ART ACADEMY OF CINCINNATI AND AFFILIATES

May 31, 2009

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT INCLUDING SUPPLEMENTAL INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATES
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VON LEHMAN + COMPANY INC.

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, 2009 and August 31, 2008, and the related consolidated statements of activities and cash flows for the nine months and year 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 U.S. generally accepted auditing standards 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, 2009 and August 31, 2008, and the changes in its consolidated net assets and its consolidated cash flows for the nine months and year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 8, 2009 on our consideration of the Art Academy of Cincinnati and Affiliates' internal control over financial reporting and 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.

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CPAs & Advisors

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Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of the Art Academy of Cincinnati and Affiliates taken 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 8, 2009

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITIO
May 31, 2009

	Unrestricted				Permanently Restricted	
ASSETS	**General**	**Board Designated**	**Plant**	**Temporarily Restricted**	**Endowment**	**Total**
Current Assets						
Cash and Cash Equivalents	$ 209,601	$ 43,866	$ 35,448	$ 555,994	$ 6,500	$ 851,409
Accounts Receivable	250,343	-	-	13,408	-	263,751
Pledges Receivable	-	-	-	17,737	-	17,737
Interest and Dividends Receivable	-	36	-	-	-	36
Prepaid Expenses	83,817	-	14,754	-	-	98,571
Total Current Assets	543,761	43,902	50,202	587,139	6,500	1,231,504
Buildings and Equipment, Net	-	-	11,683,596	-	-	11,683,596
Investments	16,246	1,405,244	66,431	424,294	3,678,458	5,590,673
Pledges Receivable	-	-	-	29,568	-	29,568
Beneficial Interest in Charitable Remainder Trusts	-	-	-	121,812	-	121,812
Deposits	-	-	9,635	-	-	9,635
Other Assets, Net	-	-	162,168	-	-	162,168
Total Assets	$ 560,007	$ 1,449,146	$ 11,972,032	$ 1,162,813	$ 3,684,958	$ 18,828,956
LIABILITIES AND EQUITY						
Current Liabilities						
Accounts Payable	$ 149,930	$ -	$ 874	$ -	$ -	$ 150,804
Accrued Expenses	184,406	-	108,425	195,460	-	488,291
Interfund Payable (Receivable)	725,000	(725,000)	-	-	-	-
Note Payable - Current Portion	-	-	2,938	-	-	2,938
Bond Payable - Current Portion	-	-	300,000	-	-	300,000
Deferred Compensation Liability	-	90,188	-	-	-	90,188
Total Current Liabilities	1,059,336	(634,812)	412,237	195,460	-	1,032,221
Long-Term Liabilities						
Charitable Remainder Trust	-	-	-	53,793	-	53,793
Note Payable (Less Current Portion)	-	-	173,990	-	-	173,990
Bond Payable (Less Current Portion)	-	-	4,300,000	-	-	4,300,000
Total Long Term Liabilities	-	-	4,473,990	53,793	-	4,527,783
Fair Market Value of Interest Rate Swap	-	-	220,093	-	-	220,093
Total Liabilities	1,059,336	(634,812)	5,106,320	249,253	-	5,780,097
Equity						
Members' Deficit	-	-	(37,330)	-	-	(37,330)
Fair Market Value of Interest Rate Swap	-	-	(220,093)	-	-	(220,093)
Net Assets	(499,329)	2,083,958	5,397,128	913,560	3,684,958	11,580,275
	(499,329)	2,083,958	5,139,705	913,560	3,684,958	11,322,852
Other Members' Equity	-	-	1,726,007	-	-	1,726,007
Total Equity	(499,329)	2,083,958	6,865,712	913,560	3,684,958	13,048,859
Total Liabilities and Equity	$ 560,007	$ 1,449,146	$ 11,972,032	$ 1,162,813	$ 3,684,958	$ 18,828,956

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
August 31, 2008

	Unrestricted				Permanently Restricted	
ASSETS	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Current Assets						
Cash and Cash Equivalents	$ -	$ 70,114	$ 4,632	$ 1,456,433	$ -	$ 1,531,179
Accounts Receivable	126,895	-	-	12,731	-	139,626
Pledges Receivable	-	-	-	44,403	-	44,403
Interest and Dividends Receivable	-	444	-	-	-	444
Prepaid Expenses	224,097	-	18,365	-	-	242,462
Total Current Assets	350,992	70,558	22,997	1,513,567	-	1,958,114
Buildings and Equipment, Net	-	-	11,986,299	-	-	11,986,299
Investments	21,717	2,459,906	46,347	773,050	5,296,352	8,597,372
Pledges Receivable	-	-	-	28,405	-	28,405
Beneficial Interest in Charitable Remainder Trusts	-	-	-	172,760	-	172,760
Deposits	-	-	9,635	-	-	9,635
Other Assets, Net	-	-	177,961	-	-	177,961
Total Assets	$ 372,709	$ 2,530,464	$ 12,243,239	$ 2,487,782	$ 5,296,352	$ 22,930,546
LIABILITIES AND EQUITY						
Current Liabilities						
Bank Overdraft	$ 271,519	$ -	$ -	$ -	$ -	$ 271,519
Accounts Payable	243,064	-	874	-	-	243,938
Accrued Expenses	86,790	-	71,424	1,063,915	-	1,222,129
Interfund Payable (Receivable)	425,000	(425,000)	-	-	-	-
Note Payable - Current Portion	-	-	2,788	-	-	2,788
Deferred Compensation Liability	-	101,997	-	-	-	101,997
Total Current Liabilities	1,026,373	(323,003)	75,086	1,063,915	-	1,842,371
Long-Term Liabilities						
Charitable Remainder Trust	-	-	-	81,755	-	81,755
Note Payable (Less Current Portion)	-	-	176,315	0	-	176,315
Bond Payable	-	-	4,600,000	-	-	4,600,000
Total Long Term Liabilities	-	-	4,776,315	81,755	-	4,858,070
Fair Market Value of Interest Rate Swap	-	-	98,901			98,901
Total Liabilities	1,026,373	(323,003)	4,950,302	1,145,670	-	6,799,342
Equity						
Members' Deficit	-	-	(34,836)	-	-	(34,836)
Fair Market Value of Interest Rate Swap	-	-	(98,901)	-	-	(98,901)
Net Assets	(653,664)	2,853,467	5,661,244	1,342,112	5,296,352	14,499,511
	(653,664)	2,853,467	5,527,507	1,342,112	5,296,352	14,365,774
Other Members' Equity	-	-	1,765,430	-	-	1,765,430
Total Equity	(653,664)	2,853,467	7,292,937	1,342,112	5,296,352	16,131,204
Total Liabilities and Equity	$ 372,709	$ 2,530,464	$ 12,243,239	$ 2,487,782	$ 5,296,352	$ 22,930,546

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
Nine Months Ended May 31, 2009

	Unrestricted				Permanently Restricted	
	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Revenue and Support						
Grants, Contributions and Gifts	$ 327,362	$ -	$ -	$ 4,040	$ 11,166	$ 342,568
Tuition Income	3,584,438	-	-	-	-	3,584,438
Investment Income	-	58,209	129	394	134,976	193,708
Investment Income Allocation	625,647	(186,115)	-	-	(439,532)	-
Other Income	7,298	-	178,736	-	-	186,034
Total Revenue and Support	4,544,745	(127,906)	178,865	4,434	(293,390)	4,306,748
Net Assets Released from Restrictions	-	-	-	-	-	-
Total Revenue, Support and Reclassifications	4,544,745	(127,906)	178,865	4,434	(293,390)	4,306,748
Expenses						
Program Services	3,831,252	-	821,419	-	-	4,652,671
Management and General	467,397	16,102	69,316	-	-	552,815
Fundraising	119,351	-	2,821	-	-	122,172
Total Expenses	4,418,000	16,102	893,556	-	-	5,327,658
Excess (Deficit) of Revenue, Support and Reclassifications Over Expenses	126,745	(144,008)	(714,691)	4,434	(293,390)	(1,020,910)
Interfund Equity Transfers	27,590	(26,248)	408,658	(410,000)	-	-
Realized Loss on Investments	-	(205,831)	-	-	(498,756)	(704,587)
Unrealized Loss on Investments	-	(393,422)	-	-	(819,248)	(1,212,670)
Change in Beneficial Interest in Charitable Remainder Trusts	-	-	-	(22,986)	-	(22,986)
Other Members' Interest	-	-	39,423	-	-	39,423
Change in Net Assets	154,335	(769,509)	(266,610)	(428,552)	(1,611,394)	(2,921,730)
Other Members' Interest	-	-	(39,423)	-	-	(39,423)
Change in Fair Market Value of Interest Rate Swap	-	-	(121,192)	-	-	(121,192)
	154,335	(769,509)	(427,225)	(428,552)	(1,611,394)	(3,082,345)
Net Assets Beginning of Year	(653,664)	2,853,467	7,292,937	1,342,112	5,296,352	16,131,204
Net Assets End of Year	$ (499,329)	$ 2,083,958	$ 6,865,712	$ 913,560	$ 3,684,958	$ 13,048,859

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended August 31, 2008

	Unrestricted				Permanently Restricted	
	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Revenue and Support						
Grants, Contributions and Gifts	$ 374,989	$ -	$ 60,000	$ 32,715	$ 420,610	$ 888,314
Tuition Income	3,231,565	-	-	-	-	3,231,565
Investment Income	-	167,681	8,708	17,543	296,766	490,698
Investment Income Allocation	873,322	(309,633)	-	-	(563,689)	-
Other Income	27,276	-	111,582	-	-	138,858
Total Revenue and Support	4,507,152	(141,952)	180,290	50,258	153,687	4,749,435
Net Assets Released from Restrictions	22,600	-	-	(22,600)	-	-
Total Revenue, Support and Reclassifications	4,529,752	(141,952)	180,290	27,658	153,687	4,749,435
Expenses						
Program Services	4,063,882	-	984,568	-	-	5,048,450
Management and General	629,189	33,274	80,577	-	-	743,040
Fundraising	169,378	-	3,291	-	-	172,669
Total Expenses	4,862,449	33,274	1,068,436	-	-	5,964,159
(Deficit) Excess of Revenue, Support and Reclassifications Over Expenses	(332,697)	(175,226)	(888,146)	27,658	153,687	(1,214,724)
Interfund Equity Transfers	(78,269)	(90,243)	275,512	(107,000)	-	-
Realized Gain on Investments	-	(28,560)	-	-	(64,058)	(92,618)
Unrealized Loss on Investments	-	(774,159)	-	(2,912)	(1,347,652)	(2,124,723)
Change in Beneficial Interest in Charitable Remainder Trusts	-	-	-	(14,601)	-	(14,601)
Other Members' Interest	-	-	52,862	-	-	52,862
Change in Net Assets	(410,966)	(1,068,188)	(559,772)	(96,855)	(1,258,023)	(3,393,804)
Other Members' Interest	-	-	(52,862)	-	-	(52,862)
Change in Fair Market Value of Interest Rate Swap	-	-	(114,289)	-	-	(114,289)
	(410,966)	(1,068,188)	(726,923)	(96,855)	(1,258,023)	(3,560,955)
Net Assets Beginning of Year	(242,698)	3,921,655	8,019,860	1,438,967	6,554,375	19,692,159
Net Assets End of Year	$ (653,664)	$ 2,853,467	$ 7,292,937	$ 1,342,112	$ 5,296,352	$ 16,131,204

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

	Members' Deficit	Other Members' Equity	Fair Market Value of Interest Rate Swap	Total
Balance - August 31, 2007	$ (29,873)	$ 1,818,292	$ 15,388	$ 1,803,807
Net Loss	(4,963)	-	-	(4,963)
Other Members' Net Loss	-	(52,862)	-	(52,862)
Change in Fair Market Value of Interest Rate Swap	-	-	(114,289)	(114,289)
Balance - August 31, 2008	(34,836)	1,765,430	(98,901)	1,631,693
Net Loss	(2,494)	-	-	(2,494)
Other Members' Net Loss	-	(39,423)	-	(39,423)
Change in Fair Market Value of Interest Rate Swap	-	-	(121,192)	(121,192)
Balance - May 31, 2009	$ (37,330)	$ 1,726,007	$ (220,093)	$ 1,468,584

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Nine Months Ended May 31, 2009		Year Ended August 31, 2008
Cash Flows from Operating Activities				
Change in Net Assets	$	(2,921,730)	$	(3,393,804)
Adjustments to Reconcile Change in Net Assets				
to Net Cash Provided by Operating Activities				
Depreciation		342,728		447,784
Amortization		15,793		20,864
Realized Loss (Gain) on Investments		704,587		92,618
Unrealized Loss on Investments		1,212,670		2,124,723
Change in Beneficial Interest in Charitable Remainder Trusts		22,986		14,601
Other Members' Interest		(39,423)		(52,862)
Contributions Restricted for Capital Purchases		(4,040)		(32,715)
Change in Operating Assets				
Accounts Receivable		(124,125)		(49,078)
Pledges Receivable		25,503		159,087
Interest and Dividends Receivable		408		45
Prepaid Expenses		143,891		60,445
Deposits		-		(805)
Other Assets		-		(4,971)
Change in Operating Liabilities				
Bank Overdraft		(271,519)		(57,257)
Accounts Payable		(93,134)		64,978
Accrued Expenses		(733,838)		180,430
Deferred Compensation Liability		(11,809)		(8,237)
Net Cash Used by Operating Activities		(1,731,052)		(434,154)
Cash Flows from Investing Activities				
Proceeds from Sale of Investments		2,941,750		2,984,201
Purchase of Investments		(1,852,308)		(2,343,501)
Acquisition of Building and Equipment		(40,025)		(108,775)
Net Cash Provided by Investing Activities		1,049,417		531,925
Cash Flows from Financing Activities				
Contributions Restricted for Capital Purchases		4,040		32,715
Payments on Note Payable		(2,175)		(897)
Net Cash Provided by Financing Activities		1,865		31,818
Net Change in Cash and Cash Equivalents		(679,770)		129,589
Beginning Balance - Cash and Cash Equivalents		1,531,179		1,401,590
Ending Balance - Cash and Cash Equivalents	$	851,409	$	1,531,179

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.

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, 2009 and August 31, 2008.

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.

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.

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)

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. 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 2009 or 2008.

The Academy also has a nonqualified deferred compensation plan for its President. Under the plan, the President defers a portion of his salary into the plan. There is no employer match under this plan.

Advertising Costs

Advertising costs are expensed as incurred.

Amortization

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

Cost associated with the issuance of bonds is capitalized and 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 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 the members.

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.

Classes of Net Assets

The accompanying financial statements have been prepared in conformity with the requirements of the Financial Accounting Standards Board (FASB). Accordingly, the net assets of the Association 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 solely of an endowment fund.

NOTE 2 – CASH AND CASH FLOW INFORMATION

At various times throughout the year, the Academy may have cash in certain financial institutions in excess of insured limits. The amount in excess of insured limits approximated $-0- and $1,064,000 at May 31, 2009 and August 31, 2008, respectively.

The cash in excess of insured limits reflects the increase in Federal Deposit Insurance Corporation (FDIC) limits in October, 2008 from $100,000 to $250,000 on interest bearing accounts in separate financial institutions and 100% cash in non-interest bearing accounts, in effect through December 31, 2009.

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 $379,093 and $224,553 in 2009 and 2008, respectively.

The Academy had noncash financing and investing transactions as follows:

	May 31, 2009	August 31, 2008
Parking Lot Acquired Through Note Payable	$ -	$ 180,000

NOTE 3 – BUILDINGS AND EQUIPMENT

Buildings and equipment and related accumulated depreciation consist of the following at May 31, 2009 and August 31, 2008.

	Cost	Accumulated Depreciation	Net Book Value
2009			
Land	$ 362,100	$ -	$ 362,100
Buildings and Improvements	12,331,108	1,288,904	11,042,204
Office Furniture and Equipment	917,195	637,903	279,292
	$ 13,610,403	$ 1,926,807	$ 11,683,596
2008			
Land	$ 362,100	$ -	$ 362,100
Buildings and Improvements	12,331,108	1,035,961	11,295,147
Office Furniture and Equipment	877,170	548,118	329,052
	$ 13,570,378	$ 1,584,079	$ 11,986,299

Included in the above amounts for May 31, 2009 and August 31, 2008 are land and a building currently not being used in operations. The cost and accumulated depreciation of that land and building as of May 31, 2009 were $508,144 ($508,144 as of August 31, 2008) and $22,596 ($12,761 as of August 31, 2008), respectively.

NOTE 4 – PLEDGES RECEIVABLE

The Academy's pledges receivable are as follows:

	May 31, 2009	August 31, 2008
Receivable in Less than One Year	$ 18,100	$ 45,310
Less Allowance for Uncollectible Pledges Receivable	363	907
Net Receivable in Less than One Year	17,737	44,403
Receivable in One to Five Years	32,002	32,650
Less Present Value Discount (6%)	1,797	3,592
Less Allowance for Uncollectible Pledges Receivable	637	653
Net Receivable in One to Five Years	29,568	28,405
Net Receivable	$ 47,305	$ 72,808

NOTE 5 – INVESTMENTS

The Academy's investments are summarized as follows:

	May 31, 2009		August 31, 2008	
	Cost	Fair Value	Cost	Fair Value
Unrestricted Fund	$ 2,429,456	$ 1,487,921	$ 3,057,535	$ 2,527,970
Temporarily Restricted	424,294	424,294	773,050	773,050
Permanently Restricted	5,435,235	3,678,458	6,233,881	5,296,352
	$ 8,288,985	$ 5,590,673	$10,064,466	$ 8,597,372

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

	May 31, 2009		August 31, 2008	
	Cost	Fair Value	Cost	Fair Value
Cash Equivalents	$ 502,918	$ 502,918	$ 1,060,141	$ 1,060,141
U. S. Government Securities	76,024	76,587	789,979	774,012
Corporate Stocks and Bonds	4,076,223	2,169,205	4,285,017	3,231,105
Collective and Mutual Funds	3,633,820	2,841,963	3,929,329	3,532,114
	$ 8,288,985	$ 5,590,673	$10,064,466	$ 8,597,372

NOTE 5 – INVESTMENTS (Continued)

The following schedules summarize investment return and its classification in the statements of activities for the years ended May 31, 2009 and August 31, 2008.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2009				
Interest and Dividends	$ 58,338	$ 394	$ 134,976	$ 193,708
Realized Losses	(205,831)	-	(498,756)	(704,587)
Unrealized Losses	(393,422)	-	(819,248)	(1,212,670)
Fees	(16,102)	-	-	(16,102)
Total Investment Return	$ (557,017)	$ 394	$ (1,183,028)	$ (1,739,651)
2008				
Interest and Dividends	$ 176,389	$ 17,543	$ 296,766	$ 490,698
Realized Gains	(28,560)	-	(64,058)	(92,618)
Unrealized Losses	(774,159)	(2,912)	(1,347,652)	(2,124,723)
Fees	(33,274)	-	-	(33,274)
Total Investment Return	$ (659,604)	$ 14,631	$ (1,114,944)	$ (1,759,917)

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 twelve quarter rolling average. The distribution is recognized in the general fund as investment income.

NOTE 6 – OTHER ASSETS

The following is a summary of other assets:

	May 31, 2009			
	Closing Cost	Bond Issuance Cost	Organizational Cost	Total
Cost	$ 30,361	$ 172,237	$ 50,817	$ 253,415
Accumulated Amortization	7,770	41,251	42,226	91,247
Other Assets, Net	$ 22,591	$ 130,986	$ 8,591	$ 162,168

	August 31, 2008			
	Closing Cost	Bond Issuance Cost	Organizational Cost	Total
Cost	$ 30,361	$ 172,237	$ 50,817	$ 253,415
Accumulated Amortization	6,252	34,599	34,603	75,454
Other Assets, Net	$ 24,109	$ 137,638	$ 16,214	$ 177,961

NOTE 6 – OTHER ASSETS (Continued)

Estimated amortization for the five years subsequent is as follows:

Years Ending August 31,	
2010	$ 19,444
2011	10,935
2012	10,894
2013	10,894
2014	10,894
Thereafter	99,107
	$ 162,168

NOTE 7 – LINE OF CREDIT

The Academy has an unsecured revolving line of credit agreement for $400,000, which bears interest at the prime rate (3.25% and 5.00% at May 31, 2009 and August 31, 2008, respectively). The line matures in March, 2010. At May 31, 2009 and August 31, 2008, there was no outstanding balance on the line of credit.

In February, 2008, the Academy established an unsecured revolving line of credit for $16,340, which bears interest at the prime rate (3.25% and 5.00% at May 31, 2009 and August 31, 2008, respectively). The line matured in February, 2009. At August 31, 2008, there was no outstanding balance on the line of credit.

NOTE 8 – BOND PAYABLE

1212 Jackson, LLC authorized the issuance of Adjusted Rate Taxable Securities, Series 2004, with a maximum aggregate principal amount up to $8,000,000. In October, 2004, $4,000,000 was disbursed under the issuance. In April, 2005, the remaining $4,000,000 was disbursed under the issuance. At August 31, 2005, the maximum principal of $8,000,000 was disbursed to 1212 Jackson LLC. 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 Company 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 $4,600,000 at May 31, 2009. 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 3.65% and 3.35% at May 31, 2009 and August 31, 2008, respectively. The bond is collateralized by a bank letter of credit with an annual cost of 1.25%. Effective September, 2009, the annual cost of the letter of credit will increase to 2.50%. Under terms of the agreement, the Company must, among other things, maintain a capitalized interest fund and certain levels of tangible net worth. As of August 31, 2008, the covenant associated with the bond pertaining to debt service coverage ratio was not met. As May 31, 2009, the covenants associated with the bond pertaining to net tangible worth and debt service coverage ratio were not met. The Academy has obtained a waiver letter.

NOTE 9 – NOTE PAYABLE

	2009	2008
Note payable to bank; due in monthly installments of $1,272, including interest of 7.00%, due April, 2013. The note is collateralized by the piece of land.	$ 176,928	$ 179,103
Current Portion	2,938	2,788
Long-Term Portion	$ 173,990	$ 176,315

The remaining maturities on this note are as follows:

Years Ending May 31,	Amount
2010	$ 2,938
2011	3,150
2012	3,378
2013	167,462
	$ 176,928

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted as follows:

	May 31, 2009	August 31, 2008
Time Restricted		
Investments - Cash	$ 38,191	$ 41,636
Beneficial Interest in Charitable Remainder Trusts	68,019	91,005
Purpose Restricted		
Building on Rich Tradition Campaign	786,193	1,186,314
Contributions and Gifts	21,157	23,157
	$ 913,560	$ 1,342,112

NOTE 11 – ENDOWMENTS

The Academy's endowment consists of approximately 63 individual funds established for a variety of purposes. Its endowment includes donor-restricted funds 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 fair 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 based on its income and (d) less amounts withdrawn as part of the Academy's spending policy. In accordance with UPMIFA, the Academy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Academy and (7) the Academy's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Academy has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 8%, while growing the funds if possible. Therefore, the Academy expects its endowment assets, over time, to produce an average rate of return of approximately 9.5% 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 8% of its endowment fund's average fair value of the prior 12 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 1.5% 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, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ -	$ 3,684,958	$ 3,684,958

NOTE 11 – ENDOWMENTS (Continued)

Changes in endowment net assets for the nine months ended May 31, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ -	$ -	$ 5,296,352	$ 5,296,352
Investment Return				
Investment Income	-	-	134,976	134,976
Net Depreciation (Realized and Unrealized)	-	-	(1,318,004)	(1,318,004)
Total Investment Return	-	-	(1,183,028)	(1,183,028)
Contributions	-	-	11,166	11,166
Appropriation of Endowment Assets for Expenditures	-	-	(439,532)	(439,532)
Endowment Net Assets, End of Year	$ -	$ -	$ 3,684,958	$ 3,684,958

Endowment net asset composition by type of fund as of August 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ -	$ 5,296,352	$ 5,296,352

Changes in endowment net assets for the year ended August 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ -	$ -	$ 6,554,375	$ 6,554,375
Investment Return				
Investment Income	-	-	296,766	296,766
Net Appreciation (Realized and Unrealized)	-	-	(1,411,710)	(1,411,710)
Total Investment Return	-	-	(1,114,944)	(1,114,944)
Contributions	-	-	420,610	420,610
Appropriation of Endowment Assets for Expenditures	-	-	(563,689)	(563,689)
Endowment Net Assets, End of Year	$ -	$ -	$ 5,296,352	$ 5,296,352

NOTE 11 – ENDOWMENTS (Continued)

In August, 2008, the Financial Accounting Standards Board issued *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This pronouncement provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This pronouncement also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Ohio enacted UPMIFA effective June 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Academy has adopted FSP FSA 117-1 for the nine months ending May 31, 2009. The Board of Trustees, on the advice of legal counsel, has determined that the majority of the Academy's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

NOTE 12 – 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 $6,949 and $26,419 for 2009 and 2008, respectively.

Housing

Art Academy Housing leases apartments for the students of the Academy for a base rent of $8,750 per month under an operating lease. The lease expires in August, 2011, with an option to renew for an additional five years. Art Academy Housing incurred lease expense of $78,750 and $105,000 for 2009 and 2008, respectively.

The 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 expires in July, 2009. The Art Academy Housing incurred a lease expense of $9,498 and $1,160 for 2009 and 2008, respectively.

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

Years Ending May 31,	Housing	Equipment	Total
2010	$ 111,000	$ 9,265	$ 120,265
2011	111,000	9,265	120,265
2012	26,750	9,265	36,015
2013	-	8,669	8,669
2014	-	1,057	1,057
	$ 248,750	$ 37,521	$ 286,271

NOTE 12 – OPERATING LEASES (Continued)

The Academy is the lessor in the following lease agreements:

In July, 2008, the Academy started leasing a portion of the 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 is $3,334 and $1,000 for the nine months ended May 31, 2009 and the year ended August 31, 2008, respectively.

NOTE 13 – RETIREMENT PLAN EXPENSE

The Academy's contributions and expenses related to the defined contribution plan in 2009 and 2008 were $38,677 and $56,134, respectively.

The amount contributed to the deferred compensation plan was $-0- in 2009 and 2008.

NOTE 14 – RELATED PARTIES

The Academy does business with companies who are either owned by or employ a Board of Trustees member. During fiscal year 2009, the Academy spent $61,993 with two companies and had $-0- due to these companies as of May 31, 2009. During fiscal year 2008, the Academy spent $74,624 with two companies and had $2,611 due to these companies as of August 31, 2008.

NOTE 15 – SPECIAL PROJECT

In March, 2001 the Art Academy of Cincinnati began a campaign to raise funds in support of the acquisition and renovation of two buildings to allow for the consolidation and expansion of the facilities. The “Building on a Rich Tradition” project had a total goal of $13 million dollars and has $786,193 and $1,186,314 in temporarily restricted cash, investments and pledges receivable as of May 31, 2009 and August 31, 2008, respectively. Construction was completed in July, 2005.

NOTE 16 - FUNCTIONAL EXPENSES

The detail of functional expenses is as follows:

	Nine Months Ended May 31, 2009				Year Ended August 31, 2008			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,503,706	$ 256,599	$ 66,891	$ 1,827,196	$ 1,771,850	$ 331,380	$ 72,817	$ 2,176,047
Payroll Taxes	112,599	17,943	5,507	136,049	160,986	25,797	6,366	193,149
Retirement Plan	30,005	8,672	-	38,677	42,461	12,178	1,495	56,134
Employee Benefits	126,984	25,702	8,153	160,839	154,115	28,608	5,805	188,528
Rent	88,266	-	-	88,266	106,160	-	-	106,160
Telephone	1,680	8,904	-	10,584	1,854	9,723	-	11,577
Utilities	241,731	7,184	1,127	250,042	280,828	27,875	1,326	310,029
Security	148,813	-	-	148,813	191,094	-	-	191,094
Insurance	-	33,311	-	33,311	-	32,620	-	32,620
Bank Charges	5,091	25,552	-	30,643	8,008	45,552	-	53,560
Parking	32,830	450	-	33,280	41,254	12,162	-	53,416
Supplies	84,941	9,396	204	94,541	91,462	17,524	2,254	111,240
Purchased Services	33,821	62,152	8,500	104,473	40,354	79,764	24,900	145,018
Model Fees	14,134	-	-	14,134	18,705	-	-	18,705
Lecturer's Honorarium	15,020	-	-	15,020	17,292	-	-	17,292
Hospitality	22,833	4,691	2,151	29,675	29,977	7,043	3,386	40,406
Memberships and Fees	7,905	18,254	835	26,994	7,233	19,115	338	26,686
Books, Videos, and Subscriptions	2,707	-	75	2,782	3,761	90	-	3,851
Email and Internet	1,696	1,696	-	3,392	2,060	2,060	-	4,120
Postage and Mail Service	-	24,856	-	24,856	-	22,643	-	22,643
Travel	18,876	1,377	71	20,324	19,076	3,850	10	22,936
Per Diem	8,331	971	-	9,302	8,398	-	-	8,398
Personnel and Instructional Development	866	-	-	866	6,679	495	-	7,174
Promotion	204,373	1,278	1,422	207,073	196,853	2,004	12,496	211,353
Newsletter	700	-	21,311	22,011	-	-	34,261	34,261
Equipment Maintenance and Rental	45,387	18,619	2,144	66,150	33,156	18,092	2,924	54,172
Plant Maintenance	90,782	-	-	90,782	116,190	80	-	116,270
Student Activities	46,550	-	-	46,550	37,070	-	-	37,070
Student Exhibition	2,682	-	-	2,682	3,947	-	-	3,947
Equipment Purchases	-	-	-	-	(50)	-	-	(50)
Information Technology	-	7,395	-	7,395	25	16,850	-	16,875
Scholarships	1,012,076	-	-	1,012,076	810,055	-	-	810,055
Other Grants	717	-	-	717	-	-	-	-
Depreciation and Amortization	345,248	11,529	1,744	358,521	451,330	15,038	2,280	468,648
Interest Expense	227,571	2,310	1,155	231,037	221,185	2,246	1,123	224,553
Taxes	124,486	1,264	632	126,382	111,127	7,142	564	118,833
Bond Cost	49,263	500	250	50,013	63,955	649	325	64,929
Miscellaneous Expense	-	2,210	-	2,210	-	2,460	-	2,460
	$ 4,652,671	$ 552,815	$ 122,172	$ 5,327,658	$ 5,048,450	$ 743,040	$ 172,669	$ 5,964,159

NOTE 17 – 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 derivate:

Type of Derivative	Type of Transaction Being Hedged
Interest rate swap	Cash flows of variable rate debt

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, 2009, hedging relationships exist for bond indebtedness.

The LLC recognized net losses of $121,192 for 2009 and net losses of $114,289 for 2008 from cash flow hedges. All forecasted transactions currently being hedged are expected to occur by 2012.

NOTE 18 – 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, 2009, none of which are held for trading purposes, are as follows:

	Carrying Value	Fair Value
Financial Assets		
Cash and Cash Equivalents	$ 851,409	$ 451,409
Accounts and Other Receivables	385,563	385,563
Pledges Receivable	47,305	47,305
Investments	5,590,673	5,590,673
Financial Liabilities		
Accounts Payable, Accrued and Other Liabilities	783,076	783,076
Bond Payable and Note Payable	4,776,928	4,776,928

NOTE 19 – FAIR VALUE MEASUREMENTS

Accounting Pronouncements establish a 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy 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, 2009 or August 31, 2008.

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, 2009:

	Level 1 Quoted Price In Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Investments	$ 5,590,673	$ -	$ -
Contributions Receivable – Beneficial Interest In Charitable Remainder Trust	$ -	$ -	$ 68,019
Fair Market Value of Interest Rate Swap	$ -	$ (220,093)	$ -

NOTE 19 – FAIR VALUE MEASUREMENTS (Continued)

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

	Contribution Receivable
August 31, 2008	$ 91,005
Change in Value	(22,986)
May 31, 2009	$ 68,019

ADDITIONAL INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Nine Months Ended May 31, 2009

Federal Grantor/ Program Title	Pass-Through Grantor Number	Federal CFDA Number	Federal Expenditures	
U.S. Department of Education:				
Federal Family Education Loans (2)		84.032	$ 2,472,548	(1)
Federal Pell Grant Program (3)	P063P041983	84.063	176,828	(1)
Supplemental Education Opportunity Grant Program (3)	P007A043229	84.007	20,381	(1)
College Work Study Program (3)	P033A043229	84.033	24,810	(1)
Academic Competitiveness (3)	P038A043229	84.375	8,875	(1)
			$ 2,703,442	

(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.

ART ACADEMY OF CINCINNATI AND AFFILIATES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Nine Months Ended May 31, 2009

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.

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

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

We have audited the consolidated financial statements of the Art Academy of Cincinnati (a nonprofit organization) and Affiliates as of and for the nine months ended May 31, 2009, and have issued our report thereon dated September 8, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Art Academy of Cincinnati and Affiliates' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Art Academy of Cincinnati and Affiliates' financial statements that is more than inconsequential will not be prevented or detected by the Art Academy of Cincinnati and Affiliates' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Art Academy of Cincinnati and Affiliates' internal control.

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 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.

We noted certain additional matters that we reported to management of the Academy in a separate letter dated September 8, 2009.

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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*.

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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 8, 2009

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO 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 compliance of the Art Academy of Cincinnati and Affiliates with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the nine months ended May 31, 2009. 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 U.S. generally accepted auditing standards; 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 nine months ended May 31, 2009.

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Internal Control over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 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.

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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 8, 2009

ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Nine Months Ended May 31, 2009

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Auditor's Report Issued	Unqualified
Material weakness(es) identified?	No
Control Deficiencies identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Material weakness(es) identified?	No
Control Deficiencies identified not considered to be material weakness?	None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Are there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Major Programs (list):	Federal Family Education Loans [CFDA 84.032] Federal Pell Grant Program [CFDA 84.063] Supplemental Education Opportunity Grant Program [CFDA 84.007] College Work Study Program [CFDA 84.033]
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

None

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

Item 08-01 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-six 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 of the National Student Loan Data System was delayed while efforts were ongoing to retain one student who was a senior in his last semester encountering health issues. Because the student did not respond to attempts to contact him and because of more pressing matters the Registrar failed to notify NSDLS in a timely fashion. The Academic Dean has discussed this matter with the Registrar and has set-up a monthly reporting requirement from the Registrar to ensure future withdrawals are processed in a timely manner.

Current Status:

The Registrar successfully instituted a monthly reconciliation process. The Art Academy of Cincinnati is in compliance with reporting requirements for the 2008 – 2009 year.

SUPPLEMENTAL INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2009

ASSETS	Art Academy of Cincinnati	Academy Advancement Limited	1212 Jackson, LLC	Art Academy Housing, Inc.	Eliminations	Total
Current Assets						
Cash and Cash Equivalents	$ 815,961	$ 2,505	$ 32,943	$ -	$ -	$ 851,409
Accounts Receivable	263,751	-	2,612,300	-	(2,612,300)	263,751
Pledges Receivable	17,737	-	-	-	-	17,737
Note Receivable - Related Party	3,707,049	-	-	379,394	(4,086,443)	-
Interest and Dividends Receivable	687,445	-	-	-	(687,409)	36
Prepaid Expenses	83,817	-	14,754	-	-	98,571
Total Current Assets	5,575,760	2,505	2,659,997	379,394	(7,386,152)	1,231,504
Buildings and Equipment, Net	1,168,524	-	10,509,012	6,060	-	11,683,596
Investments	8,526,711	2,962,673	66,431	-	(5,965,142)	5,590,673
Pledges Receivable	29,568	-	-	-	-	29,568
Beneficial Interest in Charitable Remainder Trusts	121,812	-	-	-	-	121,812
Deposits	-	-	-	9,635	-	9,635
Other Assets, Net	9,044	-	153,124	-	-	162,168
Total Assets	$ 15,431,419	$ 2,965,178	$ 13,388,564	$ 395,089	$ (13,351,294)	$ 18,828,956

LIABILITIES AND EQUITY	Art Academy of Cincinnati	Academy Advancement Limited	1212 Jackson, LLC	Art Academy Housing, Inc.	Eliminations	Total
Current Liabilities						
Accounts Payable	$ 149,930	$ -	$ 874	$ -	$ -	$ 150,804
Accrued Expenses	2,985,166	-	795,834	7,000	(3,299,709)	488,291
Note Payable - Related Party	379,394	-	3,303,215	403,834	(4,086,443)	-
Note Payable - Current Portion	2,938	-	-	-	-	2,938
Bond Payable - Current Portion	-	-	300,000	-	-	300,000
Deferred Compensation Liability	90,188	-	-	-	-	90,188
Total Current Liabilities	3,607,616	-	4,399,923	410,834	(7,386,152)	1,032,221
Long-Term Liabilities						
Charitable Remainder Trust	53,793	-	-	-	-	53,793
Note Payable (Less Current Portion)	173,990	-	-	-	-	173,990
Bond Payable (Less Current Portion)	-	-	4,300,000	-	-	4,300,000
Total Long Term Liabilities	227,783	-	4,300,000	-	-	4,527,783
Fair Market Value of Interest Rate Swap	-	-	220,093	-	-	220,093
Total Liabilities	3,835,399	-	8,920,016	410,834	(7,386,152)	5,780,097
Equity						
Members' Equity (Deficit)	-	2,965,178	2,962,634	-	(5,965,142)	(37,330)
Fair Market Value of Interest Rate Swap	-	-	(220,093)	-	-	(220,093)
Net Assets	11,596,020	-	-	(15,745)	-	11,580,275
	11,596,020	2,965,178	2,742,541	(15,745)	(5,965,142)	11,322,852
Other Members' Equity	-	-	1,726,007	-	-	1,726,007
Total Equity	11,596,020	2,965,178	4,468,548	(15,745)	(5,965,142)	13,048,859
Total Liabilities and Equity	$ 15,431,419	$ 2,965,178	$ 13,388,564	$ 395,089	$ (13,351,294)	$ 18,828,956

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
Nine Months Ended May 31, 2009

	Art Academy of Cincinnati	Academy Advancement Limited	1212 Jackson LLC	Art Academy Housing, Inc.	Eliminations	Total
Revenue and Support						
Grants, Contributions and Gifts	$ 342,568	$ -	$ -	$ -	$ -	$ 342,568
Tuition Income	3,584,438	-	-	-	-	3,584,438
Investment Income	341,635	-	128	-	(148,055)	193,708
Other Income	10,635	-	733,897	175,402	(733,900)	186,034
Total Revenue and Support	4,279,276	-	734,025	175,402	(881,955)	4,306,748
Expenses						
Program Services	4,705,733	2,471	699,167	114,079	(868,779)	4,652,671
Management & General	490,839	25	70,771	-	(8,820)	552,815
Fundraising	123,020	13	3,549	-	(4,410)	122,172
Total Expenses	5,319,592	2,509	773,487	114,079	(882,009)	5,327,658
Excess (Deficit) of Revenue, Support and Reclassifications Over Expenses	(1,040,316)	(2,509)	(39,462)	61,323	54	(1,020,910)
Realized Gain (Loss) on Investments	(704,587)	-	-	-	-	(704,587)
Unrealized Loss on Investments	(1,212,670)	-	-	-	-	(1,212,670)
Change in Beneficial Interest in Charitable Remainder Trusts	(22,986)	-	-	-	-	(22,986)
Other Members' Interest	-	-	39,423	-	-	39,423
Change in Net Assets	(2,980,559)	(2,509)	(39)	61,323	54	(2,921,730)
Members' Contributed Capital	-	2,455	-	-	(2,455)	-
Other Members' Interest	-	-	(39,423)	-	-	(39,423)
Change in Fair Market Value of Interest Rate Swap	-	-	(121,192)	-	-	(121,192)
	(2,980,559)	(54)	(160,654)	61,323	(2,401)	(3,082,345)
Net Assets Beginning of Year	14,576,579	2,965,232	4,629,202	(77,068)	(5,962,741)	16,131,204
Net Assets End of Year	$ 11,596,020	$ 2,965,178	$ 4,468,548	$ (15,745)	$ (5,965,142)	$ 13,048,859

ART ACADEMY OF CINCINNATI AND AFFILIATES
CONSOLIDATING STATEMENT OF MEMBERS' EQUITY

	Academy Advancement LTD.	1212 Jackson LLC	Subtotal	Eliminations	Total
Members' Equity - August 31, 2007	$ 2,965,296	$ 4,796,405	$ 7,761,701	$ (5,957,894)	$ 1,803,807
Contributed Capital	4,900	-	4,900	(4,900)	-
Net Loss	(4,964)	(52)	(5,016)	53	(4,963)
Subtotal	2,965,232	4,796,353	7,761,585	(5,962,741)	1,798,844
Other Members' Net Loss	-	(52,862)	(52,862)	-	(52,862)
Fair Market Value of Interest Rate Swap	-	(114,289)	(114,289)	-	(114,289)
Members' Equity - August 31, 2008	2,965,232	4,629,202	7,594,434	(5,962,741)	1,631,693
Contributed Capital	2,455	-	2,455	(2,455)	-
Net Income (Loss)	(2,509)	(39)	(2,548)	54	(2,494)
Subtotal	2,965,178	4,629,163	7,594,341	(5,965,142)	1,629,199
Other Members' Net Loss	-	(39,423)	(39,423)	-	(39,423)
Fair Market Value of Interest Rate Swap	-	(121,192)	(121,192)	-	(121,192)
Members' Equity - May 31, 2009	$ 2,965,178	$ 4,468,548	$ 7,433,726	$ (5,965,142)	$ 1,468,584