327	7,514	-	13,841
Supplies	100,386	7,701	88,601	196,688	157,870	27,864	9,695	195,429
Purchased Services	432,354	138,485	55,722	626,561	262,496	227,335	26,656	516,487
Model Fees	7,131	-	-	7,131	9,576	-	-	9,576
Lecturer's Honorarium	9,812	-	-	9,812	3,850	-	-	3,850
Hospitality	34,934	1,834	4,647	41,415	28,367	8,351	2,706	39,424
Memberships and Fees	90,764	3,013	570	94,347	61,765	13,952	2,087	77,804
Books, Videos, and Subscriptions	26,107	20	834	26,961	3,401	69	34	3,504
Email and Internet	11,875	11,875	-	23,750	11,588	28,867	-	40,455
Postage and Mail Service	27,117	3,969	11,671	42,757	-	8,896	-	8,896
Travel	88,829	4	449	89,282	39,488	10,006	291	49,785
Per Diem	-	-	-	-	2,375	176	-	2,551
Personnel and Instructional Development	2,667	661	-	3,328	615	1,943	-	2,558
Promotion	208,713	-	14,515	223,228	227,106	-	4,374	231,480
Equipment Maintenance and Rental	152,804	22,306	470	175,580	67,753	17,053	-	84,806
Plant Maintenance	96,549	-	-	96,549	93,287	-	-	93,287
Student Activities	3,300	-	-	3,300	44,707	-	-	44,707
Student Exhibition	15,003	-	-	15,003	17,289	-	-	17,289
Equipment Purchases	219	246	-	465	1,278	-	-	1,278
Information Technology	28,538	-	-	28,538	2,161	-	-	2,161
Scholarships	2,475,196	-	-	2,475,196	1,853,693	-	-	1,853,693
Depreciation and Amortization	143,817	1,460	730	146,007	151,893	1,542	771	154,206
Interest Expense	30,331	308	154	30,793	30,776	312	156	31,244
Bad Debt Expense	-	95,337	-	95,337	-	26,176	-	26,176
<b>Total Expenses by Function</b>	<b>\$ 6,443,938</b>	<b>\$ 911,762</b>	<b>\$ 266,619</b>	<b>\$ 7,622,319</b>	<b>\$ 5,429,578</b>	<b>\$ 1,233,663</b>	<b>\$ 197,734</b>	<b>\$ 6,860,975</b>

**ART ACADEMY OF CINCINNATI AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended May 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ (147,876)	\$ (289,686)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Depreciation	146,007	152,273
Amortization	-	1,933
Net Investment Return on Investments	2,826	(171,314)
(Gain) Loss on Sale of Art Inventory	(39,045)	30,182
Change in Beneficial Interest in Perpetual Trust	7,223	1,587
Change in Beneficial Interest in Charitable Remainder Trusts	4,385	6,434
Changes in		
Accounts Receivable, Net	67,954	29,669
Grants Receivable	28,000	40,000
Pledges Receivable	(6,678)	-
Prepaid Expenses	2,173	(21,376)
Accounts Payable	30,745	6,849
Accrued Expenses	(127,239)	26,706
Deferred Revenue	(40,000)	(40,000)
	<u>(71,525)</u>	<u>(226,743)</u>
Net Cash Used by Operating Activities		
<b>Cash Flows From Investing Activities</b>		
Proceeds From Sale of Investments	1,248,222	907,190
Purchase of Investments	(1,152,291)	(1,055,746)
Proceeds from Sale of Art Inventory	143,022	21,868
Acquisition of Property and Equipment	(6,298)	(21,251)
Deposits	(4,700)	-
	<u>227,955</u>	<u>(147,939)</u>
Net Cash Provided (Used) by Investing Activities		
<b>Cash Flows From Financing Activities</b>		
Net Change in Line of Credit	(105,000)	410,000
Payments on Note Payable	(13,949)	(13,400)
Payments on Capital Lease Obligations	(3,969)	(4,058)
	<u>(122,918)</u>	<u>392,542</u>
Net Cash (Used) Provided by Financing Activities		
Net Change in Cash and Cash Equivalents	33,512	17,860
<b>Cash and Cash Equivalents, Beginning of the Year</b>	<u>116,509</u>	<u>98,649</u>
<b>Cash and Cash Equivalents, End of the Year</b>	<u>\$ 150,021</u>	<u>\$ 116,509</u>

See accompanying notes.

**ART ACADEMY OF CINCINNATI AND AFFILIATE  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations and Principles of Consolidation**

The Art Academy of Cincinnati's purpose is to serve as an accredited educational institution of degreed and non-degreed students from across the country with diverse majors in studio arts and creative writing.

Art Academy Housing, Inc. is organized in the State of Ohio as a nonprofit corporation. Art Academy Housing, Inc. was formed during fiscal year 2006 to lease and operate student housing for the benefit of the Art Academy of Cincinnati. Art Academy Housing, Inc. is a wholly owned subsidiary of the Art Academy of Cincinnati (collectively referred to as the "Academy" hereafter).

The consolidated financial statements include the Art Academy of Cincinnati and Art Academy Housing, Inc. Art Academy Housing, Inc. is related to the Art Academy of Cincinnati because the Art Academy of Cincinnati has assumed the financial and day-to-day operational management functions for Art Academy Housing, Inc. Under accounting principles generally accepted in the United States of America (U.S. GAAP), the Art Academy of Cincinnati is required to present consolidated financial statements reflecting the financial position and results of operations of both entities.

All significant inter-entity accounts and transactions have been eliminated in consolidation.

**Use of Estimates**

The process of preparing consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Certain estimates relate to unsettled transactions and events as of the date of the consolidated financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Accounts, Grants, and Pledges Receivable**

Accounts, grants, and pledges receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts, grants, and pledges are considered past due if any portion of an account has not been paid in full within the contractual terms of the account or anticipated due date. The Academy begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the Academy's collection history, the financial stability and recent payment history of the student, and other pertinent factors. Accounts, grants, and pledges receivable are written off as uncollectable after the Academy has used reasonable collection efforts and deems them uncollectable. Based on these criteria, the Academy has estimated an allowance for doubtful accounts of \$206,513 and \$111,176 at May 31, 2019 and 2018, respectively.

**Investments**

Investments if purchased are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return (loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less any external and direct internal investment expenses. Cash equivalents, and other securities and investments held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account with a limit of \$250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

Property and equipment are stated at cost, or if donated, fair value at the date of donation, and depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line basis. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized for items in excess of \$1,000.

The useful lives of buildings and equipment for purposes of computing depreciation range from five to forty years.

**Long-Lived Assets**

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. Long-lived assets were measured for impairment and no adjustments were deemed necessary during either of the years ended May 31, 2019 or 2018.

**Art Inventory**

The Academy's art inventory is made up of art objects that have been acquired through donations. The art inventory is recorded at 60% of the appraised value. Each of the items is catalogued, preserved and cared for as would be appropriate for each of the items within the art inventory. All items within the art inventory that may have been subject to a minimum holding period covenant from the original donor are no longer subject to those covenants, having surpassed the holding periods specified in each of those covenants. Therefore, all items within the art inventory are free of restrictions that would prevent the sale or liquidation of portions of the inventory or the entire inventory. During the years ended May 31, 2019 and 2018, sales of art inventory totaled \$143,022 and \$21,868, respectively.

**Beneficial Interests in Charitable Trusts Held by Others**

The Academy was named as an irrevocable beneficiary of two charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Academy has neither possession nor control over the assets of the trusts. Upon notification of a beneficial interest, a contribution with donor restrictions is recorded in the consolidated statements of activities, and a beneficial interest in charitable trusts is recorded in the consolidated statements of financial position at fair value. Thereafter, beneficial interests in the trusts are reported at fair value in the consolidated statements of financial position, with changes in fair value recognized in the consolidated statements of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor restrictions are not released.

**Beneficial Interests in Perpetual Trust**

The Academy is named as an irrevocable beneficiary of a perpetual trust held and administered by independent trustee. Perpetual trusts provide for the distribution of the net income of the trusts to the Academy; however, the Academy will never receive the assets of the trusts. At the date of notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the consolidated statements of activities, and a beneficial interest in perpetual trust is recorded in the consolidated statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

**Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**Collections**

The Academy's collections are made up of art objects that are held for public exhibition, education and research for furtherance of public service. The collections, which were acquired through purchases and contributions since the Academy's inception, are not recognized as assets on the consolidated statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from sales or insurance recoveries are reflected as increases in temporarily restricted net assets. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. During both the years ended May 31, 2019 and 2018, sales of art totaled \$-0-. During both the years ended May 31, 2019 and 2018, there were no items in the Academy's collections that were damaged or destroyed.

**Advertising Costs**

The Academy expenses advertising costs as they are incurred.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Retirement Plan**

The Academy has a defined contribution plan (the Plan) for all employees. Under the Plan, eligible employees may contribute a percentage of their salaries with a matching contribution by the Academy of up to four percent of compensation. Matching contributions were suspended as of July 31, 2009. In addition, the Academy can contribute a discretionary percentage of compensation to the Plan for each eligible participant annually. The discretionary contribution was not made for either of the fiscal years 2019 or 2018. By its nature, the Plan is fully funded.

**Amortization**

Closing costs associated with the purchase of a building and parking lot were capitalized and were being amortized over fifteen years using the straight-line method. At May 31, 2019 and 2018, all closing costs were fully amortized.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include interest expense and depreciation, which are allocated based on a predetermined allocation based on historical information. All other expenses are based on actual time and expenses.

**Income Tax Status**

The Art Academy of Cincinnati and Art Academy Housing, Inc. are nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to the Internal Revenue Code.

The Academy has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Academy recognized no interest or penalties in the consolidated statements of activities for either of the years ended May 31, 2019 or 2018. If the situation arose in which the Academy would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statute of limitations and remain subject to review and change. The Academy is not currently under audit, nor has the Academy been contacted by these jurisdictions.

Based on the evaluation of the Academy's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended May 31, 2019 or 2018.

**Reclassifications**

Certain amounts in the prior period consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year. The reclassifications had no impact on previously reported net assets.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Recently Issued Significant Accounting Standards***Revenue Recognition Standards*

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of Topic 606 is 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 the entity expects to be entitled to in exchange for those goods or services. This standard may have an impact on the timing of when an entity recognizes certain revenue. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

In June, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The core principle of the guidance is to clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

*Lease Accounting Standard*

In February, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The ASU is effective for nonpublic entities for years beginning after December 15, 2019.

The Academy is currently in the process of evaluating the impact of adoption of these ASUs on their consolidated financial statements.

**Change in Accounting Principle**

In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* (Topic 958). The core principles of the guidance are a reduction in the number of net asset categories from three to two, reporting investment return net of external and internal investment expenses, the placed-in-service approach for reporting expirations of restrictions on donated assets and enhanced disclosures regarding designations and donor restrictions, qualitative and quantitative liquidity information, expense allocation methods, expenses by natural classification and function and underwater endowments. The Academy implemented ASU 2016-14 and adjusted presentation in these consolidated statements accordingly. The ASU has been applied retrospectively to all periods presented with an increase in net assets without donor restrictions by \$16,396 and \$11,364 and decrease in net assets with donor restrictions by \$16,396 and \$11,364, respectively, resulting from the reclassification of underwater endowment funds as required.

**Subsequent Events**

The Academy has evaluated subsequent events through August 26, 2019, which is the date the consolidated financial statements were available to be issued.

**NOTE 2 - LIQUIDITY**

Financial assets available for general use and without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position are comprised of the following:

	May 31, 2019
Cash and Cash Equivalents, Without Restrictions	\$ 50,355
Accounts Receivable, Net	218,679
Operating Investments	40,630
Total Financial Assets Available	\$ 309,664

The Academy's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments are restricted for specific purposes, with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general use.

The Academy's board designated endowment of \$523,061 is subject to an annual spending rate of 4% to 6%. Although the Academy does not intend to spend from the board designated endowment above the approved annual budget amount approved by the Board of Trustees these funds are available if deemed necessary.

**NOTE 3 - CASH AND CASH FLOWS**

For the purposes of the consolidated cash flows statements, cash and cash equivalents include cash on hand and cash held in a checking account.

At various times throughout the year, the Academy may have cash in financial institutions in excess of insured limits. The Federal Deposit Insurance Corporation (FDIC) insures account balances up to \$250,000 for each business depositor.

The Academy utilizes a separate bank account for receiving federal financial aid funding and monitors interest income relative to these funds in accordance with federal guidelines.

Cash paid for interest was \$30,793 and \$31,244 in 2019 and 2018, respectively.

**NOTE 4 - INVESTMENTS**

Investments consisted of the follows:

	May 31,			
	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 64,272	\$ 64,272	\$ 23,538	\$ 23,538
Mutual Funds and				
Exchange-Traded Funds	1,722,668	1,753,178	1,748,960	1,879,882
Common Stocks	353,578	364,578	289,491	377,365
	\$ 2,140,518	\$ 2,182,028	\$ 2,061,989	\$ 2,280,785



**NOTE 4 - INVESTMENTS (Continued)**

With the Board of Trustees' approval, the Academy is permitted to receive a monthly cash distribution from the investments. The spending rate is based on the market value of the investments over a four quarter rolling average and a twelve quarter rolling average for the years ended May 31, 2019 and 2018, respectively. The distribution is recognized undesignated investment income. For fiscal years 2019 and 2018, the total cash distributions were \$100,500 and \$130,000 from the investment accounts, respectively.

**NOTE 5 - FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 FASB ASC 820 are described as follows:

**LEVEL 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Academy has the ability to access.

**LEVEL 2** - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**LEVEL 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for marketable securities measured at fair value. There have been no changes in the methodologies used at May 31, 2019 and 2018.

*Cash and Cash Equivalents* - Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

*Mutual Funds and Exchange-Traded Funds* - Valued at the net asset value (NAV) of shares held by the Academy at year end.

*Common Stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.

*Beneficial Interests in Charitable and Perpetual Trusts* – Valued at the fair value of the fund investments as they are reported by the trustees.

The preceding methods described may provide a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Academy believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the operating date.

**NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)**

The following assets and liabilities were measured at fair value as of May 31, 2019:

<b>Assets</b>	Quoted Price In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	\$ 64,272	\$ -	\$ -	\$ 64,272
Mutual Funds and Exchange-Traded Funds	1,753,178	-	-	1,753,178
Common Stocks	364,578	-	-	364,578
Beneficial Interests in Perpetual Trusts	170,751	16,502	-	187,253
Beneficial Interests in Charitable Remainder Trusts	<u>19,015</u>	<u>-</u>	<u>(1,141)</u>	<u>17,874</u>
Total Assets at Fair Value	<u>\$ 2,371,794</u>	<u>\$ 16,502</u>	<u>\$ (1,141)</u>	<u>\$ 2,387,155</u>

The following assets and liabilities were measured at fair value as of May 31, 2018:

Cash and Cash Equivalents	\$ 23,538	\$ -	\$ -	\$ 23,538
Mutual Funds and Exchange-Traded Funds	1,879,882	-	-	1,879,882
Common Stocks	377,365	-	-	377,365
Beneficial Interests in Perpetual Trusts	178,439	16,037	-	194,476
Beneficial Interests in Charitable Remainder Trusts	<u>24,097</u>	<u>-</u>	<u>(1,838)</u>	<u>22,259</u>
Total Assets at Fair Value	<u>\$ 2,483,321</u>	<u>\$ 16,037</u>	<u>\$ (1,838)</u>	<u>\$ 2,497,520</u>

**NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)**

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	Beneficial Interest In Trust
May 31, 2017	\$ (3,787)
Change in Value	1,949
May 31, 2018	(1,838)
Change in Value	697
May 31, 2019	\$ (1,141)

**Risks and Uncertainties**

The Academy invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credits risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect account balances and amounts reported in the consolidated statements of financial position.

**NOTE 6 - GRANTS RECEIVABLE**

In August, 2013, the Academy finalized a grant agreement with the Ohio Facilities Construction Commission (OFCC). As part of the agreement, the OFCC will hold \$600,000 in escrow to be used as part of the Cultural Project constituting the OFCC-funded improvements to reimburse the Academy for a portion of the costs of the acquisition of the 1212 Jackson Street building and the adjacent parking lot. The cash will be received and the grant will be amortized on a fifteen year straight line basis. There were draws on the grant in fiscal years 2019 and 2018 for \$40,000 each year. For the years ended May 31, 2019 and 2018, the balance of the grant receivable was \$360,000 and \$400,000, respectively.

In December, 2018, the Academy finalized a grant agreement with The Louise Taft Semple Foundation. The grant agreement specified the use of funds for the Artist and Writer in Residence Program, and the amount of the grant totaled \$12,000. At May 31, 2019, the full balance of these funds have been expended and a grant receivable has been reported for \$12,000.

**NOTE 7 - PLEDGES RECEIVABLE**

Pledges receivable were as follows:

	May 31,	
	2019	2018
Amount Receivable Within One Year	\$ 15,500	\$ 8,822

**NOTE 8 - PROPERTY AND EQUIPMENT**

Buildings and equipment and related accumulated depreciation consist of the following:

	May 31, 2019		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,668,290	738,672	2,929,618
Office Furniture and Equipment	1,212,543	1,164,457	48,086
	\$ 4,970,003	\$ 1,903,129	\$ 3,066,874

  

	May 31, 2018		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,668,290	615,729	3,052,561
Office Furniture and Equipment	1,206,245	1,141,393	64,852
	\$ 4,963,705	\$ 1,757,122	\$ 3,206,583

**NOTE 9 - ART INVENTORY**

Art inventory consists of the following:

	May 31,	
	2019	2018
Works of Art	\$ 49,980	\$ 153,957

**NOTE 10 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

The Academy's beneficial interest in perpetual trusts consists of the following:

Trust	The Academy's Percentage of Trust	May 31,	
		2019	2018
Wilmer D. Glenn Trust	100%	\$ 187,253	\$ 194,476

**NOTE 11 - LINE OF CREDIT**

The Academy has a secured revolving line of credit agreement with a bank for \$1,000,000. The line of credit charges interest at LIBOR plus 1.75% (4.18% at May 31, 2019). The line matures in October, 2019. Art Academy Housing, Inc. has guaranteed the line of credit.

**NOTE 12 - CAPITAL LEASE OBLIGATIONS**

The Academy entered into a capital lease obligation in 2013, collateralized by the computer server purchased, that charged interest at 12.2%. The Academy also entered into a capital lease obligation in July, 2015, collateralized by the computer equipment purchased, that charges interest at 4.72%. Depreciation expense for equipment held under the capital lease obligations was \$3,750 for both years ended May 31, 2019 and 2018.

The following is a summary of equipment at cost less accumulated depreciation that was held under the capital lease obligations:

	May 31,	
	2019	2018
Computer Equipment	\$ 14,999	\$ 14,999
Computer Server	18,250	18,250
	33,249	33,249
Less Accumulated Depreciation	31,687	27,937
Net Capital Lease Obligation Equipment	\$ 1,562	\$ 5,312

Minimum future lease payments under capital leases for the remainder of the leases are as follows:

Year Ending May 31,		
2020	\$ 1,168	
Less Interest Portion	104	
Net Capital Lease Obligations	1,064	\$ 5,033
Less Current Portion	-	3,956
Long-Term Capital Lease Obligation	\$ 1,064	\$ 1,077

**NOTE 13 - NOTE PAYABLE**

	May 31,	
	2019	2018
The Academy has a note payable to a bank. The note charges interest at 3.99% with final payment due in February, 2014. The note is due in monthly principal and interest payments of \$1,623, and is collateralized by a parcel of land.	\$ 129,455	\$ 143,404
Less Current Portion	14,540	13,972
Long-Term Portion	\$ 114,915	\$ 129,432

The remaining maturities on this note are as follows:

Years Ending May 31,		
2020	\$	14,540
2021		15,131
2022		15,746
2023		16,386
2024		67,652
	\$	129,455

**NOTE 14 - BOARD DESIGNATED NET ASSETS**

The Board designated net assets for the following purposes:

	May 31,	
	2019	2018
Endowment Purposes	\$ 523,061	\$ 601,130
Other Purposes	-	32,379
Total Board Designated Net Assets	\$ 523,061	\$ 633,509

**NOTE 15 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted as follows:

	May 31,	
	2019	2018
<b>Subject to Expenditure for Specified Purpose:</b>		
Gifts	\$ 2,757	\$ 4,757
Various Grants and Programs	30,797	-
Alumni Council	80,374	89,537
Scholarships	86,640	71,376
Pledges Receivable	15,500	8,822
	216,068	174,492
<b>Subject to the Passage of Time:</b>		
Beneficial Interests in Charitable Remainder Trusts	17,874	22,259
<b>Endowments:</b>		
<i>Subject to Appropriation and Expenditure</i>		
<i>When a Specified Event Occurs:</i>		
Restricted by Donors for		
Scholarships	327,966	334,859
<b>Not Subject to Spending Policy or Appropriation:</b>		
Cash and Cash Equivalents	15,816	15,816
Beneficial Interest in Perpetual Trust	187,253	194,476
Endowments	1,209,997	1,209,997
	1,413,066	1,420,289
Total Net Assets with Donor Restrictions	\$ 1,974,974	\$ 1,951,899

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows:

<b>Satisfaction of Purpose Restrictions:</b>		
Gifts	\$ 2,000	\$ 2,000
Various Grants and Programs	59,333	-
Scholarships	23,004	35,237
Total Net Assets Released From Restrictions	\$ 84,337	\$ 37,237

**NOTE 16 - ENDOWMENTS**

The Academy's endowment consists of several individual funds established for a variety of purposes. Its endowment includes donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Academy has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed 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 of this interpretation, the Academy retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instruction at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund are classified as with donor restrictions net assets until those amounts are appropriated for expenditure by the Academy in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Academy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Academy and (7) the Academy's investment policies.

*Investment Return Objectives, Risk Parameters and Strategies.* The Academy has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4% to 6%, while growing the funds, if possible. Therefore, the Academy expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy.* The Academy has a policy of appropriating for distribution each year 4% to 6% of its endowment fund's average fair value using one of the following methods: 1) average value of the endowment using the trailing 12 quarters, 2) average value of the endowment using the trailing 4 quarters or 3) value of the endowment using the most recent quarter. In establishing this policy, the Academy considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Academy expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 7% annually. This is consistent with the Academy's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Academy has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At May 31, 2019, funds with original gift values of \$1,209,997, fair values of \$1,537,963, and deficiencies of \$11,090 were reported in net assets with donor restrictions. At May 31, 2018, funds with original gift values of \$1,209,997, fair values of \$1,544,856, and deficiencies of \$11,364 were reported in net assets with donor restrictions.



**NOTE 16 - ENDOWMENTS (Continued)**

Endowment net asset composition by type of fund as of May 31, 2019 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 523,061	\$ -	\$ 523,061
Donor Restricted Endowment Funds	<u>-</u>	<u>1,537,963</u>	<u>1,537,963</u>
Endowment Net Asset Composition by Type of Fund	<u>\$ 523,061</u>	<u>\$ 1,537,963</u>	<u>\$ 2,061,024</u>

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

Endowment Net Assets, Beginning of Year	\$ 601,130	\$ 1,544,856	\$ 2,145,986
Contributions	5,000	-	5,000
Investment Return, Net	3,371	(1,893)	1,478
Appropriation of Endowment Assets Pursuant to Spending Policy	<u>(86,440)</u>	<u>(5,000)</u>	<u>(91,440)</u>
Endowment Net Assets, End of Year	<u>\$ 523,061</u>	<u>\$ 1,537,963</u>	<u>\$ 2,061,024</u>

Endowment net asset composition by type of fund as of May 31, 2018 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 601,130	\$ -	\$ 601,130
Donor Restricted Endowment Funds	<u>-</u>	<u>1,544,856</u>	<u>1,544,856</u>
Endowment Net Asset Composition by Type of Fund	<u>\$ 601,130</u>	<u>\$ 1,544,856</u>	<u>\$ 2,145,986</u>

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

Endowment Net Assets, Beginning of Year	\$ 667,420	\$ 1,169,712	\$ 1,837,132
Contributions	40,380	278,242	318,622
Investment Return, Net	67,272	103,433	170,705
Appropriation of Endowment Assets Pursuant to Spending Policy	<u>(173,942)</u>	<u>(6,531)</u>	<u>(180,473)</u>
Endowment Net Assets, End of Year	<u>\$ 601,130</u>	<u>\$ 1,544,856</u>	<u>\$ 2,145,986</u>

**NOTE 17 - OPERATING LEASES**

Equipment

The Academy leases equipment for total monthly payments of \$5,114 and a quarterly payment of \$600. The leases have varying expiration dates ranging from June, 2020 to September, 2022. The Academy incurred lease expense of \$63,768 and \$59,046 for 2019 and 2018, respectively.

Housing

Art Academy Housing, Inc. leases apartments for the students of the Academy for a base rent of \$10,110 per month under an operating lease. The lease expires in August, 2024, with an option to renew for an additional five years. Art Academy Housing, Inc. incurred lease expense related to this lease of \$121,320 in both 2019 and 2018.

The Academy also has additional leases for student housing. The leases vary in payment from \$540 to \$2,500 per month. One lease is on a month to month basis and five expire in September, 2019. The Academy incurred lease expense of \$103,977 and \$62,272 for 2019 and 2018, respectively.

The following are the net minimum lease payments for the remainder of these leases:

Years Ending May 31,	<u>Equipment</u>	<u>Housing</u>	<u>Total</u>
2020	\$ 63,768	\$ 156,195	\$ 219,963
2021	21,253	121,320	142,573
2022	17,388	121,320	138,708
2023	5,596	121,320	126,916
2024	-	121,320	121,320
Thereafter	-	30,330	30,330
	<u>\$ 108,005</u>	<u>\$ 671,805</u>	<u>\$ 779,810</u>

**NOTE 18 - RELATED PARTIES**

The Academy does business with companies who are either owned by or employ a Board of Trustees member. For the fiscal years ended May 31, 2019 and 2018, the Academy had transactions with related parties as follows:

	<u>Years Ended May 31,</u>	
	<u>2019</u>	<u>2018</u>
Legal Services	\$ 26,692	\$ 26,244
Other	200	-
	<u>\$ 26,892</u>	<u>\$ 26,244</u>

**NOTE 19 - OTHER EMPLOYEE BENEFITS**

In 2014, the Academy signed an employment agreement with an employee; under the agreement the named employee was to be reviewed for two bonuses annually: fixed longevity and review-based. The agreement stated the fixed longevity bonus would be \$25,000 per year employed and the review-based bonus was to be determined and approved annually by the Board of Trustees. All amounts were to be accumulated and payed out only if the reason for termination were based on agreeable terms. The named employee was approved for a cumulative total for the review-based payout in the amount of \$43,000 as of May 31, 2018. The named employee was approved for cumulative total for the fixed longevity payout in the amount of \$100,000 as of May 31, 2018. During 2018, the named employee ceased employment with the Academy based on agreeable terms and therefore the Academy accrued a total of \$143,000 of salary expenses at May 31, 2018 to fulfill the employment agreement. The total amount accrued was paid out during the year ended May 31, 2019.

**NOTE 20 - ECONOMIC DEPENDENCY AND UNCERTAINTY**

The Academy is economically dependent on the Federal Title IV Financial Aid Program, provided by the Department of Education. For the years ended May 31, 2019 and 2018, financial aid awards received accounted for approximately 46% and 45%, respectively, of tuition income. In the event the financial aid program ceases, the Academy's future as a going concern would be in jeopardy.

**NOTE 21 - GOING CONCERN**

As show in the accompanying consolidated financial statements, the Academy incurred a decrease in net assets of \$147,876 and \$289,686 for the years ended May 31, 2019 and 2018, respectively. The without donor restrictions current liabilities exceed current assets as of both May 31, 2019 and 2018. The Academy was not able to retain its budgeted Full Time Enrollment (FTE) for the Spring 2019 therefore revenue was under budget. In response, the Academy made cuts to expenses and was able to achieve the budgeted change in net assets. As the consolidated cash flow statements reflect the loss was incurred due to non-cash related expenses: depreciation \$146,007, change in beneficial interest in perpetual trust \$7,223 and change in beneficial interest in charitable remainder trusts \$4,385 for a total of \$157,615. The Art Academy has experienced a shortfall in cash flow, which has been met through the line of credit. The line of credit expires October 30, 2019.

The Leadership Team of the Art Academy created a three-year strategic plan during the 2018-2019 fiscal year and the Board of Trustees approved the plan in the spring of 2019. The purpose of the strategic plan is to propel the Art Academy to become the premier fine art and design school in the region. The financial accountability objective is to achieve financial sustainability through diversified revenue, expanding enrollment, and prudent care, handling and management of resource. One goal is increasing enrollment by 15% each of the next three years. This includes recruiting 100 incoming students each year. For the 2019-2020 school year, the Admissions team has 101 students deposited for the 2019-2020 school year. For 2020-2021, the Admissions team has a comprehensive plan that should also achieve the goal of 100 incoming students. The Academy has made strategic investments into the curriculum and student life, which will increase retention numbers. Another goal is to create a positive cash flow and reduce the reliance on the line of credit. In 2018-2019, the Art Academy's budgeting process included the stakeholders and stakeholders were accountable for their budgets. The Art Academy has invested in the Business Office and improving processes for both collections and disbursements.

The ability of the Academy to continue as a going concern is dependent on the implementation of the strategic plan and the continued improvement of the Business Office. Management feels the steps that have been taken to implement the strategic plan have been successful and will lead to increased enrollment and improved cash flow. The consolidated financial statements do not include any adjustments that might be necessary if the Academy is unable to continue.

**SUPPLEMENTARY INFORMATION**

**ART ACADEMY OF CINCINNATI AND AFFILIATE  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
May 31, 2019**

<b>ASSETS</b>				
	<b>Art Academy of Cincinnati</b>	<b>Art Academy Housing, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 150,021	\$ -	\$ -	\$ 150,021
Accounts Receivable, Net	218,679	-	-	218,679
Investments	121,004	-	-	121,004
Endowment Investments	523,061	-	-	523,061
Grants Receivable	52,000	-	-	52,000
Pledges Receivable	15,500	-	-	15,500
Note Receivable - Related Party	57,563	-	(57,563)	-
Prepaid Expenses	86,722	-	-	86,722
Total Current Assets	1,224,550	-	(57,563)	1,166,987
<b>Property and Equipment, Net</b>	3,023,983	42,891	-	3,066,874
<b>Endowment Investments</b>	1,537,963	-	-	1,537,963
<b>Art Inventory</b>	49,980	-	-	49,980
<b>Grant Receivable</b>	320,000	-	-	320,000
<b>Beneficial Interest in Perpetual Trust</b>	187,253	-	-	187,253
<b>Beneficial Interest in Charitable Remainder Trusts</b>	19,015	-	-	19,015
<b>Deposits</b>	-	17,475	-	17,475
<b>Total Assets</b>	\$ 6,362,744	\$ 60,366	\$ (57,563)	\$ 6,365,547
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Line of Credit	\$ 755,000	\$ -	\$ -	\$ 755,000
Accounts Payable	231,992	-	-	231,992
Accrued Expenses	152,183	30,750	-	182,933
Capital Lease Obligations	1,064	-	-	1,064
Note Payable - Related Party	-	57,563	(57,563)	-
Note Payable	14,540	-	-	14,540
Total Current Liabilities	1,154,779	88,313	(57,563)	1,185,529
<b>Long-Term Liabilities (Less Current Portion)</b>				
Charitable Remainder Trust	1,141	-	-	1,141
Deferred Revenue	360,000	-	-	360,000
Note Payable	114,915	-	-	114,915
Total Long-Term Liabilities	476,056	-	-	476,056
Total Liabilities	1,630,835	88,313	(57,563)	1,661,585
<b>Net Assets</b>				
Without Donor Restrictions	2,756,935	(27,947)	-	2,728,988
With Donor Restrictions	1,974,974	-	-	1,974,974
Total Net Assets	4,731,909	(27,947)	-	4,703,962
<b>Total Liabilities and Net Assets</b>	\$ 6,362,744	\$ 60,366	\$ (57,563)	\$ 6,365,547

**ART ACADEMY OF CINCINNATI AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES  
Year Ended May 31, 2019**

	<b>Art Academy of Cincinnati</b>	<b>Art Academy Housing, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue, Support, and Gains</b>				
Grants, Contributions and Gifts	\$ 563,194	\$ -	\$ -	\$ 563,194
Tuition and Fees Income	6,269,054	-	-	6,269,054
Community Education	260,683	-	-	260,683
Net Investment Return	2,826	-	-	2,826
Gain on Sale of Art Inventory	39,045	-	-	39,045
Other Income	72,633	278,616	-	351,249
	<u>7,207,435</u>	<u>278,616</u>	<u>-</u>	<u>7,486,051</u>
<b>Expenses</b>				
Program Services	6,161,790	282,148	-	6,443,938
Management and General	911,762	-	-	911,762
Fundraising	266,619	-	-	266,619
	<u>7,340,171</u>	<u>282,148</u>	<u>-</u>	<u>7,622,319</u>
Deficit of Revenue Support, and Gains Over Expenses	(132,736)	(3,532)	-	(136,268)
<b>Change in Beneficial Interest in Perpetual Trust</b>	(7,223)	-	-	(7,223)
<b>Change in Beneficial Interest in Charitable Remainder Trusts</b>	<u>(4,385)</u>	<u>-</u>	<u>-</u>	<u>(4,385)</u>
Change in Net Assets	(144,344)	(3,532)	-	(147,876)
<b>Net Assets, Beginning of Year (As Restated)</b>	<u>4,876,253</u>	<u>(24,415)</u>	<u>-</u>	<u>4,851,838</u>
<b>Net Assets, End of Year</b>	<u>\$ 4,731,909</u>	<u>\$ (27,947)</u>	<u>\$ -</u>	<u>\$ 4,703,962</u>