Financial Statements for

ART ACADEMY OF CINCINNATI

Years Ended May 31, 2024 and 2023

With Independent Auditor's Report
Including Supplementary Information

DEANDORTON

ART ACADEMY OF CINCINNATI
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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Art Academy of Cincinnati
Cincinnati, Ohio

Opinion

We have audited the accompanying financial statements of Art Academy of Cincinnati (a nonprofit organization), which comprise the statement of financial position as of May 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, as well as the consolidated statement of financial position as of May 31, 2023 and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 Art Academy of Cincinnati as of May 31, 2024 and 2023, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements 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 the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

As described in the notes to the financial statements, during 2024, Art Academy of Cincinnati adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and associated amendments. Our opinion is not modified with respect to that matter.

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, and for 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 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 Responsibilities 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 is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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, 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 Art Academy of Cincinnati's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Art Academy of Cincinnati's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Prior Period Financial Statements

The financial statements as of May 31, 2023, were audited by VonLehman & Company Inc., who merged with Dean Dorton Allen Ford, PLLC as of January 1, 2024.

Dean Dorton Allen Ford, PLLC

Fort Wright, Kentucky
October 16, 2024

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	152,060	-	152,060
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	(402,416)	402,416	-
Investments	56,558	111,295	167,853
Prepaid Expenses	26,120	-	26,120
Total Current Assets	1,034,033	678,879	1,712,912
Property and Equipment, Net	3,023,631	-	3,023,631
Endowment Investments	377,338	1,972,264	2,349,602
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
Total Other Assets	3,801,327	216,826	4,018,153
Total Assets	$ 8,236,329	$ 2,867,969	$ 11,104,298

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	$ 70,362	$ -	$ 70,362
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	1,730,996	12,865	1,743,861
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	5,052,610	12,865	5,065,475
Net Assets			
Without Donor Restrictions	3,183,719	-	3,183,719
With Donor Restrictions			
Time or Purpose Restricted	-	1,448,281	1,448,281
Restricted into Perpetuity	-	1,406,823	1,406,823
Total Net Assets With Donor Restrictions	-	2,855,104	2,855,104
Total Net Assets	3,183,719	2,855,104	6,038,823
Total Liabilities and Net Assets	$ 8,236,329	$ 2,867,969	$ 11,104,298

See accompanying notes.

ART ACADEMY OF CINCINNATI
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2023

ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets			
Cash and Cash Equivalents	$ 4,673	$ 151,234	$ 155,907
Accounts Receivable, Less Allowance for Credit Losses of $812,487	328,316	64,570	392,886
Employee Retention Tax Credit Receivable	1,186,481	-	1,186,481
Due (To) From Funds	(330,321)	330,321	-
Investments	49,150	96,914	146,064
Prepaid Expenses	13,297	-	13,297
Total Current Assets	1,251,596	643,039	1,894,635
Property and Equipment, Net	3,173,127	-	3,173,127
Endowment Investments	465,205	1,704,959	2,170,164
Other Assets (Less Current Portion)			
Art Inventory	49,980	-	49,980
Beneficial Interest in Perpetual Trust	-	183,790	183,790
Beneficial Interest in Charitable Remainder Trusts	-	713	713
Right of Use Asset - Operating Leases	4,095,439	-	4,095,439
Deposits	41,600	-	41,600
Total Other Assets	4,187,019	184,503	4,371,522
Total Assets	$ 9,076,947	$ 2,532,501	$ 11,609,448

See accompanying notes.

ART ACADEMY OF CINCINNATI
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2023
(Continued)

LIABILITIES AND NET ASSETS

	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities			
Accounts Payable	$ 60,207	$ -	$ 60,207
Bank Overdraft	26,822	-	26,822
Accrued Expenses	199,029	-	199,029
Deferred Revenue	58,463	-	58,463
Operating Lease Liabilities	507,064	-	507,064
Notes Payable	69,890	-	69,890
Line of Credit	600,000	-	600,000
Total Current Liabilities	1,521,475	-	1,521,475
Long-Term Liabilities (Less Current Portion)			
Charitable Remainder Trust	-	43	43
Operating Lease Liabilities	3,636,810	-	3,636,810
Notes Payable	152,414	-	152,414
Total Long-Term Liabilities	3,789,224	43	3,789,267
Total Liabilities	5,310,699	43	5,310,742
Net Assets			
Without Donor Restrictions	3,766,248	-	3,766,248
With Donor Restrictions			
Time or Purpose Restricted	-	1,138,671	1,138,671
Restricted into Perpetuity	-	1,393,787	1,393,787
Total Net Assets With Donor Restrictions	-	2,532,458	2,532,458
Total Net Assets	3,766,248	2,532,458	6,298,706
Total Liabilities and Net Assets	$ 9,076,947	$ 2,532,501	$ 11,609,448

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	411,222	309,053	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	6,262,859	601,000	6,863,859
Net Assets Released From Restrictions	226,150	(226,150)	-
Total Revenue, Support, Gains, and Reclassifications	6,489,009	374,850	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	(510,360)	374,850	(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	(510,360)	387,216	(123,144)
Net Assets, Beginning of Year	3,766,248	2,532,458	6,298,706
Adoption of ASU 2016-13	(72,169)	(64,570)	(136,739)
Net Assets, End of Year	$ 3,183,719	$ 2,855,104	$ 6,038,823

See accompanying notes.

ART ACADEMY OF CINCINNATI
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED MAY 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Tuition and Fees Income	$ 9,138,175	$ -	$ 9,138,175
Student Aid	(4,160,406)	-	(4,160,406)
Net Tuition and Fees Income	4,977,769	-	4,977,769
Grants, Contributions and Gifts	229,008	308,503	537,511
Student Room and Board	783,473	-	783,473
Community Education	157,367	-	157,367
Employee Retention Tax Credit Revenue	1,186,481	-	1,186,481
Net Investment Return	(5,812)	1,878	(3,934)
Other Income	105,937	-	105,937
Total Revenue, Support, and Gains	7,434,223	310,381	7,744,604
Net Assets Released From Restrictions	220,730	(220,730)	-
Total Revenue, Support, Gains, and Reclassifications	7,654,953	89,651	7,744,604
Expenses			
Program Services	4,719,234	-	4,719,234
Management and General	2,576,098	-	2,576,098
Fundraising	185,367	-	185,367
Total Expenses	7,480,699	-	7,480,699
Excess of Revenue, Support, Gains, and Reclassifications Over Expenses	174,254	89,651	263,905
Change in Beneficial Interest in Perpetual Trust	-	(15,432)	(15,432)
Change in Beneficial Interest in Charitable Remainder Trusts	-	(5,339)	(5,339)
Change in Net Assets	174,254	68,880	243,134
Net Assets, Beginning of Year	3,591,994	2,463,578	6,055,572
Net Assets, End of Year	$ 3,766,248	$ 2,532,458	$ 6,298,706

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENTS OF FUNCTIONAL EXPENSES

	Years Ended May 31,							
	2024				2023			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,227,384	$ 1,177,764	$ 40,220	$ 3,445,368	$ 2,319,147	$ 1,257,051	$ 47,158	$ 3,623,356
Payroll Taxes	141,778	117,883	3,062	262,723	148,824	120,150	3,630	272,604
Retirement Plan	10,254	8,102	-	18,356	4,140	1,942	-	6,082
Employee Benefits	310,326	119,786	4,419	434,531	298,855	120,987	2,898	422,740
Rent	656,265	-	-	656,265	681,545	-	-	681,545
Telephone	-	30,539	-	30,539	-	28,208	-	28,208
Utilities	331,195	-	-	331,195	267,536	-	-	267,536
Security	108,500	-	-	108,500	95,951	-	-	95,951
Insurance	-	51,941	-	51,941	-	51,909	-	51,909
Bank Charges	418	34,182	773	35,373	1,340	35,070	293	36,703
Supplies	92,074	32,525	-	124,599	78,020	61,345	1,102	140,467
Purchased Services	87,039	133,197	46,270	266,506	69,430	397,151	80,145	546,726
Model Fees	1,950	-	-	1,950	4,258	-	-	4,258
Lecturer's Honorarium	18,345	-	-	18,345	31,145	-	-	31,145
Hospitality	29,133	4,481	4,764	38,378	43,497	15,658	7,425	66,580
Memberships and Fees	23,363	32,770	150	56,283	20,435	35,365	650	56,450
Books, Videos, and Subscriptions	41,447	10,873	344	52,664	20,318	13,219	-	33,537
Email and Internet	-	12,455	-	12,455	-	9,103	-	9,103
Postage and Mail Service	13,561	573	244	14,378	14,746	766	847	16,359
Travel	81,101	2,920	-	84,021	75,241	13,055	13,545	101,841
Personnel and Instructional Development	35,547	6,165	-	41,712	36,317	15,509	-	51,826
Promotion	41,422	47,107	1,900	90,429	113,471	50,211	15,314	178,996
Design and Photography	3,108	-	-	3,108	3,000	-	-	3,000
Printing	74,938	24,705	-	99,643	72,493	19,597	6,323	98,413
Equipment Maintenance and Rental	103,256	160,393	-	263,649	107,084	183,354	5,000	295,438
Student Exhibition	13,134	-	-	13,134	850	-	-	850
Equipment Purchases	-	-	-	-	-	2,730	-	2,730
Scholarships	4,059,111	-	-	4,059,111	4,160,406	-	-	4,160,406
Depreciation	196,484	1,995	997	199,476	176,042	1,787	894	178,723
Interest Expense	76,125	773	386	77,284	28,132	286	143	28,561
Other Expenses	6,771	40,883	-	47,654	7,417	61,503	-	68,920
Credit Loss Expense	-	118,910	-	118,910	-	80,142	-	80,142
Total Expenses by Function	8,784,029	2,170,922	103,529	11,058,480	8,879,640	2,576,098	185,367	11,641,105
Less Expenses Included with Revenue on the Consolidated Statements of Activities Student Aid	4,059,111	-	-	4,059,111	4,160,406	-	-	4,160,406
Total Expenses Included in the Expense Section on the Consolidated Statements of Activities	$ 4,724,918	$ 2,170,922	$ 103,529	$ 6,999,369	$ 4,719,234	$ 2,576,098	$ 185,367	$ 7,480,699

See accompanying notes.

ART ACADEMY OF CINCINNATI
STATEMENTS OF CASH FLOWS

	Years Ended May 31,	
	2024	**2023**
Cash Flows From Operating Activities		
Change in Net Assets	$ (123,144)	$ 243,134
Reconciliation of Change in Net Assets		
with Cash Flows from Operations		
Depreciation	199,476	178,723
Amortization on Right of Use Asset - Financing	27,239	-
Interest Accrued on Financing Lease	3,913	-
Net Investment Return	(285,039)	3,934
Adoption of ASU 2016-13	(136,739)	-
Change in Beneficial Interest in Perpetual Trust	(13,036)	15,432
Change in Beneficial Interest in Charitable Remainder Trusts	670	5,339
Changes in		
Accounts Receivable, Less Allowance for Credit Losses	240,826	(199,496)
Pledges Receivable	(40,000)	-
Grants Receivable	(13,824)	75,000
Employee Retention Tax Credit Receivable	-	(1,186,481)
Art Inventory	(79,350)	-
Prepaid Expenses	(12,823)	7,090
Right of Use Asset - Operating Leases	544,179	506,984
Accounts Payable	10,155	(30,894)
Bank Overdraft	(26,822)	26,822
Accrued Expenses	(2,551)	(32,383)
Deferred Revenue	34,467	(857)
Operating Lease Liabilities	(507,063)	(458,549)
Net Cash Used by Operating Activities	(179,466)	(846,202)
Cash Flows From Investing Activities		
Acquisition of Property and Equipment	-	(38,583)
Proceeds From Sale of Investments	722,065	916,156
Purchase of Investments	(638,253)	(915,462)
Deposits	7,075	(10,000)
Net Cash Provided (Used) by Investing Activities	90,887	(47,889)
Cash Flows From Financing Activities		
Net Change in Line of Credit	193,000	600,000
Payments on Financing Lease Liability	(43,864)	-
Payments on Notes Payable	(69,890)	(11,756)
Net Cash Provided by Financing Activities	79,246	588,244
Net Change in Cash and Cash Equivalents	(9,333)	(305,847)
Cash and Cash Equivalents, Beginning of the Year	155,907	461,754
Cash and Cash Equivalents, End of the Year	$ 146,574	$ 155,907

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

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

Art Academy Housing, Inc. 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). In May 2023, the Board of Art Academy of Housing, Inc. voted to dissolve the organization and transfer the assets to the Art Academy of Cincinnati.

The consolidated financial statements for the year ended May 31, 2023 include the Art Academy of Cincinnati and Art Academy Housing, Inc. Art Academy Housing, Inc. was related to the Art Academy of Cincinnati because the Art Academy of Cincinnati had assumed the financial and day-to-day operational management functions for Art Academy Housing, Inc. Under accounting principles generally accepted in the United States of America (U.S. GAAP), the Art Academy of Cincinnati was required to present consolidated financial statements reflecting the financial position and changes in net assets of both entities. For the year ended May 31, 2024, the financial statements are no longer consolidated.

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

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

Use of Estimates

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Certain estimates relate to unsettled transactions and events as of the date of the 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 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. 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 previously written off are recorded when received. The Company does not change interest on its past due receivables.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Liabilities

Contract liabilities are reported as deferred revenue in the accompanying statements of financial position.

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, 2024 and 2023 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, 2024 and 2023.

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, 2024 or 2023.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Charitable Trusts Held by Others

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

Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

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

As of May 31, 2024, there is no amount recorded for these beneficial interests, as they no longer hold a value.

Beneficial Interests in Perpetual Trust

The Academy is named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. Perpetual trusts provide for the distribution of the net income of the trusts to the Academy; however, the Academy will never receive the assets of the trusts. At the date of notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the 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.

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 consolidated 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, 2024 and 2023, conditional contributions totaled $-0-, for which no amounts have been received in advance, have not been recognized in the accompanying consolidated 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 consolidated statements of activities. As of May 31, 2024 and 2023, the Academy has a $1,186,481 employee retention credit receivable balance from the United States government related to the CARES Act, which is record on the statements of financial position.

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, 2024 and 2023, sales of art totaled $-0-. During both the years ended May 31, 2024 and 2023, there were no items in the Academy's collections that were damaged or destroyed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Academy expenses advertising costs as they are incurred.

Retirement Plan

The Academy has a defined contribution plan (the Plan) for all employees. Under the Plan, eligible employees may contribute a percentage of their salaries with a matching contribution by the Academy of up to four percent of compensation. Matching contributions were suspended as of July 31, 2009. During fiscal year 2023, the Academy amended the plan to include 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 2024 or 2023. 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 and Art Academy Housing, Inc. are nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to the Internal Revenue Code.

The Academy has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Academy recognized no interest or penalties in the statements of activities for either of the years ended May 31, 2024 or 2023. 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, 2024 or 2023.

Adoption of New Accounting Standard

Effective June 1, 2023, the Academy adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and associated amendments. This standard creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables, and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) 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 adoption of the new standard resulted in a cumulative effect adjustment to beginning net assets of $136,739.

NOTE 2 - LIQUIDITY

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

	May 31, 2024	May 31, 2023
Cash and Cash Equivalents	$ 15,230	$ 4,673
Accounts Receivable, Net	152,060	328,316
Pledges Receivable	20,000	-
Employee Retention Tax Credit Receivable	1,186,481	1,186,481
Due (To) From Funds	(402,416)	(330,321)
Operating Investments	56,558	49,150
Total Financial Assets	$ 1,027,913	$ 1,238,299

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 $377,338 and $465,205 at May 31, 2024 and 2023, 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, 2024 and 2023, the Academy shows $402,416 and $330,321, 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, 2024	Years Ended May 31, 2023
Interest	$ 78,904	$ 30,310
Interest on Financing Lease	$ 3,913	$ -

NOTE 3 - CASH AND CASH FLOWS (Continued)

The Company had noncash operating and financing transactions as follows:

	Years Ended May 31, 2024	2023
Right of Use Assets Obtained Through Operating Lease Liabilities	$ -	$ 4,602,423
Right of Use Asset Obtained Through Financing Lease Liability	$ 163,431	$ -
Works of Art Assets Transferred from Inventory to Property and Equipment	$ 49,980	$ -

NOTE 4 - ALLOWANCE FOR CREDIT LOSSES

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

	Year Ended May 31, 2024
Balance at Beginning of Year	$ 812,487
Current Period Provision for Expected Credit Losses	162,467
Writeoffs Charged Against the Allowance	(101,437)
Balance at End of Year	$ 873,517

NOTE 5 - INVESTMENTS

Investments consisted of the follows:

	May 31, 2024		2023	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	$ 51,991	$ 51,991	$ 96,728	$ 96,728
Mutual Funds and Exchange-Traded Funds	2,169,784	2,465,464	2,210,426	2,219,500
	$ 2,221,775	$ 2,517,455	$ 2,307,154	$ 2,316,228

With the Board of Trustees' approval, the Academy is permitted to receive a monthly cash distribution from the investments. The spending rate is based on the market value of the investments over a four quarter rolling average. For the year ended May 31, 2024, there was a distribution of $136,000 from an investment account. For the year ended May 31, 2023, there were no cash distributions from the investment accounts.

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, 2024 and 2023.

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

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

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

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

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 assets and liabilities were measured at fair value as of May 31, 2024:

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	$ 51,991	$ -	$ -	$ 51,991
Mutual Funds and Exchange-Traded Funds	2,465,464	-	-	2,465,464
Beneficial Interests in Perpetual Trusts	196,826	-	-	196,826
Total Assets at Fair Value	$ 2,714,281	$ -	$ -	$ 2,714,281

The following assets and liabilities were measured at fair value as of May 31, 2023:

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	$ 96,728	$ -	$ -	$ 96,728
Mutual Funds and Exchange-Traded Funds	2,219,500	-	-	2,219,500
Beneficial Interests in Perpetual Trusts	183,790	-	-	183,790
Beneficial Interests in Charitable Remainder Trusts	713	-	(43)	670
Total Assets at Fair Value	$ 2,500,731	$ -	$ (43)	$ 2,500,688

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

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

	Beneficial Interest in Trusts
May 31, 2022	$ (384)
Change in Value	341
May 31, 2023	(43)
Change in Value	43
May 31, 2024	$ -

Risks and Uncertainties

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

NOTE 7 - PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Depreciation	Net Book Value
	May 31, 2024		
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	377,513	279,733	97,780
	$ 4,676,646	$ 1,653,015	$ 3,023,631
	May 31, 2023		
Land	$ 89,170	$ -	$ 89,170
Buildings and Improvements	4,159,983	1,241,275	2,918,708
Office Furniture and Equipment	1,484,459	1,319,210	165,249
	$ 5,733,612	$ 2,560,485	$ 3,173,127

NOTE 8 - CONTRACT BALANCES

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

	May 31, 2024	May 31, 2023
Accounts Receivable, Net		
Beginning of Year	$ 392,886	$ 193,390
End of Year	$ 152,060	$ 392,886
Grants Receivable		
Beginning of Year	$ -	$ 75,000
End of Year	$ 13,824	$ -
Deferred Revenue		
Beginning of Year	$ 58,463	$ 59,320
End of Year	$ 92,930	$ 58,463

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.

NOTE 9 - ENDOWMENTS (Continued)

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, 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. At May 31, 2023, funds with original gift values of $1,209,997, fair values of $1,704,959, and deficiencies of $4,953 were reported in net assets with donor restrictions.

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

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

	Without Donor Restriction	With Donor Restrictions	Total
Board-Designated Endowment Funds	$ 377,338	$ -	$ 377,338
Donor Restricted Endowment Funds	-	1,972,264	1,972,264
Endowment Net Asset Composition by Type of Fund	$ 377,338	$ 1,972,264	$ 2,349,602

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	$ 465,205	$ 1,704,959	$ 2,170,164
Withdrawals	(136,000)	-	(136,000)
Investment Return, Net	48,133	267,305	315,438
Endowment Net Assets, End of Year	$ 377,338	$ 1,972,264	$ 2,349,602

NOTE 9 - ENDOWMENTS (Continued)

Endowment net asset composition by type of fund as of May 31, 2023 is as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Board-Designated Endowment Funds	$ 465,205	$ -	$ 465,205
Donor Restricted Endowment Funds	-	1,704,959	1,704,959
Endowment Net Asset Composition by Type of Fund	$ 465,205	$ 1,704,959	$ 2,170,164

Changes in endowment net assets for the year ended May 31, 2023 are as follows:

	Without Donor Restriction	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 461,579	$ 1,712,362	$ 2,173,941
Investment Return, Net	3,626	(7,403)	(3,777)
Endowment Net Assets, End of Year	$ 465,205	$ 1,704,959	$ 2,170,164

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, 2024	May 31, 2023
Wilmer D. Glenn Trust	100%	$ 196,826	$ 183,790

NOTE 11 - LINE OF CREDIT

The Academy has a secured revolving line of credit agreement with a bank for $1,000,000. The line of credit charges interest at Bloomberg short term bank yield index rate (5.42% at May 31, 2024) plus 3.00%. The line matures in October 2024. It is collateralized by the Academy’s building.

NOTE 12 - NOTES PAYABLE

	May 31, 2024	May 31, 2023
Bank		
The Academy had a note payable to a bank. The note charged interest at 3.99% with final payment due in February 2024. The note was due in monthly principal and interest payments of $1,623, and was collateralized by a parcel of land.	$ -	$ 66,441
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 December 2052	152,414	155,863
	152,414	222,304
Less Current Portion	3,545	69,890
Long-Term Portion	$ 148,869	$ 152,414

The remaining maturities on these notes are as follows:

Years Ending May 31,	
2025	$ 3,545
2026	3,644
2027	3,745
2028	3,850
2029	3,957
Thereafter	133,673
	$ 152,414

NOTE 13 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

	May 31, 2024	May 31, 2023
Endowment - Operational Needs	$ 377,338	$ 465,205

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	May 31, 2024	May 31, 2023
Subject to Expenditure for Specified Purpose		
Impact Programs	$ 19,284	$ 19,479
Various Grants and Programs	136,719	156,359
Alumni Council Scholarships	110,995	96,914
Scholarships	939,740	619,685
Capital Improvements	25,125	16,835
Student Emergency Funds	-	697
Community Education Awards	216,564	133,717
Schell Loan Program	(146)	94,314
	1,448,281	1,138,000
Subject to the Passage of Time		
Beneficial Interests in Charitable Remainder Trusts	-	671
Not Subject to Spending Policy or Appropriation		
Beneficial Interest in Perpetual Trust	196,826	183,790
Endowment - Scholarships	493,762	493,762
Endowment - Operational Needs	716,235	716,235
	1,406,823	1,393,787
Total Net Assets with Donor Restrictions	$ 2,855,104	$ 2,532,458

NOTE 15 - REVENUE FROM CONTRACTS

Revenue from contracts with customers is recognized as follows:

	Years Ended May 31, 2024	Years Ended May 31, 2023
Recognition		
At a Point in Time	$ 145,514	$ 164,847
Over a Period of Time	5,503,218	5,761,242
Total Revenue	$ 5,648,732	$ 5,926,089

NOTE 16 - LEASES

The Academy has signed four operating leases for which a right of use assets was recorded on the statements of financial position of the Academy. As of May 31, 2024 and 2023, 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, 2024 and 2023. 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.

NOTE 16 - LEASES (Continued)

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, 2024	Years Ended May 31, 2023
Lease Expense		
Finance Lease Expense		
Amortization of ROU Assets	$ 27,238	$ -
Interest on Lease Liabilities	3,913	-
Operating Lease Expense	700,460	677,091
Short-term Lease Expense	11,566	42,713
Total	$ 743,177	$ 719,804

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

	2024	2023
Other Information		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Financing Cash Flows from Finance Leases (i.e. Principal Portion)	$ 43,864	$ -
Operating Cash Flows from Operating Leases	$ 663,344	$ 618,093
ROU Assets Obtained in Exchange for New Finance Lease Liabilities	$ 163,431	$ -
ROU Assets Obtained in Exchange for New Operating Lease Liabilities	$ -	$ 4,591,859
Weighted-Average Remaining Lease Term in Years for Finance Leases	3.33	-
Weighted-Average Remaining Lease Term in Years for Operating Leases	5.84	6.82
Weighted-Average Discount Rate for Finance Leases	4.84%	0.00%
Weighted-Average Discount Rate for Operating Leases	4.04%	4.06%

NOTE 16 - LEASES (Continued)

The maturities of operating lease liabilities are as follows:

Years Ending May 31,		Financing		Operating
2025	$	43,864	$	682,918
2026		43,864		693,086
2027		43,864		704,468
2028		-		705,997
2029		-		609,401
Thereafter		-		682,602
Total Undiscounted Cash Flows		131,592		4,078,472
Less Present Value Discount		(8,112)		(441,661)
Total Lease Liabilities	$	123,480	$	3,636,811

NOTE 17 - 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, 2024 and 2023.

NOTE 18 - RETIREMENT PLAN EXPENSE

During the years ended May 31, 2024 and 2023, the Academy incurred expenses related to the Academy sponsored retirement plan in the amounts of $18,356 and $6,082, respectively.

NOTE 19 - ADVERTISING EXPENSE

The Academy incurred advertising expense of $70,691 and $119,332 for 2024 and 2023, respectively.

NOTE 20 - ECONOMIC DEPENDENCY AND UNCERTAINTY

The Academy is economically dependent on the Federal Title IV Financial Aid Program, provided by the Department of Education. For the years ended May 31, 2024 and 2023, 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 21 - FINANCIAL RESPONSIBILITY

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

Property, Plant, and Equipment, Net

3. Pre-implementation property, plant, and equipment, net		
a. Ending balance of last financial statements submitted to and accepted by the Department of Education (May 31, 2019, financial statement)	$	3,066,874
b. Reclassify capital lease assets previously included in PPE, net prior to the implementation of ASU 2016-02 leases standard		-
c. **Less** subsequent depreciation and disposals (net of accumulated depreciation)		(856,832)
d. Balance pre-implementation property, plant, and equipment, net		2,210,042
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		-
5. Construction in progress - acquired subsequent to May 31, 2019		-
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		813,589
7. Total Property, Plant, and Equipment, net - May 31, 2024	$	3,023,631

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		-
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		-
10. Construction in progress (CIP) financed with debt or line of credit		-
11. Long-term debt not for the purchase of property, plant, and equipment or liability greater than assets value		152,414
	$	152,414

NOTE 22 - SUBSEQUENT EVENTS

The Academy has evaluated subsequent events October 16, 2024, which is the date the financial statements were available to be issued.

On August 2, 2024, the Academy secured a new revolving line of credit agreement with a bank for $2,000,000. The line of credit charges interest at the prime rate. The line of credit has no specified maturity date but is due on demand from the bank. It is secured by the Academy’s building.

SUPPLEMENTARY INFORMATION

ART ACADEMY OF CINCINNATI
FINANCIAL STATEMENT SUMMARY
FISCAL YEAR ENDED MAY 31, 2024

Lines	Statement of Financial Position	
1	Cash	146,574
2	Accounts Receivable, Net	152,060
3	Pledges Receivable - Current	20,000
4	Grants Receivable	13,824
5	Employee Retention Tax Credit Receivable	1,186,481
6	Investments	167,853
7	Prepaid Expenses and Other	26,120
8	Property and Equipment, Net	3,023,631
9	Endowment Investments	2,349,602
10	Pledges Receivable - Long-Term	20,000
11	Art Inventory	79,350
12	Beneficial Interest in Perpetual Trust	196,826
13	Right of Use Asset - Operating	3,551,260
14	Right of Use Asset - Financing	136,192
15	Deposits	34,525
16	**Total Assets**	**11,104,298**
17	Accounts Payable	70,362
18	Accrued Expenses	196,478
19	Deferred Revenue	92,930
20	Operating Lease Liabilities - Current Portion	548,357
21	Financing Lease Liabilities - Current Portion	39,189
22	Notes Payable - Current	3,545
23	Line of Credit	793,000
24	Operating Lease Liabilities - Long Term	3,088,454
25	Financing Lease Liabilities - Long Term	84,291
26	Notes Payable - Long Term	148,869
27	**Total Liabilities**	**5,065,475**
28	Net Assets Without Donor Restrictions	3,183,719
	Net Assets With Donor Restrictions	
29	Time or Purpose Restricted	1,448,281
30	Restricted into Perpetuity	1,406,823
31	Total Net Assets With Donor Restrictions	2,855,104
32	**Total Net Assets**	**6,038,823**
33	**Total Liabilities and Net Assets**	**11,104,298**

Lines	Statement of Activities			
	Columns on Statement of Activities	**A**	**B**	**C**
		Without Donor Restrictions	**With Donor Restrictions**	**Total**
34	Tuition and Fees Income	8,926,461	-	8,926,461
35	Student Aid	(4,059,111)	-	(4,059,111)
36	Net Student Tuition and Fees	4,867,350	-	4,867,350
37	Grants, Contributions and Gifts	411,222	309,053	720,275
38	Student Room and Board	635,868	-	635,868
39	Community Education	139,422	-	139,422
40	Net Investment Return	46,036	291,947	337,983
41	Other Income	162,961	-	162,961
42	Net Assets Released from Restrictions	226,150	(226,150)	-
43	**Total Revenue, Support, Gains, and Reclassifications**	**6,489,009**	**374,850**	**6,863,859**
	Expenses:			
44	Program Services	4,724,918	-	4,724,918
45	Management and General	2,170,922	-	2,170,922
46	Fundraising	103,529	-	103,529
47	**Total Expenses**	**6,999,369**	**-**	**6,999,369**
48	**(Deficit) Excess of Revenue, Support, Gains and Gains, and Reclassifications over Expenses**	**(510,360)**	**374,850**	**(135,510)**
49	Change in Beneficial Interest in Perpetual Trust	-	13,036	13,036
50	Change in Beneficial Interest in Charitable Remainder Trusts	-	(670)	(670)
51	**Change in Net Assets**	**(510,360)**	**387,216**	**(123,144)**
52	**Net Assets, Beginning of Year**	**3,766,248**	**2,532,458**	**6,298,706**
	Adoption of ASU 2016-13 Standard	**(72,169)**	**(64,570)**	**(136,739)**
53	**Net Assets, End of Year**	**3,183,719**	**2,855,104**	**6,038,823**

ART ACADEMY OF CINCINNATI
FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE
FISCAL YEAR ENDED MAY 31, 2024

Line		ADD / SUBTRACT
		PRIMARY RESERVE RATIO
28	3,183,719	Net assets without donor restrictions
31	2,855,104	Net assets with donor restrictions
30	(1,406,823)	Net assets restricted in perpetuity
	-	Donor restricted annuities, term endowments, life income funds
8	(3,023,631)	Property, plant, and equipment/Right-of-use of asset (pre- and post-implementation)
	-	Right of Use Assets - Operating (pre-implementation)
13	(3,551,260)	Right of Use Assets - Operating (post-implementation)
	-	Right of Use Assets - Financing (pre-implementation)
14	(136,192)	Right of Use Assets - Financing (post-implementation)
	-	Intangible assets
	-	Post-employment and pension liability
22 and 26	152,414	Debt for long-term purposes and lease obligations (pre- and post-implementation)
	-	Operating Lease Liabilities (pre-implementation)
20 and 24	3,636,811	Operating Lease Liabilities (post-implementation)
	-	Financing Lease Liabilities (pre-implementation)
21 and 25	123,480	Financing Lease Liabilities (post-implementation)
	-	Secured and Unsecured related-party receivable
	1,833,622	**Expendable Net Assets**
47	6,999,369	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)
	6,999,369	**Total Expenses/Losses**
	0.2620	**Primary Reserve Ratio**
		EQUITY RATIO
28	3,183,719	Net assets without donor restrictions
31	2,855,104	Net assets with donor restrictions
	-	Intangible assets
	-	Unsecured related-party receivable
	6,038,823	**Modified Net Assets**
16	11,104,298	Total assets
	-	Lease right-of-use asset pre-implementation
	-	Intangible assets
	-	Unsecured related-party receivable
	11,104,298	**Modified Assets**
	0.5438	**Equity Ratio**
		NET INCOME RATIO
51A	(510,360)	Change in net assets without donor restrictions
43A	6,489,009	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
	6,489,009	**Total Revenues/Gains**
	-0.0786	**Net Income Ratio**

COMPOSITE SCORE CALCULATION

Step 2 Calculate the strength factor score for each ratio by using the following algorithms:

Primary Reserve strength factor score = 10 x the primary reserve ratio result
Equity strength factor score = 6 x the equity ratio result
Negative net income ratio result: Net Income strength factor = 1 + (25 x net income ratio result)
Positive net income ratio result: Net income strength factor = 1 + (50 x net income ratio result)
Zero result for net income ratio: Net income strength factor = 1

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

Step 3 Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores.

Primary Reserve weighted score = 40% x the primary reserve strength factor score
Equity weighted score = 40% x the equity strength factor score
Net Income weighted score = 20% x the net income strength factor score
Composite Score = the sum of all weighted scores

RATIO	Ratio	Strength	Weight	Composite Scores
Primary Reserve Ratio	0.2620	2.6200	40%	1.0480
Equity Ratio	0.5438	3.0000	40%	1.2000
Net Income Ratio	-0.0786	-0.9650	20%	(0.1930)
				2.0550

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

TOTAL Composite Score - Rounded	2.1	*Pass*

ART ACADEMY OF CINCINNATI
FINANCIAL RESPONSIBILITY CALCULATIONS SUPPLEMENTAL COMPONENT
FISCAL YEAR ENDED MAY 31, 2024

Primary Reserve Ratio:			
	Expendable Net Assets:		
Statement of Financial Position (SFP)	Net assets without donor restrictions	$	3,183,719
SFP	Net assets with donor restrictions	$	1,448,281
SFP	Net assets restricted in perpetuity	$	1,406,823
Note 20, Line 3d	Property, plant, and equipment pre-implementation	$	2,210,042
Note 20, Line 8d	Long-term debt - for long-term purposes pre-implementation	$	-
	Pre-implementation right-of-use asset liability	$	-
Financial Statement Summary,			
Lines 20 and 24	Post-implementation right-of-use asset opearting liability	$	3,636,811
Lines 21 and 25	Post-implementation right-of-use asset financing liability	$	123,480
	Total Expenses and Losses:		
Statement of Activities (SOA)	Total expenses (operating and nonoperating) without donor restrictions	$	6,999,369
Equity Ratio:			
	Modified Net Assets:		
SFP	Net assets without donor restrictions	$	3,183,719
SFP	Net assets with donor restrictions	$	2,855,104
	Modified Assets:		
SFP	Total assets	$	11,104,298
	Lease right-of-use asset pre-implementation	$	-
Net Income Ratio:			
SOA	**Change in Net Assets Without Donor Restrictions**	$	(510,360)
	Total Revenues and Gains Without Donor Restriction:		
SOA	Total operating revenue (including net assets released from restrictions)	$	6,489,009