ART ACADEMY OF CINCINNATI AND AFFILIATES

May 31, 2011

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT INCLUDING
SUPPLEMENTAL INFORMATION
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<tr>
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<td>35</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Art Academy of Cincinnati
and Affiliates
Cincinnati, Ohio

We have audited the accompanying consolidated statements of financial position of the Art Academy of Cincinnati (a nonprofit organization) and Affiliates as of May 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Art Academy of Cincinnati and Affiliates as of May 31, 2011 and 2010, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 14, 2011 on our consideration of the Art Academy of Cincinnati and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Fort Mitchell, Kentucky
September 14, 2011
ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2011

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Unrestricted</th>
<th>Board Designated</th>
<th>Plant</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
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<td>$</td>
<td>$39,693</td>
<td>$158,562</td>
<td>$14,414</td>
<td>$496,258</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>118,373</td>
</tr>
<tr>
<td>Pledges Receivable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,445</td>
<td>-</td>
<td>2,445</td>
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<tr>
<td>Interest and Dividends Receivable</td>
<td>-</td>
<td>29</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>85,567</td>
<td>-</td>
<td>16,551</td>
<td>-</td>
<td>-</td>
<td>102,118</td>
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<td>Total Current Assets</td>
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<td>29</td>
<td>56,244</td>
<td>161,007</td>
<td>14,414</td>
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<td>-</td>
<td>10,916,251</td>
<td>-</td>
<td>-</td>
<td>10,916,251</td>
</tr>
<tr>
<td>Investments</td>
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<td>2,316,241</td>
<td>25,099</td>
<td>2,248,176</td>
<td>1,245,222</td>
<td>5,860,001</td>
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<td>-</td>
<td>-</td>
<td>11,895</td>
<td>-</td>
<td>11,895</td>
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<tr>
<td>Beneficial Interest in Perpetual Trust</td>
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<td>-</td>
<td>-</td>
<td>180,707</td>
<td>-</td>
<td>180,707</td>
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<tr>
<td>Beneficial Interest in Charitable Remainder Trusts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>125,721</td>
<td>-</td>
<td>125,721</td>
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<tr>
<td>Deposits</td>
<td>-</td>
<td>13,386</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,386</td>
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<td>Other Assets, Net</td>
<td>-</td>
<td>-</td>
<td>131,790</td>
<td>-</td>
<td>-</td>
<td>131,790</td>
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<tr>
<td>Total Assets</td>
<td>$512,792</td>
<td>$2,316,270</td>
<td>$11,142,770</td>
<td>$2,546,799</td>
<td>$1,440,343</td>
<td>$17,958,974</td>
</tr>
</tbody>
</table>

LIABILITIES AND EQUITY

| Current Liabilities                         |              |                 |       |                        |                        |       |
| Accounts Payable                            | $143,161     | $              | $6,445 | -                      | -                      | $149,606 |
| Accrued Expenses                            | 173,138      | -               | 110,164 | 148,829               | -                      | 432,131 |
| Note Payable - Current Portion              | -            | 3,378           | -      | -                      | -                      | 3,378  |
| Bond Payable - Current Portion              | -            | 4,300,000       | -      | -                      | -                      | 4,300,000 |
| Total Current Liabilities                   | 316,299      | -               | 4,419,987 | 148,829               | -                      | 4,885,115 |
| Long-Term Liabilities                       |              |                 |       |                        |                        |       |
| Charitable Remainder Trust                  | -            | -               | 46,842 | -                      | -                      | 46,842  |
| Note Payable (Less Current Portion)         | -            | 167,383         | -      | -                      | -                      | 167,383 |
| Total Long Term Liabilities                 | -            | 167,383         | 46,842 | -                      | -                      | 214,225 |
| Fair Market Value of Interest Rate Swap     | -            | 60,784          | -      | -                      | -                      | 60,784  |
| Total Liabilities                           | 316,299      | -               | 4,648,154 | 195,671               | -                      | 5,160,124 |

Equity

| Members’ Equity                             | -            | -               | 1,561,695 | -                      | -                      | 1,561,695 |
| Fair Market Value of Interest Rate Swap     | -            | -               | (60,784) | -                      | -                      | (60,784)  |
| Net Assets                                  | 196,493      | 2,316,270       | 4,993,705 | 2,351,128 | 1,440,343 | 11,297,939 |
| Total Equity                                | 196,493      | 2,316,270       | 6,494,616 | 2,351,128 | 1,440,343 | 12,798,850 |

Total Liabilities and Equity

| $512,792 $2,316,270 | $11,142,770 | $2,546,799 | $1,440,343 | $17,958,974 |

See accompanying notes.
## ART ACADEMY OF CINCINNATI AND AFFILIATES
### CONSOLIDATED STATEMENT OF FINANCIAL POSITION
#### May 31, 2010

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Unrestricted</th>
<th>Board Designated</th>
<th>Plant</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>326,193</td>
<td>$</td>
<td>$  37,694</td>
<td>$ 188,676</td>
<td>$ 1,581</td>
<td>$ 554,144</td>
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<td>-</td>
<td></td>
<td></td>
<td>9,920</td>
<td></td>
<td>9,920</td>
</tr>
<tr>
<td>Interest and Dividends Receivable</td>
<td>36</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>28,967</td>
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<td></td>
<td>27,584</td>
<td></td>
<td>56,551</td>
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<tr>
<td><strong>Total Current Assets</strong></td>
<td>888,832</td>
<td>36</td>
<td>65,278</td>
<td>198,596</td>
<td>1,581</td>
<td>1,154,323</td>
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<td><strong>Buildings and Equipment, Net</strong></td>
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<td></td>
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<tr>
<td>Investments</td>
<td>19,724</td>
<td>2,165,206</td>
<td>57,342</td>
<td>1,721,704</td>
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<td>5,209,198</td>
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<td>9,920</td>
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<td>9,920</td>
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<td></td>
<td></td>
<td>161,245</td>
<td>161,245</td>
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<td>Beneficial Interest in Charitable Remainder Trusts</td>
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<td>122,156</td>
<td>122,156</td>
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<td></td>
<td>9,635</td>
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<td>9,635</td>
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<tr>
<td>Other Assets, Net</td>
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<td></td>
<td></td>
<td>142,724</td>
<td></td>
<td>142,724</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>908,556</td>
<td>2,165,242</td>
<td>11,530,756</td>
<td>2,060,577</td>
<td>1,408,048</td>
<td>18,073,179</td>
</tr>
</tbody>
</table>

| LIABILITIES AND EQUITY |                |                  |       |                        |                        |           |
| Current Liabilities    |                |                  |       |                        |                        |           |
| Accounts Payable       | $ 141,849     | $                | $  1  | $                        | $                        | $ 141,850 |
| Accrued Expenses       | 157,635       |                  |       | 110,499                 | 175,159                | 443,293   |
| Interfund Payable (Receivable) | 975,000 | (975,000)     |       |                        |                        |           |
| Note Payable - Current Portion | - | -            |       | 3,178                  |                        | 3,178     |
| **Total Current Liabilities** | 1,274,484 | (975,000)     | 113,678 | 175,159                |                        | 586,321   |
| Long-Term Liabilities  |                |                  |       |                        |                        |           |
| Charitable Remainder Trust | - | -            |       | 49,852                 |                        | 49,852    |
| Note Payable (Less Current Portion) | - | -            |       | 170,774                |                        | 170,774   |
| Bond Payable           | -            |                  |       | 4,300,000              |                        | 4,300,000 |
| **Total Long Term Liabilities** | - | -            |       | 4,470,774              | 49,852                 | 4,520,626 |
| Fair Market Value of Interest Rate Swap | - | -            |       | 148,869                |                        | 148,869   |
| **Total Liabilities**  | 1,274,484     | (975,000)        | 4,731,321 | 225,011                |                        | 5,255,816 |
| Equity                 |                |                  |       |                        |                        |           |
| Members’ Deficit       | -            |                  |       | (37,481)               |                        | (37,481)  |
| Fair Market Value of Interest Rate Swap | - | -            |       | (146,869)              |                        | (146,869) |
| Net Assets             | (365,928)     | (3,140,242)      | 5,307,463 | 1,835,566              | 1,408,048              | 11,325,391 |
| Other Members’ Equity  | (365,928)     | (3,140,242)      | 1,676,322 | 1,835,566              | 1,408,048              | 11,141,041 |
| **Total Equity**       | (365,928)     | (3,140,242)      | 6,799,435 | 1,835,566              | 1,408,048              | 12,817,363 |
| **Total Liabilities and Equity** | 908,556      | 2,165,242        | 11,530,756 | 2,060,577             | 1,408,048              | 18,073,179 |

See accompanying notes.
## ART ACADEMY OF CINCINNATI AND AFFILIATES
### CONSOLIDATED STATEMENT OF ACTIVITIES
#### Year Ended May 31, 2011

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Board Designated</th>
<th>Plant</th>
<th>Temporarily Restricted</th>
<th>Endowment</th>
<th>Total</th>
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<td>Grants, Contributions and Gifts</td>
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<td>$ -</td>
<td>$ -</td>
<td>$(8,376)</td>
<td>$12,833</td>
<td>$342,483</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>4,804,294</td>
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<td>Investment Income</td>
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<td>-</td>
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<td>156,391</td>
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<td>-</td>
<td>(294,075)</td>
<td>-</td>
<td>-</td>
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<td>161,133</td>
<td>-</td>
<td>-</td>
<td>166,446</td>
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<td><strong>Total Revenue and Support</strong></td>
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<td>(32,327)</td>
<td>161,133</td>
<td>(170,766)</td>
<td>12,833</td>
<td>5,469,614</td>
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<tr>
<td><strong>Net Assets Released from Restrictions</strong></td>
<td>11,042</td>
<td>(1,933)</td>
<td>-</td>
<td>(9,109)</td>
<td>-</td>
<td>-</td>
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<td><strong>Total Revenue, Support and Reclassifications</strong></td>
<td>5,509,783</td>
<td>(34,260)</td>
<td>161,133</td>
<td>(179,875)</td>
<td>12,833</td>
<td>5,469,614</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
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<td></td>
<td></td>
<td></td>
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<td>Program Services</td>
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<td>844,165</td>
<td>-</td>
<td>-</td>
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<td>Management and General</td>
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<td>20,263</td>
<td>98,220</td>
<td>-</td>
<td>-</td>
<td>597,594</td>
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<td>2,836</td>
<td>-</td>
<td>-</td>
<td>28,418</td>
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<td>20,263</td>
<td>945,221</td>
<td>-</td>
<td>-</td>
<td>6,462,729</td>
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<td><strong>Excess (Deficit) of Revenue, Support and Reclassifications Over Expenses</strong></td>
<td>12,538</td>
<td>(823,972)</td>
<td>(316,084)</td>
<td>515,562</td>
<td>32,295</td>
<td>(29,778)</td>
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<td>Interfund Equity Transfers</td>
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<td>(542,362)</td>
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<td>(647,570)</td>
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<td>1,289,864</td>
<td>-</td>
<td>1,540,050</td>
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<td>Excess Gain on Endowment Investments</td>
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<td>(1,540,050)</td>
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<td>-</td>
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<td>-</td>
<td>19,462</td>
<td>19,462</td>
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<td>Change in Beneficial Interest in Charitable Remainder Trusts</td>
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<td>6,575</td>
<td>6,575</td>
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<td>Other Members’ Interest</td>
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<td>(44,820)</td>
<td>-</td>
<td>-</td>
<td>(44,820)</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td>562,421</td>
<td>(823,972)</td>
<td>(316,084)</td>
<td>515,562</td>
<td>32,295</td>
<td>(29,778)</td>
</tr>
<tr>
<td>Other Members’ Interest</td>
<td>-</td>
<td>-</td>
<td>(44,820)</td>
<td>-</td>
<td>-</td>
<td>(44,820)</td>
</tr>
<tr>
<td>Buyout of Other Members</td>
<td>-</td>
<td>-</td>
<td>(30,000)</td>
<td>-</td>
<td>-</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Change in Fair Market Value of Interest Rate Swap</td>
<td>-</td>
<td>-</td>
<td>86,085</td>
<td>-</td>
<td>-</td>
<td>86,085</td>
</tr>
<tr>
<td><strong>Net Assets Beginning of Year</strong></td>
<td>(365,928)</td>
<td>3,140,242</td>
<td>6,799,435</td>
<td>1,835,566</td>
<td>1,408,048</td>
<td>12,817,363</td>
</tr>
<tr>
<td><strong>Net Assets End of Year</strong></td>
<td>$196,493</td>
<td>$2,316,270</td>
<td>$6,494,616</td>
<td>$2,351,128</td>
<td>$1,440,343</td>
<td>$12,798,850</td>
</tr>
</tbody>
</table>

See accompanying notes.
## CONSOLIDATED STATEMENT OF ACTIVITIES

**ART ACADEMY OF CINCINNATI AND AFFILIATES**

**Year Ended May 31, 2010**

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General</td>
<td>Board</td>
<td>Plant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants, Contributions and Gifts</td>
<td>$348,452</td>
<td>-</td>
<td>-</td>
<td>$812</td>
<td>$1,581</td>
</tr>
<tr>
<td>Tuition Income</td>
<td>4,317,425</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment Income</td>
<td>-</td>
<td>28,904</td>
<td>9</td>
<td>120,445</td>
<td>-</td>
</tr>
<tr>
<td>Investment Income Allocation</td>
<td>754,705</td>
<td>(154,146)</td>
<td>-</td>
<td>(600,559)</td>
<td>-</td>
</tr>
<tr>
<td>Other Income</td>
<td>1,934</td>
<td>-</td>
<td>128,918</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenue and Support</strong></td>
<td>5,422,516</td>
<td>(125,242)</td>
<td>128,927</td>
<td>(479,302)</td>
<td>1,581</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets Released from Restrictions</strong></td>
<td>-</td>
<td></td>
<td>760,360</td>
<td>(760,360)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Revenue, Support and Reclassifications</strong></td>
<td>5,422,516</td>
<td>(125,242)</td>
<td>889,287</td>
<td>(1,239,662)</td>
<td>1,581</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Services</td>
<td>4,599,167</td>
<td>-</td>
<td>961,259</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Management and General</td>
<td>629,665</td>
<td>19,867</td>
<td>119,978</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fundraising</td>
<td>46,501</td>
<td>-</td>
<td>3,338</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>5,275,333</td>
<td>19,867</td>
<td>1,084,575</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Excess (Deficit) of Revenue, Support and Reclassifications Over Expenses</strong></td>
<td>147,183</td>
<td>(145,109)</td>
<td>(195,288)</td>
<td>(1,239,662)</td>
<td>1,581</td>
</tr>
<tr>
<td>Interfund Equity Transfers</td>
<td>(11,921)</td>
<td>(43,866)</td>
<td>55,787</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interfund Transfer - Implementation of UPMIFA</td>
<td>(1,861)</td>
<td>1,029,409</td>
<td>-</td>
<td>1,412,188</td>
<td>(2,439,736)</td>
</tr>
<tr>
<td>Realized Loss on Investments</td>
<td>-</td>
<td>(61,536)</td>
<td>-</td>
<td>(239,750)</td>
<td>-</td>
</tr>
<tr>
<td>Unrealized Gain on Investments</td>
<td>-</td>
<td>257,828</td>
<td>-</td>
<td>1,004,503</td>
<td>-</td>
</tr>
<tr>
<td><strong>Excess Gain on Endowment Investments</strong></td>
<td>-</td>
<td>19,558</td>
<td>-</td>
<td>(19,558)</td>
<td>-</td>
</tr>
<tr>
<td>Change in Beneficial Interest in Perpetual Trust</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,285</td>
<td>-</td>
</tr>
<tr>
<td>Change in Beneficial Interest in Charitable Remainder Trusts</td>
<td>-</td>
<td>-</td>
<td>49,685</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Members’ Interest</td>
<td>-</td>
<td>-</td>
<td>49,685</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in Net Assets</strong></td>
<td>133,401</td>
<td>1,056,284</td>
<td>(89,816)</td>
<td>922,006</td>
<td>(2,419,437)</td>
</tr>
<tr>
<td>Other Members’ Interest</td>
<td>-</td>
<td>-</td>
<td>(49,685)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Change in Fair Market Value of Interest Rate Swap</td>
<td>-</td>
<td>-</td>
<td>73,224</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Assets Beginning of Year, As Restated</strong></td>
<td>133,401</td>
<td>1,056,284</td>
<td>(66,277)</td>
<td>922,006</td>
<td>(2,419,437)</td>
</tr>
<tr>
<td><strong>Net Assets End of Year</strong></td>
<td>$ (365,928)</td>
<td>$ 3,140,242</td>
<td>$ 6,799,435</td>
<td>$ 1,835,566</td>
<td>$ 1,408,048</td>
</tr>
</tbody>
</table>

See accompanying notes.
## ART ACADEMY OF CINCINNATI AND AFFILIATES
### CONSOLIDATED STATEMENT OF MEMBERS’ EQUITY

<table>
<thead>
<tr>
<th></th>
<th>Members' Deficit</th>
<th>Other Members' Equity</th>
<th>Fair Market Value of Interest Rate Swap</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance - May 31, 2009 (As Restated)</strong></td>
<td>$ (37,330)</td>
<td>$ 1,726,007</td>
<td>$ (220,093)</td>
<td>$ 1,468,584</td>
</tr>
<tr>
<td>Net Loss</td>
<td>(151)</td>
<td>-</td>
<td>-</td>
<td>(151)</td>
</tr>
<tr>
<td>Other Members' Net Loss</td>
<td>-</td>
<td>(49,685)</td>
<td>-</td>
<td>(49,685)</td>
</tr>
<tr>
<td>Change in Fair Market Value of Interest Rate Swap</td>
<td>-</td>
<td>-</td>
<td>73,224</td>
<td>73,224</td>
</tr>
<tr>
<td><strong>Balance - May 31, 2010</strong></td>
<td>(37,481)</td>
<td>1,676,322</td>
<td>(146,869)</td>
<td>1,491,972</td>
</tr>
<tr>
<td>Net Loss</td>
<td>(2,326)</td>
<td>-</td>
<td>-</td>
<td>(2,326)</td>
</tr>
<tr>
<td>Other Members' Net Loss</td>
<td>-</td>
<td>(44,820)</td>
<td>-</td>
<td>(44,820)</td>
</tr>
<tr>
<td>Buyout of Other Members</td>
<td>-</td>
<td>(30,000)</td>
<td>-</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Transfer of Other Members' Equity</td>
<td>1,601,502</td>
<td>(1,601,502)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Change in Fair Market Value of Interest Rate Swap</td>
<td>-</td>
<td>-</td>
<td>86,085</td>
<td>86,085</td>
</tr>
<tr>
<td><strong>Balance - May 31, 2011</strong></td>
<td>$ 1,561,695</td>
<td>$ -</td>
<td>$ (60,784)</td>
<td>$ 1,500,911</td>
</tr>
</tbody>
</table>

See accompanying notes.
### ART ACADEMY OF CINCINNATI AND AFFILIATES
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<table>
<thead>
<tr>
<th>Year Ended May 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>---</td>
</tr>
</tbody>
</table>

#### Cash Flows from Operating Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Net Assets</td>
<td>$(29,778)</td>
<td>$(397,562)</td>
</tr>
<tr>
<td>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>420,551</td>
<td>441,125</td>
</tr>
<tr>
<td>Amortization</td>
<td>10,934</td>
<td>19,444</td>
</tr>
<tr>
<td>Loss on the Disposal of Building and Equipment</td>
<td>-</td>
<td>21,626</td>
</tr>
<tr>
<td>Realized Loss on Investments</td>
<td>647,570</td>
<td>301,286</td>
</tr>
<tr>
<td>Unrealized Gain on Investments</td>
<td>(1,540,050)</td>
<td>(1,262,331)</td>
</tr>
<tr>
<td>Change in Beneficial Interest in Perpetual Trust</td>
<td>(19,462)</td>
<td>(18,718)</td>
</tr>
<tr>
<td>Change in Beneficial Interest in Charitable Remainder Trusts</td>
<td>(6,575)</td>
<td>(4,285)</td>
</tr>
<tr>
<td>Other Members' Interest</td>
<td>(44,820)</td>
<td>(49,685)</td>
</tr>
<tr>
<td>Contributions Restricted for Capital Purchases</td>
<td>(8,376)</td>
<td>(812)</td>
</tr>
<tr>
<td>Change in Operating Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>415,299</td>
<td>(269,921)</td>
</tr>
<tr>
<td>Pledges Receivable</td>
<td>13,701</td>
<td>19,264</td>
</tr>
<tr>
<td>Interest and Dividends Receivable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>(45,567)</td>
<td>42,020</td>
</tr>
<tr>
<td>Deposits</td>
<td>(3,751)</td>
<td>-</td>
</tr>
<tr>
<td>Change in Operating Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>7,756</td>
<td>(8,954)</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>(11,162)</td>
<td>(44,998)</td>
</tr>
<tr>
<td>Deferred Compensation Liability</td>
<td>-</td>
<td>(90,188)</td>
</tr>
<tr>
<td>Net Cash Used by Operating Activities</td>
<td>(193,723)</td>
<td>(1,302,689)</td>
</tr>
</tbody>
</table>

#### Cash Flows from Investing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from Sale of Investments</td>
<td>2,478,890</td>
<td>2,347,183</td>
</tr>
<tr>
<td>Purchase of Investments</td>
<td>(2,237,213)</td>
<td>(1,004,663)</td>
</tr>
<tr>
<td>Acquisition of Building and Equipment</td>
<td>(81,025)</td>
<td>(34,932)</td>
</tr>
<tr>
<td>Net Cash Provided by Investing Activities</td>
<td>160,652</td>
<td>1,307,588</td>
</tr>
</tbody>
</table>

#### Cash Flows from Financing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions Restricted for Capital Purchases</td>
<td>8,376</td>
<td>812</td>
</tr>
<tr>
<td>Payments on Note Payable</td>
<td>(3,191)</td>
<td>(2,976)</td>
</tr>
<tr>
<td>Payment to Other Members</td>
<td>(30,000)</td>
<td>-</td>
</tr>
<tr>
<td>Payments on Bond Payable</td>
<td>-</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Net Cash Used by Financing Activities</td>
<td>(24,815)</td>
<td>(302,164)</td>
</tr>
<tr>
<td>Net Change in Cash and Cash Equivalents</td>
<td>(57,886)</td>
<td>(297,265)</td>
</tr>
</tbody>
</table>

#### Beginning Balance - Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance - Cash and Cash Equivalents</td>
<td>554,144</td>
<td>851,409</td>
</tr>
</tbody>
</table>

#### Ending Balance - Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending Balance - Cash and Cash Equivalents</td>
<td>$496,258</td>
<td>$554,144</td>
</tr>
</tbody>
</table>

See accompanying notes.
NOTE 1 – ACCOUNTING POLICIES

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 art and design, notably drawing, painting, printmaking, photography, sculpture, visual communications design, digital arts, photo design, illustration, art history, and art education.

Academy Advancement Limited is organized in the State of Ohio as a limited liability company. Academy Advancement Limited was formed during fiscal year 2004 to be the managing member of 1212 Jackson, LLC. Academy Advancement Limited is a wholly owned subsidiary of the Art Academy of Cincinnati.

1212 Jackson, LLC is organized in the State of Ohio as a limited liability company. 1212 Jackson, LLC was formed during fiscal year 2004 to own and operate the real estate facilities for the benefit of the Art Academy of Cincinnati. In May 2011, Academy Advancement Limited purchased the majority interest of 1212 Jackson, LLC. As of May 31, 2011, 1212 Jackson, LLC is a wholly owned subsidiary of Academy Advancement Limited.

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.

A summary of significant accounting policies applied in the accompanying financial statements follows:

Principles of Consolidation

The consolidated financial statements also include the accounts of Academy Advancement Limited, 1212 Jackson, LLC, and Art Academy Housing, Inc. These entities are related to the Academy because the Academy has assumed the financial and day-to-day operational management functions for these entities. Under U.S. generally accepted accounting principles, the Academy is required to present consolidated financial statements reflecting the financial position and results of operations of all four entities. All significant inter-entity transactions have been eliminated.

Accounts Receivable

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. 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. Based on these criteria, the Academy has estimated an allowance for doubtful accounts of $7,287 as of May 31, 2011 and 2010.

Investments

Investments in equity securities and debt securities are stated at fair market value. Investment income and dividends are included in unrestricted revenue unless restricted by donor or law. Realized and unrealized gains (losses) are shown as increases (decreases) in net assets in the period in which the gain (loss) is recognized.
NOTE 1 – ACCOUNTING POLICIES (Continued)

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles 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.

Revenue and Support Recognition

The Academy records revenue from contributions, tuition and interest when earned. Temporarily restricted support from governmental grants, which reimburse actual costs of the programs, is recognized as such costs are incurred and reimbursements are determinable.

Recognition of Donor Restrictions

Donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Academy reflects temporary restricted support as unrestricted when the restrictions are met in the same reporting period.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by a donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded net of estimated uncollectible pledges. Unconditional promises to give due in subsequent years are reported at present value net of estimated uncollectible pledges, using risk-free interest rates applicable to the years in which the promises are to be received.

Donated Facility

The Academy utilized one donated facility in downtown Cincinnati. The Academy has no ownership rights in this facility. The value of rent for this donated facility has not been recorded since it is not readily measured or valued. During the year ended May 31, 2011, the Academy discontinued their glass blowing program and thus no longer utilizes the donated facility.

Buildings and Equipment

Buildings and equipment are recorded at cost and depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals greater than $1,000 are capitalized. When buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

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

Beneficial Interest in Perpetual Trusts

The beneficial interest in perpetual trusts is valued based on quoted market values.

Charitable Remainder Trusts

Charitable remainder trusts are valued using payment streams discounted at market rates over the remaining lives of the donors using standard mortality tables.
NOTE 1 – ACCOUNTING POLICIES (Continued)

Collections
The collections, which were acquired through purchases and contributions since the Art Academy of Cincinnati’s inception, are not recognized as assets on the statement 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.

Retirement Plan
The Academy has a defined contribution plan for all employees. Under the plan, eligible employees may contribute a percentage of their salaries with a matching contribution by the Academy of up to four percent of compensation. Matching contributions were suspended as of July 31, 2009. In addition, the Academy can contribute a discretionary percentage of compensation to the plan for each eligible participant annually. The discretionary contribution was not made for fiscal year 2011 or 2010.

Advertising Costs
Advertising costs are expensed as incurred.

Amortization
Closing costs associated with the purchase of a building were capitalized and are being amortized over fifteen years using the straight-line method.

Costs associated with the issuance of bonds were capitalized and are being amortized over the life of the bonds using the straight-line method.

Costs associated with the organization of 1212 Jackson LLC have been capitalized and were amortized over five years using the straight-line method.

Income Tax Status
The Academy is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Academy Advancement Limited has elected to be taxed as a corporation and therefore is subject to federal, state and local income taxes.

1212 Jackson LLC is a limited liability company and all of the tax liabilities and benefits are passed directly to its members (effective May 31, 2011, Academy Advancement Limited is the only member of 1212 Jackson, LLC)

Art Academy Housing is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The organization has applied for its exempt status.

The Art Academy of Cincinnati and Affiliates has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Art Academy of Cincinnati and Affiliates recognized no interest or penalties in the consolidated statement of activities for the years ended May 31, 2011 and 2010. If the situation arose in which the Art Academy of Cincinnati and Affiliates would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Tax years still open under federal and state statute of limitations remain subject to review and change.

Based on the evaluation of the Art Academy of Cincinnati and Affiliates’ 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 the years ended May 31, 2011 and 2010.
NOTE 1 – ACCOUNTING POLICIES (Continued)

Classes of Net Assets

The accompanying financial statements have been prepared in conformity with the requirements of accounting pronouncements. Accordingly, the net assets of the Academy are reported in each of the following three classes: a) unrestricted net assets, b) temporarily restricted net assets and c) permanently restricted net assets.

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board designated amounts, are legally unrestricted, and are reported as part of the unrestricted class.

The Academy's temporarily restricted net assets are restricted by donors for specific operating purposes or currently not available for use until commitments regarding their use have been fulfilled.

The Academy's permanently restricted net assets consist of various endowment funds.

NOTE 2 – CASH AND CASH FLOW INFORMATION

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. In addition, the FDIC insures 100% of all non-interest bearing accounts through December 31, 2012. Using these criteria, the Academy had no cash in excess of insured limits at both December 31, 2011 and 2010.

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

For purposes of the cash flows statement, the Academy considers all highly liquid investments available for current use with an initial maturity of three months or less to be a cash equivalent.

Cash paid for interest was $156,976 and $238,806 in 2011 and 2010, respectively.

NOTE 3 – BUILDINGS AND EQUIPMENT

Buildings and equipment and related accumulated depreciation consist of the following at May 31, 2011 and 2010.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Accumulated Depreciation</th>
<th>Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 Land</td>
<td>$ 362,100</td>
<td>$ -</td>
<td>$ 362,100</td>
</tr>
<tr>
<td>Buildings and Improvements</td>
<td>12,331,108</td>
<td>1,947,820</td>
<td>10,383,288</td>
</tr>
<tr>
<td>Office Furniture and Equipment</td>
<td>1,002,876</td>
<td>832,013</td>
<td>170,863</td>
</tr>
<tr>
<td></td>
<td>$ 13,696,084</td>
<td>$ 2,779,833</td>
<td>$ 10,916,251</td>
</tr>
<tr>
<td>2010 Land</td>
<td>$ 362,100</td>
<td>$ -</td>
<td>$ 362,100</td>
</tr>
<tr>
<td>Buildings and Improvements</td>
<td>12,331,108</td>
<td>1,622,077</td>
<td>10,709,031</td>
</tr>
<tr>
<td>Office Furniture and Equipment</td>
<td>921,851</td>
<td>737,205</td>
<td>184,646</td>
</tr>
<tr>
<td></td>
<td>$ 13,615,059</td>
<td>$ 2,359,282</td>
<td>$ 11,255,777</td>
</tr>
</tbody>
</table>

Included in the above amounts for May 31, 2011 and 2010 is the Walnut Street building which is currently not being used in operations with a small portion being leased. The cost and accumulated depreciation of that land and building as of May 31, 2011 were $508,144 ($508,144 as of May 31, 2010) and $49,384 ($35,709 as of May 31, 2010), respectively.
NOTE 4 – PLEDGES RECEIVABLE

The Academy’s pledges receivable are as follows:

<table>
<thead>
<tr>
<th></th>
<th>May 31, 2011</th>
<th>August 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable in Less than One Year</td>
<td>$2,500</td>
<td>$10,150</td>
</tr>
<tr>
<td>Less Allowance for Uncollectible Pledges Receivable</td>
<td>55</td>
<td>230</td>
</tr>
<tr>
<td>Net Receivable in Less than One Year</td>
<td>$2,445</td>
<td>$9,920</td>
</tr>
<tr>
<td>Receivable in One to Five Years</td>
<td>$12,500</td>
<td>$22,040</td>
</tr>
<tr>
<td>Less Present Value Discount (6%)</td>
<td>550</td>
<td>3,499</td>
</tr>
<tr>
<td>Less Allowance for Uncollectible Pledges Receivable</td>
<td>55</td>
<td>420</td>
</tr>
<tr>
<td>Net Receivable in One to Five Years</td>
<td>$11,895</td>
<td>$18,121</td>
</tr>
<tr>
<td>Net Receivable</td>
<td>$14,340</td>
<td>$28,041</td>
</tr>
</tbody>
</table>

NOTE 5 – COLLECTIONS

The Art Academy of Cincinnati collections are made up of art objects that are held for public exhibition, education and research for furtherance of public service. The collection, acquired through donations, is not recognized in the accompanying financial statements. 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 the years ended May 31, 2011 and 2010, sales of art totaled $0-. During the years ended May 31, 2011 and 2010, there were no items in the Art Academy of Cincinnati’s collections that were damaged or destroyed.

NOTE 6 – INVESTMENTS

The Academy’s investments are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>May 31, 2011</th>
<th>May 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Unrestricted Fund</td>
<td>$2,410,216</td>
<td>$2,366,603</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td>2,062,100</td>
<td>2,248,176</td>
</tr>
<tr>
<td>Permanently Restricted</td>
<td>1,245,222</td>
<td>1,245,222</td>
</tr>
<tr>
<td></td>
<td>$5,717,538</td>
<td>$5,860,001</td>
</tr>
</tbody>
</table>

The approximate cost and fair values of investments in securities and real estate are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>May 31, 2011</th>
<th>May 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Equivalents</td>
<td>$53,341</td>
<td>$69,013</td>
</tr>
<tr>
<td>U. S. Government Securities</td>
<td>37,173</td>
<td>68,949</td>
</tr>
<tr>
<td>Corporate Stocks and Bonds</td>
<td>1,986,473</td>
<td>3,339,531</td>
</tr>
<tr>
<td>Collective and Mutual Funds</td>
<td>3,378,191</td>
<td>2,747,910</td>
</tr>
<tr>
<td>Exchange-Traded Fund</td>
<td>262,360</td>
<td>383,709</td>
</tr>
<tr>
<td></td>
<td>$5,717,538</td>
<td>$5,209,198</td>
</tr>
</tbody>
</table>

11
NOTE 6 – INVESTMENTS (Continued)

The following schedules summarize investment return and its classification in the statements of activities for the years ended May 31, 2011 and 2010.

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest and Dividends</strong></td>
<td>$ 24,706</td>
<td>$ 131,685</td>
<td>$ 156,391</td>
</tr>
<tr>
<td><strong>Realized Losses</strong></td>
<td>(105,208)</td>
<td>(542,362)</td>
<td>(647,570)</td>
</tr>
<tr>
<td><strong>Unrealized Gains</strong></td>
<td>250,186</td>
<td>1,289,864</td>
<td>1,540,050</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td>(20,263)</td>
<td></td>
<td>(20,263)</td>
</tr>
<tr>
<td>Total Investment Return</td>
<td>$ 149,421</td>
<td>$ 879,187</td>
<td>$ 1,028,608</td>
</tr>
</tbody>
</table>

**2010**

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest and Dividends</strong></td>
<td>$ 28,913</td>
<td>$ 120,445</td>
<td>$ 149,358</td>
</tr>
<tr>
<td><strong>Realized Gains</strong></td>
<td>(61,536)</td>
<td>(239,750)</td>
<td>(301,286)</td>
</tr>
<tr>
<td><strong>Unrealized Losses</strong></td>
<td>257,828</td>
<td>1,004,503</td>
<td>1,262,331</td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td>(19,867)</td>
<td></td>
<td>(19,867)</td>
</tr>
<tr>
<td>Total Investment Return</td>
<td>$ (205,338)</td>
<td>$ 885,198</td>
<td>$ 1,090,536</td>
</tr>
</tbody>
</table>

With Board of Trustee 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 and a twelve quarter rolling average for the years ended May 31, 2011 and 2010, respectively. The distribution is recognized in the general fund as investment income.

NOTE 7 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS

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

<table>
<thead>
<tr>
<th>Trust</th>
<th>Academy’s Percentage of Trust</th>
<th>May 31, 2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilmer D. Glenn Trust</td>
<td>100%</td>
<td>$ 180,707</td>
<td>$ 161,245</td>
</tr>
</tbody>
</table>

NOTE 8 – OTHER ASSETS

The following is a summary of other assets:

<table>
<thead>
<tr>
<th></th>
<th>Bond Cost</th>
<th>Bond Issuance Cost</th>
<th>Organizational Cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td>$ 30,361</td>
<td>$ 172,237</td>
<td>$ 50,817</td>
<td>$ 253,415</td>
</tr>
<tr>
<td><strong>Accumulated Amortization</strong></td>
<td>11,817</td>
<td>58,991</td>
<td>50,817</td>
<td>121,625</td>
</tr>
<tr>
<td><strong>Other Assets, Net</strong></td>
<td>$ 18,544</td>
<td>$ 113,246</td>
<td>$</td>
<td>$ 131,790</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Bond Cost</th>
<th>Bond Issuance Cost</th>
<th>Organizational Cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td>$ 30,361</td>
<td>$ 172,237</td>
<td>$ 50,817</td>
<td>$ 253,415</td>
</tr>
<tr>
<td><strong>Accumulated Amortization</strong></td>
<td>9,794</td>
<td>50,121</td>
<td>50,776</td>
<td>110,691</td>
</tr>
<tr>
<td><strong>Other Assets, Net</strong></td>
<td>$ 20,567</td>
<td>$ 122,116</td>
<td>$ 41</td>
<td>$ 142,724</td>
</tr>
</tbody>
</table>
NOTE 8 – OTHER ASSETS (Continued)

Estimated amortization for the five years subsequent is as follows:

<table>
<thead>
<tr>
<th>Years Ending May 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$ 10,894</td>
</tr>
<tr>
<td>2013</td>
<td>10,894</td>
</tr>
<tr>
<td>2014</td>
<td>10,894</td>
</tr>
<tr>
<td>2015</td>
<td>10,894</td>
</tr>
<tr>
<td>2016</td>
<td>10,894</td>
</tr>
<tr>
<td>Thereafter</td>
<td>77,320</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 131,790</strong></td>
</tr>
</tbody>
</table>

NOTE 9 – LINE OF CREDIT

The Academy has an unsecured revolving line of credit agreement for $400,000, which charges interest at LIBOR plus 1.75% at May 31, 2011 (6.73% at May 31, 2011) and the prime rate at May 31, 2009 (3.25% at May 31, 2010). The line matures in March, 2011. At May 31, 2011 and 2010, there was no outstanding balance on the line of credit. In June, 2011, the bank increased the line of credit to $1,000,000, with interest being charged at either the prime rate or LIBOR plus 1.75%, based on the Academy's choice. The line of credit expires in March, 2012 and is unsecured.

NOTE 10 – BOND PAYABLE

In October, 2004, 1212 Jackson, LLC authorized the issuance of Adjusted Rate Taxable Securities, Series 2004, with a maximum aggregate principal amount up to $8,000,000. The proceeds were used for the renovation of the Jackson Street building. The bond matures in September, 2024. On or prior to July 1, 2007, the Academy was required to make payments totaling $3,400,000. In June, 2009, the bank amended the bond agreement requiring the Academy to pay $300,000 by August, 2009 in order to extend the expiration date of the letter of credit. The balance of the bond is $4,300,000 at May 31, 2011. A formal repayment schedule has not been prepared on the remaining balance. The interest rate fluctuates based on the Weekly Interest Rate determined by the Remarketing Agent and was 0.48% and 0.69% at May 31, 2011 and 2010, respectively. The bond is collateralized by the Art Academy's building and $2,000,000 of unrestricted investments. Under terms of the agreement, the Academy must, among other things, maintain a capitalized interest fund and certain levels of tangible net worth. As May 31, 2010 and 2009, the covenants associated with the bond pertaining to net tangible worth and debt service coverage ratio were not met. In September 2011, the Academy paid off the bond and the related interest rate swap.

NOTE 11 – NOTE PAYABLE

Note payable to bank; due in monthly installments of $1,272, including interest of 7.00%, due April, 2013. The note is collateralized by a parcel of land.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note payable to bank</td>
<td>$ 170,761</td>
<td>$ 173,952</td>
</tr>
<tr>
<td>Current Portion</td>
<td>3,378</td>
<td>3,178</td>
</tr>
<tr>
<td>Long-Term Portion</td>
<td>$ 167,383</td>
<td>$ 170,774</td>
</tr>
</tbody>
</table>
NOTE 11 – NOTE PAYABLE (Continued)

The remaining maturities on this note are as follows:

<table>
<thead>
<tr>
<th>Years Ending</th>
<th>May 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$3,378</td>
</tr>
<tr>
<td>2013</td>
<td>167,383</td>
</tr>
</tbody>
</table>

$170,761

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted as follows:

<table>
<thead>
<tr>
<th>Time Restricted</th>
<th>May 31, 2011</th>
<th>August 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments - Cash</td>
<td>$46,750</td>
<td>$35,121</td>
</tr>
<tr>
<td>Beneficial Interest in Charitable Remainder Trusts</td>
<td>78,879</td>
<td>72,304</td>
</tr>
</tbody>
</table>

Purpose Restricted

<table>
<thead>
<tr>
<th>Purpose Restricted</th>
<th>May 31, 2011</th>
<th>August 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building on Rich Tradition Campaign</td>
<td>16,740</td>
<td>39,550</td>
</tr>
<tr>
<td>Contributions and Gifts</td>
<td>17,157</td>
<td>19,157</td>
</tr>
<tr>
<td>Endowments</td>
<td>2,191,602</td>
<td>1,669,434</td>
</tr>
</tbody>
</table>

$2,351,128 $1,835,566

NOTE 13 – ENDOWMENTS

The Academy’s endowment consists of 64 individual funds established for a variety of purposes. Its endowment includes donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Academy has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Academy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 that is not classified in permanently restricted net assets is classified as temporarily restricted 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.
NOTE 13 – ENDOWMENTS (Continued)

*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 4.66%, while growing the funds if possible. Therefore, the Academy expects its endowment assets, over time, to produce an average rate of return of approximately 5.50% – 7.50% 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.

*Spending Policy.* The Academy has a policy of appropriating for distribution each year 4.66% of its endowment fund’s average fair value of the prior 4 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. 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 1.00% – 2.00% 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 May 31, 2011:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Funds</td>
<td>$2,316,241</td>
<td>$2,191,602</td>
<td>$1,245,222</td>
<td>$5,753,065</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the year ended May 31, 2011 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Net Assets, Beginning of Year</td>
<td>$2,165,206</td>
<td>$1,669,434</td>
<td>$1,245,222</td>
<td>$5,079,862</td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Income</td>
<td>24,706</td>
<td>127,382</td>
<td>-</td>
<td>152,088</td>
</tr>
<tr>
<td>Net Appreciation (Realized and Unrealized)</td>
<td>144,978</td>
<td>747,502</td>
<td>-</td>
<td>892,480</td>
</tr>
<tr>
<td>Total Investment Return</td>
<td>169,684</td>
<td>874,884</td>
<td>-</td>
<td>1,044,568</td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriation of Endowment Assets for Expenditures</td>
<td>(60,318)</td>
<td>(311,047)</td>
<td>-</td>
<td>(371,365)</td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer of Restricted Endowments Whose Balance Is Below the Restricted Amount</td>
<td>41,669</td>
<td>(41,669)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Net Assets, End of Year</td>
<td>$2,316,241</td>
<td>$2,191,602</td>
<td>$1,245,222</td>
<td>$5,753,065</td>
</tr>
</tbody>
</table>

15
NOTE 13 – ENDOWMENTS (Continued)

Endowment net asset composition by type of fund as of May 31, 2010:

<table>
<thead>
<tr>
<th>Type of Fund</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Funds</td>
<td>$2,165,206</td>
<td>$1,669,434</td>
<td>$1,245,222</td>
<td>$5,079,862</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the year ended May 31, 2010:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Net Assets, Beginning of Year</td>
<td>$1,315,056</td>
</tr>
<tr>
<td>Investment Return</td>
<td></td>
</tr>
<tr>
<td>Investment Income</td>
<td>28,904</td>
</tr>
<tr>
<td>Net Appreciation (Realized and Unrealized)</td>
<td>196,292</td>
</tr>
<tr>
<td>Total Investment Return</td>
<td>225,196</td>
</tr>
<tr>
<td>Contributions</td>
<td>1,861</td>
</tr>
<tr>
<td>Appropriation of Endowment Assets for Expenditures</td>
<td>(424,013)</td>
</tr>
<tr>
<td>Reclassification of Fair Market Value for Implementation of UPMIFA</td>
<td>(600,559)</td>
</tr>
<tr>
<td>Transfer of Restricted Endowments Whose Balance Is Below the Restricted Amount</td>
<td>19,558</td>
</tr>
<tr>
<td>Endowment Net Assets, End of Year</td>
<td>$2,165,206</td>
</tr>
</tbody>
</table>
NOTE 14 – OPERATING LEASES

The Academy is the lessee in the following lease agreements:

**Equipment**

The Academy leases equipment for total monthly payments of $772. The leases have varying expiration dates ranging from April, 2013 to November, 2013. The Academy incurred lease expense of $9,265 and $9,265 for 2011 and 2010, respectively.

**Housing**

Art Academy Housing leases apartments for the students of the Academy for a base rent of $7,500 per month under an operating lease. The lease expires in August, 2014, with an option to renew for an additional five years. Art Academy Housing incurred lease expense related to this lease of $97,917 and $91,815 for 2011 and 2010, respectively.

In August, 2009, Art Academy Housing entered an operating lease for an apartment. The monthly lease payment is $558. The lease expired in July, 2010. Lease expense was $558 and $6,901 for 2011 and 2010, respectively.

Art Academy Housing entered into an additional lease in August, 2008 with Jackson Street Lofts. The lease payments total $1,055 per month under the operating lease for two units. The first payment was pro-rated. The lease expired in July, 2009. Art Academy Housing incurred a lease expense related to this lease of $-0- and $667 for 2011 and 2010, respectively.

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

<table>
<thead>
<tr>
<th>Years Ending May 31,</th>
<th>Housing</th>
<th>Equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$110,837</td>
<td>$9,265</td>
<td>$120,102</td>
</tr>
<tr>
<td>2013</td>
<td>119,600</td>
<td>8,669</td>
<td>128,269</td>
</tr>
<tr>
<td>2014</td>
<td>121,317</td>
<td>-</td>
<td>121,317</td>
</tr>
<tr>
<td>2015</td>
<td>30,329</td>
<td>-</td>
<td>30,329</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>382,083</strong></td>
<td><strong>17,934</strong></td>
<td><strong>400,017</strong></td>
</tr>
</tbody>
</table>

The Academy is the lessor in the following lease agreement:

In July, 2008, the Academy started leasing a portion of its Walnut Street building. The lease term is thirty-six months and expires in June, 2011. As part of the lease agreement, the Academy will offset utility expense with the tenant. The net annual rental income was $-0- for the years ended May 31, 2011 and 2010.

NOTE 15 – RETIREMENT PLAN EXPENSE

The Academy's contributions and expenses related to the defined contribution plan in 2011 and 2010 were $-0- and $4,132, respectively. Matching contributions were suspended as of July 31, 2009.

NOTE 16 – RELATED PARTIES

The Academy does business with companies who are either owned by or employ a Board of Trustees member. During fiscal year 2011, the Academy spent $10,952 with one company for the purposes of printing and had $-0- due to this company as of May 31, 2011. The Academy also spent $7,572 with two companies for the purposes of legal services and had $50 due to one of these companies as of May 31, 2011. During fiscal year 2010, the Academy spent $18,184 with one company for printing and had $-0- due to this company as of May 31, 2010.
NOTE 17 - FUNCTIONAL EXPENSES

The detail of functional expenses is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total</th>
<th>Program Services</th>
<th>Management and General</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$1,634,777</td>
<td>$287,965</td>
<td></td>
<td>$1,922,742</td>
<td>$1,696,160</td>
<td>$338,223</td>
<td></td>
<td>$12,155</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>132,264</td>
<td>22,343</td>
<td></td>
<td>154,607</td>
<td>139,329</td>
<td>29,475</td>
<td></td>
<td>1,342</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
<td>1,380</td>
<td>2,752</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>159,476</td>
<td>38,292</td>
<td></td>
<td>197,768</td>
<td>153,223</td>
<td>31,981</td>
<td></td>
<td>994</td>
</tr>
<tr>
<td>Rent</td>
<td>114,839</td>
<td>-</td>
<td></td>
<td>114,839</td>
<td>99,383</td>
<td>-</td>
<td></td>
<td>99,383</td>
</tr>
<tr>
<td>Telephone</td>
<td>1,111</td>
<td>9,472</td>
<td></td>
<td>10,590</td>
<td>2,371</td>
<td>14,513</td>
<td></td>
<td>16,884</td>
</tr>
<tr>
<td>Utilities</td>
<td>306,047</td>
<td>3,107</td>
<td>1,554</td>
<td>310,708</td>
<td>296,049</td>
<td>3,005</td>
<td>1,503</td>
<td>300,558</td>
</tr>
<tr>
<td>Security</td>
<td>200,713</td>
<td>-</td>
<td></td>
<td>200,713</td>
<td>193,473</td>
<td>-</td>
<td></td>
<td>193,473</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>31,533</td>
<td></td>
<td>-</td>
<td>32,484</td>
<td>-</td>
<td></td>
<td>32,484</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>6,036</td>
<td>34,562</td>
<td></td>
<td>40,598</td>
<td>6,852</td>
<td>33,979</td>
<td></td>
<td>40,831</td>
</tr>
<tr>
<td>Parking</td>
<td>52,078</td>
<td>830</td>
<td></td>
<td>52,908</td>
<td>46,718</td>
<td>666</td>
<td></td>
<td>47,384</td>
</tr>
<tr>
<td>Supplies</td>
<td>71,726</td>
<td>18,124</td>
<td>58</td>
<td>89,908</td>
<td>83,868</td>
<td>19,451</td>
<td></td>
<td>103,519</td>
</tr>
<tr>
<td>Purchased Services</td>
<td>44,689</td>
<td>55,425</td>
<td>10,035</td>
<td>110,149</td>
<td>54,253</td>
<td>143,372</td>
<td></td>
<td>199,388</td>
</tr>
<tr>
<td>Model Fees</td>
<td>16,631</td>
<td>-</td>
<td></td>
<td>16,631</td>
<td>16,039</td>
<td>-</td>
<td></td>
<td>16,039</td>
</tr>
<tr>
<td>Lecturer's Honorarium</td>
<td>20,496</td>
<td>-</td>
<td></td>
<td>20,496</td>
<td>17,151</td>
<td>-</td>
<td></td>
<td>17,151</td>
</tr>
<tr>
<td>Hospitality</td>
<td>28,560</td>
<td>2,173</td>
<td>472</td>
<td>30,105</td>
<td>19,396</td>
<td>2,663</td>
<td></td>
<td>21,063</td>
</tr>
<tr>
<td>Memberships and Fees</td>
<td>21,400</td>
<td>4,411</td>
<td></td>
<td>25,811</td>
<td>7,000</td>
<td>22,962</td>
<td></td>
<td>24,962</td>
</tr>
<tr>
<td>Books, Videos, and Subscriptions</td>
<td>2,940</td>
<td>2,065</td>
<td>-</td>
<td>4,005</td>
<td>2,065</td>
<td>-</td>
<td>2,065</td>
<td></td>
</tr>
<tr>
<td>Email and Internet</td>
<td>6,594</td>
<td>6,569</td>
<td></td>
<td>13,163</td>
<td>4,667</td>
<td>4,667</td>
<td></td>
<td>9,334</td>
</tr>
<tr>
<td>Postage and Mail Service</td>
<td>-</td>
<td>12,628</td>
<td></td>
<td>12,628</td>
<td>-</td>
<td>15,184</td>
<td></td>
<td>15,184</td>
</tr>
<tr>
<td>Travel</td>
<td>19,884</td>
<td>1,170</td>
<td>97</td>
<td>21,151</td>
<td>13,744</td>
<td>4,318</td>
<td></td>
<td>18,062</td>
</tr>
<tr>
<td>Per Diem</td>
<td>8,814</td>
<td>-</td>
<td>8,968</td>
<td>-</td>
<td>5,645</td>
<td>679</td>
<td></td>
<td>6,324</td>
</tr>
<tr>
<td>Promotion</td>
<td>151,642</td>
<td>443</td>
<td>3,770</td>
<td>155,855</td>
<td>145,895</td>
<td>1,769</td>
<td></td>
<td>151,924</td>
</tr>
<tr>
<td>Newsletter</td>
<td>5</td>
<td>8,065</td>
<td>-</td>
<td>8,080</td>
<td>-</td>
<td>16,872</td>
<td></td>
<td>16,872</td>
</tr>
<tr>
<td>Equipment Maintenance and Rental</td>
<td>44,221</td>
<td>20,777</td>
<td>394</td>
<td>65,392</td>
<td>39,737</td>
<td>20,893</td>
<td>3,324</td>
<td>63,954</td>
</tr>
<tr>
<td>Plant Maintenance</td>
<td>59,994</td>
<td>-</td>
<td>58,994</td>
<td>118,988</td>
<td>91,459</td>
<td>-</td>
<td></td>
<td>91,459</td>
</tr>
<tr>
<td>Student Activities</td>
<td>41,788</td>
<td>-</td>
<td>41,788</td>
<td>-</td>
<td>41,551</td>
<td>-</td>
<td></td>
<td>41,551</td>
</tr>
<tr>
<td>Student Exhibition</td>
<td>12,920</td>
<td>-</td>
<td>12,920</td>
<td>-</td>
<td>4,588</td>
<td>-</td>
<td></td>
<td>4,588</td>
</tr>
<tr>
<td>Information Technology</td>
<td>79</td>
<td>1,617</td>
<td>-</td>
<td>1,696</td>
<td>-</td>
<td>2,580</td>
<td></td>
<td>2,580</td>
</tr>
<tr>
<td>Scholarships</td>
<td>1,907,341</td>
<td>-</td>
<td>1,907,341</td>
<td>-</td>
<td>1,460,304</td>
<td>-</td>
<td></td>
<td>1,460,304</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>413,925</td>
<td>15,467</td>
<td>2,093</td>
<td>431,485</td>
<td>443,134</td>
<td>15,198</td>
<td>2,237</td>
<td>460,569</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>154,621</td>
<td>1,570</td>
<td>785</td>
<td>16,976</td>
<td>235,224</td>
<td>2,388</td>
<td></td>
<td>238,606</td>
</tr>
<tr>
<td>Taxes</td>
<td>136,911</td>
<td>1,410</td>
<td>705</td>
<td>141,026</td>
<td>138,264</td>
<td>1,404</td>
<td>702</td>
<td>140,370</td>
</tr>
<tr>
<td>Bond Cost</td>
<td>76,843</td>
<td>780</td>
<td>390</td>
<td>80,933</td>
<td>101,524</td>
<td>1,031</td>
<td></td>
<td>102,555</td>
</tr>
<tr>
<td>Miscellaneous Expense</td>
<td>-</td>
<td>6,687</td>
<td>-</td>
<td>6,687</td>
<td>-</td>
<td>23,814</td>
<td></td>
<td>23,854</td>
</tr>
</tbody>
</table>

$5,836,717 $597,594 $28,418 $6,462,729 $5,560,426 $769,510 $49,839 $6,379,776
NOTE 18 – HEDGING ACTIVITIES

1212 Jackson holds derivative financial instruments for the purpose of hedging the risks of certain identifiable and anticipated transactions. In general, the types of risks hedged are those relating to the changes in interest rates. In hedging the transactions 1212 Jackson LLC, in the normal course of business, holds the following type of derivative:

<table>
<thead>
<tr>
<th>Type of Derivative</th>
<th>Type of Transaction Being Hedged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swap</td>
<td>Cash flows of variable rate debt</td>
</tr>
</tbody>
</table>

Derivatives are held only for the purpose of hedging such risks, not for speculation. Generally, the LLC enters into hedging relationships such that changes in the fair values or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives. At May 31, 2011, hedging relationships exist for bond indebtedness.

The LLC recognized net gains of $86,085 and $73,224 for 2011 and 2010 from cash flow hedges, respectively. All forecasted transactions currently being hedged are expected to occur by 2012.

NOTE 19 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Academy in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term pledges receivable, accounts and other receivables, short-term notes payable and accounts payable and accrued liabilities: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Short-term and endowment investments: The fair values of investments are based on quoted market prices for those or similar investments.

Long-term pledge receivables and long-term bonds payable: The fair values are estimated by discounting the future cash flows using a current risk free rate of return based on the yield of a U.S. Treasury security with a maturity date similar to the expected collection period, or using stated interest rates.

The estimated fair values of the Academy’s financial instruments as of May 31, 2011, none of which are held for trading purposes, are as follows:

<table>
<thead>
<tr>
<th>Financial Assets</th>
<th>Carrying Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>496,258</td>
<td>496,258</td>
</tr>
<tr>
<td>Accounts and Other Receivables</td>
<td>118,373</td>
<td>118,373</td>
</tr>
<tr>
<td>Pledges Receivable</td>
<td>14,340</td>
<td>14,340</td>
</tr>
<tr>
<td>Investments</td>
<td>5,860,001</td>
<td>5,860,001</td>
</tr>
<tr>
<td>Beneficial Interests</td>
<td>259,586</td>
<td>259,586</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Liabilities</th>
<th>Carrying Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable, Accrued and Other Liabilities</td>
<td>581,737</td>
<td>581,737</td>
</tr>
<tr>
<td>Bond Payable and Note Payable</td>
<td>4,470,761</td>
<td>4,470,761</td>
</tr>
</tbody>
</table>
NOTE 20 – FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). 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 for 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;
- 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 or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at May 31, 2011 and 2010.

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value for the contribution receivable from a beneficial interest in a charitable remainder trust is determined by using payment streams discounted at 6% over the remaining lives of the donors using standard mortality tables. The fair value of the interest rate swap is determined by market values provided by the bank.
The following assets and liabilities were measured at fair value as of May 31, 2011:

|                        | Level 1 Quoted Price In Active Markets for Identical Assets | Level 2 Level 3 Significant Other Significant Identical Observable Unobservable Inputs Inputs |
|------------------------|------------------------------------------------------------|---------------------------------------------|-------------------------------------------------|
| Cash & Cash Equivalents| $ 53,341                                                   | $ -                                         | $ -                                             |
| Mutual Funds           |                                                            |                                             |                                                 |
| Money Market Funds     | 25,042                                                     | -                                           | -                                               |
| Value Funds            | 689,235                                                    | -                                           | -                                               |
| Blended Funds          | 221,869                                                    | -                                           | -                                               |
| Growth Funds           | 943,260                                                    | -                                           | -                                               |
| Fixed Funds            | 1,379,693                                                  | -                                           | -                                               |
| International Funds    | 332,033                                                    | -                                           | -                                               |
| Total Mutual Funds     | 3,591,132                                                  | -                                           | -                                               |
| Stocks                 |                                                            |                                             |                                                 |
| Consumer Discretionary | 134,753                                                    | -                                           | -                                               |
| Consumer Staples       | 97,335                                                     | -                                           | -                                               |
| Energy                | 127,213                                                    | -                                           | -                                               |
| Financial             | 891,550                                                    | -                                           | -                                               |
| Health Care            | 131,214                                                    | -                                           | -                                               |
| Industrials           | 133,401                                                    | -                                           | -                                               |
| Information Technology | 193,043                                                   | -                                           | -                                               |
| Materials             | 49,045                                                     | -                                           | -                                               |
| Telecommunication Services | 24,917                       | -                                           | -                                               |
| Utilities             | 36,612                                                     | -                                           | -                                               |
| Total Stocks           | 1,819,083                                                  | -                                           | -                                               |
| Fixed Income           | 38,490                                                     | -                                           | -                                               |
| Exchange-Traded Funds  | 357,955                                                    | -                                           | -                                               |
| Total Investments      | $ 5,860,001                                                 | $ -                                         | $ -                                             |
| Beneficial Interest In Trusts | $ 306,428                                    | $ -                                         | $ (46,842)                                       |
| Fair Market Value of Interest Rate Swap | $ -                                                        | $ (60,784)                                 | $ -                                             |
### NOTE 20 – FAIR VALUE MEASUREMENTS (Continued)

The following assets and liabilities were measured at fair value as of May 31, 2010:

<table>
<thead>
<tr>
<th>Level 1 Quoted Price in Active Markets for Identical Assets</th>
<th>Level 2 Significant Other Observable Inputs</th>
<th>Level 3 Significant Unobservable Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>$69,013</td>
<td>-</td>
</tr>
<tr>
<td><strong>Mutual Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>7,341</td>
<td>-</td>
</tr>
<tr>
<td>Value Funds</td>
<td>467,426</td>
<td>-</td>
</tr>
<tr>
<td>Blended Funds</td>
<td>188,311</td>
<td>-</td>
</tr>
<tr>
<td>Growth Funds</td>
<td>637,471</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Funds</td>
<td>881,517</td>
<td>-</td>
</tr>
<tr>
<td>International Funds</td>
<td>256,002</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Mutual Funds</strong></td>
<td>2,438,068</td>
<td>-</td>
</tr>
<tr>
<td><strong>Stocks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>82,724</td>
<td>-</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>64,352</td>
<td>-</td>
</tr>
<tr>
<td>Energy</td>
<td>59,813</td>
<td>-</td>
</tr>
<tr>
<td>Financial</td>
<td>1,651,503</td>
<td>-</td>
</tr>
<tr>
<td>Health Care</td>
<td>74,691</td>
<td>-</td>
</tr>
<tr>
<td>Industrials</td>
<td>77,916</td>
<td>-</td>
</tr>
<tr>
<td>Information Technology</td>
<td>132,296</td>
<td>-</td>
</tr>
<tr>
<td>Materials</td>
<td>24,016</td>
<td>-</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>2,923</td>
<td>-</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>15,007</td>
<td>-</td>
</tr>
<tr>
<td>Utilities</td>
<td>17,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Stocks</strong></td>
<td>2,202,241</td>
<td>-</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
<td>70,462</td>
<td>-</td>
</tr>
<tr>
<td>Exchange-Traded Funds</td>
<td>429,414</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$5,209,198</td>
<td>-</td>
</tr>
<tr>
<td>Beneficial Interest In Trusts</td>
<td>$283,401</td>
<td>-</td>
</tr>
<tr>
<td>Fair Market Value of Interest Rate Swap</td>
<td>-</td>
<td>(146,869)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Contribution Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 31, 2010</td>
</tr>
<tr>
<td>Change in Value</td>
</tr>
<tr>
<td>May 31, 2011</td>
</tr>
</tbody>
</table>
NOTE 21 – SUBSEQUENT EVENTS

Subsequent to May 31, 2011, the following transactions occurred:

- In June, 2011, the bank increased the line of credit to $1,000,000, with interest being charged at either, the prime rate or LIBOR plus 1.75%, based on the Academy’s choice. The line of credit expires in March, 2012 and is unsecured.
- After May 31, 2011, the Board of Trustees approved the liquidation of board designated and temporarily restricted investments for the purpose of paying off the bond debt.
- In September, 2011, the Academy paid off the bond and the related interest rate swap.

The date to which events occurring after May 31, 2011, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 14, 2011, which is the date on which the financial statements were available to be issued.
ADDITIONAL INFORMATION
ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2011

<table>
<thead>
<tr>
<th>Federal Grantor/ Program Title</th>
<th>Pass-Through Grantor Number</th>
<th>Federal CFDA Number</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Direct Student Loans</td>
<td>P063P101983</td>
<td>84.268</td>
<td>$ 1,804,148 (1)</td>
</tr>
<tr>
<td>Federal Pell Grant Program</td>
<td>P007A103229</td>
<td>84.007</td>
<td>18,312 (1)</td>
</tr>
<tr>
<td>Supplemental Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunity Grant Program</td>
<td>P033A103229</td>
<td>84.033</td>
<td>14,652 (1)</td>
</tr>
<tr>
<td>College Work Study Program</td>
<td>P375A101983</td>
<td>84.375</td>
<td>17,550 (1)</td>
</tr>
</tbody>
</table>

$ 2,206,155

(1) Denotes Major Program (Due to cluster of programs)

(2) Type A Programs ($300,000 and greater)

(3) Type B Programs (all others)

The accompanying notes are an integral part of this schedule.
NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Art Academy of Cincinnati and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
We have audited the consolidated financial statements of the Art Academy of Cincinnati (a nonprofit organization) and Affiliates as of and for the year ended May 31, 2011, and have issued our report thereon dated September 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Art Academy of Cincinnati and Affiliates' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose expressing an opinion on the effectiveness of Art Academy of Cincinnati and Affiliates' internal control over financial reporting. Accordingly, we do not express on an opinion on the effectiveness of the Art Academy of Cincinnati and Affiliates' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.
Compliance and Other Matters

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

We noted certain additional matters that we reported to management of the Academy in a separate letter dated September 14, 2011.

This report is intended solely for the information and use of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fort Mitchell, Kentucky
September 14, 2011
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the Art Academy of Cincinnati and Affiliates’ compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Art Academy of Cincinnati and Affiliates’ major federal programs for the year ended May 31, 2011. The Art Academy of Cincinnati and Affiliates’ major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Art Academy of Cincinnati and Affiliates’ management. Our responsibility is to express an opinion on the Art Academy of Cincinnati and Affiliates’ compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Art Academy of Cincinnati and Affiliates’ compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Art Academy of Cincinnati and Affiliates’ compliance with those requirements.

In our opinion, the Art Academy of Cincinnati and Affiliates complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-1.
Internal Control over Compliance

Management of the Art Academy of Cincinnati and Affiliates is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Art Academy of Cincinnati and Affiliates' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Art Academy of Cincinnati and Affiliates' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Art Academy of Cincinnati and Affiliates’ response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Art Academy of Cincinnati and Affiliates’ responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fort Mitchell, Kentucky
September 14, 2011
ART ACADEMY OF CINCINNATI AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended May 31, 2011  

SECTION I – SUMMARY OF AUDITORS’ RESULTS

<table>
<thead>
<tr>
<th>FINANCIAL STATEMENTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Auditor’s Report Issued</td>
<td>Unqualified</td>
</tr>
<tr>
<td>Material weakness(es) identified?</td>
<td>No</td>
</tr>
<tr>
<td>Significant Deficiencies identified not considered to be material weaknesses?</td>
<td>None Reported</td>
</tr>
<tr>
<td>Noncompliance material to financial statements noted?</td>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FEDERAL AWARDS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Material weakness(es) identified?</td>
<td>No</td>
</tr>
<tr>
<td>Significant Deficiencies identified not considered to be material weakness?</td>
<td>None Reported</td>
</tr>
<tr>
<td>Type of auditors’ report issued on compliance for major programs:</td>
<td>Unqualified</td>
</tr>
<tr>
<td>Are there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

| Major Programs (list): | Federal Direct Student Loans [CFDA 84.268]  
Federal Pell Grant Program [CFDA 84.063]  
Supplemental Education Opportunity Grant Program [CFDA 84.007]  
College Work Study Program [CFDA 84.033]  
Academic Competitiveness [CFDA 84.375] |
|------------------------|------------------------------------------|
| Dollar Threshold: Type A/B Programs | Type A: > $300,000  
Type B: > all others |
| Low Risk Auditee? | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

None
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Item 11-01 Return of Funds:

If a student withdraws or drops out, the institution must determine if a return of Title IV funds is necessary. If a return is necessary, the institution is required to deposit the funds to the Student Financial Assistance (SFA) accounts or return the funds to the Education Department (ED) to the appropriate Direct Loan lender within forty-five days after the institution determines the student withdrew.

Out of a sample of twenty-one returns of Title IV Funds selected for testing, five returns representing three students were not returned to the appropriate account within the required time frame.

Corrective Action:

Due to competing professional demands of the Finance Office, the return of funds for three students were processed late. Management has discussed the issue with the Finance Office and has created a schedule to review the status of all return of funds.
SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Item 10-01 Return of Funds:

If a student withdraws or drops out, the institution must determine if a return of Title IV funds is necessary. If a return is necessary, the institution is required to deposit the funds to the Student Financial Assistance (SFA) accounts or return the funds the Education Department (ED) to the appropriate Federal Family Educational Loan (FFEL) lender within forty five days after the institution determines the student withdrew.

Out of a sample of eighteen return of Title IV Funds selected for testing, five returns were not returned to the appropriate account within the required time frame.

Corrective Action:

Due to a misunderstanding between departments the withdrawal and leave of absence paperwork were not processed in the usual timely method. The departments that manage student accounts have discussed the issues that caused this break in communication and have determined that an extra reconciliation process will be created and started immediately to prevent this.

Current Status:

The new process of communication on student's status has worked successfully.

Item 10-02 Student Status Changes:

The Academy is required to notify the National Student Loan Data System (NSLDS) of a change in the student's status. Section 34 CFR 682.610(c)(2) of the Federal Family Education Loan (FFEL) Program states that unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, a school must notify the guaranty agency or lender within 30 days if it discovers that a Stafford, Unsubsidized Stafford, or PLUS loan has been made on behalf of a student who has enrolled at that school, but who has ceased to be enrolled on at least a half-time basis.

Out of a sample of twenty-five students selected for testing, one student had a change in status that was not reported to the NSLDS within the required time frame. This finding was the result of the incorrect effective date being shown on the NSLDS system for the date of change in status.

Corrective Action:

Notification to the NSLDS for one student was delayed due to a procedure error. Changes to the reporting schedule will be put into action immediately to increase the frequency of internal reconciliations that will reduce the possibility of errors.

Current Status:

The new process of internal reconciliations has worked successfully.
SUPPLEMENTAL INFORMATION
## ART ACADEMY OF CINCINNATI AND AFFILIATES
### CONSOLIDATING STATEMENT OF FINANCIAL POSITION
#### May 31, 2011

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Art Academy of Cincinnati</th>
<th>Academy Advancement Limited</th>
<th>1212 Jackson, LLC</th>
<th>Art Academy Housing, Inc.</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cash and Cash Equivalents</td>
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<td>$39,693</td>
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<td>3,276,941</td>
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<td>(4,360,771)</td>
<td>118,373</td>
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<td>-</td>
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<td>Note Receivable - Related Party</td>
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<td>-</td>
<td>662,894</td>
<td>(4,657,390)</td>
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<td>Interest and Dividends Receivable</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>29</td>
<td></td>
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<td>Prepaid Expenses</td>
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<td>16,551</td>
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<td>102,118</td>
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<td><strong>Total Current Assets</strong></td>
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<td>$3,333,185</td>
<td>$662,894</td>
<td>(9,018,161)</td>
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<td>Investments</td>
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<td>-</td>
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<td>11,895</td>
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<td>180,707</td>
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<td>-</td>
<td>-</td>
<td>125,721</td>
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<td>13,386</td>
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<td>124,090</td>
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<td><strong>Total Assets</strong></td>
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<td>$678,281</td>
<td>(15,045,768)</td>
<td>$17,958,974</td>
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</tbody>
</table>

### LIABILITIES AND EQUITY

<table>
<thead>
<tr>
<th></th>
<th>Art Academy of Cincinnati</th>
<th>Academy Advancement Limited</th>
<th>1212 Jackson, LLC</th>
<th>Art Academy Housing, Inc.</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
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<td>$149,606</td>
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<td>Accrued Expenses</td>
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<td>432,131</td>
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<td>3,303,215</td>
<td>681,981</td>
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<td>Note Payable - Current Portion</td>
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<td>3,378</td>
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<tr>
<td>Bond Payable - Current Portion</td>
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<td>-</td>
<td>4,300,000</td>
<td>-</td>
<td>-</td>
<td>4,300,000</td>
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<tr>
<td><strong>Total Current Liabilities</strong></td>
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<td>-</td>
<td>$8,803,654</td>
<td>$681,981</td>
<td>(9,018,161)</td>
<td>4,885,115</td>
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<td><strong>Long-Term Liabilities</strong></td>
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<td>Charitable Remainder Trust</td>
<td>46,842</td>
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<td>46,842</td>
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<td>Note Payable (Less Current Portion)</td>
<td>167,383</td>
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<td>167,383</td>
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<tr>
<td>Bond Payable (Less Current Portion)</td>
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<td>-</td>
<td>-</td>
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<tr>
<td><strong>Total Long Term Liabilities</strong></td>
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<td>-</td>
<td>-</td>
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<td><strong>Fair Market Value of Interest Rate Swap</strong></td>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Interest Rate Swap</td>
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<td>60,784</td>
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<td><strong>Total Liabilities</strong></td>
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<td>$681,981</td>
<td>(9,018,161)</td>
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### Equity

<table>
<thead>
<tr>
<th></th>
<th>Art Academy of Cincinnati</th>
<th>Academy Advancement Limited</th>
<th>1212 Jackson, LLC</th>
<th>Art Academy Housing, Inc.</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members' Equity</td>
<td>-</td>
<td>2,995,138</td>
<td>4,594,164</td>
<td>-</td>
<td>(6,027,607)</td>
<td>1,561,695</td>
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<tr>
<td>Fair Market Value of Interest Rate Swap</td>
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<td>-</td>
<td>(60,784)</td>
<td>-</td>
<td>-</td>
<td>(60,784)</td>
</tr>
<tr>
<td>Net Assets</td>
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<td>-</td>
<td>-</td>
<td>(3,700)</td>
<td>-</td>
<td>11,297,939</td>
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<tr>
<td></td>
<td>11,301,639</td>
<td>2,995,138</td>
<td>4,533,380</td>
<td>(3,700)</td>
<td>(6,027,607)</td>
<td>12,798,850</td>
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<tr>
<td>Other Members’ Equity</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>11,301,639</td>
<td>2,995,138</td>
<td>4,533,380</td>
<td>(3,700)</td>
<td>(6,027,607)</td>
<td>12,798,850</td>
</tr>
<tr>
<td><strong>Total Liabilities and Equity</strong></td>
<td>$15,933,505</td>
<td>$2,995,138</td>
<td>$13,397,818</td>
<td>$678,281</td>
<td>(15,045,768)</td>
<td>$17,958,974</td>
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<tr>
<td>Revenue and Support</td>
<td>Art Academy of Cincinnati</td>
<td>Academy of Advancement Limited</td>
<td>1212 Jackson Housing, LLC</td>
<td>Eliminations</td>
<td>Total</td>
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<tr>
<td>---------------------------------------------------------</td>
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<tr>
<td>Grants, Contributions and Gifts</td>
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<td>$ -</td>
<td>$ -</td>
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<td>Tuition Income</td>
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<td>4,804,294</td>
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<td>Investment Income</td>
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<td>Total Revenue and Support</td>
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<td>810,800</td>
<td>161,133</td>
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<table>
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<tr>
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<td>Program Services</td>
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<td>753,916</td>
<td>147,018</td>
<td>5,836,717</td>
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<tr>
<td>Management &amp; General</td>
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<td>100</td>
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<tr>
<td>Total Expenses</td>
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<td>100</td>
<td>857,946</td>
<td>147,018</td>
<td>6,462,729</td>
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<table>
<thead>
<tr>
<th>Excess (Deficit) of Revenue, Support and Reclassifications</th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Change in Net Assets</td>
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<td>(2,326)</td>
<td>14,115</td>
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<td>Members' Contributed Capital</td>
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<td>30,000</td>
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<tr>
<td>Buoyout of Other Members</td>
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<td></td>
<td>(30,000)</td>
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<tr>
<td>Other Members' Interest</td>
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<tr>
<td>Change in Fair Market Value of Interest Rate Swap</td>
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<tr>
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<tr>
<td>Net Assets End of Year</td>
<td><strong>$ 11,301,639</strong></td>
<td><strong>$ 2,995,138</strong></td>
<td><strong>$ 4,533,380</strong></td>
<td><strong>$ (3,700)</strong></td>
<td><strong>$ 12,798,850</strong></td>
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<tr>
<td></td>
<td>Academy Advancement</td>
<td>1212 Jackson LLC</td>
<td>Subtotal</td>
<td>Eliminations</td>
<td>Total</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>---------------------</td>
<td>-----------------</td>
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</tr>
<tr>
<td><strong>Members' Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- May 31, 2009 (As Restated)</td>
<td>$ 2,965,178</td>
<td>$ 4,468,548</td>
<td>$ 7,433,726</td>
<td>(5,965,142)</td>
<td>$ 1,468,584</td>
</tr>
<tr>
<td>Contributed Capital</td>
<td>-</td>
<td>2,404</td>
<td>2,404</td>
<td>(2,404)</td>
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</tr>
<tr>
<td>Net Loss</td>
<td>(140)</td>
<td>(50)</td>
<td>(190)</td>
<td>39</td>
<td>(151)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>2,965,038</td>
<td>4,470,902</td>
<td>7,435,940</td>
<td>(5,967,507)</td>
<td>1,468,433</td>
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<tr>
<td>Other Members' Net Loss</td>
<td>-</td>
<td>(49,685)</td>
<td>(49,685)</td>
<td>-</td>
<td>(49,685)</td>
</tr>
<tr>
<td>Fair Market Value of Interest Rate</td>
<td>-</td>
<td>73,224</td>
<td>73,224</td>
<td>-</td>
<td>73,224</td>
</tr>
<tr>
<td>Swap</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Members' Equity</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- May 31, 2010</td>
<td>2,965,038</td>
<td>4,494,441</td>
<td>7,459,479</td>
<td>(5,967,507)</td>
<td>1,491,972</td>
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<td>60,000</td>
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<tr>
<td>Buyout of Other Members</td>
<td>-</td>
<td>(30,000)</td>
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<tr>
<td>Net Income (Loss)</td>
<td>100</td>
<td>(2,326)</td>
<td>(2,226)</td>
<td>(100)</td>
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<tr>
<td>Subtotal</td>
<td>2,995,138</td>
<td>4,492,115</td>
<td>7,487,253</td>
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<td>1,459,646</td>
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<tr>
<td>Other Members' Contributed Capital</td>
<td>-</td>
<td>(30,000)</td>
<td>(30,000)</td>
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<td>(30,000)</td>
</tr>
<tr>
<td>Other Members' Net Loss</td>
<td>-</td>
<td>(44,820)</td>
<td>(44,820)</td>
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<td>(44,820)</td>
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<tr>
<td>Subtotal</td>
<td>-</td>
<td>(74,820)</td>
<td>(74,820)</td>
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<tr>
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<td>Swap</td>
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<tr>
<td><strong>Members' Equity</strong></td>
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</tr>
<tr>
<td>- May 31, 2011</td>
<td>$ 2,995,138</td>
<td>$ 4,533,380</td>
<td>$ 7,528,518</td>
<td>(6,027,607)</td>
<td>$ 1,500,911</td>
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