

**ART ACADEMY OF CINCINNATI
AND AFFILIATE**

May 31, 2021

*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, 2021 and 2020, 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 consolidated financial position of the Art Academy of Cincinnati and Affiliate as of May 31, 2021 and 2020, 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.

Report on Supplementary Information

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 as noted in the table of contents 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
November 22, 2021

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MAY 31, 2021

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets			
Cash and Cash Equivalents	\$ 402,995	\$ 115,813	\$ 518,808
Accounts Receivable, Net	385,273	-	385,273
Grants Receivable	-	289,004	289,004
Unconditional Promises to Give	-	74,751	74,751
Due (To) From Funds	(256,337)	256,337	-
Investments	54,215	106,746	160,961
Prepaid Expenses	11,912	-	11,912
	598,058	842,651	1,440,709
Property and Equipment, Net	3,202,663	138,944	3,341,607
Endowment Investments	618,110	1,861,107	2,479,217
Art Inventory	49,980	-	49,980
Beneficial Interest in Perpetual Trust	-	219,640	219,640
Beneficial Interest in Charitable Remainder Trusts	-	11,429	11,429
Deposits	31,600	-	31,600
 Total Assets	 \$ 4,500,411	 \$ 3,073,771	 \$ 7,574,182

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MAY 31, 2021
(Continued)

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities			
Accounts Payable	\$ 335,708	\$ -	\$ 335,708
Accrued Expenses	99,919	-	99,919
Deferred Tuition Revenue	40,694	-	40,694
Notes Payable	18,964	-	18,964
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	495,285	-	495,285
Long-Term Liabilities (Less Current Portion)			
Charitable Remainder Trust	-	686	686
Notes Payable	230,794	-	230,794
	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	230,794	686	231,480
	<hr/>	<hr/>	<hr/>
Total Liabilities	726,079	686	726,765
Net Assets			
Without Donor Restrictions	3,774,332	-	3,774,332
	<hr/>	<hr/>	<hr/>
With Donor Restrictions			
Time or Purpose Restricted	-	1,627,632	1,627,632
Restricted into Perpetuity	-	1,445,453	1,445,453
	<hr/>	<hr/>	<hr/>
Total Net Assets With Donor Restrictions	-	3,073,085	3,073,085
	<hr/>	<hr/>	<hr/>
Total Net Assets	3,774,332	3,073,085	6,847,417
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 4,500,411	\$ 3,073,771	\$ 7,574,182
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See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MAY 31, 2020

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets			
Cash and Cash Equivalents	\$ 59,877	\$ 471,523	\$ 531,400
Accounts Receivable, Net	155,687	-	155,687
Grants Receivable	-	352,489	352,489
Due (To) From Funds	(139,384)	139,384	-
Investments	42,960	84,898	127,858
Prepaid Expenses	22,947	-	22,947
Total Current Assets	142,087	1,048,294	1,190,381
Property and Equipment, Net	3,017,000	-	3,017,000
Endowment Investments	510,874	1,510,017	2,020,891
Art Inventory	49,980	-	49,980
Beneficial Interest in Perpetual Trust	-	183,682	183,682
Beneficial Interest in Charitable Remainder Trusts	-	14,728	14,728
Deposits	17,475	-	17,475
Total Assets	\$ 3,737,416	\$ 2,756,721	\$ 6,494,137

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MAY 31, 2020
(Continued)

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities			
Line of Credit	\$ 120,000	\$ -	\$ 120,000
Accounts Payable	103,928	-	103,928
Accrued Expenses	165,526	-	165,526
Deferred Grant Revenue	-	202,494	202,494
Deferred Tuition Revenue	24,070	-	24,070
Refundable Advance - Payroll Protection Program	-	136,980	136,980
Note Payable	15,131	-	15,131
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	428,655	339,474	768,129
Long-Term Liabilities (Less Current Portion)			
Charitable Remainder Trust	-	884	884
Note Payable	99,831	-	99,831
	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	99,831	884	100,715
	<hr/>	<hr/>	<hr/>
Total Liabilities	528,486	340,358	868,844
Net Assets			
Without Donor Restrictions	3,208,930	-	3,208,930
	<hr/>	<hr/>	<hr/>
With Donor Restrictions			
Time or Purpose Restricted	-	1,006,868	1,006,868
Restricted into Perpetuity	-	1,409,495	1,409,495
	<hr/>	<hr/>	<hr/>
Total Net Assets With Donor Restrictions	-	2,416,363	2,416,363
	<hr/>	<hr/>	<hr/>
Total Net Assets	3,208,930	2,416,363	5,625,293
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Total Liabilities and Net Assets	\$ 3,737,416	\$ 2,756,721	\$ 6,494,137
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See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Tuition and Fees Income	\$ 7,422,279	\$ -	\$ 7,422,279
Student Aid	(3,489,636)	-	(3,489,636)
Net Tuition and Fees Income	3,932,643	-	3,932,643
Grants, Contributions and Gifts	236,953	1,603,358	1,840,311
Student Room and Board	551,050	-	551,050
In-Kind Donations	48,000	-	48,000
Payroll Protection Program Revenue	-	136,980	136,980
Community Education	94,026	-	94,026
Net Investment Return	118,030	373,399	491,429
Other Income	20,772	-	20,772
Total Revenue, Support, and Gains	5,001,474	2,113,737	7,115,211
Net Assets Released From Restrictions			
	1,489,872	(1,489,872)	-
Total Revenue, Support, Gains, and Reclassifications	6,491,346	623,865	7,115,211
Expenses			
Program Services	4,131,783	-	4,131,783
Management and General	1,689,791	-	1,689,791
Fundraising	104,370	-	104,370
Total Expenses	5,925,944	-	5,925,944
Excess of Revenue, Support, Gains, and Reclassifications Over Expenses	565,402	623,865	1,189,267
Change in Beneficial Interest in Perpetual Trust			
	-	35,958	35,958
Change in Beneficial Interest in Charitable Remainder Trusts			
	-	(3,101)	(3,101)
Change in Net Assets	565,402	656,722	1,222,124
Net Assets, Beginning of Year	3,208,930	2,416,363	5,625,293
Net Assets, End of Year	\$ 3,774,332	\$ 3,073,085	\$ 6,847,417

See accompanying notes.

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Tuition and Fees Income	\$ 6,982,461	\$ -	\$ 6,982,461
Student Aid	(3,019,924)	-	(3,019,924)
Net Tuition and Fees Income	3,962,537	-	3,962,537
Grants, Contributions and Gifts	403,164	563,912	967,076
Student Room and Board	388,788	-	388,788
Paycheck Protection Program Revenue	-	345,220	345,220
Community Education	191,992	-	191,992
Net Investment Return	13,105	74,320	87,425
Other Income	63,423	-	63,423
Total Revenue, Support, and Gains	5,023,009	983,452	6,006,461
Net Assets Released From Restrictions			
	542,546	(542,546)	-
Total Revenue, Support, Gains, and Reclassifications	5,565,555	440,906	6,006,461
Expenses			
Program Services	3,858,162	-	3,858,162
Management and General	1,103,589	-	1,103,589
Fundraising	115,778	-	115,778
Total Expenses	5,077,529	-	5,077,529
Excess of Revenue, Support, Gains, and Reclassifications Over Expenses	488,026	440,906	928,932
Interfund Equity Transfers	(8,084)	8,084	-
Change in Beneficial Interest in Perpetual Trust	-	(3,571)	(3,571)
Change in Beneficial Interest in Charitable Remainder Trusts	-	(4,030)	(4,030)
Change in Net Assets	479,942	441,389	921,331
Net Assets, Beginning of Year	2,728,988	1,974,974	4,703,962
Net Assets, End of Year	<u>\$ 3,208,930</u>	<u>\$ 2,416,363</u>	<u>\$ 5,625,293</u>

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

	Years Ended May 31,							
	2021				2020			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,826,302	\$ 829,061	\$ 40,865	\$ 2,696,228	\$ 1,759,896	\$ 608,333	\$ 15,561	\$ 2,383,790
Payroll Taxes	126,746	87,789	3,052	217,587	96,507	90,628	1,189	188,324
Employee Benefits	209,277	87,972	88	297,337	126,400	100,033	(92)	226,341
Rent	372,242	-	-	372,242	237,641	-	-	237,641
Telephone	-	32,840	-	32,840	973	16,641	-	17,614
Utilities	302,747	-	-	302,747	242,003	-	-	242,003
Security	157,938	-	-	157,938	149,689	-	-	149,689
Insurance	33,399	15,162	747	49,308	31,724	10,256	-	41,980
Bank Charges	4,911	11,909	343	17,163	9,733	9,135	672	19,540
Supplies	120,684	32,276	19,646	172,606	60,366	7,825	17,287	85,478
Purchased Services	195,640	250,421	11,426	457,487	345,963	176,581	33,763	556,307
Model Fees	1,973	-	-	1,973	5,746	-	-	5,746
Lecturer's Honorarium	23,404	-	-	23,404	6,418	-	300	6,718
Hospitality	54,008	3,672	2,547	60,227	35,482	456	11,071	47,009
Memberships and Fees	47,213	15,803	-	63,016	77,258	1,683	250	79,191
Books, Videos, and Subscriptions	43,664	18,492	242	62,398	52,528	2,655	1,227	56,410
Email and Internet	-	9,771	-	9,771	11,384	13,256	-	24,640
Postage and Mail Service	46,176	(402)	1,425	47,199	19,181	3,873	6,797	29,851
Travel	4,035	3,314	-	7,349	83,738	843	-	84,581
Personnel and Instructional Development	10,296	8,638	-	18,934	6,627	4,273	475	11,375
Promotion	51,300	-	20,563	71,863	85,121	-	6,770	91,891
Design and Photography	650	-	-	650	5,100	-	-	5,100
Printing	60,088	11,305	273	71,666	67,888	-	11,341	79,229
Special Projects	-	-	-	-	900	-	-	900
Equipment Maintenance and Rental	213,591	43,578	1,468	258,637	110,946	26,573	8,313	145,832
Information Technology	-	-	-	-	13,311	-	-	13,311
Plant Maintenance	45,936	16,881	832	63,649	38,610	-	-	38,610
Student Exhibition	8,255	-	-	8,255	8,800	-	-	8,800
Equipment Purchases	-	51	-	51	-	2,124	-	2,124
Scholarships	3,489,636	-	-	3,489,636	3,019,924	-	-	3,019,924
Depreciation	154,229	1,566	783	156,578	148,199	1,505	752	150,456
Interest Expense	13,721	139	70	13,930	20,030	203	102	20,335
Other Expenses	3,358	-	-	3,358	-	-	-	-
Bad Debt Expense	-	209,553	-	209,553	-	26,713	-	26,713
Total Expenses by Function	7,621,419	1,689,791	104,370	9,415,580	6,878,086	1,103,589	115,778	8,097,453
Less Expenses Included with Revenue on the Consolidated Statements of Activities Student Aid	3,489,636	-	-	3,489,636	3,019,924	-	-	3,019,924
Total Expenses Included in the Expense Section on the Consolidated Statements of Activities	\$ 4,131,783	\$ 1,689,791	\$ 104,370	\$ 5,925,944	\$ 3,858,162	\$ 1,103,589	\$ 115,778	\$ 5,077,529

See accompanying notes.

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

	Years Ended May 31,	
	2021	2020
Cash Flows From Operating Activities		
Change in Net Assets	\$ 1,222,124	\$ 921,331
Reconciliation of Change in Net Assets with Cash Flows from Operations		
Depreciation	156,578	150,456
Net Investment Return on Investments	(491,429)	(87,425)
Change in Beneficial Interest in Perpetual Trust	(35,958)	3,571
Change in Beneficial Interest in Charitable Remainder Trusts	3,101	4,030
Changes in		
Accounts Receivable, Net	(229,586)	62,992
Grants Receivable	63,485	19,511
Unconditional Promises to Give	(74,751)	15,500
Prepaid Expenses	11,035	63,775
Accounts Payable	231,780	(128,064)
Accrued Expenses	(65,607)	107,028
Deferred Grant Revenue	(202,494)	(157,506)
Deferred Tuition Revenue	16,624	(100,365)
Refundable Advance - Payroll Protection Program	(136,980)	136,980
	<u>467,922</u>	<u>1,011,814</u>
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities		
Proceeds From Sale of Investments	-	120,704
Acquisition of Property and Equipment	(481,185)	(100,582)
Deposits	(14,125)	-
	<u>(495,310)</u>	<u>20,122</u>
Net Cash (Used) Provided by Investing Activities		
Cash Flows From Financing Activities		
Net Change in Line of Credit	(120,000)	(635,000)
Proceeds from Issuance of Notes Payable	149,900	-
Payments on Note Payable	(15,104)	(14,493)
Payments on Capital Lease Obligations	-	(1,064)
	<u>14,796</u>	<u>(650,557)</u>
Net Cash Provided (Used) by Financing Activities		
Net Change in Cash and Cash Equivalents	(12,592)	381,379
Cash and Cash Equivalents, Beginning of the Year	<u>531,400</u>	<u>150,021</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 518,808</u>	<u>\$ 531,400</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, graphic design, illustration, photography, creative writing, and art history.

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.

The Academy's viability is dependent on the success of increasing student enrollment and program completion, contributions, grants, etc. and the Academy's ability to collect from its students.

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 and Grants Receivable

Accounts and grants receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts and grants receivable 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 and grants 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 \$414,306 and \$230,949 at May 31, 2021 and 2020, respectively.

Contract Liabilities

Contract liabilities are reported as deferred revenue and refundable advance in the accompanying consolidated statements of financial position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give

The Academy records unconditional promises to give that are expected to be collected at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. The Academy determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. Based on these criteria, no allowance for uncollectable promises to give was provided at May 31, 2021 and 2020 since the Academy did not expect any material losses.

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 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.

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, 2021 or 2020.

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. Sales of art inventory totaled \$-0- during both years ended May 31, 2021 and 2020.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an 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.

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 and other purposes.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue Recognition***Revenue from Contracts with Customers*

Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing service. The Academy recognizes revenue for financial reporting purposes over time or at a point in time, as goods or services are delivered and based on the stated rates as determined by the Academy. Tuition and fee revenue is recognized over time, as expenditures to deliver the educational courses are completed. Rental income is recognized over time, over the period of the lease. Revenue from events and activities is recognized at the time the events take place or the services are provided.

The Academy uses an output method for revenue recognition of student room and board, the revenue is recognized pro-rata over the period of use of the room and board services provided. The students enter into a contract with the Academy which typically covers a similar period of a semester that corresponds with their education program. Revenue recognition begins upon the student occupying the housing and deposits and fees are recognized once no longer refundable.

Revenue from Contributions

The Academy recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Academy's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at May 31, 2021 and 2020, conditional contributions approximating \$-0- and \$202,494, respectively, for which all has been received in advance, and conditional contributions approximating \$606,171 and \$-0-, respectively, for which no amounts have been received in advance, have not been recognized in the accompanying consolidated statement of activities.

In April 2020, the Academy received funding in the amount of \$482,200, under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable within a 24-week period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains other designated thresholds. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments until the date that the lender receives the forgiveness amount from the SBA. The Academy used the proceeds for purposes consistent with the PPP. The Academy accounts for the PPP Funding in accordance with ASC 958-605 Revenue Recognition for Nonprofit Entities. As of May 31, 2021 and 2020, a portion of the funding, \$-0- and \$136,980, respectively, is recorded as a refundable advance for the remainder of the funding as the Academy has yet to satisfy the conditions. Revenue is recognized as eligible expenses and other conditions are substantially met or incurred. For the years ended May 31, 2021 and 2020, the Academy has recognized revenue of \$136,980 and \$345,220, respectively, as it has determined eligible expenses and other conditions have been met.

Donated Services, Equipment, and In-Kind Contributions

Donations of equipment and in-kind contributions are recorded as contributions at fair value at the date of donation. Such donations are reported as increased in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Academy.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Academy has significant time contributed to its mission through volunteers; however, the consolidated statements of activities does not reflect the value of these services as they do not meet recognition criteria required under U.S. GAAP.

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, 2021 and 2020, sales of art totaled \$-0-. During both the years ended May 31, 2021 and 2020, 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.

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 2021 or 2020. By its nature, the Plan is fully funded.

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, 2021 or 2020. 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, 2021 or 2020.

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

Recently Issued Significant Accounting Standard*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, 2021.

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

Subsequent Events

The Academy has evaluated subsequent events through November 22, 2021 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 or designations limiting their use, within one year of the consolidated statements of financial position are comprised of the following:

	May 31,	
	2021	2020
Cash and Cash Equivalents, Without Restrictions	\$ 402,995	\$ 59,877
Accounts Receivable, Net	385,273	155,687
Grants Receivable	289,004	352,489
Unconditional Promises to Give	74,751	-
Operating Investments	54,215	42,690
Total Financial Assets Available	<u>\$ 1,206,238</u>	<u>\$ 610,743</u>

The Academy's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is 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 \$618,110 and \$510,874 at May 31, 2021 and 2020, respectively, is subject to an annual spending rate of 4% to 6%. The Academy does not intend to spend from the board designated endowment above the approved annual budget amounts. Additional drawdowns may be approved by the Board of Trustees if deemed necessary.

NOTE 3 - CASH AND CASH FLOWS

For the purposes of the consolidated cash flows statements, cash includes 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 \$4,466 and \$20,335 in 2021 and 2020, respectively.

NOTE 4 - INVESTMENTS

Investments consisted of the follows:

	May 31,			
	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 137,444	\$ 137,444	\$ 48,022	\$ 48,022
Mutual Funds and Exchange-Traded Funds	1,764,662	2,152,094	1,742,892	1,777,777
Common Stocks	258,639	350,640	294,703	322,950
	<u>\$ 2,160,745</u>	<u>\$ 2,640,178</u>	<u>\$ 2,085,617</u>	<u>\$ 2,148,749</u>

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. For years ended May 31, 2021 and 2020, the total cash distributions were \$-0- and \$120,108, respectively, from the investment accounts.

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.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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, 2021 and 2020.

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.

The following assets and liabilities were measured at fair value as of May 31, 2021:

Assets	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	\$ 137,444	\$ -	\$ -	\$ 137,444
Mutual Funds and Exchange-Traded Funds	2,152,094	-	-	2,152,094
Common Stocks	350,640	-	-	350,640
Beneficial Interests in Perpetual Trusts	219,640	-	-	219,640
Beneficial Interests in Charitable Remainder Trusts	11,429	-	(686)	10,743
Total Assets at Fair Value	<u>\$ 2,871,247</u>	<u>\$ -</u>	<u>\$ (686)</u>	<u>\$ 2,870,561</u>

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following assets and liabilities were measured at fair value as of May 31, 2020:

Assets	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	\$ 48,022	\$ -	\$ -	\$ 48,022
Mutual Funds and Exchange-Traded Funds	1,777,777	-	-	1,777,777
Common Stocks	322,950	-	-	322,950
Beneficial Interests in Perpetual Trusts	183,682	-	-	183,682
Beneficial Interests in Charitable Remainder Trusts	<u>14,728</u>	<u>-</u>	<u>(884)</u>	<u>13,844</u>
Total Assets at Fair Value	<u>\$ 2,347,159</u>	<u>\$ -</u>	<u>\$ (884)</u>	<u>\$ 2,346,275</u>

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

	Beneficial Interest in Trust
May 31, 2019	\$ (1,141)
Change in Value	<u>257</u>
May 31, 2020	(884)
Change in Value	<u>198</u>
May 31, 2021	<u>\$ (686)</u>

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 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give were as follows:

	May 31,	
	2021	2020
Amount Receivable Within One Year	\$ 74,751	\$ -

NOTE 7 - PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Depreciation	Net Book Value
	May 31, 2021		
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,668,290	980,267	2,688,023
Office Furniture and Equipment	1,395,562	1,229,895	165,667
Construction in Progress	398,747	-	398,747
	\$ 5,551,769	\$ 2,210,162	\$ 3,341,607
	May 31, 2020		
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,668,290	860,920	2,807,370
Office Furniture and Equipment	1,313,124	1,192,664	120,460
	\$ 5,070,584	\$ 2,053,584	\$ 3,017,000

NOTE 8 - ENDOWMENTS

The Academy's endowment consists of several individual funds established for a variety of purposes. The 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.

NOTE 8 - ENDOWMENTS (Continued)

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.

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, 2021, funds with original gift values of \$1,209,997, fair values of \$1,861,107, and deficiencies of \$4,456 were reported in net assets with donor restrictions. At May 31, 2020, funds with original gift values of \$1,209,997, fair values of \$1,510,017, and deficiencies of \$11,538 were reported in net assets with donor restrictions.

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.

Endowment net asset composition by type of fund as of May 31, 2021 is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Board-Designated Endowment Funds	\$ 618,110	\$ -	\$ 618,110
Donor Restricted Endowment Funds	<u>-</u>	<u>1,861,107</u>	<u>1,861,107</u>
Endowment Net Asset Composition by Type of Fund	<u>\$ 618,110</u>	<u>\$ 1,861,107</u>	<u>\$ 2,479,217</u>

NOTE 8 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended May 31, 2021 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 510,874	\$ 1,510,017	\$ 2,020,891
Investment Return, Net	107,236	351,090	458,326
Endowment Net Assets, End of Year	\$ 618,110	\$ 1,861,107	\$ 2,479,217

Endowment net asset composition by type of fund as of May 31, 2020 is as follows:

Board-Designated Endowment Funds	\$ 510,874	\$ -	\$ 510,874
Donor Restricted Endowment Funds	-	1,510,017	1,510,017
Endowment Net Asset Composition by Type of Fund	\$ 510,874	\$ 1,510,017	\$ 2,020,891

Changes in endowment net assets for the year ended May 31, 2020 are as follows:

Endowment Net Assets, Beginning of Year	\$ 523,061	\$ 1,537,963	\$ 2,061,024
Investment Return, Net	19,014	60,961	79,975
Appropriation of Endowment Assets Pursuant to Spending Policy	(31,201)	(88,907)	(120,108)
Endowment Net Assets, End of Year	\$ 510,874	\$ 1,510,017	\$ 2,020,891

NOTE 9 - ART INVENTORY

Art inventory consists of the following:

	May 31,	
	2021	2020
Works of Art	\$ 49,980	\$ 49,980

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,	
		2021	2020
Wilmer D. Glenn Trust	100%	\$ 219,640	\$ 183,682

NOTE 11 - LINE OF CREDIT

The Academy has a secured revolving line of credit agreement with a bank for \$1,300,000. The line of credit charges interest at LIBOR plus 3.00% (0.019% at May 31, 2021). The line matures in March 2022. Art Academy Housing, Inc. has guaranteed the line of credit.

NOTE 12 - NOTES PAYABLE

	May 31,	
	2021	2020
Bank		
The Academy has a note payable to a bank. The note charges interest at 3.99% with final payment due in February 2024. The note is due in monthly principal and interest payments of \$1,623, and is collateralized by a parcel of land.	\$ 99,858	\$ 114,962
U.S. Small Business Administration		
The Academy received an Economic Injury Disaster Loan through the United States Small Business Administration collateralized by all tangible and intangible personal property. The loan charges interest at 2.75% and is due in monthly principal and interest payments of \$641 beginning in July 2021 with a final payment due in June 2050.	149,900	-
	249,758	114,962
Less Current Portion	18,964	15,131
Long-Term Portion	\$ 230,794	\$ 99,831

NOTE 12 - NOTES PAYABLE (Continued)

The remaining maturities on these notes are as follows:

Years Ending May 31,	
2022	\$ 18,964
2023	19,990
2024	71,430
2025	3,807
2026	3,913
Thereafter	131,654
	\$ 249,758

NOTE 13 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

	May 31,	
	2021	2020
Endowment - Operational Needs	\$ 618,110	\$ 510,874
Other Purposes	-	4,152
Total Board Designated Net Assets	\$ 618,110	\$ 515,026

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	May 31,	
	2021	2020
Subject to Expenditure for Specified Purpose		
Impact Programs	\$ 40,000	\$ 40,000
Various Grants and Programs	60,867	33,510
Alumni Council Scholarships	106,747	84,898
Scholarships	751,248	406,802
Capital Improvements	60,130	408,789
Student Emergency Funds	10,471	19,025
Community Education Awards	33,857	-
Schell Loan Program	100,000	-
HEERF - Construction in Progress	378,818	-
	<u>1,542,138</u>	<u>993,024</u>
Subject to the Passage of Time		
Unconditional Promise to Give	74,751	-
Beneficial Interests in Charitable Remainder Trusts	10,743	13,844
	<u>85,494</u>	<u>13,844</u>
Not Subject to Spending Policy or Appropriation		
Beneficial Interest in Perpetual Trust	219,640	183,682
Endowment - Scholarships	493,762	493,762
Endowment - Operational Needs	716,235	716,235
Scholarships	15,816	15,816
	<u>1,445,453</u>	<u>1,409,495</u>
Total Net Assets with Donor Restrictions	<u>\$ 3,073,085</u>	<u>\$ 2,416,363</u>

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:

	For the Years Ended May 31,	
	2021	2020
Satisfaction of Purpose Restrictions		
Gifts	\$ -	\$ 2,757
Scholarships	22,853	143,336
Various Grants and Programs	550	35,733
Community Education Awards	94,143	-
Grants Receivable	352,489	-
HEERF Funds	764,766	-
Student Emergency Funds	9,825	-
State Grants	108,266	-
Payroll Protection Program	136,980	345,220
Unconditional Promise to Give	-	15,500
	<u>1,489,872</u>	<u>542,546</u>
Total Net Assets Released From Restrictions	<u>\$ 1,489,872</u>	<u>\$ 542,546</u>

NOTE 15 - OPERATING LEASESEquipment

The Academy leases equipment for total monthly payments of \$6,392 and a quarterly payment of \$600. The leases have varying expiration dates ranging from September 2022 to June 2026. The Academy incurred lease expense of \$34,028 and \$63,768 for 2021 and 2020, respectively.

Housing and Storage

Art Academy Housing, Inc. leased apartments for the students of the Academy for a base rent of \$10,110 per month under an operating lease. The lease was terminated on May 31, 2020. Art Academy Housing, Inc. incurred lease expense related to housing lease of \$-0- and \$125,424 in 2021 and 2020, respectively.

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. All leases were terminated on June 30, 2020. The Academy incurred lease expense of \$9,325 and \$118,380 for 2021 and 2020, respectively.

Art Academy Housing, Inc. entered into a 10 year escalating lease in August 2020 with an unrelated party for apartments for the students of the Academy. The Academy incurred lease expense of \$341,236 and \$-0- for 2021 and 2020, respectively.

The Academy entered into a 3 year lease in September 2020 with an unrelated party for storage with an unrelated party. The Academy incurred lease expense of \$8,000 and \$-0- for 2021 and 2020, respectively.

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

<u>Years Ending May 31,</u>	<u>Equipment</u>	<u>Housing and Storage</u>	<u>Total</u>
2022	\$ 32,718	\$ 512,564	\$ 545,282
2023	20,926	523,281	544,207
2024	15,330	522,196	537,526
2025	15,330	528,815	544,145
2026	15,330	539,391	554,721
Thereafter	<u>2,555</u>	<u>2,401,282</u>	<u>2,403,837</u>
	<u>\$ 102,189</u>	<u>\$ 5,027,529</u>	<u>\$ 5,129,718</u>

NOTE 16 - 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, 2021 and 2020, the Academy had transactions with related parties as follows:

	Years Ended May 31,	
	2021	2020
Legal Services	\$ 17,185	\$ 34,202
Other	1,370	1,664
	\$ 18,555	\$ 35,866

NOTE 17 - 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, 2021 and 2020, financial aid awards received accounted for approximately 52% and 42%, 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 18 - GOING CONCERN

As shown in the accompanying consolidated financial statements, the Academy had an increase in the net assets in the current year of \$1,222,124. During fiscal year 2021, the Academy recognized \$136,980 in the consolidated statement of activities from the SBA Payroll Protection Program. Additionally, the Academy received Higher Education Emergency Relief Fund of \$1,143,583 to assist students and the institution with emergency needs. The general fund without donor restrictions current liabilities exceeds current assets as of both May 31, 2021 and 2020. The Academy was not able to obtain its budgeted Tuition and Fees for the spring 2021 therefore tuition revenue was under budget for the year. As noted above due to the novel coronavirus the Academy received additional funding to cover expenses during the year. Additionally, the Academy continues to assess expenses and was able to achieve the budgeted change in net assets.

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 continue increasing enrollment by 15% each of the next three years. The Academy has made strategic investments into the curriculum and student life, which will increase retention numbers. The Academy has also created a positive cash flow and reduced the reliance on the line of credit as can be seen in the decrease in the credit line in the consolidated statement of position from the prior year.

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 steps that have been taken to implement the strategic plan have been successful and will lead to increased enrollment and improved cash flow. As the world continues to improve economically from the novel coronavirus the Academy expects to have increased enrollment and use of the barrel house. The consolidated financial statements do not include any adjustments that might be necessary if the Academy is unable to continue.

NOTE 19 - RISKS AND UNCERTAINTIES – COVID-19 OUTBREAK

Prior to year-end, the World Health Organization announced a global health emergency later classified as a global pandemic as a result of the COVID-19 outbreak. The outbreak and response has impacted financial and economic markets across the World and within the United States of America. The full impact continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the Academy's financial condition, liquidity, and future results of operations. Management is actively monitoring the possible effects on every aspect of the Academy.

SUPPLEMENTARY INFORMATION

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MAY 31, 2021**

ASSETS				
	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Current Assets				
Cash and Cash Equivalents	\$ 518,808	\$ -	\$ -	\$ 518,808
Accounts Receivable, Net	385,273	-	-	385,273
Grants Receivable	289,004	-	-	289,004
Unconditional Promises to Give	74,751	-	-	74,751
Investments	160,961	-	-	160,961
Note Receivable - Related Party	-	82,017	(82,017)	-
Prepaid Expenses	11,912	-	-	11,912
Total Current Assets	1,440,709	82,017	(82,017)	1,440,709
Property and Equipment, Net	3,268,250	73,357	-	3,341,607
Endowment Investments	2,479,217	-	-	2,479,217
Art Inventory	49,980	-	-	49,980
Beneficial Interest in Perpetual Trust	219,640	-	-	219,640
Beneficial Interest in Charitable Remainder Trusts	11,429	-	-	11,429
Deposits	-	31,600	-	31,600
Total Assets	\$ 7,469,225	\$ 186,974	\$ (82,017)	\$ 7,574,182

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MAY 31, 2021
(Continued)

LIABILITIES AND NET ASSETS

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Current Liabilities				
Accounts Payable	\$ 335,708	\$ -	\$ -	\$ 335,708
Accrued Expenses	65,319	34,600	-	99,919
Deferred Tuition Revenue	40,694	-	-	40,694
Note Payable - Related Party	82,017	-	(82,017)	-
Notes Payable	18,964	-	-	18,964
	<u>542,702</u>	<u>34,600</u>	<u>(82,017)</u>	<u>495,285</u>
Total Current Liabilities				
Long-Term Liabilities (Less Current Portion)				
Charitable Remainder Trust	686	-	-	686
Notes Payable	230,794	-	-	230,794
	<u>231,480</u>	<u>-</u>	<u>-</u>	<u>231,480</u>
Total Long-Term Liabilities				
	<u>774,182</u>	<u>34,600</u>	<u>(82,017)</u>	<u>726,765</u>
Total Liabilities				
Net Assets				
Without Donor Restrictions	3,621,958	152,374	-	3,774,332
With Donor Restrictions	3,073,085	-	-	3,073,085
	<u>6,695,043</u>	<u>152,374</u>	<u>-</u>	<u>6,847,417</u>
Total Net Assets				
	<u>7,469,225</u>	<u>186,974</u>	<u>(82,017)</u>	<u>7,574,182</u>
Total Liabilities and Net Assets				

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2021**

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Revenue, Support, and Gains				
Tuition and Fees Income	\$ 7,422,279	\$ -	\$ -	\$ 7,422,279
Student Aid	(3,489,636)	-	-	(3,489,636)
Net Tuition and Fees Income	3,932,643	-	-	3,932,643
Grants, Contributions and Gifts	1,840,311	-	-	1,840,311
Student Room and Board	-	551,050	-	551,050
In-Kind Donations	48,000	-	-	48,000
Payroll Protection Program Revenue	136,980	-	-	136,980
Community Education	94,026	-	-	94,026
Net Investment Return	491,429	-	-	491,429
Other Income	18,661	2,111	-	20,772
Total Revenue, Support, and Gains	<u>6,562,050</u>	<u>553,161</u>	<u>-</u>	<u>7,115,211</u>
Expenses				
Program Services	3,653,959	477,824	-	4,131,783
Management and General	1,689,791	-	-	1,689,791
Fundraising	104,370	-	-	104,370
Total Expenses	<u>5,448,120</u>	<u>477,824</u>	<u>-</u>	<u>5,925,944</u>
Excess of Revenue Support, and Gains Over Expenses	1,113,930	75,337	-	1,189,267
Change in Beneficial Interest in Perpetual Trust	35,958	-	-	35,958
Change in Beneficial Interest in Charitable Remainder Trusts	<u>(3,101)</u>	<u>-</u>	<u>-</u>	<u>(3,101)</u>
Change in Net Assets	1,146,787	75,337	-	1,222,124
Net Assets, Beginning of Year	<u>5,548,256</u>	<u>77,037</u>	<u>-</u>	<u>5,625,293</u>
Net Assets, End of Year	<u>\$ 6,695,043</u>	<u>\$ 152,374</u>	<u>\$ -</u>	<u>\$ 6,847,417</u>