

**ART ACADEMY OF CINCINNATI
AND AFFILIATE**

May 31, 2020

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



**ART ACADEMY OF CINCINNATI AND AFFILIATE
TABLE OF CONTENTS**

| | PAGE |
|--|-------------|
| Independent Auditors' Report | |
| Consolidated Financial Statements | |
| Consolidated Statements of Financial Position | 1 |
| Consolidated Statements of Activities..... | 5 |
| Consolidated Statements of Functional Expenses | 7 |
| Consolidated Statements of Cash Flows | 8 |
| Notes to the Consolidated Financial Statements..... | 9 |
| Supplementary Information | |
| Consolidating Statement of Financial Position..... | 27 |
| Consolidating Statement of Activities..... | 29 |
| Financial Responsibility Supplemental Schedules..... | 30 |

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, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to 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, 2020 and 2019, 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 2020, Art Academy of Cincinnati and Affiliate adopted Accounting Standards Update (ASU) No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958) and ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. Our opinion is not modified with respect to these matters.

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 on pages 27 and 29 and the financial responsibility supplemental schedules on pages 30 through 32 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

December 30, 2020 except for Financial Responsibility Supplement Schedules on pages 30-32, as to which the date from January 31, 2022 is modified to April 26, 2022 along with footnote 22 on page 26.

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 |
| Investments | 42,960 | 84,898 | 127,858 |
| Grants Receivable | - | 352,489 | 352,489 |
| Due (To) From Funds | (139,384) | 139,384 | - |
| Prepaid Expenses | 22,947 | - | 22,947 |
| | 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 |
| | 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 |
| | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities and Net Assets | \$ 3,737,416 | \$ 2,756,721 | \$ 6,494,137 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

See accompanying notes.

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

ASSETS

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|-------------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 50,355 | \$ 99,666 | \$ 150,021 |
| Accounts Receivable, Net | 218,679 | - | 218,679 |
| Investments | 40,630 | 80,374 | 121,004 |
| Grants Receivable | 12,000 | 40,000 | 52,000 |
| Unconditional Pledges to Give | - | 15,500 | 15,500 |
| Due (To) From Funds | (36,344) | 36,344 | - |
| Prepaid Expenses | 86,722 | - | 86,722 |
| | 372,042 | 271,884 | 643,926 |
| Property and Equipment, Net | 3,066,874 | - | 3,066,874 |
| Endowment Investments | 523,061 | 1,537,963 | 2,061,024 |
| Art Inventory | 49,980 | - | 49,980 |
| Grant Receivable | - | 320,000 | 320,000 |
| Beneficial Interest in Perpetual Trust | - | 187,253 | 187,253 |
| Beneficial Interest in Charitable Remainder Trusts | - | 19,015 | 19,015 |
| Deposits | 17,475 | - | 17,475 |
| | 17,475 | - | 17,475 |
| Total Assets | \$ 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, 2019
(Continued)

LIABILITIES AND NET ASSETS

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|--|--------------|
| Current Liabilities | | | |
| Line of Credit | \$ 755,000 | \$ - | \$ 755,000 |
| Accounts Payable | 231,992 | - | 231,992 |
| Accrued Expenses | 58,498 | - | 58,498 |
| Capital Lease Obligations | 1,064 | - | 1,064 |
| Deferred Grant Revenue | - | 360,000 | 360,000 |
| Deferred Tuition Revenue | 124,435 | - | 124,435 |
| Note Payable | 14,540 | - | 14,540 |
| | 1,185,529 | 360,000 | 1,545,529 |
| Total Current Liabilities | | | |
| Long-Term Liabilities (Less Current Portion) | | | |
| Charitable Remainder Trust | - | 1,141 | 1,141 |
| Note Payable | 114,915 | - | 114,915 |
| | 114,915 | 1,141 | 116,056 |
| Total Long-Term Liabilities | | | |
| | 1,300,444 | 361,141 | 1,661,585 |
| Total Liabilities | | | |
| | 2,728,988 | - | 2,728,988 |
| Net Assets | | | |
| 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 |
| | - | 1,974,974 | 1,974,974 |
| Total Net Assets With Donor Restrictions | | | |
| | 2,728,988 | 1,974,974 | 4,703,962 |
| Total Net Assets | | | |
| | 4,029,432 | 2,336,115 | 6,365,547 |
| Total Liabilities and Net Assets | \$ 4,029,432 | \$ 2,336,115 | \$ 6,365,547 |

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 |
| Payroll 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 | 3,863,083 | - | 3,863,083 |
| Management and General | 1,103,589 | - | 1,103,589 |
| Fundraising | 110,857 | - | 110,857 |
| 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 STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2019**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---|--|---------------------|
| Revenue, Support, and Gains | | | |
| Tuition and Fees Income | \$ 6,269,054 | \$ - | \$ 6,269,054 |
| Student Aid | (2,475,196) | - | (2,475,196) |
| | <u>3,793,858</u> | <u>-</u> | <u>3,793,858</u> |
| Net Tuition and Fees Income | | | 3,793,858 |
| Grants, Contributions and Gifts | 467,608 | 95,586 | 563,194 |
| Student Room and Board | 278,616 | - | 278,616 |
| Community Education | 260,683 | - | 260,683 |
| Net Investment Return | (3,841) | 6,667 | 2,826 |
| Loss on Sale of Art Inventory | 39,045 | - | 39,045 |
| Other Income | 72,633 | - | 72,633 |
| | <u>4,908,602</u> | <u>102,253</u> | <u>5,010,855</u> |
| Total Revenue, Support, and Gains | | | 5,010,855 |
| Net Assets Released From Restrictions | | | |
| | <u>84,326</u> | <u>(84,326)</u> | <u>-</u> |
| Total Revenue, Support, Gains, and Reclassifications | <u>4,992,928</u> | <u>17,927</u> | <u>5,010,855</u> |
| Expenses | | | |
| Program Services | 3,968,742 | - | 3,968,742 |
| Management and General | 911,762 | - | 911,762 |
| Fundraising | 266,619 | - | 266,619 |
| | <u>5,147,123</u> | <u>-</u> | <u>5,147,123</u> |
| Total Expenses | | | 5,147,123 |
| (Deficit) Excess of Revenue, Support, Gains, and Reclassifications Over Expenses | (154,195) | 17,927 | (136,268) |
| Interfund Equity Transfers | (16,756) | 16,756 | - |
| Change in Beneficial Interest in Perpetual Trust | - | (7,223) | (7,223) |
| Change in Beneficial Interest in Charitable Remainder Trusts | <u>-</u> | <u>(4,385)</u> | <u>(4,385)</u> |
| Change in Net Assets | (170,951) | 23,075 | (147,876) |
| Net Assets, Beginning of Year | <u>2,899,939</u> | <u>1,951,899</u> | <u>4,851,838</u> |
| Net Assets, End of Year | <u>\$ 2,728,988</u> | <u>\$ 1,974,974</u> | <u>\$ 4,703,962</u> |

See accompanying notes.

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

| | Years Ended May 31, | | | | | | | |
|---|---------------------|---------------------------|-------------------|---------------------|---------------------|---------------------------|-------------------|---------------------|
| | 2020 | | | | 2019 | | | |
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries | \$ 1,759,896 | \$ 608,333 | \$ 15,561 | \$ 2,383,790 | \$ 1,566,703 | \$ 427,528 | \$ 77,203 | \$ 2,071,434 |
| Payroll Taxes | 96,507 | 90,628 | 1,189 | 188,324 | 84,043 | 77,303 | 5,301 | 166,647 |
| Employee Benefits | 126,400 | 100,033 | (92) | 226,341 | 94,140 | 82,642 | 4,767 | 181,549 |
| Rent | 237,641 | - | - | 237,641 | 225,291 | - | - | 225,291 |
| Telephone | 973 | 16,641 | - | 17,614 | 1,327 | - | - | 1,327 |
| Utilities | 242,003 | - | - | 242,003 | 288,622 | 17,220 | - | 305,842 |
| Security | 149,689 | - | - | 149,689 | 155,269 | - | - | 155,269 |
| Insurance | 31,724 | 10,256 | - | 41,980 | 33,950 | 10,360 | - | 44,310 |
| Bank Charges | 9,733 | 9,135 | 672 | 19,540 | 8,147 | 9,490 | 985 | 18,622 |
| Supplies | 60,366 | 7,825 | 17,287 | 85,478 | 100,386 | 7,701 | 88,601 | 196,688 |
| Purchased Services | 345,963 | 176,581 | 33,763 | 556,307 | 432,354 | 138,485 | 55,722 | 626,561 |
| Model Fees | 5,746 | - | - | 5,746 | 7,131 | - | - | 7,131 |
| Lecturer's Honorarium | 6,418 | - | 300 | 6,718 | 9,812 | - | - | 9,812 |
| Hospitality | 35,482 | 456 | 11,071 | 47,009 | 34,934 | 1,834 | 4,647 | 41,415 |
| Memberships and Fees | 77,258 | 1,683 | 250 | 79,191 | 90,764 | 3,013 | 570 | 94,347 |
| Books, Videos, and Subscriptions | 51,978 | 2,655 | 827 | 55,460 | 26,107 | 20 | 834 | 26,961 |
| Email and Internet | 11,384 | 13,256 | - | 24,640 | 11,875 | 11,875 | - | 23,750 |
| Postage and Mail Service | 19,181 | 3,873 | 6,797 | 29,851 | 27,117 | 3,969 | 11,671 | 42,757 |
| Travel | 83,738 | 843 | - | 84,581 | 88,829 | 4 | 449 | 89,282 |
| Personnel and Instructional Development | 6,627 | 4,273 | 475 | 11,375 | 2,667 | 661 | - | 3,328 |
| Promotion | 163,580 | - | 13,590 | 177,170 | 208,713 | - | 14,515 | 223,228 |
| Special Projects | 900 | - | - | 900 | - | - | - | - |
| Equipment Maintenance and Rental | 110,946 | 26,573 | 8,313 | 145,832 | 152,804 | 22,306 | 470 | 175,580 |
| Information Technology | 13,311 | - | - | 13,311 | 28,538 | - | - | 28,538 |
| Plant Maintenance | 38,610 | - | - | 38,610 | 96,549 | - | - | 96,549 |
| Student Activities | - | - | - | - | 3,300 | - | - | 3,300 |
| Student Exhibition | 8,800 | - | - | 8,800 | 15,003 | - | - | 15,003 |
| Equipment Purchases | - | 2,124 | - | 2,124 | 219 | 246 | - | 465 |
| Scholarships | - | - | - | - | - | - | - | - |
| Depreciation | 148,199 | 1,505 | 752 | 150,456 | 143,817 | 1,460 | 730 | 146,007 |
| Interest Expense | 20,030 | 203 | 102 | 20,335 | 30,331 | 308 | 154 | 30,793 |
| Bad Debt Expense | - | 26,713 | - | 26,713 | - | 95,337 | - | 95,337 |
| Total Expenses by Function | \$ 3,863,083 | \$ 1,103,589 | \$ 110,857 | \$ 5,077,529 | \$ 3,968,742 | \$ 911,762 | \$ 266,619 | \$ 5,147,123 |

See accompanying notes.

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

| | Years Ended May 31, | |
|---|---------------------|-------------------|
| | 2020 | 2019 |
| Cash Flows From Operating Activities | | |
| Change in Net Assets | \$ 921,331 | \$ (147,876) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities | | |
| Depreciation | 150,456 | 146,007 |
| Net Investment Return on Investments | 87,425 | 2,826 |
| Gain on Sale of Art Inventory | - | (39,045) |
| Change in Beneficial Interest in Perpetual Trust | 3,571 | 7,223 |
| Change in Beneficial Interest in Charitable Remainder Trusts | 4,030 | 4,385 |
| Changes in | | |
| Accounts Receivable, Net | 62,992 | 67,954 |
| Grants Receivable | 19,511 | 28,000 |
| Unconditional Promises to Give | 15,500 | (6,678) |
| Prepaid Expenses | 63,775 | 2,173 |
| Accounts Payable | (128,064) | 30,745 |
| Accrued Expenses | 107,028 | (127,239) |
| Deferred Grant Revenue | (157,506) | (40,000) |
| Deferred Tuition Revenue | (100,365) | - |
| Refundable Advance - Payroll Protection Program | 136,980 | - |
| | <u>1,186,664</u> | <u>(71,525)</u> |
| Net Cash Provided (Used) by Operating Activities | | |
| Cash Flows From Investing Activities | | |
| Proceeds From Sale of Investments | 1,088,084 | 1,248,222 |
| Purchase of Investments | (1,142,230) | (1,152,291) |
| Proceeds from Sale of Art Inventory | - | 143,022 |
| Acquisition of Property and Equipment | (100,582) | (6,298) |
| Deposits | - | (4,700) |
| | <u>(154,728)</u> | <u>227,955</u> |
| Net Cash (Used) Provided by Investing Activities | | |
| Cash Flows From Financing Activities | | |
| Net Change in Line of Credit | (635,000) | (105,000) |
| Payments on Note Payable | (14,493) | (13,949) |
| Payments on Capital Lease Obligations | (1,064) | (3,969) |
| | <u>(650,557)</u> | <u>(122,918)</u> |
| Net Cash Used by Financing Activities | | |
| Net Change in Cash and Cash Equivalents | 381,379 | 33,512 |
| Cash and Cash Equivalents, Beginning of the Year | <u>150,021</u> | <u>116,509</u> |
| Cash and Cash Equivalents, End of the Year | <u>\$ 531,400</u> | <u>\$ 150,021</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 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 \$230,949 and \$206,513 at May 31, 2020 and 2019, 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, 2019 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 (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.

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, 2020 or 2019.

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, 2020 and 2019, sales of art inventory totaled \$-0- and \$143,022, respectively.

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, 2020, conditional contributions approximating \$202,494, for which all has 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 five 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 intends to use 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. Revenue is recognized as eligible expenses and other conditions are substantially met or incurred. At May 31, 2020 the Academy has recognized revenue of \$345,220 as it has determined eligible expenses and other conditions have been met regarding a portion of the funding and \$136,980 as a refundable advance for the remainder of the funding yet to satisfy the conditions.

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, 2020 and 2019, sales of art totaled \$-0-. During both the years ended May 31, 2020 and 2019, there were no items in the Academy's collections that were damaged or destroyed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2020 or 2019. 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, 2020 or 2019. 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, 2020 or 2019.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Change in Accounting Principle**

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Organization has implemented Topic 606 and has adjusted the presentation in these consolidated financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements.

Collectively, the new Topic 606 and 958 will be referred to as the “new guidance.”

The Academy adopted the requirements of the new guidance as of June 1, 2019, utilizing the modified retrospective method of transition. However, the adoption of this new guidance did not result in the Academy changing its policies for recognizing revenue and thus no cumulative adjustment to the Academy’s net assets as of June 1, 2019 was necessary. The amounts reported in the consolidated financial statements for fiscal year 2020 are the same amounts that would have been reported under the former guidance. The Academy did apply the new guidance using the practical expedient provided in Topic 606 and 958 that allows the guidance to be applied only to contracts and contributions that weren’t complete as of June 1, 2019. The effects of applying this practical expedient were not significant to the consolidated financial statements.

Subsequent Events

The Academy has evaluated subsequent events through December 30, 2020 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 statement of financial position are comprised of the following:

| | May 31, | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| Cash and Cash Equivalents, Without Restrictions | \$ 59,877 | \$ 50,355 |
| Accounts Receivable, Net | 155,687 | 218,679 |
| Unconditional Promises to Give | - | 15,500 |
| Operating Investments | 42,960 | 40,630 |
| Total Financial Assets Available | <u>\$ 258,524</u> | <u>\$ 325,164</u> |

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 \$510,874 and \$523,061 at May 31, 2020 and 2019, respectively are 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 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 \$20,335 and \$30,793 in 2020 and 2019, respectively.

NOTE 4 - INVESTMENTS

Investments consisted of the follows:

| | May 31, | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2020 | | 2019 | |
| | Cost | Fair Value | Cost | Fair Value |
| Cash and Cash Equivalents | \$ 48,022 | \$ 48,022 | \$ 64,272 | \$ 64,272 |
| Mutual Funds and Exchange-Traded Funds | 1,742,892 | 1,777,777 | 1,722,668 | 1,753,178 |
| Common Stocks | 294,703 | 322,950 | 353,578 | 364,578 |
| | <u>\$ 2,085,617</u> | <u>\$ 2,148,749</u> | <u>\$ 2,140,518</u> | <u>\$ 2,182,028</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 both years ended May 31, 2020 and 2019. For fiscal years 2020 and 2019, the total cash distributions were \$120,108 and \$100,500 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.

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, 2020 and 2019.

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, 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 | 14,728 | - | (884) | 13,844 |
| Total Assets at Fair Value | <u>\$ 2,347,159</u> | <u>\$ -</u> | <u>\$ (884)</u> | <u>\$ 2,346,275</u> |

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

| 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 | \$ 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> |

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

| | Beneficial Interest In Trust |
|-----------------|------------------------------------|
| May 31, 2018 | \$ (1,838) |
| Change in Value | <u>697</u> |
| May 31, 2019 | (1,141) |
| Change in Value | <u>257</u> |
| May 31, 2020 | <u>\$ (884)</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 - 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 was received in advance and the grant amortized on a fifteen year straight line basis. During fiscal year 2020, the Academy requested and received permission to release the remainder of the funds which are held as restricted for capital improvements. For the years ended May 31, 2020 and 2019, the balance of the grant receivable was \$352,489 and \$360,000, 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. For the years ended May 31, 2020 and 2019, the balance of the grant receivable was \$- and \$12,000, respectively.

NOTE 7 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give were as follows:

| | May 31, | |
|-----------------------------------|---------|-----------|
| | 2020 | 2019 |
| Amount Receivable Within One Year | \$ - | \$ 15,500 |

NOTE 8 - PROPERTY AND EQUIPMENT

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

| | May 31, 2020 | | |
|--------------------------------|---------------------|-----------------------------|---------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| 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 |
| | <u>\$ 5,070,584</u> | <u>\$ 2,053,584</u> | <u>\$ 3,017,000</u> |
| | May 31, 2019 | | |
| Land | \$ 89,170 | \$ - | \$ 89,170 |
| Buildings and Improvements | 3,668,289 | 738,671 | 2,929,618 |
| Office Furniture and Equipment | 1,212,543 | 1,164,457 | 48,086 |
| | <u>\$ 4,970,002</u> | <u>\$ 1,903,128</u> | <u>\$ 3,066,874</u> |

NOTE 9 - 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.

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, 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. 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.

NOTE 9 - ENDOWMENTS (Continued)

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, 2020 is as follows:

| | Without Donor Restriction | With Donor Restrictions | Total |
|--|---------------------------------|-------------------------------|---------------------|
| Board-Designated Endowment Funds | \$ 510,874 | \$ - | \$ 510,874 |
| Donor Restricted Endowment Funds | <u>-</u> | <u>1,510,017</u> | <u>1,510,017</u> |
| Endowment Net Asset Composition by Type of Fund | <u>\$ 510,874</u> | <u>\$ 1,510,017</u> | <u>\$ 2,020,891</u> |

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 | <u>(31,201)</u> | <u>(88,907)</u> | <u>(120,108)</u> |
| Endowment Net Assets, End of Year | <u>\$ 510,874</u> | <u>\$ 1,510,017</u> | <u>\$ 2,020,891</u> |

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

| | | | |
|--|-------------------|---------------------|---------------------|
| 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> |

NOTE 9 - ENDOWMENTS (Continued)

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

| | Without Donor Restriction | With Donor Restrictions | Total |
|--|---------------------------------|-------------------------------|---------------------|
| 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> |

NOTE 10 - ART INVENTORY

Art inventory consists of the following:

| | May 31, | |
|--------------|------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| Works of Art | <u>\$ 49,980</u> | <u>\$ 49,980</u> |

NOTE 11 - 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, | |
|-----------------------|---|-------------------|-------------------|
| | | <u>2020</u> | <u>2019</u> |
| Wilmer D. Glenn Trust | 100% | <u>\$ 183,682</u> | <u>\$ 187,253</u> |

NOTE 12 - 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 3.00% (0.062% at May 31, 2020). The line matures in December 2020. Art Academy Housing, Inc. has guaranteed the line of credit.

NOTE 13 - CAPITAL LEASE OBLIGATIONS

The Academy entered into a capital lease obligation in July, 2015, collateralized by the computer equipment purchased, that charged interest at 4.72%. Depreciation expense for equipment held under the capital lease obligations was \$-0- and \$3,750 for years ended May 31, 2020 and 2019, respectively. The capital lease obligation balance was \$-0- and \$1,064 for the years ended May 31, 2019 and 2020, respectively.

NOTE 14 - NOTE PAYABLE

| | May 31, | |
|---|------------|------------|
| | 2020 | 2019 |
| 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. | \$ 114,962 | \$ 129,455 |
| Less Current Portion | 15,131 | 14,540 |
| Long-Term Portion | \$ 99,831 | \$ 114,915 |

The remaining maturities on this note are as follows:

| Years Ending May 31, | |
|-------------------------|------------|
| 2021 | \$ 15,131 |
| 2022 | 15,746 |
| 2023 | 16,386 |
| 2024 | 67,699 |
| | \$ 114,962 |

NOTE 15 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

| | | |
|-----------------------------------|------------|------------|
| Endowment - Operational Needs | \$ 510,874 | \$ 523,061 |
| Other Purposes | 4,152 | 25,782 |
| Total Board Designated Net Assets | \$ 515,026 | \$ 548,843 |

NOTE 16 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

| | May 31, | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| Subject to Expenditure for Specified Purpose | | |
| Gifts | \$ - | \$ 2,757 |
| Impact Programs | 40,000 | - |
| Various Grants and Programs | 33,510 | 30,797 |
| Alumni Council Scholarships | 84,898 | 80,374 |
| Scholarships | 406,802 | 414,606 |
| Capital Improvements | 408,789 | - |
| Student Emergency Funds | 19,025 | - |
| Unconditional Promise to Give | - | 15,500 |
| | 993,024 | 544,034 |
| Subject to the Passage of Time | | |
| Beneficial Interests in Charitable Remainder Trusts | 13,844 | 17,874 |
| Not Subject to Spending Policy or Appropriation | | |
| Beneficial Interest in Perpetual Trust | 183,682 | 187,253 |
| Endowment - Scholarships | 493,762 | 493,762 |
| Endowment - Operational Needs | 716,235 | 716,235 |
| Scholarships | 15,816 | 15,816 |
| | 1,409,495 | 1,413,066 |
| Total Net Assets with Donor Restrictions | \$ 2,416,363 | \$ 1,974,974 |

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:

| | | |
|--|-------------------|------------------|
| Satisfaction of Purpose Restrictions | | |
| Gifts | \$ 2,757 | \$ 2,000 |
| Scholarships | 143,336 | 23,004 |
| Various Grants and Programs | 35,733 | 59,322 |
| Payroll Protection Program | 345,220 | - |
| Unconditional Promise to Give | 15,500 | - |
| | 542,546 | 84,326 |
| Total Net Assets Released From Restrictions | \$ 542,546 | \$ 84,326 |

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 for both 2020 and 2019.

Housing

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 June 30, 2020 due to entering into a new housing lease for new dorms. Art Academy Housing, Inc. incurred lease expense related to this lease of \$125,424 and \$121,320 in 2020 and 2019, 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 due to entering into a new housing lease for new dorms. The Academy incurred lease expense of \$118,380 and \$103,977 for 2020 and 2019, 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. There was no lease expense associated with this lease in the statement of activities for the year ended May 31, 2020.

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

| Years Ending May 31, | Equipment | Housing | Total |
|-------------------------|-----------|--------------|--------------|
| 2021 | \$ 21,253 | \$ 379,663 | \$ 400,916 |
| 2022 | 17,388 | 498,314 | 515,702 |
| 2023 | 5,596 | 508,281 | 513,877 |
| 2024 | - | 518,446 | 518,446 |
| 2025 | - | 528,815 | 528,815 |
| Thereafter | - | 2,940,673 | 2,940,673 |
| | \$ 44,237 | \$ 5,374,192 | \$ 5,418,429 |

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, 2020 and 2019, the Academy had transactions with related parties as follows:

| | Years Ended May 31, | |
|----------------|---------------------|-----------|
| | 2020 | 2019 |
| Legal Services | \$ 34,202 | \$ 26,244 |
| Other | 1,664 | - |
| | \$ 35,866 | \$ 26,244 |

NOTE 19 - 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, 2020 and 2019, financial aid awards received accounted for approximately 42% and 46%, 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 20 - GOING CONCERN

As show in the accompanying consolidated financial statements, the Academy had an increase in the net assets in the current year of \$921,331. During this year there was additional relief funding provided through the SBA for payroll protection related to the novel coronavirus. The funding recognized totaled \$345,220 in the consolidated statement of activities. However in the prior two years 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, 2020 and 2019. The Academy was not able to retain its budgeted Full Time Enrollment (FTE) for the spring 2020 therefore tuition revenue was under budget. As noted above due to the novel coronavirus the Academy did receive additional funding to cover expenses during that period. Additionally, the Academy continues to assess expenses and was able to achieve the budgeted change in net assets. As the consolidated cash flow statements reflect for year ended May 31, 2020 there were non-cash related expenses: depreciation \$150,456, change in beneficial interest in perpetual trust \$3,571 and change in beneficial interest in charitable remainder trusts \$4,030 for a total of \$158,057. The Art Academy has experienced a shortfall in cash flow in the past, which has been met through the line of credit. The line of credit expires December 31, 2020.

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 large decrease in the credit line in the statement of position. The Art Academy improved processes for budgeting, 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.

NOTE 21 - CONTINGENCIES

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.

NOTE 22 - FINANCIAL RESPONSIBILITY

The Department of Education issued regulations on February 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV.

Property, Plant, and Equipment, Net

| | | |
|----|--|---------------------|
| 3 | Pre-implementation property, plant, and equipment, net | |
| a. | Ending balance of last financial statements submitted to and accepted by the Department of Education (May 31, 2019, financial statement) | \$ 3,066,874 |
| b. | Reclassify capital lease assets previously included in PPE, net prior to the implementation of ASU 2016-02 leases standard | - |
| c. | Less subsequent depreciation and disposals (net of accumulated depreciation) | (150,456) |
| d. | Balance pre-implementation property, plant, and equipment, net | <u>2,916,418</u> |
| 4 | Debt financed post-implementation property, plant, and equipment, net | |
| | Long-lived assets acquired with debt subsequent to May 31, 2019: | - |
| a. | Equipment | - |
| b. | Land improvements | - |
| c. | Building | - |
| d. | Total property, plant, and equipment, net acquired with debt exceeding 12 months | <u>-</u> |
| 5 | Construction in progress - acquired subsequent to May 31, 2019 | <u>-</u> |
| 6 | Post-implementation property, plant, and equipment, net, acquired without debt: | |
| a. | Long-lived assets acquired without use of debt subsequent to May 31, 2019 | <u>100,582</u> |
| 7 | Total Property, Plant, and Equipment, net - May 31, 2020 | <u>\$ 3,017,000</u> |

Debt to be excluded from expendable net assets

| | | |
|----|---|-------------------|
| 8 | Pre-implementation debt: | |
| a. | Ending balance of last financial statements submitted to the Department of Education (May 31, 2019): | \$ 130,519 |
| b. | Reclassify capital leases previously included in long-term debt prior to the implementation of ASU 2016-02 leases standard. | - |
| c. | Less subsequent debt repayments | (15,557) |
| d. | Balance Pre-implementation Debt | <u>114,962</u> |
| 9 | Allowable post-implementation debt used for capitalized long-lived assets: | |
| a. | Equipment - all capitalized | - |
| b. | Land improvements | - |
| c. | Buildings | - |
| d. | Balance Post-implementation Debt | <u>-</u> |
| 10 | Construction in progress (CIP) financed with debt or line of credit | <u>-</u> |
| 11 | Long-term debt not for the purchase of property, plant, and equipment or liability greater than assets value | <u>-</u> |
| | | <u>\$ 114,962</u> |

SUPPLEMENTARY INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2020

| ASSETS | | | | |
|---|--|--|------------------------|-------------------------|
| | Art Academy of Cincinnati | Art Academy Housing, Inc. | Eliminations | Total |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 531,400 | \$ - | \$ - | \$ 531,400 |
| Accounts Receivable, Net | 155,687 | - | - | 155,687 |
| Investments | 127,858 | - | - | 127,858 |
| Grants Receivable | 352,489 | - | - | 352,489 |
| Note Receivable - Related Party | - | 50,967 | (50,967) | - |
| Prepaid Expenses | 22,947 | - | - | 22,947 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Current Assets | 1,190,381 | 50,967 | (50,967) | 1,190,381 |
| Property and Equipment, Net | 2,964,855 | 52,145 | - | 3,017,000 |
| Endowment Investments | 2,020,891 | - | - | 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 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Assets | \$ <u>6,424,517</u> | \$ <u>120,587</u> | \$ <u>(50,967)</u> | \$ <u>6,494,137</u> |

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

May 31, 2020

(Continued)

LIABILITIES AND NET ASSETS

| | Art Academy of Cincinnati | Art Academy Housing, Inc. | Eliminations | Total |
|---|--|--|---------------------|---------------------|
| Current Liabilities | | | | |
| Line of Credit | \$ 120,000 | \$ - | \$ - | \$ 120,000 |
| Accounts Payable | 103,928 | - | - | 103,928 |
| Accrued Expenses | 121,976 | 43,550 | - | 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 - Related Party | 50,967 | - | (50,967) | - |
| Note Payable | 15,131 | - | - | 15,131 |
| | <u>775,546</u> | <u>43,550</u> | <u>(50,967)</u> | <u>768,129</u> |
| Total Current Liabilities | | | | |
| Long-Term Liabilities (Less Current Portion) | | | | |
| Charitable Remainder Trust | 884 | - | - | 884 |
| Note Payable | 99,831 | - | - | 99,831 |
| | <u>100,715</u> | <u>-</u> | <u>-</u> | <u>100,715</u> |
| Total Long-Term Liabilities | | | | |
| | <u>876,261</u> | <u>43,550</u> | <u>(50,967)</u> | <u>868,844</u> |
| Total Liabilities | | | | |
| Net Assets | | | | |
| Without Donor Restrictions | 3,131,893 | 77,037 | - | 3,208,930 |
| With Donor Restrictions | 2,416,363 | - | - | 2,416,363 |
| | <u>5,548,256</u> | <u>77,037</u> | <u>-</u> | <u>5,625,293</u> |
| Total Net Assets | | | | |
| Total Liabilities and Net Assets | <u>\$ 6,424,517</u> | <u>\$ 120,587</u> | <u>\$ (50,967)</u> | <u>\$ 6,494,137</u> |

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended May 31, 2020**

| | <u>Art Academy of Cincinnati</u> | <u>Art Academy Housing, Inc.</u> | <u>Eliminations</u> | <u>Total</u> |
|---|--|--|---------------------|---------------------|
| 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 | 967,076 | - | - | 967,076 |
| Student Room and Board | - | 388,788 | - | 388,788 |
| Payroll Protection Program Revenue | 345,220 | - | - | 345,220 |
| Community Education | 191,992 | - | - | 191,992 |
| Net Investment Return | 87,425 | - | - | 87,425 |
| Other Income | 60,518 | 2,905 | - | 63,423 |
| Total Revenue, Support, and Gains | <u>5,614,768</u> | <u>391,693</u> | <u>-</u> | <u>6,006,461</u> |
| Expenses | | | | |
| Program Services | 3,576,374 | 286,709 | - | 3,863,083 |
| Management and General | 1,103,589 | - | - | 1,103,589 |
| Fundraising | 110,857 | - | - | 110,857 |
| Total Expenses | <u>4,790,820</u> | <u>286,709</u> | <u>-</u> | <u>5,077,529</u> |
| Excess of Revenue Support, and Gains Over Expenses | 823,948 | 104,984 | - | 928,932 |
| Change in Beneficial Interest in Perpetual Trust | (3,571) | - | - | (3,571) |
| Change in Beneficial Interest in Charitable Remainder Trusts | <u>(4,030)</u> | <u>-</u> | <u>-</u> | <u>(4,030)</u> |
| Change in Net Assets | 816,347 | 104,984 | - | 921,331 |
| Net Assets, Beginning of Year | <u>4,731,909</u> | <u>(27,947)</u> | <u>-</u> | <u>4,703,962</u> |
| Net Assets, End of Year | <u>\$ 5,548,256</u> | <u>\$ 77,037</u> | <u>\$ -</u> | <u>\$ 5,625,293</u> |

**ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL STATEMENT SUMMARY
FISCAL YEAR ENDED MAY 31, 2020**

| Lines | Statement of Financial Position | |
|-------|--|------------------|
| 1 | Cash | 531,400 |
| 2 | Accounts Receivable, Net | 155,687 |
| 3 | Investments | 127,858 |
| 4 | Grants Receivable | 352,489 |
| 6 | Prepaid Expenses and Other | 22,947 |
| 7 | Property and Equipment, Net | 3,017,000 |
| 8 | Endowment Investments | 2,020,891 |
| 9 | Art Inventory | 49,980 |
| 10 | Beneficial Interest in Perpetual Trust | 183,682 |
| 11 | Beneficial Interest in Charitable Remainder Trusts | 14,728 |
| 12 | Deposits | 17,475 |
| 13 | Total Assets | 6,494,137 |
| 14 | Line of Credit | 120,000 |
| 15 | Accounts Payable | 103,928 |
| 16 | Accrued Expenses | 165,526 |
| 17 | Deferred Grant Revenue | 202,494 |
| 18 | Deferred Tuition Revenue | 24,070 |
| 19 | Refundable Advance - Payroll Protection Program | 136,980 |
| 20 | Notes Payable | 15,131 |
| 22 | Beneficial Interest in Charitable Remainder Trusts | 884 |
| 23 | Notes Payable | 99,831 |
| 25 | Total Liabilities | 868,844 |
| 26 | Net Assets Without Donor Restrictions | 3,208,930 |
| | Net Assets With Donor Restrictions | |
| 27 | Time or Purpose Restricted | 1,006,868 |
| 28 | Restricted into Perpetuity | 1,409,495 |
| 29 | Total Net Assets With Donor Restrictions | 2,416,363 |
| 30 | Total Net Assets | 5,625,293 |
| 31 | Total Liabilities and Net Assets | 6,494,137 |

| Lines | Statement of Activities | | | |
|-------|---|------------------------------------|----------------------------|------------------|
| | | Columns on Statement of Activities | | |
| | | A | B | C |
| | | Without Donor Restrictions | With Donor Restrictions | Total |
| 32 | Tuition and Fees Income | 6,982,461 | - | 6,982,461 |
| 33 | Student Aid | (3,019,924) | - | (3,019,924) |
| 34 | Net Student Tuition and Fees | 3,962,537 | - | 3,962,537 |
| 35 | Grants, Contributions and Gifts | 403,164 | 563,912 | 967,076 |
| 36 | Student Room and Board | 388,788 | - | 388,788 |
| 36 | Payroll Protection Program Revenue | - | 345,220 | 345,220 |
| 37 | Community Education | 191,992 | - | 191,992 |
| 38 | Net Investment Return | 13,105 | 74,320 | 87,425 |
| 39 | Other Income | 63,423 | - | 63,423 |
| 41 | Net Assets Released from Restrictions | 542,546 | (542,546) | - |
| 42 | Total Revenue, Support, Gains, and Reclassifications | 5,565,555 | 440,906 | 6,006,461 |
| | Expenses: | | | |
| 43 | Program Services | 3,863,083 | - | 3,863,083 |
| 44 | Management and General | 1,103,589 | - | 1,103,589 |
| 45 | Fundraising | 110,857 | - | 110,857 |
| 46 | Total Expenses | 5,077,529 | - | 5,077,529 |
| | Excess of Revenue, Support, Gains and Gains, and Reclassifications over Expenses | 488,026 | 440,906 | 928,932 |
| 48 | Interfund Equity Transfers | (8,084) | 8,084 | - |
| 49 | Change in Beneficial Interest in Perpetual Trust | - | (3,571) | (3,571) |
| 50 | Change in Beneficial Interest in Charitable Remainder Trusts | - | (4,030) | (4,030) |
| 51 | Change in Net Assets | 479,942 | 441,389 | 921,331 |
| 52 | Net Assets, Beginning of Year | 2,728,988 | 1,974,974 | 4,703,962 |
| 53 | Net Assets, End of Year | 3,208,930 | 2,416,363 | 5,625,293 |

See Independent Auditors' Report.

ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE
FISCAL YEAR ENDED MAY 31, 2020

| Line | ADD | SUBTRACT | |
|------------------------------|------------------|----------|---|
| PRIMARY RESERVE RATIO | | | |
| 26 | 3,208,930 | | Net assets without donor restrictions |
| 29 | 2,416,363 | | Net assets with donor restrictions |
| 28 | (1,409,495) | | Net assets restricted in perpetuity |
| 7 | (3,017,000) | | Property, plant, and equipment/Right-of-use of asset (pre- and post-implementation) |
| SD Line 8d | 114,962 | | Debt for long-term purposes and lease obligations (pre- and post-implementation) |
| | 1,313,760 | | Expendable Net Assets |
| 46 | 5,077,529 | | Total operating expenses |
| | 5,077,529 | | Total Expenses/Losses |
| | | | 0.2587 Primary Reserve Ratio |

| EQUITY RATIO | | | |
|---------------------|------------------|--|---------------------------------------|
| 28 | 3,208,930 | | Net assets without donor restrictions |
| 29 | 2,416,363 | | Net assets with donor restrictions |
| | 5,625,293 | | Modified Net Assets |
| 13 | 6,494,137 | | Total assets |
| | 6,494,137 | | Modified Assets |
| | | | 0.8662 Equity Ratio |

| NET INCOME RATIO | | | |
|-------------------------|------------------|--|---|
| 51 | 479,942 | | Change in net assets without donor restrictions |
| 42 | 5,565,555 | | Total operating revenue |
| | 5,565,555 | | Total Revenues/Gains |
| | | | 0.0862 Net Income Ratio |

COMPOSITE SCORE CALCULATION

Step 2 Calculate the strength factor score for each ratio by using the following algorithms:
 Primary Reserve strength factor score = 10 x the primary reserve ratio result
 Equity strength factor score = 6 x the equity ratio result
 Negative net income ratio result: Net Income strength factor = 1 + (25 x net income ratio result)
 Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)
 Zero result for net income ratio: Net income strength factor = 1

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for the ratio is 3.
 If the strength factor score for any ratio is less than or equal to -1, the strength factor score for the ratio is -1.

Step 3 Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores.
 Primary Reserve weighted score = 40% x the primary reserve strength factor score
 Equity weighted score = 40% x the equity strength factor score
 Net Income weighted score = 20% x the net income strength factor score
 Composite Score = the sum of all weighted scores

| RATIO | Ratio | Strength Factor | Weight | Composite Scores |
|-----------------------|--------|-----------------|--------|------------------|
| Primary Reserve Ratio | 0.2587 | 2.5874 | 40% | 1.0350 |
| Equity Ratio | 0.8662 | 3.0000 | 40% | 1.2000 |
| Net Income Ratio | 0.0862 | 3.0000 | 20% | 0.6000 |
| | | | | 2.8350 |

| | | |
|--|------------|-------------|
| TOTAL Composite Score - Rounded | 2.8 | PASS |
|--|------------|-------------|

See Independent Auditors' Report.

**ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL RESPONSIBILITY CALCULATIONS SUPPLEMENTAL COMPONENT
FISCAL YEAR ENDED MAY 31, 2020**

Primary Reserve Ratio:

| | | |
|---------------------------------------|--|--------------|
| | Expendable Net Assets: | |
| Statement of Financial Position (SFP) | Net assets without donor restrictions | \$ 3,208,930 |
| SFP | Net assets with donor restrictions | \$ 2,416,363 |
| SFP | Net assets restricted in perpetuity | \$ 1,409,495 |
| SFP | Property, plant, and equipment pre-implementation | \$ 3,017,000 |
| SD Line 8d | Long-term debt - for long-term purposes pre-implementation | \$ 114,962 |
| | Total Expenses and Losses: | |
| Statement of Activities (SOA) | Total expenses (operating and nonoperating) without donor restrictions | \$ 5,077,529 |

Equity Ratio:

| | | |
|-----|---------------------------------------|--------------|
| | Modified Net Assets: | |
| SFP | Net assets without donor restrictions | \$ 3,208,930 |
| SFP | Net assets with donor restrictions | \$ 2,416,363 |
| | Modified Assets: | |
| SFP | Total assets | \$ 6,494,137 |

Net Income Ratio:

| | | |
|-----|---|--------------|
| SOA | Change in Net Assets Without Donor Restrictions | \$ 479,942 |
| | Total Revenues and Gains Without Donor Restriction: | |
| SOA | Total operating revenue (including net assets released from restrictions) | \$ 5,565,555 |

See Independent Auditors' Report.