

**ART ACADEMY OF CINCINNATI AND
AFFILIATE**

May 31, 2015

*CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT INCLUDING
SUPPLEMENTARY INFORMATION*



**ART ACADEMY OF CINCINNATI AND AFFILIATE
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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Art Academy of Cincinnati and Affiliate (nonprofit organizations), which comprise the consolidated statements of financial position as of May 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Art Academy of Cincinnati and Affiliate as of May 31, 2015 and 2014, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities on pages 30 and 31 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated October 7, 2015, on our consideration of the Art Academy of Cincinnati and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Art Academy of Cincinnati and Affiliate's internal control over financial reporting and compliance.

VonLehman & Company Inc.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2015

ASSETS

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General	Board Designated	Plant		Endowment	
Current Assets						
Cash and Cash Equivalents	\$ 4,167	\$ -	\$ -	\$ 290,404	\$ 13,741	\$ 308,312
Accounts Receivable, Net	155,124	-	-	-	-	155,124
Investments	39,489	619,647	-	74,978	-	734,114
Grant Receivable	-	-	-	40,000	-	40,000
Investment Receivable	(35,074)	-	-	35,074	-	-
Prepaid Expenses	79,559	-	-	-	-	79,559
Total Current Assets	243,265	619,647	-	440,456	13,741	1,317,109
Buildings and Equipment, Net	-	-	3,533,430	-	-	3,533,430
Investments	-	-	-	174,914	828,962	1,003,876
Art Inventory	-	-	238,074	-	-	238,074
Grant Receivable	-	-	-	480,000	-	480,000
Beneficial Interest in Perpetual Trust	-	-	-	-	206,950	206,950
Beneficial Interest in Charitable Remainder Trusts	-	-	-	69,911	-	69,911
Deposits	-	-	12,775	-	-	12,775
Other Assets, Net	-	-	8,033	-	-	8,033
Total Assets	\$ 243,265	\$ 619,647	\$ 3,792,312	\$ 1,165,281	\$ 1,049,653	\$ 6,870,158

LIABILITIES AND NET ASSETS

Current Liabilities						
Line of Credit	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ 200,000
Accounts Payable	348,028	-	-	-	-	348,028
Accrued Expenses	124,367	-	-	289,404	-	413,771
Capital Lease	-	-	5,208	-	-	5,208
Note Payable - Current Portion	-	-	5,448	-	-	5,448
Total Current Liabilities	672,395	-	10,656	289,404	-	972,455
Long-Term Liabilities						
Charitable Remainder Trust	-	-	-	14,772	-	14,772
Deferred Revenue	-	-	-	520,000	-	520,000
Note Payable - Long-Term	-	-	163,608	-	-	163,608
Total Long-Term Liabilities	-	-	163,608	534,772	-	698,380
Total Liabilities	672,395	-	174,264	824,176	-	1,670,835
Net Assets	(429,130)	619,647	3,618,048	341,105	1,049,653	5,199,323
Total Liabilities and Net Assets	\$ 243,265	\$ 619,647	\$ 3,792,312	\$ 1,165,281	\$ 1,049,653	\$ 6,870,158

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2014

ASSETS

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General	Board Designated	Plant		Endowment	
Current Assets						
Cash and Cash Equivalents	\$ 171,323	\$ -	\$ -	\$ 189,247	\$ 8,662	\$ 369,232
Accounts Receivable, Net	98,564	-	-	-	-	98,564
Investments	36,880	576,435	-	70,675	-	683,990
Grant Receivable	-	-	-	40,000	-	40,000
Investment Receivable	(49,400)	-	-	49,400	-	-
Prepaid Expenses	90,925	-	-	-	-	90,925
Total Current Assets	348,292	576,435	-	349,322	8,662	1,282,711
Buildings and Equipment, Net	-	-	3,673,934	-	-	3,673,934
Investments	-	-	-	125,980	828,962	954,942
Art Inventory	-	-	288,271	-	-	288,271
Grant Receivable	-	-	-	520,000	-	520,000
Beneficial Interest in Perpetual Trust	-	-	-	-	201,234	201,234
Beneficial Interest in Charitable Remainder Trusts	-	-	-	85,786	-	85,786
Deposits	-	-	13,175	-	-	13,175
Other Assets, Net	-	-	9,716	-	-	9,716
Total Assets	\$ 348,292	\$ 576,435	\$ 3,985,096	\$ 1,081,088	\$ 1,038,858	\$ 7,029,769

LIABILITIES AND NET ASSETS

Current Liabilities						
Line of Credit	\$ 650,000	\$ -	\$ -	\$ -	\$ -	\$ 650,000
Accounts Payable	160,697	-	-	-	-	160,697
Accrued Expenses	112,347	-	-	188,247	-	300,594
Capital Lease - Current Portion	-	-	6,238	-	-	6,238
Note Payable - Current Portion	-	-	5,132	-	-	5,132
Total Current Liabilities	923,044	-	11,370	188,247	-	1,122,661
Long-Term Liabilities						
Charitable Remainder Trust	-	-	-	21,972	-	21,972
Deferred Revenue	-	-	-	560,000	-	560,000
Capital Lease - Long-Term	-	-	5,208	-	-	5,208
Note Payable - Long-Term	-	-	169,026	-	-	169,026
Long-Term Liabilities	-	-	174,234	581,972	-	756,206
Total Liabilities	923,044	-	185,604	770,219	-	1,878,867
Net Assets	(574,752)	576,435	3,799,492	310,869	1,038,858	5,150,902
Total Liabilities and Net Assets	\$ 348,292	\$ 576,435	\$ 3,985,096	\$ 1,081,088	\$ 1,038,858	\$ 7,029,769

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended May 31, 2015

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General	Board Designated	Plant		Endowment	
Revenue and Support						
Grants, Contributions and Gifts	\$ 368,000	\$ -	\$ -	\$ -	\$ 5,079	\$ 373,079
Tuition Income	5,478,129	-	-	-	-	5,478,129
Investment Income	-	19,919	-	26,655	-	46,574
Other Income	202,971	-	351,126	-	-	554,097
Total Revenue and Support	6,049,100	19,919	351,126	26,655	5,079	6,451,879
Net Assets Released from Restrictions	2,000	-	-	(2,000)	-	-
Total Revenue, Support and Reclassifications	6,051,100	19,919	351,126	24,655	5,079	6,451,879
Expenses						
Program Services	5,443,519	-	364,284	-	-	5,807,803
Management and General	618,435	3,706	1,725	-	-	623,866
Fundraising	25,712	-	862	-	-	26,574
Total Expenses	6,087,666	3,706	366,871	-	-	6,458,243
(Deficit) Excess of Revenue, Support and Reclassifications Over Expenses	(36,566)	16,213	(15,745)	24,655	5,079	(6,364)
Interfund Equity Transfers	167,862	-	(165,699)	(2,163)	-	-
Realized Gain on Investments	-	14,964	-	16,783	-	31,747
Unrealized Gain on Investments	-	12,035	-	13,962	-	25,997
Change in Excess Loss on Endowment Investments	14,326	-	-	(14,326)	-	-
Change in Beneficial Interest in Perpetual Trust	-	-	-	-	5,716	5,716
Change in Beneficial Interest in Charitable Remainder Trusts	-	-	-	(8,675)	-	(8,675)
Change in Net Assets	145,622	43,212	(181,444)	30,236	10,795	48,421
Net Assets Beginning of Year	(574,752)	576,435	3,799,492	310,869	1,038,858	5,150,902
Net Assets End of Year	\$ (429,130)	\$ 619,647	\$ 3,618,048	\$ 341,105	\$ 1,049,653	\$ 5,199,323

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended May 31, 2014

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General	Board Designated	Plant		Endowment	
Revenue and Support						
Grants, Contributions and Gifts	\$ 294,697	\$ -	\$ -	\$ -	\$ 2,082	\$ 296,779
Tuition Income	5,166,424	-	-	-	-	5,166,424
Investment Income	-	16,402	-	28,278	-	44,680
Investment Income Allocation	-	-	-	-	-	-
Other Income	47,159	-	714,698	-	-	761,857
Total Revenue and Support	5,508,280	16,402	714,698	28,278	2,082	6,269,740
Net Assets Released from Restrictions	2,000	-	-	(2,000)	-	-
Total Revenue, Support and Reclassifications	5,510,280	16,402	714,698	26,278	2,082	6,269,740
Expenses						
Program Services	5,335,864	-	383,109	-	-	5,718,973
Management and General	564,864	3,118	9,974	-	-	577,956
Fundraising	24,919	-	954	-	-	25,873
Total Expenses	5,925,647	3,118	394,037	-	-	6,322,802
(Deficit) Excess of Revenue, Support and Reclassifications Over Expenses	(415,367)	13,284	320,661	26,278	2,082	(53,062)
Interfund Equity Transfers	572,414	-	(570,807)	(1,607)	-	-
Realized Gain on Investments	-	68,714	-	79,983	-	148,697
Unrealized Loss on Investments	-	(5,373)	-	(6,208)	-	(11,581)
Change in Excess Loss on Endowment Investments	31,986	-	-	(31,986)	-	-
Change in Beneficial Interest in Perpetual Trust	-	-	-	-	8,261	8,261
Change in Beneficial Interest in Charitable Remainder Trusts	-	-	-	(1,050)	-	(1,050)
Change in Net Assets	189,033	76,625	(250,146)	65,410	10,343	91,265
Net Assets Beginning of Year	(763,785)	499,810	4,049,638	245,459	1,028,515	5,059,637
Net Assets End of Year	\$ (574,752)	\$ 576,435	\$ 3,799,492	\$ 310,869	\$ 1,038,858	\$ 5,150,902

See accompanying notes.

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended May 31,	
	2015	2014
Cash Flows from Operating Activities		
Change in Net Assets	\$ 48,421	\$ 91,265
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	152,139	172,077
Amortization	1,683	1,781
Realized Gain on Investments	(31,747)	(148,697)
Unrealized (Gain) Loss on Investments	(25,997)	11,581
Donated Art Inventory	(149,674)	(346,371)
Change in Beneficial Interest in Perpetual Trust	(5,716)	(8,261)
Change in Beneficial Interest in Charitable Remainder Trusts	8,675	1,050
Gain on Disposal of Buildings and Equipment	-	(133,099)
Changes in		
Accounts Receivable	(56,560)	67,222
Grant Receivable	40,000	40,000
Inventory	199,871	58,100
Prepaid Expenses	11,366	2,187
Deposits	400	(365)
Accounts Payable	187,331	(31,799)
Accrued Expenses	113,177	(32,829)
Deferred Revenue	(40,000)	(40,000)
Net Cash Provided (Used) by Operating Activities	453,369	(296,158)
Cash Flows from Investing Activities		
Proceeds from Sale of Investments	597,046	1,307,889
Purchase of Investments	(638,360)	(1,352,986)
Proceeds from Disposal of Assets	-	544,265
Acquisition of Building and Equipment	(11,635)	(36,308)
Net Cash (Used) Provided by Investing Activities	(52,949)	462,860
Cash Flows from Financing Activities		
Net Change in Line of Credit	(450,000)	(15,000)
Payments on Note Payable	(5,102)	(4,411)
Payments on Capital Lease	(6,238)	(5,524)
Net Cash Used by Financing Activities	(461,340)	(24,935)
Net Change in Cash and Cash Equivalents	(60,920)	141,767
Beginning Balance - Cash and Cash Equivalents	369,232	227,465
Ending Balance - Cash and Cash Equivalents	\$ 308,312	\$ 369,232

See accompanying notes.

**ART ACADEMY OF CINCINNATI AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

The Art Academy of Cincinnati's purpose is to serve as an accredited educational institution of degreed and non-degreed students from across the country with diverse majors in studio art and design, notably drawing, painting, printmaking, photography, sculpture, visual communications design, digital arts, photo design, illustration, art history, and art education.

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

The consolidated financial statements include the Art Academy of Cincinnati and Art Academy Housing, Inc. Art Academy Housing, Inc. is related to the Art Academy of Cincinnati because the Art Academy of Cincinnati has assumed the financial and day-to-day operational management functions for Art Academy Housing, Inc. Under accounting principles generally accepted in the United States of America (U.S. GAAP), the Art Academy of Cincinnati is required to present consolidated financial statements reflecting the financial position and results of operations of both entities. All significant inter-entity transactions have been eliminated.

Use of Estimates

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

Accounts 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 at both May 31, 2015 and 2014.

Investments

Investments in equity securities and debt securities are stated at fair market value. Investments available for current operations are classified as current assets. Investments not available for current operations are classified as long-term. 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.

Art Inventory

The Academy's art inventory is made up of art objects that have been acquired through donations. The art inventory is recorded at 60% of the appraised value. Each of the items is catalogued, preserved and cared for as would be appropriate for each of the items within the art inventory. All items within the art inventory that may have been subject to a minimum holding period covenant from the original donor are no longer subject to those covenants, having surpassed the holding periods specified in each of those covenants. Therefore, all items within the art inventory are free of restrictions that would prevent the sale or liquidation of portions of the inventory or the entire inventory. During the years ended May 31, 2015 and 2014, sales of art inventory totaled \$199,871 and \$58,100, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Buildings and Equipment**

The acquisition cost of purchased buildings and equipment is capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals greater than \$1,000 are capitalized.

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

Long-Lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. Long-lived assets were measured for impairment and no adjustments were deemed necessary during both the years ended May 31, 2015 and 2014.

Classes of Net Assets

The accompanying consolidated financial statements have been prepared in conformity with the requirements of accounting pronouncements for not-for-profit organizations. Accordingly, the net assets of the Academy are reported in each of the following classes: unrestricted net assets, temporarily restricted net assets and 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 net asset 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.

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.

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 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Collections**

The Academy's collections are made up of art objects that are held for public exhibition, education and research for furtherance of public service. The collections, which were acquired through purchases and contributions since the Academy's inception, are not recognized as assets on the consolidated statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from sales or insurance recoveries are reflected as increases in temporarily restricted net assets. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. During both the years ended May 31, 2015 and 2014, sales of art totaled \$-0-. During both the years ended May 31, 2015 and 2014, there were no items in the Academy's collections that were damaged or destroyed.

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 either of the fiscal years 2015 or 2014.

Advertising Costs

The Academy expenses advertising costs as they are 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.

Income Tax Status

The Art Academy of Cincinnati and Art Academy Housing, Inc. are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to the Internal Revenue Code.

The Art Academy of Cincinnati and Affiliate have adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Art Academy of Cincinnati and Affiliate recognized no interest or penalties in the consolidated statements of activities for either of the years ended May 31, 2015 and 2014. If the situation arose in which the Art Academy of Cincinnati and Affiliate would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statute of limitations and remain subject to review and change. The Academy is not currently under audit, nor has the Academy been contacted by these jurisdictions.

Based on the evaluation of the Art Academy of Cincinnati and Affiliate's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended May 31, 2015 or 2014.

Subsequent Events

The Academy has evaluated subsequent events through October 7, 2015, which is the date the consolidated financial statements were available to be issued.

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. As of May 31, 2015 and 2014, the Academy had \$-0- and \$45,808, respectively, in cash in financial institutions in excess of insured limits.

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

Cash paid for interest was \$18,693 and \$20,667 in 2015 and 2014, respectively.

NOTE 3 - BUILDINGS AND EQUIPMENT

Buildings and equipment and related accumulated depreciation consist of the following at May 31, 2015 and 2014.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
<u>2015</u>			
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,654,214	242,073	3,412,141
Office Furniture and Equipment	<u>1,097,937</u>	<u>1,065,818</u>	<u>32,119</u>
	<u>\$ 4,841,321</u>	<u>\$ 1,307,891</u>	<u>\$ 3,533,430</u>
<u>2014</u>			
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,650,751	120,351	3,530,400
Office Furniture and Equipment	<u>1,089,764</u>	<u>1,035,400</u>	<u>54,364</u>
	<u>\$ 4,829,685</u>	<u>\$ 1,155,751</u>	<u>\$ 3,673,934</u>

NOTE 4 - INVESTMENTS

The Academy's investments are summarized as follows:

	May 31,			
	2015		2014	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Unrestricted Fund	\$ 587,059	\$ 659,136	\$ 558,457	\$ 613,315
Temporarily Restricted	233,913	249,892	182,059	196,655
Permanently Restricted	<u>735,927</u>	<u>828,962</u>	<u>749,888</u>	<u>828,962</u>
	<u>\$ 1,556,899</u>	<u>\$ 1,737,990</u>	<u>\$ 1,490,404</u>	<u>\$ 1,638,932</u>

NOTE 4 - INVESTMENTS (Continued)

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

	May 31,			
	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash Equivalents	\$ 16,100	\$ 16,100	\$ 15,679	\$ 15,679
U.S. Government Securities	4,959	5,610	5,171	5,816
Corporate Stocks and Bonds	232,706	308,702	207,773	273,701
Collective and Mutual Funds	1,046,965	1,100,146	1,055,037	1,107,572
Exchange-Traded Fund	256,169	307,432	206,744	236,164
	<u>\$ 1,556,899</u>	<u>\$ 1,737,990</u>	<u>\$ 1,490,404</u>	<u>\$ 1,638,932</u>

The following schedules summarize investment return and its classification in the consolidated statements of activities for the years ended May 31, 2015 and 2014.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2015				
Interest and Dividends	\$ 19,919	\$ 26,655	\$ -	\$ 46,574
Realized Gains	14,964	16,783	-	31,747
Unrealized Losses	12,035	13,962	-	25,997
Fees	(3,706)	-	-	(3,706)
Total Investment Return	<u>\$ 43,212</u>	<u>\$ 57,400</u>	<u>\$ -</u>	<u>\$ 100,612</u>
2014				
Interest and Dividends	\$ 16,402	\$ 28,278	\$ -	\$ 44,680
Realized Gains	68,714	79,983	-	148,697
Unrealized Gains	(5,373)	(6,208)	-	(11,581)
Fees	(3,118)	-	-	(3,118)
Total Investment Return	<u>\$ 76,625</u>	<u>\$ 102,053</u>	<u>\$ -</u>	<u>\$ 178,678</u>

With Board of Trustees approval, the Academy is permitted to receive a monthly cash distribution from the investments. The spending rate is based on the market value of the investments over a four quarter rolling average and a twelve quarter rolling average for the years ended May 31, 2015 and 2014, respectively. The distribution is recognized in the general fund as investment income. For fiscal years 2015 and 2014, the monthly cash distribution was not made from the investment accounts.

NOTE 5 - GRANT RECEIVABLE

In August, 2013, the Academy finalized a grant agreement with the Ohio Facilities Construction Commission (OFCC). As part of the agreement, the OFCC will hold \$600,000 in escrow to be used as part of the Cultural Project constituting the Commission-funded improvements to reimburse the Academy for a portion of the costs of the acquisition of the 1212 Jackson Street building and the adjacent parking lot. The grant will be amortized on a fifteen year straight line basis. There were draws on the grant in both January, 2014 and January, 2015 for \$40,000.

NOTE 6 - BENEFICIAL INTEREST IN PERPETUAL TRUSTS

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

Trust	The Academy's Percentage of Trust	May 31,	
		2015	2014
Wilmer D. Glenn Trust	100%	\$ <u>206,950</u>	\$ <u>201,234</u>

NOTE 7 - INVENTORY

Inventory consists of the following:

Works of Art	\$ <u>238,074</u>	\$ <u>288,271</u>
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NOTE 8 - OTHER ASSETS

The following is a summary of other assets:

Cost	\$ 25,247	\$ 25,247
Accumulated Amortization	<u>17,214</u>	<u>15,531</u>
Other Assets, Net	\$ <u>8,033</u>	\$ <u>9,716</u>

Estimated amortization for the five years subsequent is as follows:

Years Ending May 31,	
2016	\$ 1,683
2017	1,683
2018	1,683
2019	1,683
2020	<u>1,301</u>
	\$ <u>8,033</u>

NOTE 9 - LINE OF CREDIT

The Academy has an unsecured revolving line of credit agreement with a bank for \$1,000,000. The line of credit charges interest at LIBOR plus 1.75% (1.94% and 1.90% at May 31, 2015 and 2014, respectively). The line matures in December, 2015. At May 31, 2015 and 2014, the outstanding balance on the line of credit was \$200,000 and \$650,000, respectively.

NOTE 10 - NOTE PAYABLE

	May 31,	
	2015	2014
Note payable to bank; due in monthly installments of \$1,284 including interest of 6%, due February, 2018. The note is collateralized by a parcel of land.	\$ 169,056	\$ 174,158
Current Portion	<u>5,448</u>	<u>5,132</u>
Long-Term Portion	\$ <u>163,608</u>	\$ <u>169,026</u>

NOTE 10 - NOTE PAYABLE (Continued)

The remaining maturities on this note are as follows:

Years Ending May 31,		
2016	\$	5,448
2017		5,784
2018		<u>157,824</u>
	\$	<u><u>169,056</u></u>

NOTE 11 - CAPITAL LEASE OBLIGATION

The Company incurred a capital lease obligation in 2013, collateralized by the computer server purchased, that charged interest at 12.2%. Depreciation expense for equipment held under the capital lease obligation was \$6,083 for both years ended May 31, 2015 and 2014.

The following is a summary of equipment at cost less accumulated depreciation that was held under the capital lease obligation:

	May 31,	
	2015	2014
Computer Server	\$ 18,250	\$ 18,250
Less Accumulated Depreciation	<u>13,687</u>	<u>7,604</u>
Net Capital Lease Obligation Property	<u>\$ 4,563</u>	<u>\$ 10,646</u>

Minimum future lease payments under capital leases for the remainder of the leases:

Year Ending May 31,		
2016	\$	5,896
Less Amounts Representing Interest		<u>(688)</u>
Present Value of Net Minimum Lease Payments	5,208	\$ 11,446
Less Current Portion	<u>5,208</u>	<u>6,238</u>
Long-Term Capital Lease Obligation	<u>\$ -</u>	<u>5,208</u>

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted as follows:

Time Restricted		
Investments - Cash	\$ 65,221	\$ 58,918
Beneficial Interest in Charitable Remainder Trusts	55,139	63,814
Purpose Restricted		
Contributions and Gifts	10,757	12,757
Endowments	<u>209,988</u>	<u>175,380</u>
Temporarily Restricted Net Assets	<u>\$ 341,105</u>	<u>\$ 310,869</u>

NOTE 13 - ENDOWMENTS

The Academy's endowment consists of several 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.

Investment Return Objectives, Risk Parameters and Strategies. The Academy has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4% to 6%, while growing the funds if possible. Therefore, the Academy expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

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

NOTE 13 - ENDOWMENTS (Continued)

Endowment net asset composition by type of fund as of May 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Asset Composition by Type of Fund	\$ <u>619,647</u>	\$ <u>174,914</u>	\$ <u>828,962</u>	\$ <u>1,623,523</u>

Changes in endowment net assets for the year ended May 31, 2015 are as follows:

Endowment Net Assets, Beginning of Year	\$ 576,435	\$ 125,980	\$ 828,962	\$ 1,531,377
Investment Return				
Investment Income	19,919	22,352	-	42,271
Net Appreciation (Realized and Unrealized)	<u>26,999</u>	<u>30,745</u>	<u>-</u>	<u>57,743</u>
Total Investment Return	46,918	53,097	-	100,015
Appropriation of Endowment Assets for Expenditures	<u>(3,706)</u>	<u>(4,163)</u>	<u>-</u>	<u>(7,869)</u>
Endowment Net Assets, End of Year	\$ <u>619,647</u>	\$ <u>174,914</u>	\$ <u>828,962</u>	\$ <u>1,623,523</u>

As of May 31, 2015, the amount of permanently restricted endowment funds whose balance dropped below the restricted amount had decreased to \$35,074. This was a change from the amount at May 31, 2014 of \$14,236.

Endowment net asset composition by type of fund as of May 31, 2014 is as follows:

Endowment Net Asset Composition by Type of Fund	\$ <u>576,435</u>	\$ <u>125,980</u>	\$ <u>828,962</u>	\$ <u>1,531,377</u>
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Changes in endowment net assets for the year ended May 31, 2014 are as follows:

Endowment Net Assets, Beginning of Year	\$ 499,810	\$ 36,841	\$ 828,963	\$ 1,365,614
Investment Return				
Investment Income	16,402	18,972	-	35,374
Net Appreciation (Realized and Unrealized)	<u>63,341</u>	<u>73,774</u>	<u>-</u>	<u>137,115</u>
Total Investment Return	79,743	92,746	-	172,489
Appropriation of Endowment Assets for Expenditures	<u>(3,118)</u>	<u>(3,607)</u>	<u>(1)</u>	<u>(6,726)</u>
Endowment Net Assets, End of Year	\$ <u>576,435</u>	\$ <u>125,980</u>	\$ <u>828,962</u>	\$ <u>1,531,377</u>

As of May 31, 2014, the amount of permanently restricted endowment funds whose balance dropped below the restricted amount had decreased to \$49,400. This was a change from the amount at May 31, 2013 of \$31,986.

NOTE 14 - FUNCTIONAL EXPENSES

The detail of functional expenses is as follows:

Years Ended May 31,

	2015				2014			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,549,314	\$ 314,676	\$ 6,462	\$ 1,870,452	\$ 1,420,329	\$ 284,885	\$ -	\$ 1,705,214
Payroll Taxes	127,925	23,122	-	151,047	124,449	20,783	-	145,232
Employee Benefits	125,348	29,122	-	154,470	127,208	29,723	-	156,931
Rent	174,117	-	-	174,117	174,898	-	-	174,898
Telephone	-	6,883	-	6,883	-	7,072	-	7,072
Utilities	263,589	(17)	-	263,572	269,525	1,670	-	271,195
Security	198,871	-	-	198,871	194,870	-	-	194,870
Insurance	-	34,558	-	34,558	-	34,365	-	34,365
Bank Charges	-	10,743	-	10,743	-	15,429	-	15,429
Parking	17,325	-	-	17,325	36,503	-	-	36,503
Supplies	101,084	15,135	244	116,463	65,070	13,571	1,797	80,438
Purchased Services	200,349	76,352	10,309	287,010	200,898	96,785	6,063	303,746
Model Fees	13,266	-	-	13,266	12,066	-	-	12,066
Lecturer's Honorarium	4,550	-	-	4,550	2,655	-	-	2,655
Hospitality	24,614	5,021	339	29,974	12,713	3,057	2,313	18,083
Memberships and Fees	18,800	12,323	-	31,123	19,268	18,976	-	38,244
Books, Videos, and Subscriptions	1,706	171	-	1,877	697	72	-	769
Email and Internet	5,400	5,400	-	10,800	5,851	5,851	-	11,702
Postage and Mail Service	-	9,403	-	9,403	-	5,174	-	5,174
Travel	29,452	1,505	13	30,970	21,279	1,314	119	22,712
Per Diem	8,998	7,478	-	16,476	7,246	812	-	8,058
Promotion	180,026	744	4,735	185,505	190,948	658	11,193	202,799
Equipment Maintenance and Rental	86,717	19,373	3,610	109,700	90,885	22,502	3,434	116,821
Plant Maintenance	42,175	-	-	42,175	41,866	-	-	41,866
Student Activities	42,343	-	-	42,343	35,942	-	-	35,942
Student Exhibition	18,399	-	-	18,399	11,383	-	-	11,383
Equipment Purchases	-	-	-	-	-	208	-	208
Scholarships	2,402,754	-	-	2,402,754	2,460,437	-	-	2,460,437
Other Grants	-	-	-	-	3,890	-	-	3,890
Depreciation and Amortization	151,515	1,538	769	153,822	167,740	5,267	851	173,858
Interest Expense	18,413	187	93	18,693	20,357	207	103	20,667
Miscellaneous Expense	753	50,149	-	50,902	-	9,575	-	9,575
	<u>\$ 5,807,803</u>	<u>\$ 623,866</u>	<u>\$ 26,574</u>	<u>\$ 6,458,243</u>	<u>\$ 5,718,973</u>	<u>\$ 577,956</u>	<u>\$ 25,873</u>	<u>\$ 6,322,802</u>

NOTE 15 - OPERATING LEASES

The Academy is the lessee in the following lease agreements:

Equipment

The Academy leases equipment for total monthly payments of \$2,338. The leases have varying expiration dates ranging from July, 2015 to December, 2017. The Academy incurred lease expense of \$28,061 for both 2015 and 2014.

Housing

Art Academy Housing, Inc. leases apartments for the students of the Academy for a base rent of \$10,110 per month under an operating lease. The lease expired in August, 2014, with an option to renew for an additional five years. Art Academy Housing, Inc. renewed this lease in August, 2014 for an additional ten years. The lease expires in August, 2024, with an option to renew for an additional five years. Art Academy Housing, Inc. incurred lease expense related to this lease of \$174,117 and \$174,898, in 2015 and 2014, respectively.

In September, 2014, the Academy entered into additional leases for student housing. The leases vary in payment from \$540 to \$2,200 per month and have an expiration date of August 31, 2015. The Academy incurred lease expense of \$59,280 and \$18,645 for 2015 and 2014, respectively.

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

<u>Years Ending May 31,</u>	<u>Housing</u>	<u>Equipment</u>	<u>Total</u>
2016	\$ 135,120	\$ 14,052	\$ 149,172
2017	121,320	11,019	132,339
2018	121,320	5,509	126,829
2019	121,320	-	121,320
2020	121,320	-	121,320
Thereafter	<u>505,500</u>	<u>-</u>	<u>505,500</u>
	<u>\$ 1,125,900</u>	<u>\$ 30,580</u>	<u>\$ 1,156,480</u>

NOTE 16 - RELATED PARTIES

The Academy does business with companies who are either owned by or employ a Board of Trustees member. For the fiscal years ended May 31, 2015 and 2014, the Academy had transactions with related parties as follows:

	<u>Years Ended May 31,</u>	
	<u>2015</u>	<u>2014</u>
Storage Rental	\$ -	\$ 7,500
Legal Services	\$ 11,095	\$ 34,637
Consulting Expense	\$ -	\$ 145,198

NOTE 17 - FAIR VALUE MEASUREMENTS

U.S. GAAP 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

Level 2 - Inputs 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.

Following is a description of the valuation methodologies used for marketable securities measured at fair value. There have been no changes in the methodologies used at May 31, 2015 and 2014.

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

Mutual Funds and Alternative Investments - Valued at the net asset value (NAV) of shares held by the Company at year end.

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

Beneficial Interest in Remainder Trusts – Valued using an income approach to provide the present value of the expected cash distributions from the trust.

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

NOTE 17 - FAIR VALUE MEASUREMENTS (Continued)

The following assets and liabilities were measured at fair value as of May 31, 2015:

	Level 1 Quoted Price In Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
	<u> </u>	<u> </u>	<u> </u>
Cash and Cash Equivalents	\$ 16,100	\$ -	\$ -
Mutual Funds			
Money Market Funds	9,543	-	-
Government Agency Funds	-	-	-
Value Funds	-	-	-
Institutional Funds	39,489	-	-
Blended Funds	76,111	-	-
Growth Funds	161,327	-	-
Fixed Funds	504,126	-	-
International Funds	309,550	-	-
Total Mutual Funds	<u>1,100,146</u>	<u>-</u>	<u>-</u>
Stocks			
Consumer Discretionary	52,223	-	-
Consumer Staples	28,958	-	-
Energy	17,724	-	-
Financial	54,225	-	-
Health Care	43,574	-	-
Industrials	36,816	-	-
Information Technology	50,251	-	-
Materials	9,344	-	-
Telecommunication Services	9,344	-	-
Utilities	6,243	-	-
Total Stocks	<u>308,702</u>	<u>-</u>	<u>-</u>
Fixed Income	<u>5,610</u>	<u>-</u>	<u>-</u>
Exchange-Traded Funds	<u>307,432</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 1,737,990</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest In Trusts	<u>\$ 276,861</u>	<u>\$ -</u>	<u>\$ (14,772)</u>

NOTE 17 - FAIR VALUE MEASUREMENTS (Continued)

The following assets and liabilities were measured at fair value as of May 31, 2014:

	Level 1 Quoted Price In Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Cash and Cash Equivalents	\$ 15,679	\$ -	\$ -
Mutual Funds			
Money Market Funds	6,304	-	-
Institutional Funds	35,835	-	-
Blended Funds	99,994	-	-
Growth Funds	178,748	-	-
Fixed Funds	506,400	-	-
International Funds	280,291	-	-
Total Mutual Funds	<u>1,107,572</u>	<u>-</u>	<u>-</u>
Stocks			
Consumer Discretionary	39,853	-	-
Consumer Staples	21,909	-	-
Energy	24,327	-	-
Financial	46,278	-	-
Health Care	39,572	-	-
Industrials	39,108	-	-
Information Technology	47,980	-	-
Materials	7,059	-	-
Telecommunication Services	2,982	-	-
Utilities	4,633	-	-
Total Stocks	<u>273,701</u>	<u>-</u>	<u>-</u>
Fixed Income	<u>5,816</u>	<u>-</u>	<u>-</u>
Exchange-Traded Funds	<u>236,164</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 1,638,932</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest In Trusts	<u>\$ 287,020</u>	<u>\$ -</u>	<u>\$ (21,972)</u>

NOTE 17 - FAIR VALUE MEASUREMENTS (Continued)

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

	<u>Beneficial Interest In Trust</u>
May 31, 2014	\$ (21,972)
Change in Value	<u>7,200</u>
May 31, 2015	<u>\$ (14,772)</u>

NOTE 18 - RISKS AND UNCERTAINTIES

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

NOTE 19 - CHANGES IN ESTIMATE

For the year ended May 31, 2014, the Academy changed its estimates of the value of the works of art it maintains as inventory based on appraisals obtained. The result of this change in estimate resulted in an increase compared to the year ended May 31, 2013 to the art inventory of \$346,371 and a change in net assets of \$346,371 for the year ended May 31, 2014.

ADDITIONAL INFORMATION

**ART ACADEMY OF CINCINNATI AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2015**

<u>Federal Grantor/Program Title</u>	<u>Pass- Through Grantor Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education:			
Federal Direct Student Loans		84.268	\$ 1,771,578
Federal Pell Grant Program		84.063	486,403
Supplemental Education			
Opportunity Grant Program		84.007	13,171
Federal Work Study Program		84.033	<u>21,348</u>
			<u>\$ 2,292,500</u>

The accompanying notes are an integral part of this schedule.

ART ACADEMY OF CINCINNATI AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2015

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 consolidated financial statements.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Art Academy of Cincinnati and Affiliate (nonprofit organizations), which comprise the consolidated statement of financial position as of May 31, 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 7, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

We noted certain additional matters that we reported to management of the Academy in a separate letter dated October 7, 2015.

VonLehman & Company Inc.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Art Academy of Cincinnati and Affiliate's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Art Academy of Cincinnati and Affiliate's major federal programs for the year ended May 31, 2015. The Art Academy of Cincinnati and Affiliate's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Art Academy of Cincinnati and Affiliate's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Circular 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 Affiliate's 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Art Academy of Cincinnati and Affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, the Art Academy of Cincinnati and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2015.

Other Matters

The Art Academy of Cincinnati and Affiliate was placed under a heightened cash monitoring system called Zone Alternative through December 18, 2014. This was a result of the Academy not having financial ratios that yielded a minimum of 1.5 to meet the requirement of the financial standards as of May 31, 2014. The requirement was removed due to the Academy reaching the required standards.

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 15-01. Our opinion on each major federal program is not modified with respect to this matter.

The Art Academy of Cincinnati and Affiliate's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Art Academy of Cincinnati and Affiliate's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Art Academy of Cincinnati and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Art Academy of Cincinnati and Affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the Art Academy of Cincinnati and Affiliate's internal control over compliance.

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

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

VonLehman & Company Inc.

**ART ACADEMY OF CINCINNATI AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2015**

SECTION I – SUMMARY OF AUDITORS' RESULTS

CONSOLIDATED FINANCIAL STATEMENTS	
Type of Auditors' Report Issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to consolidated financial statements noted?	No
FEDERAL AWARDS	
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	<ul style="list-style-type: none"> • Federal Direct Student Loans [CFDA 84.268] • Federal Pell Grant Program [CFDA 84.063] • Supplemental Education Opportunity Grant Program [CFDA 84.007] • Federal Work Study Program [CFDA 84.003]
Dollar threshold used to distinguish between type A and type B programs:	Type A: > \$300,000 Type B: > all others
Auditee qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

None

**ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2015
(Continued)**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2015-1: Enrollment Reporting

Federal Agency: U.S. Department of Education

Program: Student Financial Aid

CFDA #: 84.063 and 84.268

Award Year: 2014 - 2015

Criteria: Unless the institution expects to complete its next enrollment report within 60 days, the institution must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

Condition: During the Enrollment Reporting testing, we noted one student's withdrawal date that was reported to the NSLDS differed from the date on the student's withdrawal application.

Cause: This was a clerical error due to manually entering the dates into the system.

Effect: The effective date of the withdrawal reported to the NSLDS was not properly recorded and therefore the student's grace period was based on an inaccurate date.

Questioned Costs: None identified.

Repeat Finding?: Not a repeat finding.

Recommendation: We recommend the institution consider implementing a review process to ensure dates submitted to the NSLDS are properly reported.

Management Response: A review process will be implemented where a second individual will review data entries to ensure that any data that is submitted to NSLDS matches up with all other documentation.

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Item 14-01:

Enrollment Reporting

During the Enrollment Reporting testing, we noted one student took a leave of absence on February 1, 2012 and the Academy did not update the Enrollment Reporting roster file for the leave of absence.

Status Update: During the current year testing, we noted one student whose application was dated October 20, 2014 but the date of withdrawal in the system was October 15, 2014. There were no findings in FY15 where a student who had a change in status not listed with the NSLDS register was not timely reported to the Financial Aid Office. Thus the new procedure implemented after LY's finding prevented the same finding from occurring in FY15.

Item 14-02:

Cash Management

During the Disbursement testing, we noted that funds received by the Academy on June 27, 2013 and on August 22, 2013 were disbursed 7 business days after receipt of funds. The total received on June 27, 2013 was \$5,836 and the total received on August 22, 2013 was \$39,680.

Status Update: During current year testing, all disbursements of funds were made within 3 business days.

SUPPLEMENTARY INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2015

ASSETS

	<u>Art Academy of Cincinnati</u>	<u>Art Academy Housing, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets				
Cash and Cash Equivalents	\$ 308,312	\$ -	\$ -	\$ 308,312
Accounts Receivable, Net	155,124	-	-	155,124
Investments	734,114	-	-	734,114
Grant Receivable	40,000	-	-	40,000
Note Receivable - Related Party	1,509,549	1,520,933	(3,030,482)	-
Prepaid Expenses	79,559	-	-	79,559
	<u>2,826,658</u>	<u>1,520,933</u>	<u>(3,030,482)</u>	<u>1,317,109</u>
Buildings and Equipment, Net	3,533,376	54	-	3,533,430
Investments	1,003,876	-	-	1,003,876
Art Inventory	238,074	-	-	238,074
Grant Receivable	480,000	-	-	480,000
Beneficial Interest in Perpetual Trust	206,950	-	-	206,950
Beneficial Interest in Charitable Remainder Trusts	69,911	-	-	69,911
Deposits	-	12,775	-	12,775
Other Assets, Net	8,033	-	-	8,033
	<u>8,033</u>	<u>-</u>	<u>-</u>	<u>8,033</u>
Total Assets	<u>\$ 8,366,878</u>	<u>\$ 1,533,762</u>	<u>\$ (3,030,482)</u>	<u>\$ 6,870,158</u>

LIABILITIES AND NET ASSETS

Current Liabilities				
Line of Credit	\$ 200,000	\$ -	\$ -	\$ 200,000
Accounts Payable	348,028	-	-	348,028
Accrued Expenses	385,071	28,700	-	413,771
Capital Lease - Current Portion	5,208	-	-	5,208
Note Payable - Related Party	1,524,733	1,505,749	(3,030,482)	-
Note Payable - Current Portion	5,448	-	-	5,448
	<u>2,468,488</u>	<u>1,534,449</u>	<u>(3,030,482)</u>	<u>972,455</u>
Total Current Liabilities	<u>2,468,488</u>	<u>1,534,449</u>	<u>(3,030,482)</u>	<u>972,455</u>
Long-Term Liabilities				
Charitable Remainder Trust	14,772	-	-	14,772
Deferred Revenue	520,000	-	-	520,000
Capital Lease - Long-Term	-	-	-	-
Note Payable - Long-Term	163,608	-	-	163,608
	<u>698,380</u>	<u>-</u>	<u>-</u>	<u>698,380</u>
Total Long-Term Liabilities	<u>698,380</u>	<u>-</u>	<u>-</u>	<u>698,380</u>
Total Liabilities	3,166,868	1,534,449	(3,030,482)	1,670,835
Net Assets	<u>5,200,010</u>	<u>(687)</u>	<u>-</u>	<u>5,199,323</u>
Total Liabilities and Net Assets	<u>\$ 8,366,878</u>	<u>\$ 1,533,762</u>	<u>\$ (3,030,482)</u>	<u>\$ 6,870,158</u>

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended May 31, 2015**

	<u>Art Academy of Cincinnati</u>	<u>Art Academy Housing, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
Revenue and Support				
Grants, Contributions and Gifts	\$ 373,079	\$ -	\$ -	\$ 373,079
Tuition Income	5,478,129	-	-	5,478,129
Investment Income	46,574	-	-	46,574
Other Income	352,644	201,453	-	554,097
	<u>6,250,426</u>	<u>201,453</u>	<u>-</u>	<u>6,451,879</u>
Expenses				
Program Services	5,606,455	201,348	-	5,807,803
Management and General	623,866	-	-	623,866
Fundraising	26,574	-	-	26,574
	<u>6,256,895</u>	<u>201,348</u>	<u>-</u>	<u>6,458,243</u>
(Deficit) Excess of Revenue, Support and Reclassifications Over Expenses	(6,469)	105	-	(6,364)
Realized Gain on Investments	31,747	-	-	31,747
Unrealized Gain on Investments	25,997	-	-	25,997
Change in Beneficial Interest in Perpetual Trust	5,716	-	-	5,716
Change in Beneficial Interest in Charitable Remainder Trusts	<u>(8,675)</u>	<u>-</u>	<u>-</u>	<u>(8,675)</u>
Change in Net Assets	48,316	105	-	48,421
Net Assets Beginning of Year	<u>5,151,694</u>	<u>(792)</u>	<u>-</u>	<u>5,150,902</u>
Net Assets End of Year	<u>\$ 5,200,010</u>	<u>\$ (687)</u>	<u>\$ -</u>	<u>\$ 5,199,323</u>