



Art Academy of Cincinnati and Affiliate

May 31, 2022

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

Opinion

We have audited the accompanying consolidated financial statements of Art Academy of Cincinnati and Affiliate (a nonprofit organization), which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Art Academy of Cincinnati and Affiliate as of May 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Art Academy of Cincinnati and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Art Academy of Cincinnati and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Art Academy of Cincinnati and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Art Academy of Cincinnati and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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
January 23, 2023

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2022

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets			
Cash and Cash Equivalents	\$ 389,781	\$ 71,973	\$ 461,754
Accounts Receivable, Net	180,873	12,517	193,390
Grants Receivable	75,000	-	75,000
Due (To) From Funds	(364,020)	364,020	-
Investments	49,440	97,475	146,915
Prepaid Expenses	20,387	-	20,387
Total Current Assets	351,461	545,985	897,446
Property and Equipment, Net	3,313,267	-	3,313,267
Endowment Investments	461,579	1,712,362	2,173,941
Art Inventory	49,980	-	49,980
Beneficial Interest in Perpetual Trust	-	199,222	199,222
Beneficial Interest in Charitable Remainder Trusts	-	6,393	6,393
Deposits	31,600	-	31,600
Total Assets	\$ 4,207,887	\$ 2,463,962	\$ 6,671,849

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2022
(Continued)

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities			
Accounts Payable	\$ 91,101	\$ -	\$ 91,101
Accrued Expenses	231,412	-	231,412
Deferred Tuition Revenue	59,320	-	59,320
Notes Payable	23,208	-	23,208
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	405,041	-	405,041
	<hr/>	<hr/>	<hr/>
Long-Term Liabilities (Less Current Portion)			
Charitable Remainder Trust	-	384	384
Notes Payable	210,852	-	210,852
	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	210,852	384	211,236
	<hr/>	<hr/>	<hr/>
Total Liabilities	615,893	384	616,277
	<hr/>	<hr/>	<hr/>
Net Assets			
Without Donor Restrictions	3,591,994	-	3,591,994
	<hr/>	<hr/>	<hr/>
With Donor Restrictions			
Time or Purpose Restricted	-	1,054,359	1,054,359
Restricted into Perpetuity	-	1,409,219	1,409,219
	<hr/>	<hr/>	<hr/>
Total Net Assets With Donor Restrictions	-	2,463,578	2,463,578
	<hr/>	<hr/>	<hr/>
Total Net Assets	3,591,994	2,463,578	6,055,572
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 4,207,887	\$ 2,463,962	\$ 6,671,849
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See accompanying notes.

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
	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
Note Payable	18,964	-	18,964
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	495,285	-	495,285
	<hr/>	<hr/>	<hr/>
Long-Term Liabilities (Less Current Portion)			
Charitable Remainder Trust	-	686	686
Note 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
	<hr/>	<hr/>	<hr/>
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 ACTIVITIES
YEAR ENDED MAY 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Tuition and Fees Income	\$ 7,866,580	\$ -	\$ 7,866,580
Student Aid	(3,860,975)	-	(3,860,975)
Net Tuition and Fees Income	4,005,605	-	4,005,605
Grants, Contributions and Gifts	250,434	901,710	1,152,144
Student Room and Board	622,581	-	622,581
Community Education	219,120	-	219,120
Net Investment Return	(46,957)	(149,010)	(195,967)
Other Income	72,167	-	72,167
Total Revenue, Support, and Gains	5,122,950	752,700	5,875,650
Net Assets Released From Restrictions			
	1,337,055	(1,337,055)	-
Total Revenue, Support, Gains, and Reclassifications	6,460,005	(584,355)	5,875,650
Expenses			
Program Services	4,110,782	-	4,110,782
Management and General	2,416,672	-	2,416,672
Fundraising	114,889	-	114,889
Total Expenses	6,642,343	-	6,642,343
Deficit of Revenue, Support, Gains, and Reclassifications Over Expenses	(182,338)	(584,355)	(766,693)
Change in Beneficial Interest in Perpetual Trust	-	(20,418)	(20,418)
Change in Beneficial Interest in Charitable Remainder Trusts	-	(4,734)	(4,734)
Change in Net Assets	(182,338)	(609,507)	(791,845)
Net Assets, Beginning of Year	3,774,332	3,073,085	6,847,417
Net Assets, End of Year	\$ 3,591,994	\$ 2,463,578	\$ 6,055,572

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
Paycheck Protection Program Revenue	-	136,980	136,980
Community Education	94,026	-	94,026
Net Investment Return	118,030	373,399	491,429
Other Income	68,772	-	68,772
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
Interfund Equity Transfers	-	-	-
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 STATEMENTS OF FUNCTIONAL EXPENSES**

	Years Ended May 31,							
	2022				2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 2,016,821	\$ 1,011,388	\$ 17,387	\$ 3,045,596	\$ 1,826,302	\$ 829,061	\$ 40,865	\$ 2,696,228
Payroll Taxes	131,161	78,472	1,316	210,949	126,746	87,789	3,052	217,587
Employee Benefits	205,815	71,562	-	277,377	209,277	87,972	88	297,337
Rent	526,156	-	-	526,156	372,242	-	-	372,242
Telephone	-	35,137	-	35,137	-	32,840	-	32,840
Utilities	250,459	-	-	250,459	302,747	-	-	302,747
Security	97,908	-	-	97,908	157,938	-	-	157,938
Insurance	-	41,276	-	41,276	33,399	15,162	747	49,308
Bank Charges	605	35,831	-	36,436	4,911	11,909	343	17,163
Supplies	53,390	108,538	16,086	178,014	120,684	32,276	19,646	172,606
Purchased Services	128,752	531,724	20,358	680,834	195,640	250,421	11,426	457,487
Model Fees	3,433	-	-	3,433	1,973	-	-	1,973
Lecturer's Honorarium	18,607	-	-	18,607	23,404	-	-	23,404
Hospitality	32,152	18,226	13,591	63,969	54,008	3,672	2,547	60,227
Memberships and Fees	33,187	32,492	172	65,851	47,213	15,803	-	63,016
Books, Videos, and Subscriptions	96,398	13,711	280	110,389	43,664	18,492	242	62,398
Email and Internet	-	2,981	-	2,981	-	9,771	-	9,771
Postage and Mail Service	25,982	2,129	2,947	31,058	46,176	(402)	1,425	47,199
Travel	25,200	12,576	12,320	50,096	4,035	3,314	-	7,349
Personnel and Instructional Development	22,432	4,806	-	27,238	10,296	8,638	-	18,934
Promotion	64,617	29,620	20,968	115,205	51,300	-	20,563	71,863
Design and Photography	2,400	-	1,175	3,575	650	-	-	650
Printing	125,737	8,265	5,366	139,368	60,088	11,305	273	71,666
Equipment Maintenance and Rental	60,206	136,146	2,008	198,360	213,591	43,578	1,468	258,637
Plant Maintenance	-	2,924	-	2,924	45,936	16,881	832	63,649
Student Exhibition	7,240	-	-	7,240	8,255	-	-	8,255
Equipment Purchases	-	545	-	545	-	51	-	51
Scholarships	3,860,975	-	-	3,860,975	3,489,636	-	-	3,489,636
Depreciation	169,025	1,716	858	171,599	154,229	1,566	783	156,578
Interest Expense	11,170	113	57	11,340	13,721	139	70	13,930
Other Expenses	1,929	-	-	1,929	3,358	-	-	3,358
Bad Debt Expense	-	236,494	-	236,494	-	209,553	-	209,553
Total Expenses by Function	7,971,757	2,416,672	114,889	10,503,318	7,621,419	1,689,791	104,370	9,415,580
Less Expenses Included with Revenue on the Consolidated Statements of Activities Student Aid	<u>3,860,975</u>	<u>-</u>	<u>-</u>	<u>3,860,975</u>	<u>3,489,636</u>	<u>-</u>	<u>-</u>	<u>3,489,636</u>
Total Expenses Included in the Expense Section on the Consolidated Statements of Activities	\$ <u>4,110,782</u>	\$ <u>2,416,672</u>	\$ <u>114,889</u>	\$ <u>6,642,343</u>	\$ <u>4,131,783</u>	\$ <u>1,689,791</u>	\$ <u>104,370</u>	\$ <u>5,925,944</u>

See accompanying notes.

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

	Years Ended May 31,	
	2022	2021
Cash Flows From Operating Activities		
Change in Net Assets	\$ (791,845)	\$ 1,222,124
Reconciliation of Change in Net Assets with Cash Flows from Operations		
Depreciation	171,599	156,578
Net Investment Return on Investments	195,967	(491,429)
Change in Beneficial Interest in Perpetual Trust	20,418	(35,958)
Change in Beneficial Interest in Charitable Remainder Trusts	4,734	3,101
Changes in		
Accounts Receivable, Net	191,883	(229,586)
Grants Receivable	214,004	63,485
Unconditional Promises to Give	74,751	(74,751)
Prepaid Expenses	(8,475)	11,035
Accounts Payable	(244,607)	231,780
Accrued Expenses	131,493	(65,607)
Deferred Grant Revenue	-	(202,494)
Deferred Tuition Revenue	18,626	16,624
Refundable Advance - Payroll Protection Program	-	(136,980)
	<u>(21,452)</u>	<u>467,922</u>
Net Cash (Used) Provided by Operating Activities		
Cash Flows From Investing Activities		
Acquisition of Property and Equipment	(143,259)	(481,185)
Proceeds From Sale of Investments	850,049	-
Purchase of Investments	(726,694)	-
Deposits	-	(14,125)
	<u>(19,904)</u>	<u>(495,310)</u>
Net Cash Used by Investing Activities		
Cash Flows From Financing Activities		
Net Change in Line of Credit	-	(120,000)
Proceeds from Issuance of Notes Payable	-	149,900
Payments on Note Payable	(15,698)	(15,104)
	<u>(15,698)</u>	<u>14,796</u>
Net Cash (Used) Provided by Financing Activities		
Net Change in Cash and Cash Equivalents	(57,054)	(12,592)
Cash and Cash Equivalents, Beginning of the Year	<u>518,808</u>	<u>531,400</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 461,754</u>	<u>\$ 518,808</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 \$732,345 and \$414,306 at May 31, 2022 and 2021, respectively.

Contract Liabilities

Contract liabilities are reported as deferred tuition revenue 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, 2022 and 2021 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.

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, 2022 and 2021.

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, 2022 or 2021.

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.

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, 2022 and 2021, conditional contributions totaled \$-0-, and \$606,171, 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), provided 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 were 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 maintained other designated thresholds. The unforgiven portion of the PPP loan was 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 accounted for the PPP Funding in accordance with *ASC 958-605 Revenue Recognition for Nonprofit Entities*. Revenue was recognized as eligible expenses and other conditions were substantially met or incurred. For the years ended May 31, 2022 and 2021, the Academy recognized revenue of \$-0- and \$136,980, respectively, as it determined eligible expenses and other conditions have been met. The Academy received full forgiveness in June 2021.

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, 2022 and 2021, sales of art totaled \$-0-. During both the years ended May 31, 2022 and 2021, 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 2022 or 2021. 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, 2022 or 2021. 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, 2022 or 2021.

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 January 23, 2023 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,	
	2022	2021
Cash and Cash Equivalents	\$ 389,781	\$ 402,995
Due (To) From Funds	(364,020)	(256,337)
Accounts Receivable, Net	180,873	385,273
Grants Receivable	75,000	289,004
Unconditional Promises to Give	-	74,751
Operating Investments	49,440	54,215
Total Financial Assets	\$ 331,074	\$ 949,901

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 \$461,579 and \$618,110 at May 31, 2022 and 2021, 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.

At May 31, 2022 and 2021, the Academy shows \$364,020 and \$256,337, respectively, used from the with donor restricted funding for purposes other than the restriction noted by the donor. This is shown as a reduction in financial assets above.

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 \$3,981 and \$4,466 in 2022 and 2021, respectively.

NOTE 4 - INVESTMENTS

Investments consisted of the follows:

	May 31,			
	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 92,348	\$ 92,348	\$ 137,444	\$ 137,444
Mutual Funds and Exchange-Traded Funds	1,845,211	1,890,987	1,764,662	2,152,094
Common Stocks	271,812	337,521	258,639	350,640
	<u>\$ 2,209,371</u>	<u>\$ 2,320,856</u>	<u>\$ 2,160,745</u>	<u>\$ 2,640,178</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, 2022 and 2021, the total cash distributions were \$126,000 and \$-0-, 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.

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 are descriptions of the valuation methodologies used for marketable securities measured at fair value. There have been no changes in the methodologies used at May 31, 2022 and 2021.

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

Mutual Funds (including Money Market Funds) - Valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the SEC.

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.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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, 2022:

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	\$ 92,348	\$ -	\$ -	\$ 92,348
Mutual Funds and Exchange-Traded Funds	1,890,987	-	-	1,890,987
Common Stocks	337,521	-	-	337,521
Beneficial Interests in Perpetual Trusts	199,222	-	-	199,222
Beneficial Interests in Charitable Remainder Trusts	<u>6,393</u>	<u>-</u>	<u>(384)</u>	<u>6,009</u>
Total Assets at Fair Value	<u>\$ 2,526,471</u>	<u>\$ -</u>	<u>\$ (384)</u>	<u>\$ 2,526,087</u>

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

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	<u>11,429</u>	<u>-</u>	<u>(686)</u>	<u>10,743</u>
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)

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

	Beneficial Interest in Trusts
May 31, 2020	\$ (884)
Change in Value	198
May 31, 2021	(686)
Change in Value	302
May 31, 2022	\$ (384)

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,	
	2022	2021
Amount Receivable Within One Year	\$ -	\$ 74,751

NOTE 7 - PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Depreciation	Net Book Value
May 31, 2022			
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	4,159,983	1,109,270	3,050,713
Office Furniture and Equipment	1,409,759	1,272,491	137,268
Construction in Progress	36,116	-	36,116
	\$ 5,695,028	\$ 2,381,761	\$ 3,313,267
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

NOTE 8 - CONTRACT BALANCES

Receivables from contracts and contract balances from contracts were as following:

	May 31,	
	2022	2021
Accounts Receivable, Net		
Beginning of Year	\$ 385,273	\$ 155,687
End of Year	\$ 193,390	\$ 385,273
Grants Receivable		
Beginning of Year	\$ 289,004	\$ 352,489
End of Year	\$ 75,000	\$ 289,004
Refundable Advance - Paycheck Protection Program		
Beginning of Year	\$ -	\$ 136,980
End of Year	\$ -	\$ -
Deferred Tuition Revenue		
Beginning of Year	\$ 40,694	\$ 363,544
End of Year	\$ 59,320	\$ 40,694

NOTE 9 - 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.

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, 2022, funds with original gift values of \$1,209,997, fair values of \$1,685,770, and deficiencies of \$5,502 were reported in net assets with donor restrictions. 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.

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, 2022 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 461,579	\$ -	\$ 461,579
Donor Restricted Endowment Funds	<u>-</u>	<u>1,712,362</u>	<u>1,712,362</u>
Endowment Net Asset Composition by Type of Fund	<u>\$ 461,579</u>	<u>\$ 1,712,362</u>	<u>\$ 2,173,941</u>

Changes in endowment net assets for the year ended May 31, 2022 are as follows:

Endowment Net Assets, Beginning of Year	\$ 618,110	\$ 1,861,107	\$ 2,479,217
Contributions	-	2,645	2,645
Investment Return, Net	(156,531)	(25,390)	(181,921)
Appropriation of Endowment Assets Pursuant to Spending Policy	<u>-</u>	<u>(126,000)</u>	<u>(126,000)</u>
Endowment Net Assets, End of Year	<u>\$ 461,579</u>	<u>\$ 1,712,362</u>	<u>\$ 2,173,941</u>

NOTE 9 - ENDOWMENTS (Continued)

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

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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>

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

Endowment Net Assets, Beginning of Year	\$ 510,874	\$ 1,510,017	\$ 2,020,891
Investment Return, Net	<u>107,236</u>	<u>351,090</u>	<u>458,326</u>
Endowment Net Assets, End of Year	<u>\$ 618,110</u>	<u>\$ 1,861,107</u>	<u>\$ 2,479,217</u>

NOTE 10 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

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

<u>Trust</u>	<u>The Academy's Percentage of Trust</u>	<u>May 31,</u>	
		<u>2022</u>	<u>2021</u>
Wilmer D. Glenn Trust	100%	<u>\$ 199,222</u>	<u>\$ 219,640</u>

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 Bloomberg short term bank yield index rate plus 3.00% (0.83% at May 31, 2022). The line matures in March 2023. Art Academy Housing, Inc. has guaranteed the line of credit.

NOTE 12 - NOTES PAYABLE

	May 31,	
	2022	2021
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.	\$ 84,160	\$ 99,858
 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 December 2022 with a final payment due in May 2051.	149,900	149,900
	234,060	249,758
Less Current Portion	23,208	18,964
Long-Term Portion	\$ 210,852	\$ 230,794

The remaining maturities on these notes are as follows:

Years Ending May 31,	
2023	\$ 23,208
2024	71,430
2025	3,807
2026	3,913
2027	4,022
Thereafter	127,680
	\$ 234,060

NOTE 13 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

	May 31,	
	2022	2021
Endowment - Operational Needs	\$ 461,579	\$ 618,110

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	May 31,	
	2022	2021
Subject to Expenditure for Specified Purpose		
Impact Programs	\$ 25,452	\$ 40,000
Various Grants and Programs	148,641	60,867
Alumni Council Scholarships	97,476	106,747
Scholarships	608,859	751,248
Capital Improvements	11,740	60,130
Student Emergency Funds	8,922	10,471
Community Education Awards	93,154	33,857
Schell Loan Program	54,106	100,000
HEERF - Construction in Progress	-	378,818
	1,048,350	1,542,138
Subject to the Passage of Time		
Unconditional Promise to Give	-	74,751
Beneficial Interests in Charitable Remainder Trusts	6,009	10,743
	6,009	85,494
Not Subject to Spending Policy or Appropriation		
Beneficial Interest in Perpetual Trust	199,222	219,640
Endowment - Scholarships	493,762	493,762
Endowment - Operational Needs	716,235	716,235
Scholarships	-	15,816
	1,409,219	1,445,453
Total Net Assets with Donor Restrictions	\$ 2,463,578	\$ 3,073,085

NOTE 15 - OPERATING LEASES

Equipment

The Academy leases equipment for total monthly payments of \$3,711 and quarterly payments of \$600-\$900. The leases have varying expiration dates ranging from September 2022 to December 2027. The Academy incurred lease expense of \$38,638 and \$34,028 for 2022 and 2021, respectively.

Housing and Storage

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 with payments from \$40,912 and 41,731 per month. The Academy incurred lease expense of \$498,314 and \$341,236 for 2022 and 2021, respectively.

NOTE 15 - OPERATING LEASES (Continued)

The Academy entered into a 3-year lease in September 2020 with an unrelated party for storage with payments from \$1,000 to 1,250 monthly. The Academy incurred lease expense of \$14,250 and \$8,000 for 2022 and 2021, respectively.

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

Years Ending May 31,	Equipment	Housing and Storage	Total
2023	\$ 37,526	\$ 523,281	\$ 560,807
2024	33,126	522,196	555,322
2025	33,126	528,815	561,941
2026	33,126	539,391	572,517
2027	14,431	550,179	564,610
Thereafter	2,093	1,851,103	1,853,196
	\$ 153,428	\$ 4,514,965	\$ 4,668,393

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, 2022 and 2021, the Academy had transactions with related parties as follows:

	Years Ended May 31,	
	2022	2021
Legal Services	\$ 9,065	\$ 17,185
Other	-	1,370
	\$ 9,065	\$ 18,555

NOTE 17 - ADVERTISING EXPENSE

The Academy incurred advertising expense of \$101,928 and \$47,934 for 2022 and 2021, respectively.

NOTE 18 - 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, 2022 and 2021, financial aid awards received accounted for approximately 41% and 52%, 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 19 - GOING CONCERN

As shown in the accompanying consolidated financial statements, the Academy had an increase in the net assets in the prior year of \$1,222,124 with a decrease in net assets in the current year of \$791,845. During fiscal year 2022, the Academy received Higher Education Emergency Relief Fund of \$571,783 to assist students and the institution with emergency needs. The without donor restrictions current liabilities exceeds current assets as of both May 31, 2022 and 2021. The Academy was not able to obtain its budgeted Tuition and Fees for the spring 2022 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 2021-2022 fiscal year and the Board of Trustees approved the plan in 2022. 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 to continue increasing enrollment each year. 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.

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 20 - RISKS AND UNCERTAINTIES – COVID-19 OUTBREAK

During 2020, 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 have 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 21 - 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)	<u>(478,633)</u>
	d. Balance pre-implementation property, plant, and equipment, net	<u>2,588,241</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>725,026</u>
7.	Total Property, Plant, and Equipment, net - May 31, 2021	<u>\$ 3,313,267</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	<u>(46,359)</u>
	d. Balance Pre-implementation Debt	<u>84,160</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>\$ 84,160</u>

SUPPLEMENTARY INFORMATION

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2022**

ASSETS

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Current Assets				
Cash and Cash Equivalents	\$ 461,754	\$ -	\$ -	\$ 461,754
Accounts Receivable, Net	193,390	-	-	193,390
Grants Receivable	75,000	-	-	75,000
Investments	146,915	-	-	146,915
Note Receivable - Related Party	-	102,893	(102,893)	-
Prepaid Expenses	20,387	-	-	20,387
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Assets	897,446	102,893	(102,893)	897,446
Property and Equipment, Net	3,256,531	56,736	-	3,313,267
Endowment Investments	2,173,941	-	-	2,173,941
Art Inventory	49,980	-	-	49,980
Beneficial Interest in Perpetual Trust	199,222	-	-	199,222
Beneficial Interest in Charitable Remainder Trusts	6,393	-	-	6,393
Deposits	-	31,600	-	31,600
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ 6,583,513	\$ 191,229	\$ (102,893)	\$ 6,671,849

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2022
(Continued)

LIABILITIES AND NET ASSETS

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Current Liabilities				
Accounts Payable	\$ 91,101	\$ -	\$ -	\$ 91,101
Accrued Expenses	218,112	13,300	-	231,412
Deferred Tuition Revenue	59,320	-	-	59,320
Note Payable - Related Party	102,893	-	(102,893)	-
Notes Payable	23,208	-	-	23,208
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Liabilities	494,634	13,300	(102,893)	405,041
Long-Term Liabilities (Less Current Portion)				
Charitable Remainder Trust	384	-	-	384
Notes Payable	210,852	-	-	210,852
	<hr/>	<hr/>	<hr/>	<hr/>
Total Long-Term Liabilities	211,236	-	-	211,236
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	705,870	13,300	(102,893)	616,277
Net Assets				
Without Donor Restrictions	3,414,065	177,929	-	3,591,994
With Donor Restrictions	2,463,578	-	-	2,463,578
	<hr/>	<hr/>	<hr/>	<hr/>
Total Net Assets	5,877,643	177,929	-	6,055,572
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 6,583,513	\$ 191,229	\$ (102,893)	\$ 6,671,849

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2022**

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Revenue, Support, and Gains				
Tuition and Fees Income	\$ 7,866,580	\$ -	\$ -	\$ 7,866,580
Student Aid	<u>(3,860,975)</u>	<u>-</u>	<u>-</u>	<u>(3,860,975)</u>
Net Tuition and Fees Income	4,005,605	-	-	4,005,605
Grants, Contributions and Gifts	1,152,144	-	-	1,152,144
Student Room and Board	-	622,581	-	622,581
Community Education	219,120	-	-	219,120
Net Investment Return	(195,967)	-	-	(195,967)
Other Income	<u>72,167</u>	<u>-</u>	<u>-</u>	<u>72,167</u>
Total Revenue, Support, and Gains	<u>5,253,069</u>	<u>622,581</u>	<u>-</u>	<u>5,875,650</u>
Expenses				
Program Services	3,513,756	597,026	-	4,110,782
Management and General	2,416,672	-	-	2,416,672
Fundraising	<u>114,889</u>	<u>-</u>	<u>-</u>	<u>114,889</u>
Total Expenses	<u>6,045,317</u>	<u>597,026</u>	<u>-</u>	<u>6,642,343</u>
(Deficit) Excess of Revenue Support, and Gains Over Expenses	(792,248)	25,555	-	(766,693)
Change in Beneficial Interest in Perpetual Trust	(20,418)	-	-	(20,418)
Change in Beneficial Interest in Charitable Remainder Trusts	<u>(4,734)</u>	<u>-</u>	<u>-</u>	<u>(4,734)</u>
Change in Net Assets	(817,400)	25,555	-	(791,845)
Net Assets, Beginning of Year	<u>6,695,043</u>	<u>152,374</u>	<u>-</u>	<u>6,847,417</u>
Net Assets, End of Year	<u>\$ 5,877,643</u>	<u>\$ 177,929</u>	<u>\$ -</u>	<u>\$ 6,055,572</u>

**ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL STATEMENT SUMMARY
FISCAL YEAR ENDED MAY 31, 2022**

Lines	Statement of Financial Position	
1	Cash	461,754
2	Accounts Receivable, Net	193,390
3	Grants Receivable	75,000
5	Investments	146,915
6	Prepaid Expenses and Other	20,387
7	Secured and Unsecured Related Party Receivables	-
8	Property and Equipment, Net	3,313,267
9	Endowment Investments	2,173,941
10	Art Inventory	49,980
11	Beneficial Interest in Perpetual Trust	199,222
12	Beneficial Interest in Charitable Remainder Trusts	6,393
13	Deposits	31,600
14	Total Assets	6,671,849
15	Accounts Payable	91,101
16	Accrued Expenses	231,412
17	Deferred Tuition Revenue	59,320
18	Notes Payable - Current	23,208
20	Beneficial Interest in Charitable Remainder Trusts	384
21	Notes Payable - Long Term	210,852
23	Total Liabilities	616,277
24	Net Assets Without Donor Restrictions	3,591,994
	Net Assets With Donor Restrictions	
25	Time or Purpose Restricted	1,054,359
26	Restricted into Perpetuity	1,409,219
27	Total Net Assets With Donor Restrictions	2,463,578
28	Total Net Assets	6,055,572
29	Total Liabilities and Net Assets	6,671,849

Lines	Statement of Activities			
	Columns on Statement of Activities			
	A	B	C	
	Without Donor Restrictions	With Donor Restrictions	Total	
30	Tuition and Fees Income	7,866,580	-	7,866,580
31	Student Aid	(3,860,975)	-	(3,860,975)
32	Net Student Tuition and Fees	4,005,605	-	4,005,605
33	Grants, Contributions and Gifts	250,434	901,710	1,152,144
34	Student Room and Board	622,581	-	622,581
35	Community Education	219,120	-	219,120
36	Net Investment Return	(46,957)	(149,010)	(195,967)
37	Other Income	72,167	-	72,167
39	Net Assets Released from Restrictions	1,337,055	(1,337,055)	-
40	Total Revenue, Support, Gains, and Reclassifications	6,460,005	(584,355)	5,875,650
	Expenses:			
41	Program Services	4,110,782	-	4,110,782
42	Management and General	2,416,672	-	2,416,672
43	Fundraising	114,889	-	114,889
44	Total Expenses	6,642,343	-	6,642,343
	Excess of Revenue, Support, Gains and Gains, and Reclassifications over Expenses	(182,338)	(584,355)	(766,693)
45				
46	Change in Beneficial Interest in Perpetual Trust	-	(20,418)	(20,418)
47	Change in Beneficial Interest in Charitable Remainder Trusts	-	(4,734)	(4,734)
48	Change in Net Assets	(182,338)	(609,507)	(791,845)
49	Net Assets, Beginning of Year	3,774,332	3,073,085	6,847,417
50	Net Assets, End of Year	3,591,994	2,463,578	6,055,572

See Independent Auditors' Report.

**ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE
FISCAL YEAR ENDED MAY 31, 2022**

Line	ADD	SUBTRACT	
PRIMARY RESERVE RATIO			
22	3,591,994		Net assets without donor restrictions
25	2,463,578		Net assets with donor restrictions
24	(1,409,219)		Net assets restricted in perpetuity
7	(3,313,267)		Property, plant, and equipment/Right-of-use of asset (pre- and post-implementation)
19	210,852		Debt for long-term purposes and lease obligations (pre- and post-implementation)
	1,543,938		Expendable Net Assets
41	6,642,343		Total operating expenses
	6,642,343		Total Expenses/Losses
	0.2324		Primary Reserve Ratio

EQUITY RATIO			
22	3,591,994		Net assets without donor restrictions
25	2,463,578		Net assets with donor restrictions
	6,055,572		Modified Net Assets
27	6,671,849		Total assets
	6,671,849		Modified Assets
	0.9076		Equity Ratio

NET INCOME RATIO			
45A	(182,338)		Change in net assets without donor restrictions
40	5,875,650		Total operating revenue
	5,875,650		Total Revenues/Gains
	-0.0310		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	0.2324	2.3244	40%	0.9298
Equity Ratio	0.9076	3.0000	40%	1.2000
Net Income Ratio	-0.0310	0.2242	20%	0.0448
				2.1746

Round the composite score to one digit after the decimal point to determine the final score

TOTAL Composite Score - Rounded	<u>2.2</u> PASS
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**ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL RESPONSIBILITY CALCULATIONS SUPPLEMENTAL COMPONENT
FISCAL YEAR ENDED MAY 31, 2022**

Primary Reserve Ratio:

	Expendable Net Assets:	
Statement of Financial Position (SFP)	Net assets without donor restrictions	\$ 3,591,994
SFP	Net assets with donor restrictions	\$ 2,463,578
SFP	Net assets restricted in perpetuity	\$ 1,409,219
SFP	Property, plant, and equipment pre-implementation	\$ 2,921,950
SD Line 8d	Long-term debt - for long-term purposes pre-implementation	\$ 84,160
	Total Expenses and Losses:	
Statement of Activities (SOA)	Total expenses (operating and nonoperating) without donor restrictions	<u>\$ 6,642,343</u>

Equity Ratio:

	Modified Net Assets:	
SFP	Net assets without donor restrictions	\$ 3,591,994
SFP	Net assets with donor restrictions	\$ 2,463,578
	Modified Assets:	
SFP	Total assets	<u>\$ 6,671,849</u>

Net Income Ratio:

SOA	Change in Net Assets Without Donor Restrictions	\$ (182,338)
	Total Revenues and Gains Without Donor Restriction:	
SOA	Total operating revenue (including net assets released from restrictions)	\$ 6,460,005

See Independent Auditors' Report.