Art Academy of Cincinnati and Affiliate

May 31, 2023

Consolidated Financial Statements and Independent Auditors' Report
Including Supplementary Information

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ART ACADEMY OF CINCINNATI AND AFFILIATE
TABLE OF CONTENTS

PAGE

VonLehman
CPA & ADVISORY FIRM

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Art Academy of Cincinnati and Affiliate
Cincinnati, Ohio

Opinion

We have audited the accompanying consolidated financial statements of Art Academy of Cincinnati and Affiliate (a nonprofit organization), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Art Academy of Cincinnati and Affiliate as of May 31, 2023 and 2022, 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Art Academy of Cincinnati and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

As described in the notes to the consolidated financial statements, during fiscal year 2023, Art Academy of Cincinnati and Affiliate adopted FASB ASC 842, *Leases*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Art Academy of Cincinnati and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Art Academy of Cincinnati and Affiliate's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

VonLehman & Company Inc.

Fort Wright, Kentucky
October 12, 2023

ART ACADEMY OF CINCINNATI AND AFFILIATE
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, Net	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
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 Assets - Operating	4,095,439	-	4,095,439
Deposits	41,600	-	41,600
Total Assets	$ 9,076,947	$ 2,532,501	$ 11,609,448

See accompanying notes.

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

ASSETS

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

See accompanying notes.

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

LIABILITIES AND NET ASSETS

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

See accompanying notes.

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

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

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

	Years Ended May 31,							
	2023				2022			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	$ 2,319,147	$ 1,257,051	$ 47,158	$ 3,623,356	$ 2,016,821	$ 1,011,388	$ 17,387	$ 3,045,596
Payroll Taxes	148,824	120,150	3,630	272,604	131,161	78,472	1,316	210,949
Retirement Plan	4,140	1,942	-	6,082	-	-	-	-
Employee Benefits	298,855	120,987	2,898	422,740	205,815	71,562	-	277,377
Rent	681,545	-	-	681,545	526,156	-	-	526,156
Telephone	-	28,208	-	28,208	-	35,137	-	35,137
Utilities	267,536	-	-	267,536	250,459	-	-	250,459
Security	95,951	-	-	95,951	97,908	-	-	97,908
Insurance	-	51,909	-	51,909	-	41,276	-	41,276
Bank Charges	1,340	35,070	293	36,703	605	35,831	-	36,436
Supplies	78,020	61,345	1,102	140,467	53,390	108,538	16,086	178,014
Purchased Services	69,430	397,151	80,145	546,726	128,752	531,724	20,358	680,834
Model Fees	4,258	-	-	4,258	3,433	-	-	3,433
Lecturer's Honorarium	31,145	-	-	31,145	18,607	-	-	18,607
Hospitality	43,497	15,658	7,425	66,580	32,152	18,226	13,591	63,969
Memberships and Fees	20,435	35,365	650	56,450	33,187	32,492	172	65,851
Books, Videos, and Subscriptions	20,318	13,219	-	33,537	96,398	13,711	280	110,389
Email and Internet	-	9,103	-	9,103	-	2,981	-	2,981
Postage and Mail Service	14,746	766	847	16,359	25,982	2,129	2,947	31,058
Travel	75,241	13,055	13,545	101,841	25,200	12,576	12,320	50,096
Personnel and Instructional Development	36,317	15,509	-	51,826	22,432	4,806	-	27,238
Promotion	113,471	50,211	15,314	178,996	64,617	29,620	20,968	115,205
Design and Photography	3,000	-	-	3,000	2,400	-	1,175	3,575
Printing	72,493	19,597	6,323	98,413	125,737	8,265	5,366	139,368
Equipment Maintenance and Rental	107,084	183,354	5,000	295,438	60,206	136,146	2,008	198,360
Plant Maintenance	-	-	-	-	-	2,924	-	2,924
Student Exhibition	850	-	-	850	7,240	-	-	7,240
Equipment Purchases	-	2,730	-	2,730	-	545	-	545
Scholarships	4,160,406	-	-	4,160,406	3,860,975	-	-	3,860,975
Depreciation	176,042	1,787	894	178,723	169,025	1,716	858	171,599
Interest Expense	28,132	286	143	28,561	11,170	113	57	11,340
Other Expenses	7,417	61,503	-	68,920	1,929	19,048	-	20,977
Bad Debt Expense	-	80,142	-	80,142	-	217,446	-	217,446
Total Expenses by Function	8,879,640	2,576,098	185,367	11,641,105	7,971,757	2,416,672	114,889	10,503,318
Less Expenses Included with Revenue on the Consolidated Statements of Activities Student Aid	4,160,406	-	-	4,160,406	3,860,975	-	-	3,860,975
Total Expenses Included in the Expense Section on the Consolidated Statements of Activities	$ 4,719,234	$ 2,576,098	$ 185,367	$ 7,480,699	$ 4,110,782	$ 2,416,672	$ 114,889	$ 6,642,343

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended May 31, 2023	2022
Cash Flows From Operating Activities		
Change in Net Assets	$ 243,134	$ (791,845)
Reconciliation of Change in Net Assets with Cash Flows from Operations		
Depreciation	178,723	171,599
Net Investment Return on Investments	3,934	195,967
Change in Beneficial Interest in Perpetual Trust	15,432	20,418
Change in Beneficial Interest in Charitable Remainder Trusts	5,339	4,734
Changes in		
Accounts Receivable, Net	(199,496)	191,883
Grants Receivable	75,000	214,004
Employee Retention Tax Credit Receivable	(1,186,481)	-
Unconditional Promises to Give	-	74,751
Prepaid Expenses	7,090	(8,475)
Right of Use Assets - Operating Leases	506,984	-
Accounts Payable	(30,894)	(244,607)
Bank Overdraft	26,822	-
Accrued Expenses	(32,383)	131,493
Deferred Tuition Revenue	(857)	18,626
Operating Lease Liabilities	(458,549)	-
Net Cash Used by Operating Activities	(846,202)	(21,452)
Cash Flows From Investing Activities		
Acquisition of Property and Equipment	(38,583)	(143,259)
Proceeds From Sale of Investments	916,156	850,049
Purchase of Investments	(915,462)	(726,694)
Deposits	(10,000)	-
Net Cash Used by Investing Activities	(47,889)	(19,904)
Cash Flows From Financing Activities		
Net Change in Line of Credit	600,000	-
Payments on Note Payable	(11,756)	(15,698)
Net Cash Provided (Used) by Financing Activities	588,244	(15,698)
Net Change in Cash and Cash Equivalents	(305,847)	(57,054)
Cash and Cash Equivalents, Beginning of the Year	461,754	518,808
Cash and Cash Equivalents, End of the Year	$ 155,907	$ 461,754

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. is organized in the State of Ohio as a nonprofit corporation. Art Academy Housing, Inc. was formed during fiscal year 2006 to lease and operate student housing for the benefit of the Art Academy of Cincinnati. Art Academy Housing, Inc. is a wholly owned subsidiary of the Art Academy of Cincinnati (collectively referred to as the "Academy" hereafter). 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, Inc.

The consolidated financial statements include the Art Academy of Cincinnati and Art Academy Housing, Inc. Art Academy Housing, Inc. is related to the Art Academy of Cincinnati because the Art Academy of Cincinnati has assumed the financial and day-to-day operational management functions for Art Academy Housing, Inc. Under accounting principles generally accepted in the United States of America (U.S. GAAP), the Art Academy of Cincinnati is required to present consolidated financial statements reflecting the financial position and changes in net assets of both entities.

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

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

Use of Estimates

The process of preparing consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Certain estimates relate to unsettled transactions and events as of the date of the consolidated financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounts and Grants Receivable

Accounts and grants receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts and grants receivable are considered past due if any portion of an account has not been paid in full within the contractual terms of the account or anticipated due date. The Academy begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the Academy's collection history, the financial stability and recent payment history of the student, and other pertinent factors. Accounts and grants receivable are written off as uncollectable after the Academy has used reasonable collection efforts and deems them uncollectable. Based on these criteria, the Academy has estimated an allowance for doubtful accounts of $711,050 and $630,908 at May 31, 2023 and 2022, respectively.

Contract Liabilities

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments if purchased are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less any external and direct internal investment expenses. Cash equivalents, and other securities and investments held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to $500,000 of protection for each brokerage account with a limit of $250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

Property and Equipment

Property and equipment are stated at cost, or if donated, fair value at the date of donation, and depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line basis. Maintenance and repairs are charged to operations when incurred. Beginning June 1, 2022, betterments and renewals are capitalized for items in excess of $5,000. Previously, items in excess of $1,000 were capitalized.

The useful lives of buildings and equipment for purposes of computing depreciation range from three to forty years.

Art Inventory

The Academy's art inventory is made up of art objects that have been acquired through donations. The art inventory is recorded at 60% of the appraised value. Each of the items is catalogued, preserved and cared for as would be appropriate for each of the items within the art inventory. All items within the art inventory that may have been subject to a minimum holding period covenant from the original donor are no longer subject to those covenants, having surpassed the holding periods specified in each of those covenants. Therefore, all items within the art inventory are free of restrictions that would prevent the sale or liquidation of portions of the inventory or the entire inventory. Sales of art inventory totaled $-0- during both years ended May 31, 2023 and 2022.

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, 2023 or 2022.

Beneficial Interests in Charitable Trusts Held by Others

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Perpetual Trust

The Academy is named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. Perpetual trusts provide for the distribution of the net income of the trusts to the Academy; however, the Academy will never receive the assets of the trusts. At the date of notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the consolidated statements of activities, and a beneficial interest in perpetual trust is recorded in the consolidated statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a Board designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates 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.

Revenue Recognition

Revenue From Contracts with Customers

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023 and 2022, 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 is a refundable tax credit against certain employment taxes of up to $5,000 per employee for eligible employers. The tax credit is 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 is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to $10,000 of qualified wages per quarter. The Academy has determined that they meet 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, 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 consolidated 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 consolidated statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from sales or insurance recoveries are reflected as increases in temporarily restricted net assets. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. During both the years ended May 31, 2023 and 2022, sales of art totaled $-0-. During both the years ended May 31, 2023 and 2022, there were no items in the Academy’s collections that were damaged or destroyed.

Advertising Costs

The Academy expenses advertising costs as they are incurred.

Retirement Plan

The Academy has a defined contribution plan (the Plan) for all employees. Under the Plan, eligible employees may contribute a percentage of their salaries with a matching contribution by the Academy of up to four percent of compensation. Matching contributions were suspended as of July 31, 2009. 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 2023 or 2022. By its nature, the Plan is fully funded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include interest expense and depreciation, which are allocated based on a predetermined allocation based on historical information. All other expenses are based on actual time and expenses.

Income Tax Status

The Art Academy of Cincinnati and Art Academy Housing, Inc. are nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to the Internal Revenue Code.

The Academy has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Academy recognized no interest or penalties in the consolidated statements of activities for either of the years ended May 31, 2023 or 2022. 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, 2023 or 2022.

Adoption of New Accounting Standard

Lease Accounting Standard

Effective June 1, 2022, the Academy adopted FASB ASC 842, *Leases.* The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the consolidated statements of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

The Academy elected to adopt FASB ASC 842, *Leases*, using the optional transition method that allows the Academy to initially apply the new lease standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. As a result, the Academy reporting for the comparative period presented in the consolidated financial statements is in accordance with FASB ASC 840.

The Academy elected to adopt the package of practical expedients available under the transition guidance with the new standard. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. The Academy also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the right of use assets.

The adoption of FASB ASC 842, *Leases*, resulted in the following impact at June 1, 2022:

Right of Use Assets - Operating Leases	$ 3,895,990
Operating Lease Liabilities	$ 3,895,990

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Academy has evaluated subsequent events through October 12, 2023 which is the date the consolidated financial statements were available to be issued.

NOTE 2 - LIQUIDITY

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

	May 31, 2023	May 31, 2022
Cash and Cash Equivalents	$ 4,673	$ 389,781
Accounts Receivable, Net	328,316	180,873
Employee Retention Tax Credit Receivable	1,186,481	-
Grants Receivable	-	75,000
Due (To) From Funds	(330,321)	(364,020)
Operating Investments	49,150	49,440
Total Financial Assets	$ 1,238,299	$ 331,074

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 $465,205 and $461,579 at May 31, 2023 and 2022, 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, 2023 and 2022, the Academy shows $330,321 and $364,020, respectively, used from the with donor restricted funding for purposes other than the restriction noted by the donor. This is shown as a reduction in financial assets above.

NOTE 3 - CASH AND CASH FLOWS

For the purposes of the consolidated cash flows statements, cash includes cash on hand and cash held in a checking account.

At various times throughout the year, the Academy may have cash in financial institutions in excess of insured limits. The Federal Deposit Insurance Corporation (FDIC) insures account balances up to $250,000 for each business depositor.

The Academy utilizes a separate bank account for receiving federal financial aid funding and monitors interest income relative to these funds in accordance with federal guidelines.

Cash paid for interest was $30,310 and $3,981 in 2023 and 2022, respectively.

NOTE 3 - CASH AND CASH FLOWS (Continued)

The Company had noncash financing transactions as follows:

	Years Ended May 31, 2023	Years Ended May 31, 2022
Right of Use Assets Obtained Through Operating Lease Liabilities	$ 4,602,423	$ -

NOTE 4 - INVESTMENTS

Investments consisted of the follows:

	May 31, 2023		May 31, 2022	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents	$ 96,728	$ 96,728	$ 92,348	$ 92,348
Mutual Funds and Exchange-Traded Funds	2,210,426	2,219,500	1,845,211	1,890,987
Common Stocks	-	-	271,812	337,521
	$ 2,307,154	$ 2,316,228	$ 2,209,371	$ 2,320,856

With the Board of Trustees' approval, the Academy is permitted to receive a monthly cash distribution from the investments. The spending rate is based on the market value of the investments over a four quarter rolling average. For years ended May 31, 2023 and 2022, the total cash distributions were $-0- and $126,000, respectively, from the investment accounts.

NOTE 5 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

LEVEL 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Academy has the ability to access.

LEVEL 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

LEVEL 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2023 and 2022.

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.

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 5 - FAIR VALUE MEASUREMENTS (Continued)

The following assets and liabilities were measured at fair value as of May 31, 2022:

Assets	Quoted Price In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	$ 92,348	$ -	$ -	$ 92,348
Mutual Funds and Exchange-Traded Funds	1,890,987	-	-	1,890,987
Common Stocks	337,521	-	-	337,521
Beneficial Interests in Perpetual Trusts	199,222	-	-	199,222
Beneficial Interests in Charitable Remainder Trusts	6,393	-	(384)	6,009
Total Assets at Fair Value	$ 2,526,471	$ -	$ (384)	$ 2,526,087

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

	Beneficial Interest in Trusts
May 31, 2021	$ (686)
Change in Value	302
May 31, 2022	(384)
Change in Value	341
May 31, 2023	$ (43)

Risks and Uncertainties

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

NOTE 6 - PROPERTY AND EQUIPMENT

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

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

NOTE 7 - CONTRACT BALANCES

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

	May 31, 2023	May 31, 2022
Accounts Receivable, Net		
Beginning of Year	$ 193,390	$ 385,273
End of Year	$ 392,886	$ 193,390
Grants Receivable		
Beginning of Year	$ 75,000	$ 289,004
End of Year	$ -	$ 75,000
Deferred Tuition Revenue		
Beginning of Year	$ 59,320	$ 40,694
End of Year	$ 58,463	$ 59,320

NOTE 8 - ENDOWMENTS

The Academy's endowment consists of several individual funds established for a variety of purposes. The endowment includes donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Academy has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Academy retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instruction at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund are classified as with donor restrictions net assets until those amounts are appropriated for expenditure by the Academy in a manner consistent with the standard of prudence prescribed by UPMIFA.

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, 2023, funds with original gift values of $1,209,997, fair values of $1,773,439, and deficiencies of $4,953 were reported in net assets with donor restrictions. At May 31, 2022, funds with original gift values of $1,209,997, fair values of $1,685,770, and deficiencies of $5,502 were reported in net assets with donor restrictions.

NOTE 8 - ENDOWMENTS (Continued)

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

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

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

Endowment net asset composition by type of fund as of May 31, 2022 is as follows:

Board-Designated Endowment Funds	$ 461,579	$ -	$ 461,579
Donor Restricted Endowment Funds	-	1,712,362	1,712,362
Endowment Net Asset Composition by Type of Fund	$ 461,579	$ 1,712,362	$ 2,173,941

NOTE 8 - ENDOWMENTS (Continued)

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

	Without Donor Restriction	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 618,110	$ 1,861,107	$ 2,479,217
Contributions	-	2,645	2,645
Investment Return, Net	(156,531)	(25,390)	(181,921)
Appropriation of Endowment Assets Pursuant to Spending Policy	-	(126,000)	(126,000)
Endowment Net Assets, End of Year	$ 461,579	$ 1,712,362	$ 2,173,941

NOTE 9 - 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, 2023	May 31, 2022
Wilmer D. Glenn Trust	100%	$ 183,790	$ 199,222

NOTE 10 - LINE OF CREDIT

The Academy has a secured revolving line of credit agreement with a bank for $1,300,000. The line of credit charges interest at Bloomberg short term bank yield index rate plus 3.00% (5.1059% at May 31, 2023). This line matured in March 2023. As of May 31, 2023 the Academy was still in negotiations with the bank regarding the renewal of the line, which was agreed upon subsequent to year end. The renewed line has a credit limit of $1,650,000 and expires in October 2023.

NOTE 11 - NOTES PAYABLE

		May 31, 2023		May 31, 2022
Bank The Academy has a note payable to a bank. The note charges interest at 3.99% with final payment due in February 2024. The note is due in monthly principal and interest payments of $1,623, and is collateralized by a parcel of land.	$	66,441	$	76,508
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		155,863		157,552
		222,304		234,060
Less Current Portion		69,890		23,208
Long-Term Portion	$	152,414	$	210,852

The remaining maturities on these notes are as follows:

Years Ending May 31,		
2024	$	69,890
2025		3,545
2026		3,644
2027		3,745
2028		3,850
Thereafter		137,630
	$	222,304

NOTE 12 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

		May 31, 2023		May 31, 2022
Endowment - Operational Needs	$	465,205	$	461,579

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	May 31, 2023	May 31, 2022
Subject to Expenditure for Specified Purpose		
Impact Programs	$ 19,479	$ 25,452
Various Grants and Programs	156,359	148,641
Alumni Council Scholarships	96,914	97,476
Scholarships	619,685	608,859
Capital Improvements	16,835	11,740
Student Emergency Funds	697	8,922
Community Education Awards	133,717	93,154
Schell Loan Program	94,314	54,106
	1,138,000	1,048,350
Subject to the Passage of Time		
Beneficial Interests in Charitable Remainder Trusts	671	6,009
Not Subject to Spending Policy or Appropriation		
Beneficial Interest in Perpetual Trust	183,790	199,222
Endowment - Scholarships	493,762	493,762
Endowment - Operational Needs	716,235	716,235
	1,393,787	1,409,219
Total Net Assets with Donor Restrictions	$ 2,532,458	$ 2,463,578

NOTE 14 - LEASES

The Academy has signed four operating leases for which right of use assets were recorded on the consolidated statements of financial position of the Academy. As of May 31, 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 consolidated statements of financial position as of May 31, 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.

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

	Year Ended May 31, 2023
Lease Expense	
Operating Lease Expense	$ 677,091
Short-term Lease Expense	42,713
Total	$ 719,804

NOTE 14 – LEASES (Continued)

The following summarizes the cash flow information, weighted average lease term, and discount rate related to operating and financing leases as of and for the year ended May 31, 2023:

		Year Ended May 31, 2023
Other Information		
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating Cash Flows from Operating Leases	$	618,093
ROU Assets Obtained in Exchange for New Operating Lease Liabilities	$	4,591,859
Weighted-Average Remaining Lease Term in Years for Operating Leases		6.82
Weighted-Average Discount Rate for Operating Leases		4.06%

The maturities of operating lease liabilities are as follows:

Years Ending May 31,		
2023	$	663,344
2024		682,918
2025		693,086
2026		704,468
2027		705,997
Thereafter		1,292,003
Total Undiscounted Cash Flows		4,741,816
Less Present Value Discount		(597,942)
Total Lease Liabilities	$	4,143,874

Leases Under ASC 840, *Leases*

The organization leased office space and equipment under operating leases. Total lease expense incurred in fiscal year 2022 was $551,202.

NOTE 15 - RELATED PARTIES

The Academy does business with companies who are either owned by or employ a Board of Trustees member. For the fiscal years ended May 31, 2023 and 2022, the Academy had transactions with related parties as follows:

	Years Ended May 31, 2023	Years Ended May 31, 2022
Legal Services	$ 7,931	$ 9,065

NOTE 16 - ADVERTISING EXPENSE

The Academy incurred advertising expense of $119,332 and $101,928 for 2023 and 2022, respectively.

NOTE 17 - ECONOMIC DEPENDENCY AND UNCERTAINTY

The Academy is economically dependent on the Federal Title IV Financial Aid Program, provided by the Department of Education. For the years ended May 31, 2023 and 2022, financial aid awards received accounted for approximately 34% and 41%, respectively, of tuition income. In the event the financial aid program ceases, the Academy's future as a going concern would be in jeopardy.

NOTE 18 - 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)	(657,356)
d. Balance pre-implementation property, plant, and equipment, net	2,409,518
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	763,609
7. Total Property, Plant, and Equipment, net - May 31, 2023	$ 3,173,127
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	(64,078)
d. Balance Pre-implementation Debt	66,441
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	155,863
	$ 222,304

SUPPLEMENTARY INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL STATEMENT SUMMARY
FISCAL YEAR ENDED MAY 31, 2023

Lines	Statement of Financial Position	
1	Cash	155,907
2	Accounts Receivable, Net	392,886
3	Employee Retention Tax Credit Receivable	1,186,481
4	Investments	146,064
5	Prepaid Expenses and Other	13,297
6	Secured and Unsecured Related Party Receivables	-
7	Property and Equipment, Net	3,173,127
8	Endowment Investments	2,170,164
9	Art Inventory	49,980
10	Beneficial Interest in Perpetual Trust	183,790
11	Beneficial Interest in Charitable Remainder Trusts	713
12	Right of Use Assets - Operating	4,095,439
13	Deposits	41,600
14	**Total Assets**	**11,609,448**
15	Accounts Payable	60,207
16	Bank Overdraft	26,822
17	Accrued Expenses	199,029
18	Deferred Revenue	58,463
19	Operating Lease Liabilities - Current Portion	507,064
20	Notes Payable - Current	69,890
21	Line of Credit	600,000
22	Beneficial Interest in Charitable Remainder Trusts	43
23	Operating Lease Liabilities - Long Term	3,636,810
24	Notes Payable - Long Term	152,414
25	**Total Liabilities**	**5,310,742**
26	Net Assets Without Donor Restrictions	3,766,248
	Net Assets With Donor Restrictions	
27	Time or Purpose Restricted	1,138,671
28	Restricted into Perpetuity	1,393,787
29	Total Net Assets With Donor Restrictions	2,532,458
30	**Total Net Assets**	**6,298,706**
31	**Total Liabilities and Net Assets**	**11,609,448**

Lines	Statement of Activities			
	Columns on Statement of Activities	**A**	**B**	**C**
		Without Donor Restrictions	**With Donor Restrictions**	**Total**
32	Tuition and Fees Income	9,138,175	-	9,138,175
33	Student Aid	(4,160,406)	-	(4,160,406)
34	Net Student Tuition and Fees	4,977,769	-	4,977,769
35	Grants, Contributions and Gifts	229,008	308,503	537,511
36	Student Room and Board	783,473	-	783,473
37	Employee Retention Tax Credit Revenue	1,186,481	-	1,186,481
38	Community Education	157,367	-	157,367
39	Net Investment Return	(5,812)	1,878	(3,934)
40	Other Income	105,937	-	105,937
41	Net Assets Released from Restrictions	220,730	(220,730)	-
42	**Total Revenue, Support, Gains, and Reclassifications**	**7,654,953**	**89,651**	**7,744,604**
	Expenses:			
43	Program Services	4,719,234	-	4,719,234
44	Management and General	2,576,098	-	2,576,098
45	Fundraising	185,367	-	185,367
46	**Total Expenses**	**7,480,699**	**-**	**7,480,699**
47	**(Deficit) Excess of Revenue, Support, Gains and Gains, and Reclassifications over Expenses**	**174,254**	**89,651**	**263,905**
48	Change in Beneficial Interest in Perpetual Trust	-	(15,432)	(15,432)
49	Change in Beneficial Interest in Charitable Remainder Trusts	-	(5,339)	(5,339)
50	**Change in Net Assets**	**174,254**	**68,880**	**243,134**
51	**Net Assets, Beginning of Year**	**3,591,994**	**2,463,578**	**6,055,572**
52	**Net Assets, End of Year**	**3,766,248**	**2,532,458**	**6,298,706**

ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL RESPONSIBILITY SUPPLEMENTAL SCHEDULE
FISCAL YEAR ENDED MAY 31, 2023

Line	ADD / SUBTRACT	
		PRIMARY RESERVE RATIO
26	3,766,248	Net assets without donor restrictions
29	2,532,458	Net assets with donor restrictions
28	(1,393,787)	Net assets restricted in perpetuity
	-	Donor restricted annuities, term endowments, life income funds
7	(3,173,127)	Property, plant, and equipment/Right-of-use of asset (pre- and post-implementation)
	-	Right of Use Assets - Operating (pre-implementation)
12	(4,095,439)	Right of Use Assets - Operating (post-implementation)
	-	Intangible assets
	-	Post-employment and pension liability
19	222,304	Debt for long-term purposes and lease obligations (pre- and post-implementation)
	-	Operating Lease Liabilities (pre-implementation)
19 and 23	4,143,874	Operating Lease Liabilities (post-implementation)
	-	Secured and Unsecured related-party receivable
	2,002,531	**Expendable Net Assets**
46	7,480,699	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)
	7,480,699	**Total Expenses/Losses**
	0.2677	**Primary Reserve Ratio**
		EQUITY RATIO
26	3,766,248	Net assets without donor restrictions
29	2,532,458	Net assets with donor restrictions
	-	Intangible assets
	-	Unsecured related-party receivable
	6,298,706	**Modified Net Assets**
14	11,609,448	Total assets
	-	Lease right-of-use asset pre-implementation
	-	Intangible assets
	-	Unsecured related-party receivable
	11,609,448	**Modified Assets**
	0.5425	**Equity Ratio**
		NET INCOME RATIO
47A	174,254	Change in net assets without donor restrictions
42A	7,654,953	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
	7,654,953	**Total Revenues/Gains**
	0.0228	**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	0.2677	2.6770	40%	1.0708
Equity Ratio	0.5425	3.0000	40%	1.2000
Net Income Ratio	0.0228	2.1400	20%	0.4280
				2.6988

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

TOTAL Composite Score - Rounded 2.7 *Pass*

ART ACADEMY OF CINCINNATI AND AFFILIATE
FINANCIAL RESPONSIBILITY CALCULATIONS SUPPLEMENTAL COMPONENT
FISCAL YEAR ENDED MAY 31, 2023

Primary Reserve Ratio:			
	Expendable Net Assets:		
Statement of Financial Position (SFP)	Net assets without donor restrictions	$	3,766,248
SFP	Net assets with donor restrictions	$	1,138,671
SFP	Net assets restricted in perpetuity	$	1,393,787
Note 18, Line 3d	Property, plant, and equipment pre-implementation	$	2,409,518
Note 18, Line 8d	Long-term debt - for long-term purposes pre-implementation	$	66,441
	Pre-implementation right-of-use asset liability	$	-
Financial Statement Summary, Line 19 and 23	Post-implementation right-of-use asset liability	$	4,143,874
	Total Expenses and Losses:		
Statement of Activities (SOA)	Total expenses (operating and nonoperating) without donor restrictions	$	7,480,699
Equity Ratio:			
	Modified Net Assets:		
SFP	Net assets without donor restrictions	$	3,766,248
SFP	Net assets with donor restrictions	$	2,532,458
	Modified Assets:		
SFP	Total assets	$	11,609,448
	Lease right-of-use asset pre-implementation	$	-
Net Income Ratio:			
SOA	**Change in Net Assets Without Donor Restrictions**	$	174,254
	Total Revenues and Gains Without Donor Restriction:		
SOA	Total operating revenue (including net assets released from restrictions)	$	7,654,953