

Financial Statements

for

ART ACADEMY OF CINCINNATI

Years Ended May 31, 2025 and 2024

With Independent Auditor's Report
Including Supplementary Information



**ART ACADEMY OF CINCINNATI
TABLE OF CONTENTS**

	PAGE
Independent Auditor's Report	
Financial Statements	
Statements of Financial Position	1
Statements of Activities.....	5
Statements of Functional Expenses	7
Statements of Cash Flows	8
Notes to the Financial Statements	9
Required Regulatory Information	
Schedule of Expenditures of Federal Awards.....	27
Notes to the Schedule of Expenditures of Federal Awards	28
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	31
Schedule of Findings and Questioned Costs.....	34
Summary Schedule of Prior Audit Findings and Questioned Costs	40
Supplementary Information	
Financial Statement Summary.....	41
Financial Responsibility Supplemental Schedules	42
Financial Responsibility Calculations Supplemental Component.....	43

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Art Academy of Cincinnati
Cincinnati, Ohio

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Art Academy of Cincinnati (a nonprofit organization), which comprise the statements of financial position as of May 31, 2025 and 2024, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Art Academy of Cincinnati as of May 31, 2025 and 2024, and the changes in its net assets and its 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Art Academy of Cincinnati and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore it is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government 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 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 the Art Academy of Cincinnati's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Art Academy of Cincinnati'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.

Required Regulatory and Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and financial responsibility schedules are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and financial responsibility schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2026, on our consideration of the Art Academy of Cincinnati's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Art Academy of Cincinnati's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Fort Wright, Kentucky
August 13, 2026

ART ACADEMY OF CINCINNATI
STATEMENT OF FINANCIAL POSITION
May 31, 2025

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets			
Cash and Cash Equivalents	\$ 11,882	\$ 11,052	\$ 22,934
Accounts Receivable, Less Allowance for Credit Losses of \$951,197	227,546	-	227,546
Pledges Receivable	-	20,000	20,000
Due (To) From Funds	(59,999)	59,999	-
Investments	61,219	120,343	181,562
Prepaid Expenses	44,861	-	44,861
	<u>285,509</u>	<u>211,394</u>	<u>496,903</u>
Property and Equipment, Net	<u>2,851,339</u>	<u>-</u>	<u>2,851,339</u>
Endowment Investments	<u>661,152</u>	<u>1,488,302</u>	<u>2,149,454</u>
Other Assets (Less Current Portion)			
Art Inventory	79,350	-	79,350
Right of Use Asset - Operating Leases	2,981,261	-	2,981,261
Right of Use Asset - Financing Lease	95,335	-	95,335
Deposits	33,425	-	33,425
	<u>3,189,371</u>	<u>-</u>	<u>3,189,371</u>
Total Assets	<u>\$ 6,987,371</u>	<u>\$ 1,699,696</u>	<u>\$ 8,687,067</u>

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENT OF FINANCIAL POSITION
May 31, 2025
(Continued)

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities			
Accounts Payable	\$ 154,991	\$ -	\$ 154,991
Accrued Expenses	228,177	-	228,177
Deferred Revenue	82,750	-	82,750
Operating Lease Liabilities	580,777	-	580,777
Financing Lease Liability	41,128	-	41,128
Note Payable	3,644	-	3,644
Line of Credit	243,188	-	243,188
Total Current Liabilities	1,334,655	-	1,334,655
Long-Term Liabilities (Less Current Portion)			
Operating Lease Liabilities	2,506,598	-	2,506,598
Financing Lease Liability	43,163	-	43,163
Note Payable	146,356	-	146,356
Total Long-Term Liabilities	2,696,117	-	2,696,117
Total Liabilities	4,030,772	-	4,030,772
Net Assets			
Without Donor Restrictions	2,956,599	-	2,956,599
With Donor Restrictions			
Time or Purpose Restricted	-	489,699	489,699
Restricted into Perpetuity	-	1,209,997	1,209,997
Total Net Assets With Donor Restrictions	-	1,699,696	1,699,696
Total Net Assets	2,956,599	1,699,696	4,656,295
Total Liabilities and Net Assets	\$ 6,987,371	\$ 1,699,696	\$ 8,687,067

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENT OF FINANCIAL POSITION
May 31, 2024

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets			
Cash and Cash Equivalents	\$ 15,230	\$ 131,344	\$ 146,574
Accounts Receivable, Less Allowance for Credit Losses of \$873,517	174,067	-	174,067
Pledges Receivable	-	20,000	20,000
Grants Receivable	-	13,824	13,824
Employee Retention Tax Credit Receivable	1,186,481	-	1,186,481
Due (To) From Funds	(60,393)	60,393	-
Investments	56,558	111,295	167,853
Prepaid Expenses	26,120	-	26,120
	<u>1,398,063</u>	<u>336,856</u>	<u>1,734,919</u>
Property and Equipment, Net	<u>3,023,631</u>	<u>-</u>	<u>3,023,631</u>
Endowment Investments	<u>639,337</u>	<u>1,710,265</u>	<u>2,349,602</u>
Other Assets (Less Current Portion)			
Pledges Receivable	-	20,000	20,000
Art Inventory	79,350	-	79,350
Beneficial Interest in Perpetual Trust	-	196,826	196,826
Right of Use Asset - Operating Leases	3,551,260	-	3,551,260
Right of Use Asset - Financing Lease	136,192	-	136,192
Deposits	34,525	-	34,525
	<u>3,801,327</u>	<u>216,826</u>	<u>4,018,153</u>
Total Assets	<u>\$ 8,862,358</u>	<u>\$ 2,263,947</u>	<u>\$ 11,126,305</u>

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENT OF FINANCIAL POSITION
May 31, 2024
(Continued)

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities			
Accounts Payable	\$ 92,369	\$ -	\$ 92,369
Accrued Expenses	196,478	-	196,478
Deferred Revenue	80,065	12,865	92,930
Operating Lease Liabilities	548,357	-	548,357
Financing Lease Liability	39,189	-	39,189
Note Payable	3,545	-	3,545
Line of Credit	793,000	-	793,000
Total Current Liabilities	1,753,003	12,865	1,765,868
Long-Term Liabilities (Less Current Portion)			
Operating Lease Liabilities	3,088,454	-	3,088,454
Financing Lease Liability	84,291	-	84,291
Note Payable	148,869	-	148,869
Total Long-Term Liabilities	3,321,614	-	3,321,614
Total Liabilities	5,074,617	12,865	5,087,482
Net Assets			
Without Donor Restrictions, Restated	3,787,741	-	3,787,741
With Donor Restrictions			
Time or Purpose Restricted	-	844,259	844,259
Restricted into Perpetuity	-	1,406,823	1,406,823
Total Net Assets With Donor Restrictions, Restated	-	2,251,082	2,251,082
Total Net Assets	3,787,741	2,251,082	6,038,823
Total Liabilities and Net Assets	\$ 8,862,358	\$ 2,263,947	\$ 11,126,305

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Tuition and Fees Income	\$ 7,751,849	\$ -	\$ 7,751,849
Student Aid	(3,720,047)	-	(3,720,047)
Net Tuition and Fees Income	4,031,802	-	4,031,802
Grants, Contributions and Gifts	429,265	350,067	779,332
In-Kind Contributions	18,150	-	18,150
Student Room and Board	694,271	-	694,271
Community Education	96,464	-	96,464
Net Investment Return	20,652	178,102	198,754
Other Income	227,216	-	227,216
Total Revenue, Support, and Gains	5,517,820	528,169	6,045,989
Net Assets Released From Restrictions	1,078,037	(1,078,037)	-
Total Revenue, Support, Gains, and Reclassifications	6,595,857	(549,868)	6,045,989
Expenses			
Program Services	4,060,987	-	4,060,987
Management and General	3,302,142	-	3,302,142
Fundraising	63,870	-	63,870
Total Expenses	7,426,999	-	7,426,999
(Deficit) Excess of Revenue, Support, Gains, and Reclassifications Over Expenses	(831,142)	(549,868)	(1,381,010)
Change in Beneficial Interest in Perpetual Trust	-	(1,518)	(1,518)
Change in Net Assets	(831,142)	(551,386)	(1,382,528)
Net Assets, Beginning of Year, Restated	3,787,741	2,251,082	6,038,823
Net Assets, End of Year	\$ 2,956,599	\$ 1,699,696	\$ 4,656,295

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Tuition and Fees Income	\$ 8,926,461	\$ -	\$ 8,926,461
Student Aid	(4,059,111)	-	(4,059,111)
Net Tuition and Fees Income	4,867,350	-	4,867,350
Grants, Contributions and Gifts	429,672	290,603	720,275
Student Room and Board	635,868	-	635,868
Community Education	139,422	-	139,422
Net Investment Return	46,036	291,947	337,983
Other Income	162,961	-	162,961
Total Revenue, Support, and Gains	6,281,309	582,550	6,863,859
Net Assets Released From Restrictions, Restated	422,328	(422,328)	-
Total Revenue, Support, Gains, and Reclassifications	6,703,637	160,222	6,863,859
Expenses			
Program Services	4,724,918	-	4,724,918
Management and General	2,170,922	-	2,170,922
Fundraising	103,529	-	103,529
Total Expenses	6,999,369	-	6,999,369
(Deficit) Excess of Revenue, Support, Gains, and Reclassifications Over Expenses	(295,732)	160,222	(135,510)
Change in Beneficial Interest in Perpetual Trust	-	13,036	13,036
Change in Beneficial Interest in Charitable Remainder Trusts	-	(670)	(670)
Change in Net Assets	(295,732)	172,588	(123,144)
Net Assets, Beginning of Year, As Restated	4,155,642	2,143,064	6,298,706
Adoption of ASU 2016-13	(72,169)	(64,570)	(136,739)
Net Assets, End of Year, As Restated	\$ 3,787,741	\$ 2,251,082	\$ 6,038,823

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENTS OF FUNCTIONAL EXPENSES

	Years Ended May 31,							
	2025		2024		2025		2024	
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,908,749	\$ 1,123,382	\$ 21,751	\$ 3,053,882	\$ 2,227,384	\$ 1,177,764	\$ 40,220	\$ 3,445,368
Payroll Taxes	129,201	115,773	1,685	246,659	141,778	117,883	3,062	262,723
Retirement Plan	10,112	9,332	34	19,478	10,254	8,102	-	18,356
Employee Benefits	179,971	168,115	1,512	349,598	310,326	119,786	4,419	434,531
Rent	676,488	-	-	676,488	656,265	-	-	656,265
Telephone	-	26,996	-	26,996	-	30,539	-	30,539
Utilities	305,321	-	-	305,321	331,195	-	-	331,195
Security	88,047	-	-	88,047	108,500	-	-	108,500
Insurance	-	69,822	-	69,822	-	51,941	-	51,941
Bank Charges	2,313	30,775	473	33,561	418	34,182	773	35,373
Supplies	93,976	41,801	1,687	137,464	92,074	32,525	-	124,599
Purchased Services	65,178	168,123	27,642	260,943	87,039	133,197	46,270	266,506
Model Fees	720	-	-	720	1,950	-	-	1,950
Lecturer's Honorarium	17,721	-	-	17,721	18,345	-	-	18,345
Hospitality	30,591	10,092	-	40,683	29,133	4,481	4,764	38,378
Memberships and Fees	29,422	35,562	-	64,984	23,363	32,770	150	56,283
Books, Videos, and Subscriptions	31,309	14,111	-	45,420	41,447	10,873	344	52,664
Email and Internet	-	9,600	-	9,600	-	12,455	-	12,455
Postage and Mail Service	9,060	1,174	197	10,431	13,561	573	244	14,378
Travel	51,023	7,769	-	58,792	81,101	2,920	-	84,021
Personnel and Instructional Development	25,322	3,066	-	28,388	35,547	6,165	-	41,712
Promotion	12,053	14,458	1,850	28,361	41,422	47,107	1,900	90,429
Design and Photography	2,675	-	-	2,675	3,108	-	-	3,108
Printing	26,204	654	5,808	32,666	74,938	24,705	-	99,643
Equipment Maintenance and Rental	115,012	151,981	-	266,993	103,256	160,393	-	263,649
Student Exhibition	3,263	-	-	3,263	13,134	-	-	13,134
Scholarships	3,720,047	-	-	3,720,047	4,059,111	-	-	4,059,111
Depreciation	187,585	1,904	953	190,442	196,484	1,995	997	199,476
Interest Expense	54,749	556	278	55,583	76,125	773	386	77,284
Other Expenses	4,922	32,366	-	37,288	6,771	40,883	-	47,654
Credit Loss Expense	-	78,249	-	78,249	-	118,910	-	118,910
Bad Debt Expense	-	1,186,481	-	1,186,481	-	-	-	-
Total Expenses by Function	7,781,034	3,302,142	63,870	11,147,046	8,784,029	2,170,922	103,529	11,058,480
Less Expenses Included with Revenue on the Statements of Activities								
Student Aid	3,720,047	-	-	3,720,047	4,059,111	-	-	4,059,111
Total Expenses Included in the Expense Section on the Statements of Activities	\$ 4,060,987	\$ 3,302,142	\$ 63,870	\$ 7,426,999	\$ 4,724,918	\$ 2,170,922	\$ 103,529	\$ 6,999,369

See accompanying notes.

**ART ACADEMY OF CINCINNATI
STATEMENTS OF CASH FLOWS**

	Years Ended May 31,	
	2025	2024
Cash Flows From Operating Activities		
Change in Net Assets	\$ (1,382,528)	\$ (123,144)
Reconciliation of Change in Net Assets with Cash Flows from Operations		
Depreciation	190,442	199,476
Amortization on Right of Use Asset - Financing	40,857	27,239
Interest Accrued on Financing Lease	4,675	3,913
Net Investment Return	(197,896)	(285,039)
Adoption of ASU 2016-13	-	(136,739)
Lease Expense - Operating Leases	569,999	700,460
Donated Works of Art	(18,150)	-
Change in Beneficial Interest in Perpetual Trust	1,518	(13,036)
Change in Beneficial Interest in Charitable Remainder Trusts	-	670
Changes in		
Accounts Receivable, Less Allowance for Credit Losses	(53,479)	240,826
Pledges Receivable	20,000	(40,000)
Grants Receivable	13,824	(13,824)
Employee Retention Tax Credit Receivable	1,186,481	-
Art Inventory	-	(79,350)
Prepaid Expenses	(18,741)	(12,823)
Accounts Payable	62,622	10,155
Bank Overdraft	-	(26,822)
Accrued Expenses	31,699	(2,551)
Deferred Revenue	(10,180)	34,467
Operating Lease Liabilities	(549,436)	(663,344)
Net Cash Used by Operating Activities	(108,293)	(179,466)
Cash Flows From Investing Activities		
Proceeds From Sale of Investments	1,110,965	722,065
Proceeds From Liquidation of Beneficial Interest in Perpetual Trust	195,308	-
Purchase of Investments	(726,630)	(638,253)
Deposits	1,100	7,075
Net Cash Provided by Investing Activities	580,743	90,887
Cash Flows From Financing Activities		
Net Change in Line of Credit	(549,812)	193,000
Payments on Financing Lease Liability	(43,864)	(43,864)
Payments on Notes Payable	(2,414)	(69,890)
Net Cash (Used) Provided by Financing Activities	(596,090)	79,246
Net Change in Cash and Cash Equivalents	(123,640)	(9,333)
Cash and Cash Equivalents, Beginning of the Year	146,574	155,907
Cash and Cash Equivalents, End of the Year	\$ 22,934	\$ 146,574

See accompanying notes.

**ART ACADEMY OF CINCINNATI
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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. was 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. was a wholly owned subsidiary of the Art Academy of Cincinnati (collectively referred to as the "Academy" hereafter).

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.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (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 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 and Allowance for Credit Losses

Accounts receivable and grants receivable consist of amounts due from students and grantors and are generally unsecured. The Academy establishes allowances for credit losses on accounts receivable. The allowance for credit losses is the Academy's best estimate of the amount of probable credit losses in the Academy's existing accounts receivable and is based upon historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss associated with specific accounts. The measurement of credit losses and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change.

The Academy uses the aging method to estimate its expected credit losses on accounts receivable and grants receivable. In order to estimate expected credit losses, the Academy assesses recent historical experience, current economic conditions, and any reasonable and supportable forecasts to identify risk characteristics that are shared within the financial asset. These risk characteristics are then used to bifurcate the aging method into risk pools. Historical credit loss for each risk pool is then applied to the current period aging in the identified risk pools to determine the needed reserve allowance. In the absence of current economic conditions and/or forecasts that may affect future credit losses, the Academy has determined that recent historical experience provides the best basis for estimating credit losses.

The determination of past due status on accounts receivable is based on the terms indicated on student or grantor contracts and invoices. Accounts are written off against the allowance when deemed uncollectible by management. Recoveries of accounts receivable and grants receivable previously written off are recorded when received. The Academy does not change interest on its past due receivables.

Contract Liabilities

Contract liabilities are reported as deferred revenue in the accompanying 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 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 has been provided at both May 31, 2025 and 2024 since the Academy does 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 statements of financial position. Net investment return is reported in the 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, if purchased, or fair value, if contributed, 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 \$5,000.

The useful lives of property and equipment for purposes of computing depreciation range from three to forty years. The useful lives of works of art are indefinite.

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 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, 2025 and 2024.

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, 2025 or 2024.

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

Leases are categorized at their inception as either operating or financing leases. Lease agreements include the Academy's dormitory spaces for the students, postage machine, and copier. Operating leases are included as right-of-use assets (ROU assets), current portion of lease liabilities, and long-term lease liabilities on the statements of financial position. Finance leases are included in right of use asset – financing leases, current liabilities, and long-term liabilities on the statements of financial position.

ROU assets represent the Academy's right to use an underlying asset for the lease term and lease liabilities represent the Academy's obligation to make payments arising from the lease. Operating and finance lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of future lease payments over the lease term. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date of the lease, and are reduced by any lease incentives. As most of the Academy's leases do not provide an implicit rate, the Academy uses an incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments.

Lease terms may include options to extend or terminate the lease. Where management concludes that it is reasonably certain that a renewal or termination option will be exercised, that renewal period or termination option is used to determine the lease term and the related payments that are reflected in the ROU asset and lease liability.

The Academy has made an accounting policy election not to recognize right-of-use assets (ROU assets) and lease liabilities for leases with a term of 12 months or less. Lease expense for such leases is recognized on a straight-line basis over the lease term.

Beneficial Interests in Perpetual Trust

The Academy was 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 was never to 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 statements of activities, and a beneficial interest in perpetual trust is recorded in the 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 statements of financial position, with trust distributions and changes in fair value recognized in the statements of activities. As of May 31, 2025, this trust was closed, and the funds were disbursed to the Academy.

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 those 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 statements of activities as net assets released from restrictions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue Recognition***Revenue From Contracts*

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 they are 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 both May 31, 2025 and 2024, conditional contributions totaled \$-0-, for which no amounts have been received in advance, have not been recognized in the accompanying statement of activities.

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided an employee retention credit (CARES Employee Retention Credit), which was a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit was equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expanded the qualified wage caps on these credits through September 30, 2021. Based on these additional provisions, the tax credit was equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee had been increased to \$10,000 of qualified wages per quarter. The Academy determined that they met the criteria to qualify for this tax credit under the CARES Act for certain quarters in fiscal years 2022 and 2021. During the fiscal year ended May 31, 2023, the Academy recorded \$1,186,481 related to the CARES Employee Retention Credit on the Academy's statements of activities. As of May 31, 2024, the Academy had a \$1,186,481 employee retention credit receivable balance from the United States government related to the CARES Act, which was recorded on the statement of financial position. As of May 31, 2025, the receivable was fully written off, as the claim was denied by the IRS.

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 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 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, 2025 and 2024, sales of art totaled \$-0-. During both the years ended May 31, 2025 and 2024, there were no items in the Academy's collections that were damaged or destroyed.

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

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

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. The Plan includes a 2% match on employee deferrals. 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 2025 or 2024. By its nature, the Plan is fully funded.

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the statements of activities. The 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 is a nonprofit organization 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 statements of activities for either of the years ended May 31, 2025 or 2024. 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, 2025 or 2024.

Reclassifications

Certain amounts in the prior period 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 total net assets.

Subsequent Events

The Academy has evaluated subsequent events August 13, 2026, which is the date the 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 statements of financial position are comprised of the following:

	May 31,	
	2025	2024
Cash and Cash Equivalents	\$ 11,882	\$ 15,230
Accounts Receivable, Net	227,546	174,067
Employee Retention Tax Credit Receivable	-	1,186,481
Due (To) From Funds	(59,999)	(60,393)
Operating Investments	61,219	56,558
Total Financial Assets	\$ 240,648	\$ 1,371,943

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 \$661,152 and \$639,337 at May 31, 2025 and 2024, 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, 2025 and 2024, the Academy shows \$59,999 and \$60,393, 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 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 as follows:

	Years Ended May 31,	
	2025	2024
Interest	\$ 55,679	\$ 78,904
Interest on Financing Lease	\$ 5,917	\$ 3,913

NOTE 3 - CASH AND CASH FLOWS (Continued)

The Academy had noncash operating and financing transactions as follows:

	Years Ended May 31,	
	2025	2024
Right of Use Asset Obtained Through Financing Lease Liability	\$ <u>-</u>	\$ <u>163,431</u>
Works of Art Assets Transferred from Inventory to Property and Equipment	\$ <u>-</u>	\$ <u>49,980</u>
Donated Works of Art	\$ <u>18,150</u>	\$ <u>-</u>

NOTE 4 - ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses related to accounts receivable is as follows:

Balance at Beginning of Year	\$ 873,517	\$ 812,487
Current Period Provision for Expected Credit Losses	78,249	162,467
Writeoffs Charged Against the Allowance	<u>(569)</u>	<u>(101,437)</u>
Balance at End of Year	\$ <u>951,197</u>	\$ <u>873,517</u>

NOTE 5 - INVESTMENTS

Investments consisted of the follows:

	May 31,			
	2025		2024	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	\$ 41,508	\$ 41,508	\$ 51,991	\$ 51,991
Mutual Funds and Exchange-Traded Funds	<u>2,007,185</u>	<u>2,289,508</u>	<u>2,169,784</u>	<u>2,465,464</u>
	\$ <u>2,048,693</u>	\$ <u>2,331,016</u>	\$ <u>2,221,775</u>	\$ <u>2,517,455</u>

With the Board of Trustees' approval, the Academy is permitted to receive a monthly cash distribution from the board-designated investments. The spending rate is based on the market value of the investments over a four quarter rolling average. For the years ended May 31, 2025 and May 31, 2024, there were no distributions from board-designated investments.

See Note 9 for information on distributions from endowment funds.

NOTE 6 - 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.

The 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, 2025 and 2024.

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.

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

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

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at May 31, 2025:

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	\$ 41,508	\$ -	\$ -	\$ 41,508
Mutual Funds and Exchange-Traded Funds	<u>2,289,508</u>	<u>-</u>	<u>-</u>	<u>2,289,508</u>
Total Assets at Fair Value	<u>\$ 2,331,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,331,016</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at May 31, 2024:

Cash and Cash Equivalents	\$ 51,991	\$ -	\$ -	\$ 51,991
Mutual Funds and Exchange-Traded Funds	2,465,464	-	-	2,465,464
Beneficial Interests in Perpetual Trusts	<u>196,826</u>	<u>-</u>	<u>-</u>	<u>196,826</u>
Total Assets at Fair Value	<u>\$ 2,714,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,714,281</u>

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

	Beneficial Interest in Trusts
May 31, 2023	\$ (43)
Change in Value	<u>43</u>
May 31, 2024	-
Change in Value	<u>-</u>
May 31, 2025	<u>\$ -</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 statements of financial position.

NOTE 7 - PROPERTY AND EQUIPMENT

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

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
	<u>May 31, 2025</u>		
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	4,159,983	1,499,907	2,660,076
Works of Art	68,130	-	68,130
Office Furniture and Equipment	<u>377,513</u>	<u>343,550</u>	<u>33,963</u>
	<u>\$ 4,694,796</u>	<u>\$ 1,843,457</u>	<u>\$ 2,851,339</u>
	<u>May 31, 2024</u>		
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	4,159,983	1,373,282	2,786,701
Works of Art	49,980	-	49,980
Office Furniture and Equipment	<u>377,513</u>	<u>279,733</u>	<u>97,780</u>
	<u>\$ 4,676,646</u>	<u>\$ 1,653,015</u>	<u>\$ 3,023,631</u>

NOTE 8 - CONTRACT BALANCES

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

	<u>May 31,</u>	
	<u>2025</u>	<u>2024</u>
Accounts Receivable, Net		
Beginning of Year	\$ 174,067	\$ 406,893
End of Year	\$ 227,546	\$ 174,067
Grants Receivable		
Beginning of Year	\$ 13,824	\$ -
End of Year	\$ -	\$ 13,824
Deferred Revenue		
Beginning of Year	\$ 92,930	\$ 58,463
End of Year	\$ 82,750	\$ 92,930

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, 2025, funds with original gift values of \$1,209,997, fair values of \$2,131,301, and deficiencies of \$4,088 were reported in net assets with donor restrictions. At May 31, 2024, funds with original gift values of \$1,209,997, fair values of \$1,972,264, and deficiencies of \$4,282 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.

For the years ended May 31, 2025 and 2024, the Academy took distributions from its endowment funds of \$381,000 and \$136,000, respectively, with approval from the Board of Trustees.

Endowment net asset composition by type of fund as of May 31, 2025 is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Board-Designated Endowment Funds	\$ 661,152	\$ -	\$ 661,152
Donor Restricted Endowment Funds	-	1,488,302	1,488,302
Endowment Net Asset Composition by Type of Fund	<u>\$ 661,152</u>	<u>\$ 1,488,302</u>	<u>\$ 2,149,454</u>

Changes in endowment net assets for the year ended May 31, 2025 are as follows:

Endowment Net Assets, Beginning of Year	\$ 639,337	\$ 1,710,265	\$ 2,349,602
Withdrawals	-	(381,000)	(381,000)
Investment Return, Net	<u>21,815</u>	<u>159,037</u>	<u>180,852</u>
Endowment Net Assets, End of Year	<u>\$ 661,152</u>	<u>\$ 1,488,302</u>	<u>\$ 2,149,454</u>

Endowment net asset composition by type of fund as of May 31, 2024 is as follows:

Board-Designated Endowment Funds	\$ 639,337	\$ -	\$ 639,337
Donor Restricted Endowment Funds	-	1,710,265	1,710,265
Endowment Net Asset Composition by Type of Fund	<u>\$ 639,337</u>	<u>\$ 1,710,265</u>	<u>\$ 2,349,602</u>

NOTE 9 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended May 31, 2024 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 591,204	\$ 1,578,960	\$ 2,170,164
Withdrawals	-	(136,000)	(136,000)
Investment Return, Net	<u>48,133</u>	<u>267,305</u>	<u>315,438</u>
Endowment Net Assets, End of Year	<u>\$ 639,337</u>	<u>\$ 1,710,265</u>	<u>\$ 2,349,602</u>

NOTE 10 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

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

Trust	The Academy's Percentage of Trust	May 31,	
		2025	2024
Wilmer D. Glenn Trust	100%	\$ -	\$ 196,826

NOTE 11 - LINE OF CREDIT

The Academy has a secured revolving line of credit agreement with a bank for \$2,000,000. The line of credit charges interest at prime rate (7.50% at May 31, 2025). The line is due on demand. It is collateralized by the Academy's building. The line of credit is subject to certain financial covenants, all of which were either waived or met at May 31, 2025.

NOTE 12 - NOTE PAYABLE

	May 31,	
	2025	2024
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.	\$ 150,000	\$ 152,414
Less Current Portion	<u>3,644</u>	<u>3,545</u>
Long-Term Portion	<u>\$ 146,356</u>	<u>\$ 148,869</u>

NOTE 12 - NOTE PAYABLE (Continued)

The remaining maturities on the note are as follows:

Years Ending May 31,	
2026	\$ 3,644
2027	3,745
2028	3,850
2029	3,957
2030	4,067
Thereafter	<u>130,737</u>
	<u>\$ 150,000</u>

NOTE 13 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

	May 31,	
	2025	2024
Endowment - Operational Needs	\$ <u>661,152</u>	\$ <u>639,337</u>

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

Subject to Expenditure for Specified Purpose

Alumni Council Scholarships	\$ 120,342	\$ 111,294
Scholarships	298,305	545,268
Community Education Awards	55,000	123,272
Schell Loan Program	11,052	64,425
Schell Loan Program	<u>5,000</u>	<u>-</u>
	489,699	844,259

Not Subject to Spending Policy or Appropriation

Beneficial Interest in Perpetual Trust	-	196,826
Endowment - Scholarships	493,762	493,762
Endowment - Operational Needs	<u>716,235</u>	<u>716,235</u>
	<u>1,209,997</u>	<u>1,406,823</u>
Total Net Assets with Donor Restrictions	\$ <u>1,699,696</u>	\$ <u>2,251,082</u>

NOTE 15 - REVENUE FROM CONTRACTS

Revenue from contracts with customers is recognized as follows:

	Years Ended May 31,	
	2025	2024
Recognition		
At a Point in Time	\$ 98,861	\$ 145,514
Over a Period of Time	4,726,073	5,503,218
Total Revenue	\$ 4,824,934	\$ 5,648,732

NOTE 16 - IN-KIND CONTRIBUTIONS

For the years ended May 31, 2025 and 2024, the Academy received in-kind contributions as follows:

In-Kind Contributions	Types of Contributions	Program or Activity Usage	Valuation	2025	2024
Fixed Assets	Art Collection	All Programs	Independent Appraisal	\$ 18,150	\$ -

NOTE 17 - LEASES

The Academy has signed four operating leases for which right of use assets were recorded on the statements of financial position of the Academy. As of May 31, 2025 and 2024, two leases are for dormitory space for the students, one lease for a postage machine and one lease for a copier. These leases expire on various dates through July 2030. In addition, the Academy also has various operating leases that are month-to-month or expire in twelve months or less and are not included on the statements of financial position as of May 31, 2025 and 2024. These leases are subject to certain renewal and or termination options, all of which were not included in the lease liabilities due to the options not being reasonably certain to be exercised.

Additionally, the Academy has signed one financing lease for equipment. The lease expires in September 2027.

The components of lease expenses that are included in the statements of activities are as follows:

	Years Ended May 31,	
	2025	2024
Lease Expense		
Finance Lease Expense		
Amortization of ROU Assets	\$ 40,857	\$ 27,238
Interest on Lease Liabilities	4,675	3,913
Operating Lease Expense	699,667	700,460
Short-term Lease Expense	6,104	11,566
Total	\$ 751,303	\$ 743,177

NOTE 17 - LEASES (Continued)

The following summarizes the cash flow information, weighted average lease term, and discount rate related to operating and financing leases:

	Years Ended May 31,	
	2025	2024
Other Information		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating Cash Flows from Finance Leases (i.e. Interest)	\$ 5,917	\$ -
Financing Cash Flows from Finance Leases (i.e. Principal Portion)	\$ 37,947	\$ 43,864
Operating Cash Flows from Operating Leases	\$ 677,518	\$ 663,344
ROU Assets Obtained in Exchange for New Finance Lease Liabilities	\$ -	\$ 163,431
Weighted-Average Remaining Lease Term in Years for Finance Leases	2.33	3.33
Weighted-Average Remaining Lease Term in Years for Operating Leases	4.86	5.84
Weighted-Average Discount Rate for Finance Leases	4.84%	4.84%
Weighted-Average Discount Rate for Operating Leases	4.03%	4.04%

The maturities of operating and financing lease liabilities are as follows:

Years Ending May 31,	Financing	Operating
2026	\$ 43,864	\$ 692,006
2027	43,864	704,468
2028	-	705,997
2029	-	609,401
2030	-	584,813
Thereafter	-	97,788
Total Undiscounted Cash Flows	87,728	3,394,473
Less Present Value Discount	3,437	307,098
Total Lease Liabilities	\$ 84,291	\$ 3,087,375

NOTE 18 - RELATED PARTY DISCLOSURES REQUIRED BY THE U.S. DEPARTMENT OF EDUCATION

To comply with the Financial Responsibility, Administrative Capability, Certification Procedures, Ability to Benefit regulation promulgated by the U.S. Department of Education, the Academy reports that there were no related party transactions during the fiscal years ended May 31, 2025 and 2024.

NOTE 19 - RETIREMENT PLAN EXPENSE

During the years ended May 31, 2025 and 2024, the Academy incurred expenses related to the Academy sponsored retirement plan in the amounts of \$19,478 and \$18,356, respectively.

NOTE 20 - ADVERTISING EXPENSE

The Academy incurred advertising expense of \$30,215 and \$70,691 for 2025 and 2024, respectively.

NOTE 21 - RENTAL INCOME

The Academy has an agreement with a lessee to occupy space in facilities owned by the Company. The Academy also rents out space owned by the Company to individuals for one-time events. Rental revenue for the years ended May 31, 2025 and 2024 was \$187,997 and \$56,997, respectively.

NOTE 22 - TAX-EXEMPT STATUS ON OWNED BUILDINGS

During the years ended May 31, 2025 and 2024, the Academy did not renew its tax-exempt status on one of its owned buildings to be able to obtain exemption from property taxes. The Academy is in the process of applying to reinstate that status. If approved, the reinstatement would go back to 2024, and the Academy would not owe property taxes for 2025 or 2024. It was determined that the liability for property taxes owed is not probable for the years ended May 31, 2025 and 2024, so no liability was recorded in the financial statements.

NOTE 23 - PRIOR PERIOD ADJUSTMENT

Net assets as of June 1, 2023 and May 31, 2024 have been restated to recognize the correct amount of net assets with and without donor restrictions.

As of June 1, 2023, the effect of this restatement is an increase in net assets without donor restrictions of \$389,394 and a decrease in net assets with donor restrictions of \$389,394.

As of May 31, 2024, the effect of this restatement is an increase in net assets without donor restrictions of \$604,022 and a decrease in net assets with donor restrictions of \$604,022.

There was no change in previously reported total net assets.

NOTE 24 - GOING CONCERN

As shown in the accompany financial statements, for the years ended May 31, 2025 and 2024, the Academy had a decrease in net assets, operating deficits, negative operating cash flows and total current liabilities exceeds total current assets as of both May 31, 2025 and 2024. These conditions give rise to whether the Academy will continue as a going concern.

Management and the Board of Trustees have developed and are actively executing a financial stabilization plan designed to address the liquidity conditions that gave rise to substantial doubt about the Academy's ability to continue as a going concern. The plan encompasses revenue growth, enrollment stabilization, expense management, leadership investment, and governance strengthening. Management believes these actions, individually and in combination, are probable of being effectively implemented and will be sufficient to mitigate the conditions described above.

The ability of the Academy to continue as a going concern is dependent on the implementation of the plans noted above. Management feels the steps that have been taken to date have been successful and will lead to increased growth 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 25 - 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, 2025 and 2024, financial aid awards received accounted for approximately 36% and 34%, 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 26 - 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)	(856,832)
d. Balance pre-implementation property, plant, and equipment, net	<u>2,210,042</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>641,297</u>
7. Total Property, Plant, and Equipment, net - May 31, 2025	<u><u>\$ 2,851,339</u></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	(130,519)
d. Balance Pre-implementation Debt	<u>-</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>150,000</u>
	<u><u>\$ 150,000</u></u>

REQUIRED REGULATORY INFORMATION

ACT ACADEMY OF CINCINNATI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2025

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Entity Identifying or Pass- Through Number	Passed Through to Subrecipients	Expenditures
<u>U.S. Department of Education</u>				
Student Financial Assistance Cluster				
Federal Direct Student Loans	84.268	N/A	\$ -	\$ 1,789,788
Federal Pell Grant Program	84.063	N/A	-	707,560
Federal Supplemental Educational Opportunity Grants	84.007	N/A	-	31,200
Federal Work- Study Program	84.033	N/A	-	42,764
Total U.S. Department of Education			-	2,571,312
<u>U.S. Department of Treasury</u>				
<i>Passed-Through the Hamilton County Board of County Commissioners</i>				
Youth Resiliency Grant	21.027	N/A	-	26,681
Total Expenditures of Federal Awards			\$ -	\$ 2,597,993

The accompanying notes are an integral part of this schedule.

ART ACADEMY OF CINCINNATI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2025

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Art Academy of Cincinnati under programs of the federal government for the year ended May 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Art Academy of Cincinnati, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Art Academy of Cincinnati.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - INDIRECT COST RATE

Art Academy of Cincinnati has elected not to use the 10 percent de Minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
Art Academy of Cincinnati
Cincinnati, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Art Academy of Cincinnati (a nonprofit organization), which comprise the statement of financial position as of May 31, 2025, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 13, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Art Academy of Cincinnati's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Art Academy of Cincinnati's internal control. Accordingly, we do not express an opinion on the effectiveness of the Art Academy of Cincinnati's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Art Academy of Cincinnati's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Art Academy of Cincinnati's Response to Findings

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dotson Allen Ford, PLLC

Fort Wright, Kentucky
August 13, 2026

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Trustees
Art Academy of Cincinnati
Cincinnati, Ohio

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Art Academy of Cincinnati's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Art Academy of Cincinnati's major federal programs for the year ended May 31, 2025. Art Academy of Cincinnati's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Art Academy of Cincinnati complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal for the year ended May 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Art Academy of Cincinnati and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Art Academy of Cincinnati's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Art Academy of Cincinnati's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Art Academy of Cincinnati's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Art Academy of Cincinnati's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Art Academy of Cincinnati's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Art Academy of Cincinnati's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Art Academy of Cincinnati's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2025-003, 2025-004, and 2025-005. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Art Academy of Cincinnati's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Art Academy of Cincinnati's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2025-002, 2025-003, 2025-004, 2025-005, and 2025-006 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Art Academy of Cincinnati's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Art Academy of Cincinnati's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dean Dotson Allen Ford, PLLC

Fort Wright, Kentucky
August 13, 2026

ART ACADEMY OF CINCINNATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2025

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS	
Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
• Material weakness(es) identified?	None Reported
• Significant deficiency(ies) identified?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	Yes
Identification of major programs:	• Federal Direct Student Loans [AL 84.268] • Federal Pell Grant Program [AL 84.063] • Federal Supplemental Education Opportunity Grant Program [AL 84.007] • Federal Work Study Program [AL 84.033]
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

ART ACADEMY OF CINCINNATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2025
(Continued)

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2025-001: Material Audit Adjustments

Criteria: The Academy is required to have internal controls over the period-end financial reporting process that enable the Academy to record year-end entries to produce financial records that are in accordance with generally accepted accounting principles in the United States.

Condition: As a result of the current year auditing procedures, misstatements were identified that were not previously identified by the Academy's internal controls over financial reporting.

Cause: The Academy failed to provide proper oversight over period-end financial reporting, which resulted in misstated accounting records.

Effect: The Academy's financial records required material adjustments to ensure they were in accordance with generally accepted accounting principles.

Repeat Finding: This is a repeat finding.

Recommendation: The Academy should implement procedures to their period-end financial reporting process to review year-end financial data to detect and correct errors prior to the audit.

Management Response: The following includes details of the corrective action to be implemented. The Academy will:

- Review and revise internal control procedures over financial reporting to strengthen the review and approval process for significant account reconciliations and journal entries.
- Implement a formal year-end financial statement preparation and review checklist to ensure all material accounts and disclosures are reviewed before the audit.
- Require documented supervisory review and approval of key financial reports, reconciliations, and adjusting entries.
- Provide additional training to finance personnel on financial reporting requirements, account reconciliation procedures, and internal control responsibilities.
- Establish periodic internal reviews throughout the fiscal year to identify and correct errors before year-end.

Finding 2025-002: Tracking of Restricted Grants and Contributions and Associated Releases

Criteria: The Academy is responsible for establishing and maintaining effective internal controls to ensure donor-restricted grants and contributions are accurately tracked, expenditures are properly matched to restrictions, releases are supported by appropriate documentation, and costs charged to restricted funding sources are allowable, properly allocated, and not used to satisfy multiple funding requirements. Effective controls should include detailed grant tracking, review of allowable costs, support for payroll allocations, and periodic reconciliation of restricted net asset balances.

Condition: The Organization does not maintain adequate controls over the tracking of restricted grants and contributions and the related releases from donor restrictions. Detailed schedules were not consistently maintained, expenditures were not systematically monitored against specific donor restrictions, and releases from restriction were not supported by proper documentation. Additionally, controls were not in place to ensure wages and shared costs charged to grants were appropriately allocated and supported, or that expenses used to support one grant or donor restriction were not also used to support another funding source.

Cause: The condition resulted from a lack of formal policies and procedures governing restricted funding, insufficient monitoring of grant activity, inadequate review of releases from donor restrictions, and the absence of documentation for payroll allocations and other shared costs.

Effect: The Academy's net assets with and without donor restrictions required material adjustments to ensure they were in accordance with generally accepted accounting principles.

ART ACADEMY OF CINCINNATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2025
(Continued)

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that management implement formal controls over restricted funding, including:

- Maintaining a comprehensive grant and contribution tracking schedule.
- Monitoring expenditures against grant agreements and donor restrictions on a periodic basis.
- Establishing procedures to verify that expenses charged to grants are allowable and are not used to support more than one funding source.
- Requiring management review and approval of releases from donor restrictions before recording them in the accounting records.

Management Response: The following includes details of the corrective action to be implemented. The Academy will:

- Maintain a comprehensive grant and donor-restricted contribution tracking schedule that documents awards, expenditures, remaining balances, reporting requirements, and releases from restriction.
- Monitor expenditures against grant agreements and donor restrictions on a periodic basis to ensure compliance with donor intent and funding requirements.
- Implement formal review procedures to verify that expenses charged to grants and restricted contributions are allowable, appropriately documented, properly allocated, and not used to support more than one funding source.
- Require documented management review and approval of all releases from donor restrictions prior to recording transactions in the accounting records.
- Engage independent external accounting and financial management professionals(as needed) to assist management in strengthening grant accounting, financial reporting, reconciliations, and internal control procedures during the implementation of these corrective actions.
- Update written accounting policies and procedures governing restricted funding, grant compliance, payroll allocations, and financial reporting, and provide additional training to finance personnel responsible for these functions.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2025-003: Inaccurate Cost of Attendance, Need Analysis, Pell Awarding, and Overall Award Determination – Significant Deficiency

Federal Program: Federal Direct Student Loans [84.268], Federal Pell Grant Program [84.063], and Federal Work-Study Program [84.033]

Criteria: Under 34 CFR §668.16 and program-specific regulations within the Student Financial Assistance Cluster, institutions must:

- Accurately determine each student's COA in accordance with federal definitions.
- Calculate each student's financial need using correct COA, EFC, and other aid.
- Ensure that Title IV aid does not exceed COA or financial need, as applicable.
- Award Pell Grants based on the student's actual enrollment status for each payment period, in accordance with 34 CFR §690.63.
- Maintain documentation supporting all adjustments to COA, need, or awards.

ART ACADEMY OF CINCINNATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2025
(Continued)

Condition: During testing of Student Financial Assistance (SFA) eligibility and awarding, the Institution did not consistently apply federal requirements related to Cost of Attendance (COA), financial need determination, and award packaging. Specifically:

- One student was awarded aid in excess of the federally allowable COA.
- One student's COA was overstated, which resulted in the student being potentially overawarded.
- Six student's were awarded the incorrect COA based on the grade level reported on the Institutional Student Information Record (ISIR). However, there is no code for year 4 on the ISIR, which resulted in the students receiving year 3 COA.
- Two students received aid in excess of their calculated financial need, and the Institution did not maintain documentation supporting the adjustments or exceptions.
- One student was enrolled at three-quarter time during the fall semester and full-time during the spring semester; however, the student received three-quarter-time Pell Grant disbursements for both semesters, resulting in an underpayment for the spring term and inaccurate Pell reporting.

These errors demonstrate inconsistent application of federal awarding rules and insufficient review of eligibility and enrollment status changes.

Cause: Internal controls over COA determination, need analysis, Pell awarding, and award packaging were not operating effectively. Review procedures did not detect errors in COA inputs, enrollment status updates, need calculations, or Pell disbursement amounts. Documentation requirements were not consistently followed.

Effect: Students received award amounts that were not compliant with federal requirements. Errors resulted in both overawards and underawards, inaccurate Pell reporting, and increased risk of improper payments.

Questioned Costs: \$13,205

Context: Errors occurred across multiple students and multiple components of the awarding process, indicating a systemic weakness in the Institution's controls over eligibility, enrollment status monitoring, and award determination.

Repeat Finding: This is not repeat finding.

Recommendation: The Institution should strengthen internal controls over COA determination, need analysis, Pell awarding, and award packaging. Improvements should include:

- Implementing a secondary review of COA inputs, need calculations, and Pell enrollment status determinations.
- Ensuring timely updates to enrollment status and corresponding Pell recalculations.
- Maintaining documentation supporting all award adjustments.
- Providing refresher training to financial aid staff on federal awarding requirements.

Management Response: To strengthen internal controls, the Academy will implement enhanced review procedures for financial aid packaging, Cost of Attendance determinations, financial need calculations, enrollment status changes, and Pell Grant disbursements prior to disbursement. In addition, financial aid personnel will receive refresher training on federal awarding requirements, documentation standards, and exception processing. Management believes these corrective actions will improve compliance with federal regulations and reduce the likelihood of similar errors in future award years.

ART ACADEMY OF CINCINNATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2025
(Continued)

Finding 2025-004: Incorrect Loan Type Awarded Under the Direct Loan Program – Significant Deficiency

Federal Program: Federal Direct Student Loans [84.268]

Criteria: Per the 2024-2025 Federal Student Aid Handbook, chapter 3 Packaging Aid, an institution must determine an undergraduate student's maximum Direct Subsidized Loan eligibility before originating a Direct Unsubsidized Loan for the student.

Condition: During testing of eligibility, 1 out of 40 students were not awarded their maximum subsidized loan amounts they should have been awarded.

Cause: The Institution's loan packaging controls did not detect that the student had remaining subsidized eligibility. The review process for loan type selection was insufficient.

Effect: The student received a less favorable loan type, resulting in noncompliance with Direct Loan Program requirements.

Questioned Costs: No questioned costs.

Context: This is a systemic problem.

Repeat Finding: This is a repeat finding.

Recommendation: The Institution should enhance its loan packaging controls to ensure subsidized eligibility is fully evaluated and documented before awarding unsubsidized loans. Staff should receive training on Direct Loan awarding requirements.

Management Response: To prevent similar occurrences, the Academy will implement an additional supervisory review of loan awards before disbursement, utilize system-generated eligibility reports to verify that students are awarded the maximum subsidized loan amount for which they qualify, and provide refresher training to financial aid staff on federal Direct Loan awarding requirements. Management believes these enhancements will improve the accuracy of loan packaging and reduce the likelihood of similar errors in future award years.

Finding 2025-005: Missing Documentation of Required Title IV Disbursement Notifications – Significant Deficiency

Federal Program: Federal Direct Student Loans [84.268]

Criteria: The Federal Student Aid Handbook requires institutions to notify students of the amount and type of Title IV funds they are expected to receive, as well as how and when those funds will be disbursed. Under 34 CFR §668.165(a), institutions must provide this notification before disbursing Title IV funds and must maintain documentation supporting compliance with this requirement.

Condition: During testing of Student Financial Assistance (SFA) disbursements, the Institution did not maintain documentation demonstrating that required Title IV disbursement notifications were provided to students. For the students selected for testing, the Institution could not provide evidence that students were notified of the amount and type of Title IV funds they were scheduled to receive, nor the timing and method of the disbursements, as required by federal regulations and the Federal Student Aid (FSA) Handbook. As a result, we were unable to verify that the required notifications were issued.

Cause: The Institution's internal controls over Title IV disbursement notifications were not operating effectively. The Institution did not retain evidence of notifications sent to students, and there is no formal process to ensure that required notifications are consistently documented and archived.

Effect: Without documentation of required notifications, the Institution cannot demonstrate compliance with federal disbursement requirements. Students may not have been properly informed of their Title IV awards or disbursement schedules, increasing the risk of misunderstandings, disputes, or improper disbursements. The absence of documentation also limits the Institution's ability to demonstrate compliance during audits or federal program reviews.

ART ACADEMY OF CINCINNATI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2025
(Continued)

Questioned Costs: None. This finding relates to documentation and compliance with notification requirements; no monetary impact was identified.

Context: This is a systemic problem.

Repeat Finding: This is not a repeat finding.

Recommendation: The Institution should strengthen its internal controls over Title IV disbursement notifications by:

- Implementing a standardized process to generate and retain required notifications.
- Ensuring notifications include all required elements (amount, type, method, and timing of disbursements).
- Maintaining documentation in a centralized location accessible for audit and program review.
- Providing training to financial aid staff on federal notification requirements.

Management Response: The Academy has reviewed its Title IV disbursement notification process and is implementing procedures to ensure that all required notifications are generated, issued to students prior to disbursement, and retained in accordance with federal regulations and institutional record retention requirements. The Academy will also establish a standardized process for documenting the date, method, and content of each notification.

Additionally, financial aid staff will receive refresher training on Title IV disbursement notification requirements, and supervisory reviews will be incorporated into the disbursement process to verify that required notifications have been issued and properly documented before funds are disbursed. Management believes these enhanced controls will strengthen compliance with federal requirements and ensure adequate documentation is maintained for future audits

**ART ACADEMY OF CINCINNATI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2024-001: Material Audit Adjustments

As a result of auditing procedures, misstatements were identified that were not previously identified by the Academy's internal controls over financial reporting.

Status Update: Material audit adjustments were noted in the current year. This will be a repeat finding.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2024-002: Eligibility

During testing of eligibility, 2 out of 40 students were noted as having total aid awarded in excess of cost of attendance. The total amounts in excess combined were \$3,240.

Status Update: During the current year, this issue was noted. However, this will not be a repeat significant deficiency. This will be reported as a management recommendation.

Finding 2024-003: Eligibility

During testing of eligibility, 2 out of 40 students were not awarded their maximum subsidized loan amounts they should have been awarded.

Status Update: During the current year, this issue was noted with one student. This will be a repeat finding.

SUPPLEMENTARY INFORMATION

ART ACADEMY OF CINCINNATI
FINANCIAL STATEMENT SUMMARY
FISCAL YEAR ENDED MAY 31, 2025

Lines	Statement of Financial Position	
1	Cash	22,934
2	Accounts Receivable, Net, Current	227,546
3	Pledges Receivable - Current	20,000
4	Investments	181,562
5	Prepaid Expenses and Other	44,861
6	Property and Equipment, Net	2,851,339
7	Endowment Investments	2,149,454
8	Long-Term Accounts Receivable	-
9	Art Inventory	79,350
10	Right of Use Asset - Operating	2,981,261
11	Right of Use Asset - Financing	95,335
12	Deposits	33,425
13	Total Assets	8,687,067
14	Accounts Payable	154,991
15	Accrued Expenses	228,177
16	Deferred Revenue	82,750
17	Operating Lease Liabilities - Current Portion	580,777
18	Financing Lease Liabilities - Current Portion	41,128
19	Notes Payable - Current	3,644
20	Line of Credit	243,188
21	Operating Lease Liabilities - Long Term	2,506,598
22	Financing Lease Liabilities - Long Term	43,163
23	Notes Payable - Long Term	146,356
24	Total Liabilities	4,030,772
25	Net Assets Without Donor Restrictions	2,956,599
26	Net Assets With Donor Restrictions	
26	Time or Purpose Restricted	489,699
27	Restricted into Perpetuity	1,209,997
28	Total Net Assets With Donor Restrictions	1,699,696
29	Total Net Assets	4,656,295
30	Total Liabilities and Net Assets	8,687,067

Lines	Statement of Activities			
Columns on Statement of Activities		A	B	C
		Without Donor Restrictions	With Donor Restrictions	Total
31	Tuition and Fees Income	7,751,849	-	7,751,849
32	Student Aid	(3,720,047)	-	(3,720,047)
33	Net Student Tuition and Fees	4,031,802	-	4,031,802
34	Grants, Contributions and Gifts	429,265	350,067	779,332
34.1	In-Kind Contributions	18,150	-	18,150
35	Student Room and Board	694,271	-	694,271
36	Community Education	96,464	-	96,464
37	Net Investment Return	20,652	178,102	198,754
38	Other Income	227,216	-	227,216
39	Net Assets Released from Restrictions	1,078,037	(1,078,037)	-
40	Total Revenue, Support, Gains, and Reclassifications	6,595,857	(549,868)	6,045,989
Expenses:				
41	Program Services	4,060,987	-	4,060,987
42	Management and General	3,302,142	-	3,302,142
43	Fundraising	63,870	-	63,870
44	Total Expenses	7,426,999	-	7,426,999
45	(Deficit) Excess of Revenue, Support, Gains and Gains, and Reclassifications over Expenses	(831,142)	(549,868)	(1,381,010)
46	Change in Beneficial Interest in Perpetual Trust	-	(1,518)	(1,518)
47	Change in Net Assets	(831,142)	(551,386)	(1,382,528)
48	Net Assets, Beginning of Year	3,787,741	2,251,082	6,038,823
49	Net Assets, End of Year	2,956,599	1,699,696	4,656,295

ART ACADEMY OF CINCINNATI
FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE
FISCAL YEAR ENDED MAY 31, 2025

Line		ADD	SUBTRACT																									
PRIMARY RESERVE RATIO																												
25	2,956,599	Net assets without donor restrictions																										
28	1,699,696	Net assets with donor restrictions																										
27	(1,209,997)	Net assets restricted in perpetuity																										
6	(2,851,339)	- Donor restricted annuities, term endowments, life income funds																										
		- Property, plant, and equipment/Right-of-use of asset (pre- and post-implementation)																										
		- Right of Use Assets - Operating (pre-implementation)																										
10	(2,981,261)	Right of Use Assets - Operating (post-implementation)																										
		- Right of Use Assets - Financing (pre-implementation)																										
11	(95,335)	Right of Use Assets - Financing (post-implementation)																										
		- Intangible assets																										
		- Post-employment and pension liability																										
19 and 23	150,000	Debt for long-term purposes and lease obligations (pre- and post-implementation)																										
		- Operating Lease Liabilities (pre-implementation)																										
17 and 21	3,087,375	Operating Lease Liabilities (post-implementation)																										
		- Financing Lease Liabilities (pre-implementation)																										
18 and 22	84,291	Financing Lease Liabilities (post-implementation)																										
		- Secured and Unsecured related-party receivable																										
	840,029	Expendable Net Assets																										
44	7,426,999	Total operating expenses																										
		- Non-service component of pension/postemployment (nonoperating) cost (if loss)																										
		- Sale of fixed assets (if loss)																										
		- Change in value of interest-rate swap agreements (if loss)																										
	7,426,999	Total Expenses/Losses																										
	0.1131	Primary Reserve Ratio																										
EQUITY RATIO																												
25	2,956,599	Net assets without donor restrictions																										
28	1,699,696	Net assets with donor restrictions																										
		- Intangible assets																										
		- Unsecured related-party receivable																										
	4,656,295	Modified Net Assets																										
16	8,687,067	Total assets																										
		- Lease right-of-use asset pre-implementation																										
		- Intangible assets																										
		- Unsecured related-party receivable																										
	8,687,067	Modified Assets																										
	0.5360	Equity Ratio																										
NET INCOME RATIO																												
45A	(831,142)	Change in net assets without donor restrictions																										
40A	6,595,857	Total operating revenue																										
		- Investments gain, net (aggregate operating and non-operating)																										
		- Non-service component of pension/postemployment (nonoperating) cost (if gain)																										
		- Pension-related changes other than net periodic pension costs (if gain)																										
		- Change in value of annuity agreement (typically in nonoperating)																										
		- Change in value of interest-rate swap agreements (if gain)																										
		- Sale of fixed assets (if gain)																										
		- Other gains																										
	6,595,857	Total Revenues/Gains																										
	-0.1260	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																											
<table><thead><tr><th>RATIO</th><th>Ratio</th><th>Strength</th><th>Weight</th><th>Composite Scores</th></tr></thead><tbody><tr><td>Primary Reserve Ratio</td><td>0.1131</td><td>1.1310</td><td>40%</td><td>0.4524</td></tr><tr><td>Equity Ratio</td><td>0.5360</td><td>3.0000</td><td>40%</td><td>1.2000</td></tr><tr><td>Net Income Ratio</td><td>-0.1260</td><td>-1.0000</td><td>20%</td><td>(0.2000)</td></tr><tr><td></td><td></td><td></td><td></td><td>1.4524</td></tr></tbody></table>				RATIO	Ratio	Strength	Weight	Composite Scores	Primary Reserve Ratio	0.1131	1.1310	40%	0.4524	Equity Ratio	0.5360	3.0000	40%	1.2000	Net Income Ratio	-0.1260	-1.0000	20%	(0.2000)					1.4524
RATIO	Ratio	Strength	Weight	Composite Scores																								
Primary Reserve Ratio	0.1131	1.1310	40%	0.4524																								
Equity Ratio	0.5360	3.0000	40%	1.2000																								
Net Income Ratio	-0.1260	-1.0000	20%	(0.2000)																								
				1.4524																								
Round the composite score to one digit after the decimal point to determine the final score																												
TOTAL Composite Score - Rounded																												
1.5																												
Pass																												

ART ACADEMY OF CINCINNATI
FINANCIAL RESPONSIBILITY CALCULATIONS SUPPLEMENTAL COMPONENT
FISCAL YEAR ENDED MAY 31, 2025

Primary Reserve Ratio:		Expendable Net Assets:	
Statement of Financial Position (SFP)		Net assets without donor restrictions	\$ 2,956,599
SFP		Net assets with donor restrictions	\$ 489,699
SFP		Net assets restricted in perpetuity	\$ 1,209,997
Note 23, Line 3d		Property, plant, and equipment pre-implementation	\$ 2,210,042
Note 23, Line 8d		Long-term debt - for long-term purposes pre-implementation	\$ -
		Pre-implementation right-of-use asset liability	\$ -
Financial Statement Summary, Lines 17 and 21		Post-implementation right-of-use asset operating liability	\$ 3,087,375
Lines 18 and 22		Post-implementation right-of-use asset financing liability	\$ 84,291
		Total Expenses and Losses:	
Statement of Activities (SOA)		Total expenses (operating and nonoperating) without donor restrictions	\$ 7,426,999
Equity Ratio:		Modified Net Assets:	
SFP		Net assets without donor restrictions	\$ 2,956,599
SFP		Net assets with donor restrictions	\$ 1,699,696
		Modified Assets:	
SFP		Total assets	\$ 8,687,067
		Lease right-of-use asset pre-implementation	\$ -
Net Income Ratio:			
SOA		Change in Net Assets Without Donor Restrictions	\$ (831,142)
		Total Revenues and Gains Without Donor Restriction:	
SOA		Total operating revenue (including net assets released from restriction:	\$ 6,595,857