

**ART ACADEMY OF CINCINNATI AND
AFFILIATE**

May 31, 2016

*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, 2016 and 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.

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 both May 31, 2016 and 2015, and the changes in their consolidated net assets and their 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 accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating statement of financial position and the consolidated statement of activities on pages 35 and 36 are also presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated December 19, 2016, 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, 2016

ASSETS

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General	Board Designated	Plant		Endowment	
Current Assets						
Cash and Cash Equivalents	\$ 8,668	\$ -	\$ -	\$ 286,609	\$ 15,816	\$ 311,093
Accounts Receivable, Net	243,362	-	-	-	-	243,362
Investments	38,872	592,893	-	73,895	-	705,660
Grant Receivable	-	-	-	40,000	-	40,000
Investment Receivable	(38,661)	-	-	38,661	-	-
Prepaid Expenses	59,963	-	-	-	-	59,963
Total Current Assets	312,204	592,893	-	439,165	15,816	1,360,078
Buildings and Equipment, Net	-	-	3,448,418	-	-	3,448,418
Investments	-	-	-	146,987	931,755	1,078,742
Art Inventory	-	-	303,517	-	-	303,517
Grant Receivable	-	-	-	440,000	-	440,000
Beneficial Interest in Perpetual Trust	-	-	-	-	188,059	188,059
Beneficial Interest in Charitable Remainder Trusts	-	-	-	50,304	-	50,304
Deposits	-	-	12,775	-	-	12,775
Other Assets, Net	-	-	6,349	-	-	6,349
Total Assets	\$ 312,204	\$ 592,893	\$ 3,771,059	\$ 1,076,456	\$ 1,135,630	\$ 6,888,242

LIABILITIES AND NET ASSETS

Current Liabilities						
Line of Credit	\$ 300,000	\$ -	\$ -	\$ -	\$ -	\$ 300,000
Accounts Payable	350,076	-	-	-	-	350,076
Accrued Expenses	133,234	-	-	285,609	-	418,843
Capital Leases	-	-	3,600	-	-	3,600
Note Payable	-	-	5,784	-	-	5,784
Total Current Liabilities	783,310	-	9,384	285,609	-	1,078,303
Long-Term Liabilities						
Charitable Remainder Trust	-	-	-	8,068	-	8,068
Deferred Revenue	-	-	-	480,000	-	480,000
Capital Leases (Less Current Portion)	-	-	9,091	-	-	9,091
Note Payable (Less Current Portion)	-	-	158,327	-	-	158,327
Total Long-Term Liabilities	-	-	167,418	488,068	-	655,486
Total Liabilities	783,310	-	176,802	773,677	-	1,733,789
Net Assets	(471,106)	592,893	3,594,257	302,779	1,135,630	5,154,453
Total Liabilities and Net Assets	\$ 312,204	\$ 592,893	\$ 3,771,059	\$ 1,076,456	\$ 1,135,630	\$ 6,888,242

See accompanying notes.

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	-	-	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 (Less Current Portion)	-	-	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 ACTIVITIES
Year Ended May 31, 2016

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	General	Board Designated	Plant		Endowment	
Revenue and Support						
Grants, Contributions and Gifts	\$ 374,769	\$ -	\$ 149,560	\$ -	\$ 104,868	\$ 629,197
Tuition Income	5,689,445	-	-	-	-	5,689,445
Investment Income	-	21,763	-	23,227	-	44,990
Other Income	89,974	-	173,310	-	-	263,284
Total Revenue and Support	<u>6,154,188</u>	<u>21,763</u>	<u>322,870</u>	<u>23,227</u>	<u>104,868</u>	<u>6,626,916</u>
Net Assets Released from Restrictions	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>	<u>-</u>	<u>-</u>
Total Revenue, Support and Reclassifications	<u>6,156,188</u>	<u>21,763</u>	<u>322,870</u>	<u>21,227</u>	<u>104,868</u>	<u>6,626,916</u>
Expenses						
Program Services	5,358,570	-	365,051	-	-	5,723,621
Management and General	647,529	3,723	1,667	-	-	652,919
Fundraising	169,777	-	833	-	-	170,610
Total Expenses	<u>6,175,876</u>	<u>3,723</u>	<u>367,551</u>	<u>-</u>	<u>-</u>	<u>6,547,150</u>
(Deficit) Excess of Revenue, Support and Reclassifications Over Expenses	(19,688)	18,040	(44,681)	21,227	104,868	79,766
Interfund Equity Transfers	(18,701)	-	20,890	(2,189)	-	-
Realized Gain on Investments	-	12,122	-	13,520	-	25,642
Unrealized Loss on Investments	-	(56,916)	-	(61,568)	-	(118,484)
Change in Excess Loss on Endowment Investments	(3,587)	-	-	3,587	-	-
Change in Beneficial Interest in Perpetual Trust	-	-	-	-	(18,891)	(18,891)
Change in Beneficial Interest in Charitable Remainder Trusts	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,903)</u>	<u>-</u>	<u>(12,903)</u>
Change in Net Assets	(41,976)	(26,754)	(23,791)	(38,326)	85,977	(44,870)
Net Assets Beginning of Year	<u>(429,130)</u>	<u>619,647</u>	<u>3,618,048</u>	<u>341,105</u>	<u>1,049,653</u>	<u>5,199,323</u>
Net Assets End of Year	<u>\$ (471,106)</u>	<u>\$ 592,893</u>	<u>\$ 3,594,257</u>	<u>\$ 302,779</u>	<u>\$ 1,135,630</u>	<u>\$ 5,154,453</u>

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 STATEMENTS OF CASH FLOWS**

	Years Ended May 31,	
	2016	2015
Cash Flows from Operating Activities		
Change in Net Assets	\$ (44,870)	\$ 48,421
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	146,389	152,139
Amortization	1,684	1,683
Realized Gain on Investments	(25,642)	(31,747)
Unrealized Loss (Gain) on Investments	118,484	(25,997)
Donated Art Inventory	(149,560)	(149,674)
Change in Beneficial Interest in Perpetual Trust	18,891	(5,716)
Change in Beneficial Interest in Charitable Remainder Trusts	12,903	8,675
Changes in		
Accounts Receivable	(88,238)	(56,560)
Grant Receivable	40,000	40,000
Inventory	84,117	199,871
Prepaid Expenses	19,596	11,366
Deposits	-	400
Accounts Payable	2,048	187,331
Accrued Expenses	5,072	113,177
Deferred Revenue	(40,000)	(40,000)
	100,874	453,369
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Proceeds from Sale of Investments	1,017,801	597,046
Purchase of Investments	(1,157,055)	(638,360)
Acquisition of Buildings and Equipment	(46,378)	(11,635)
	(185,632)	(52,949)
Net Cash Used by Investing Activities		
Cash Flows from Financing Activities		
Net Change in Line of Credit	100,000	(450,000)
Payments on Note Payable	(4,945)	(5,102)
Payments on Capital Lease	(7,516)	(6,238)
	87,539	(461,340)
Net Cash Provided (Used) by Financing Activities		
Net Change in Cash and Cash Equivalents	2,781	(60,920)
Beginning Balance - Cash and Cash Equivalents	308,312	369,232
Ending Balance - Cash and Cash Equivalents	\$ 311,093	\$ 308,312

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 referred to as 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 \$13,500 and \$7,287 at May 31, 2016 and 2015, respectively.

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, 2016 and 2015, sales of art inventory totaled \$5,225 and \$199,871, 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 either of the years ended May 31, 2016 or 2015.

Classes of Net Assets

The accompanying consolidated financial statements have been prepared in conformity with the requirements of accounting pronouncements for nonprofit 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, 2016 and 2015, sales of art totaled \$-0-. During both the years ended May 31, 2016 and 2015, 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 2016 or 2015.

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

The 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, 2016 or 2015. 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, 2016 or 2015.

Subsequent Events

The Academy has evaluated subsequent events through December 19, 2016, 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 both May 31, 2016 and 2015, the Academy had \$-0- 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 \$18,609 and \$18,693 in 2016 and 2015, respectively.

The Academy had noncash financing or investing activities as follows:

	Years Ended May 31,	
	2016	2015
Equipment Acquired through Capital Lease	\$ 14,999	\$ -

NOTE 3 - BUILDINGS AND EQUIPMENT

Buildings and equipment and related accumulated depreciation consist of the following at May 31, 2016 and 2015.

	Cost	Accumulated Depreciation	Net Book Value
<u>2016</u>			
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,668,290	366,246	3,302,044
Office Furniture and Equipment	1,145,237	1,088,033	57,204
	<u>\$ 4,902,697</u>	<u>\$ 1,454,279</u>	<u>\$ 3,448,418</u>
<u>2015</u>			
Land	\$ 89,170	\$ -	\$ 89,170
Buildings and Improvements	3,654,213	242,072	3,412,141
Office Furniture and Equipment	1,097,937	1,065,818	32,119
	<u>\$ 4,841,320</u>	<u>\$ 1,307,890</u>	<u>\$ 3,533,430</u>

NOTE 4 - INVESTMENTS

The Academy's investments are summarized as follows:

	May 31,			
	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Unrestricted Fund	\$ 622,408	\$ 631,765	\$ 587,059	\$ 659,136
Temporarily Restricted	219,985	220,882	233,913	249,892
Permanently Restricted	900,090	931,755	735,927	828,962
	<u>\$ 1,742,483</u>	<u>\$ 1,784,402</u>	<u>\$ 1,556,899</u>	<u>\$ 1,737,990</u>

NOTE 4 - INVESTMENTS (Continued)

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

	May 31,			
	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash Equivalents	\$ 3,520	\$ 3,520	\$ 16,100	\$ 16,100
U.S. Government Securities	4,732	5,356	4,959	5,610
Corporate Stocks and Bonds	291,572	336,315	232,706	308,702
Collective and Mutual Funds	1,174,098	1,149,422	1,046,965	1,100,146
Exchange-Traded Fund	268,561	289,789	256,169	307,432
	<u>\$ 1,742,483</u>	<u>\$ 1,784,402</u>	<u>\$ 1,556,899</u>	<u>\$ 1,737,990</u>

The following schedule summarizes investment return and its classification in the consolidated statements of activities for the years ended May 31, 2016 and 2015.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2016				
Interest and Dividends	\$ 21,763	\$ 23,227	\$ -	\$ 44,990
Realized Gains	12,122	13,520	-	25,642
Unrealized Losses	(56,916)	(61,568)	-	(118,484)
Fees	(3,723)	-	-	(3,723)
Total Investment Return	<u>\$ (26,754)</u>	<u>\$ (24,821)</u>	<u>\$ -</u>	<u>\$ (51,575)</u>
2015				
Interest and Dividends	\$ 19,919	\$ 26,655	\$ -	\$ 46,574
Realized Gains	14,964	16,783	-	31,747
Unrealized Gains	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>

With the Board of Trustees' approval, the Academy is permitted to receive a monthly cash distribution from the investments. The spending rate is based on the market value of the investments over a four quarter rolling average and a twelve quarter rolling average for the years ended May 31, 2016 and 2015, respectively. The distribution is recognized in the general fund as investment income. For fiscal years 2016 and 2015, 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 OFCC-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 cash will be received and the grant will be amortized on a fifteen year straight line basis. There were draws on the grant in fiscal years 2016 and 2015 for \$40,000 each year.

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,	
		2016	2015
Wilmer D. Glenn Trust	100%	\$ <u>188,059</u>	\$ <u>206,950</u>

NOTE 7 - INVENTORY

Inventory consists of the following:

Works of Art	\$ <u>303,517</u>	\$ <u>238,074</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>18,898</u>	<u>17,214</u>
Other Assets, Net	\$ <u>6,349</u>	\$ <u>8,033</u>

Estimated amortization for the five years subsequent is as follows:

Years Ending May 31,	
2017	\$ 1,683
2018	1,683
2019	1,683
2020	360
2021	331
Thereafter	<u>609</u>
	\$ <u>6,349</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% (2.21% and 1.94% at May 31, 2016 and 2015, respectively). The line matures in December, 2016. At May 31, 2016 and 2015, the outstanding balance on the line of credit was \$300,000 and \$200,000, respectively.

NOTE 10 - NOTE PAYABLE

	May 31,	
	<u>2016</u>	<u>2015</u>
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.	\$ 164,111	\$ 169,056
Current Portion	<u>5,784</u>	<u>5,448</u>
Long-Term Portion	<u>\$ 158,327</u>	<u>\$ 163,608</u>

The remaining maturities on this note are as follows:

Years Ending May 31,	
2017	\$ 5,784
2018	<u>158,327</u>
	<u>\$ 164,111</u>

NOTE 11 - CAPITAL LEASE OBLIGATIONS

The Company entered into a capital lease obligation in 2013, collateralized by the computer server purchased, that charged interest at 12.2%. The Company also entered into a capital lease obligation in July, 2015, collateralized by the computer equipment purchased, that charges interest at 4.72%. Depreciation expense for equipment held under the capital lease obligations was \$6,750 and \$6,083 for the years ended May 31, 2016 and 2015, respectively.

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

	May 31,	
	<u>2016</u>	<u>2015</u>
Computer Equipment	\$ 14,999	\$ -
Computer Server	18,250	18,250
Less Accumulated Depreciation	<u>20,437</u>	<u>13,687</u>
Net Capital Lease Obligation Equipment	<u>\$ 12,812</u>	<u>\$ 4,563</u>

NOTE 11 - CAPITAL LEASE OBLIGATIONS (Continued)

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

Years Ending May 31,		
2017	\$	4,357
2018		4,357
2019		4,357
2020		<u>1,452</u>
Total Minimum Lease Payments		14,523
Less Amounts Representing Interest		<u>(1,832)</u>
Present Value of Net Minimum Lease Payments	12,691	\$ 5,208
Less Current Portion	<u>3,600</u>	<u>5,208</u>
Long-Term Capital Lease Obligation	<u>\$ 9,091</u>	<u>\$ -</u>

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted as follows:

	May 31,	
	<u>2016</u>	<u>2015</u>
Time Restricted		
Investments - Cash	\$ 66,138	\$ 65,221
Beneficial Interest in Charitable Remainder Trusts	42,236	55,139
Purpose Restricted		
Contributions and Gifts	8,757	10,757
Endowments	<u>185,648</u>	<u>209,988</u>
Temporarily Restricted Net Assets	<u>\$ 302,779</u>	<u>\$ 341,105</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.

NOTE 13 - ENDOWMENTS (Continued)

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.

Endowment net asset composition by type of fund as of May 31, 2016 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	\$ 592,893	\$ 146,987	\$ 931,755	\$ 1,671,635

NOTE 13 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 619,647	\$ 174,914	\$ 828,962	\$ 1,623,523
Investment Return				
Investment Income	21,763	24,310	-	46,073
Net Appreciation (Realized and Unrealized)	<u>(44,794)</u>	<u>(48,048)</u>	<u>-</u>	<u>(92,842)</u>
Total Investment Return	(23,031)	(23,738)	-	(46,769)
Contributions	-	-	102,793	102,793
Appropriation of Endowment Assets for Expenditures	<u>(3,723)</u>	<u>(4,189)</u>	<u>-</u>	<u>(7,912)</u>
Endowment Net Assets, End of Year	<u>\$ 592,893</u>	<u>\$ 146,987</u>	<u>\$ 931,755</u>	<u>\$ 1,671,635</u>

As of May 31, 2016, the amount of permanently restricted endowment funds whose balance dropped below the restricted amount had increased to \$38,661. This was a change from the amount at May 31, 2015 of \$3,587.

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

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>
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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 \$14,326.

NOTE 14 - FUNCTIONAL EXPENSES

The detail of functional expenses is as follows:

	Years Ended May 31,							
	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,477,261	\$ 356,587	\$ 104,000	\$ 1,937,848	\$ 1,549,314	\$ 314,676	\$ 6,462	\$ 1,870,452
Payroll Taxes	111,186	26,635	8,573	146,394	127,925	23,122	-	151,047
Employee Benefits	131,385	24,096	9,727	165,208	125,348	29,122	-	154,470
Rent	175,917	-	-	175,917	174,117	-	-	174,117
Telephone	-	1,670	-	1,670	-	6,883	-	6,883
Utilities	248,747	-	-	248,747	263,589	(17)	-	263,572
Security	208,146	-	-	208,146	198,871	-	-	198,871
Insurance	-	34,989	-	34,989	-	34,558	-	34,558
Bank Charges	-	6,586	-	6,586	-	10,743	-	10,743
Parking	-	-	-	-	17,325	-	-	17,325
Supplies	73,717	20,925	4,605	99,247	101,084	15,135	244	116,463
Purchased Services	212,747	95,147	9,719	317,613	200,349	76,352	10,309	287,010
Model Fees	10,368	-	-	10,368	13,266	-	-	13,266
Lecturer's Honorarium	5,675	-	-	5,675	4,550	-	-	4,550
Hospitality	15,426	4,335	8,371	28,132	24,614	5,021	339	29,974
Memberships and Fees	56,011	15,850	1,399	73,260	18,800	12,323	-	31,123
Books, Videos, and Subscriptions	960	563	54	1,577	1,706	171	-	1,877
Email and Internet	18,923	18,906	-	37,829	5,400	5,400	-	10,800
Postage and Mail Service	-	7,658	-	7,658	-	9,403	-	9,403
Travel	30,142	2,205	228	32,575	29,452	1,505	13	30,970
Per Diem	11,670	1,540	-	13,210	8,998	7,478	-	16,476
Promotion	218,956	-	15,713	234,669	180,026	744	4,735	185,505
Equipment Maintenance and Rental	68,510	22,862	7,388	98,760	86,717	19,373	3,610	109,700
Plant Maintenance	39,267	-	-	39,267	42,175	-	-	42,175
Student Activities	43,196	-	-	43,196	42,343	-	-	42,343
Student Exhibition	18,079	-	-	18,079	18,399	-	-	18,399
Scholarships	2,382,440	-	-	2,382,440	2,402,754	-	-	2,402,754
Depreciation and Amortization	145,852	1,481	740	148,073	151,515	1,538	769	153,822
Interest Expense	18,330	186	93	18,609	18,413	187	93	18,693
Miscellaneous Expense	710	10,698	-	11,408	753	50,149	-	50,902
	<u>\$ 5,723,621</u>	<u>\$ 652,919</u>	<u>\$ 170,610</u>	<u>\$ 6,547,150</u>	<u>\$ 5,807,803</u>	<u>\$ 623,866</u>	<u>\$ 26,574</u>	<u>\$ 6,458,243</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 \$5,051. The leases have varying expiration dates ranging from November, 2017 to June, 2020. The Academy incurred lease expense of \$46,608 and \$28,061 for 2016 and 2015, respectively.

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 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 \$121,320 in both 2016 and 2015.

In September, 2014, the Academy entered into additional leases for student housing. The leases vary in payment from \$425 to \$2,300 per month and expired on May 31, 2016. The Academy incurred lease expense of \$54,597 and \$52,797 for 2016 and 2015, 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>
2017	\$ 121,320	\$ 43,575	\$ 164,895
2018	121,320	38,065	159,385
2019	121,320	32,556	153,876
2020	121,320	32,556	153,876
2021	121,320	-	121,320
Thereafter	<u>485,280</u>	<u>-</u>	<u>485,280</u>
	<u>\$ 1,091,880</u>	<u>\$ 146,752</u>	<u>\$ 1,238,632</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, 2016 and 2015, the Academy had transactions with related parties as follows:

	<u>Years Ended May 31,</u>	
	<u>2016</u>	<u>2015</u>
Legal Services	<u>\$ 22,123</u>	<u>\$ 11,095</u>

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, 2016 and 2015.

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, 2016:

	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	\$ 3,520	\$ -	\$ -
Mutual Funds			
Money Market Funds	19,226	-	-
Government Agency Funds	-	-	-
Value Funds	-	-	-
Institutional Funds	-	-	-
Blended Funds	73,061	-	-
Growth Funds	231,544	-	-
Fixed Funds	595,689	-	-
International Funds	229,902	-	-
Total Mutual Funds	<u>1,149,422</u>	<u>-</u>	<u>-</u>
Stocks			
Consumer Discretionary	50,902	-	-
Consumer Staples	33,569	-	-
Energy	21,276	-	-
Financial	50,161	-	-
Health Care	40,591	-	-
Industrials	42,089	-	-
Information Technology	55,143	-	-
Materials	15,903	-	-
Telecommunication Services	9,409	-	-
Utilities	15,643	-	-
Unclassified Stock	1,629	-	-
Total Stocks	<u>336,315</u>	<u>-</u>	<u>-</u>
Fixed Income	<u>5,356</u>	<u>-</u>	<u>-</u>
Exchange-Traded Funds	<u>289,789</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 1,784,402</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial Interest In Trusts	<u>\$ 238,363</u>	<u>\$ -</u>	<u>\$ (8,068)</u>

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
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)

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

	Beneficial Interest In Trust
May 31, 2015	\$ (14,772)
Change in Value	<u>6,704</u>
May 31, 2016	\$ <u><u>(8,068)</u></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 - ECONOMIC DEPENDENCY AND UNCERTAINTY

The Academy is economically dependent on the Federal Title IV Financial Aid Program, provided by the Department of Education. For the years ended May 31, 2016 and 2015, financial aid awards received accounted for approximately 46% and 43%, respectively, of tuition income. In the event the financial aid program ceases, the Academy's future as a going concern would be in jeopardy.

ADDITIONAL INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Entity Identifying or Pass- Through Number	Passed Through to Subrecipients	Expenditures
<u>U.S. Department of Education</u>				
<u>Student Financial Assistance Cluster</u>				
Federal Direct Grant				
Federal Direct Student Loans	84.268	N/A	\$ -	\$ 2,172,677
Federal Pell Grant Program	84.063	N/A		384,801
Federal Supplemental Educational Opportunity Grants	84.007	N/A	-	14,969
Federal Work- Study Program	84.033	N/A	-	22,708
Total U.S. Department of Education			-	2,595,155
Total Expenditures of Federal Awards			\$ -	\$ 2,595,155

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, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Art Academy of Cincinnati under programs of the federal government for the year ended May 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Art Academy of Cincinnati, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Art Academy of Cincinnati.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Art Academy of Cincinnati has elected not to use the 10 percent de Minimis indirect cost rate allowed under the Uniform Guidance.

**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 financial statements of Art Academy of Cincinnati and Affiliate (nonprofit organizations), which comprise the consolidated statement of financial position as of May 31, 2016, and the consolidated related statement of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 19, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Art Academy of Cincinnati and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Art Academy of Cincinnati and Affiliate'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 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 Art Academy of Cincinnati and Affiliate's 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*.

The Board of Trustees
Art Academy of Cincinnati and Affiliate

Art Academy of Cincinnati's Response to Findings

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

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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VonLehman & Company Inc.

Fort Wright, Kentucky
December 19, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Art Academy of Cincinnati and Affiliate's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Art Academy of Cincinnati and Affiliate's major federal programs for the year ended May 31, 2016. 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 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 Art Academy of Cincinnati and Affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-1 through 2016-5. Our opinion on each major federal program is not modified with respect to these matters.

Art Academy of Cincinnati and Affiliate's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 Art Academy of Cincinnati and Affiliate are 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 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 the Uniform Guidance, 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 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-1 through 2016-5 that we consider to be significant deficiencies.

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 the Uniform Guidance. 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, 2016**

SECTION I – SUMMARY OF AUDITORS' RESULTS

CONSOLIDATED FINANCIAL STATEMENTS	
Type of auditors' report issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
<ul style="list-style-type: none"> • Material weakness(es) identified? 	No
<ul style="list-style-type: none"> • Significant deficiency(ies) identified? 	None Reported
Noncompliance material to consolidated financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
<ul style="list-style-type: none"> • Material weakness(es) identified? 	No
<ul style="list-style-type: none"> • Significant deficiency(ies) identified? 	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	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] • Federal 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:	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II – CONSOLIDATED FINANCIAL STATEMENT FINDINGS

No matters were reported.

**ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2016
(Continued)**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2016-1: Enrollment Reporting

Federal Agency: U.S. Department of Education

Program: Federal Direct Student Loans and Federal Pell Grant Program

CFDA #: 84.063 and 84.268

Award #: No Award Number Assigned

Award Year: 2015 – 2016

Pass-through: None

Criteria: For each change in enrollment status, there is an effective date of that change that is to be reported to the NSLDS website according to <https://ifap.ed.gov/nsldsmaterials/attachments/NewNSLDSEnrollmentReportingGuide.pdf>.

Condition: During testing of Enrollment Reporting, it was noted that for 3 out of 13 students selected for testing the effective date of the students' change in status was not properly reported.

Cause: These were caused by clerical errors.

Effect: If controls are not in place to ensure the correct effective date of an enrollment status change, a student's repayment or grace period could also be reported based on an inaccurate date.

Questioned Costs: None identified.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the Academy designate an individual to review enrollment reporting in order to ensure the effective dates are accurate. This individual should be someone other than the person submitting all enrollment reporting.

Views of Responsible Officials and Planned Corrective Actions: The Academy agrees with the finding. Clerical oversight related to significant changes in personnel that took place at this time. AAC will designate an employee to review enrollment reports for accuracy. We will make every effort to select an employee to do this who isn't making the enrollment report submission.

**ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2016
(Continued)**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2016-2: Direct Loan Reconciliations

Federal Agency: U.S. Department of Education

Program: Federal Direct Student Loans

CFDA #: 84.268

Award #: No Award Number Assigned

Award Year: 2015 – 2016

Pass-through: None

Criteria: Per CFR 685.300(b)(5), on a monthly basis, the Academy shall reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary.

Condition: During the year, it was noted that reconciliations of the Academy's records of Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary were not being performed after October, 2015.

Cause: After October, 2015, the Academy had not designated anyone with the responsibility of completing the reconciliations on a monthly basis.

Effect: This reconciliation assists the institution in substantiating all of the Direct Loan funds that have been drawn down each month. Additionally, this process allows the institution to identify and report any necessary adjustments to the COD in a timely manner.

Questioned Costs: None identified.

Repeat Finding: This is a repeat finding.

Recommendation: We recommend the Academy designate an individual to begin to perform these reconciliations on a monthly basis for all months in which funds are received from or disbursed to the Secretary.

Views of Responsible Officials and Planned Corrective Actions: The Academy agrees with the finding. Oversight due to change in personnel in the financial aid office. AAC has resumed monthly reconciliations of funds received from/dispursed to the Department of Education.

**ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2016
(Continued)**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2016-3: Return of Title IV Funds

Federal Agency: U.S. Department of Education

Program: Federal Pell Grant Program (Pell) and Federal Direct Student Loans (Direct Loan)

CFDA #: 84.063 & 84.268

Award #: No Award Number Assigned

Award Year: 2015 – 2016

Pass-through: None

Criteria: Per CFR 668.22(j)(1) an institution must return the amount of Title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the institutions' determination that the student withdrew."

Condition: While testing Return of Title IV Funds, 1 out of 5 students tested had funds returned that were not returned within the required timeframe.

Cause: When the student withdrew, there was staff turnover in the Financial Aid office that led to the withdrawal not being entered into the system timely. The student was awarded funds after withdrawing, this error was discovered over a month later and the funds were returned over 45 days after the student withdrew.

Effect: The funds were not properly returned to the Department of Education in a timely manner.

Questioned Costs: None identified.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the Academy begin reviewing student withdrawals received to make sure they are entered into the system so funds are not disbursed.

Views of Responsible Officials and Planned Corrective Actions: The Academy agrees with the finding. Clerical oversight related to significant changes in personnel that took place at this time. AAC will review all student academic withdrawals on a timely basis to ensure that funds are not inadvertently disbursed.

**ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2016
(Continued)**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2016-4: Enrollment Reporting

Federal Agency: U.S. Department of Education

Program: Federal Pell Grant Program and Federal Direct Student Loans

CFDA #: 84.063 & 84.268

Award #: No Award Number Assigned

Award Year: 2015 – 2016

Pass-through: None

Criteria: Per CFR 685.309(b)(2) unless a school expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the school discovers that:"

- 1) A loan under Title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended.

Condition: During testing of Enrollment Reporting, it was noted that 2 out of 13 students selected for testing were not reported within the required timeframes.

Cause: This was caused by a clerical error.

Effect: If controls are not in place to ensure the correct effective date of a change in status is reported to the NSLDS, a student's repayment or grace period may not be timely reported.

Questioned Costs: None noted.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the Academy designate an individual to review changes in enrollment reporting to ensure that the correct information is reported within the required timeframe.

Views of Responsible Officials and Planned Corrective Actions: The Academy agrees with the finding. Clerical oversight related to significant changes in personnel that took place at this time. AAC will review all student enrollments on a timely basis to ensure that correct information for all students is reported within the required timeframe.

**ART ACADEMY OF CINCINNATI AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2016
(Continued)**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 2016-5: Eligibility

Federal Agency: U.S. Department of Education

Program: Federal Direct Student Loans (Direct Loan)

CFDA #: 84.268

Award #: No Award Number Assigned

Award Year: 2015 – 2016

Pass-through: None

Criteria: For direct subsidized loans, per CFR 685.203(a)(1)(iii), a program of study that is less than a full academic year in length, the amount that is the same ratio to \$3,500 as the lesser of the :

- a) Number of semester, trimester, quarter, or clock hours enrolled to the number of semester, trimester, quarter, or clock hours in academic year.
- b) Number of weeks enrolled to the number of weeks in academic year.

For direct unsubsidized loans, per CFR 685.203(b)(1)(iii), a program of study that is less than a full academic year in length, the amount that is the same ratio to \$2,000 as the lesser of the :

- a) Number of semester, trimester, quarter, or clock hours enrolled to the number of semester, trimester, quarter, or clock hours in academic year.
- b) Number of weeks enrolled to the number of weeks in academic year.

Condition: While testing eligibility requirements, it was noted for 1 out of 40 students tested, the student only attended the spring semester of the academic year. However, the student received a full academic year's worth of direct subsidized and direct unsubsidized loans.

Cause: There is no control in place to review a student's claim history prior to packaging the financial awards.

Effect: The student received \$2,750 more in loans than they were eligible to receive.

Questioned Costs: \$2,750 in known questioned costs.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the Academy designate an employee to review student's claimed history prior to packaging the financial aid packages.

Views of Responsible Officials and Planned Corrective Actions: The Academy agrees with the finding. Clerical oversight related to significant changes in personnel that took place at this time. AAC will review all student's claimed history on a timely basis to ensure that financial aid packages are accurate prior to packaging.

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

SECTION II – CONSOLIDATED FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Item 2015-1:

Enrollment Reporting

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.

Status Update: There were no findings in FY16 where a student had a withdrawal that was incorrectly reported to the NSLDS. Thus, the new procedure implemented after last year's finding prevented the same finding from occurring in FY16.

SUPPLEMENTARY INFORMATION

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2016**

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	\$ 311,093	\$ -	\$ -	\$ 311,093
Accounts Receivable, Net	243,362	-	-	243,362
Investments	705,660	-	-	705,660
Grant Receivable	40,000	-	-	40,000
Note Receivable - Related Party	1,715,486	1,744,435	(3,459,921)	-
Prepaid Expenses	59,963	-	-	59,963
	<u>3,075,564</u>	<u>1,744,435</u>	<u>(3,459,921)</u>	<u>1,360,078</u>
Total Current Assets	3,075,564	1,744,435	(3,459,921)	1,360,078
Buildings and Equipment, Net	3,448,418	-	-	3,448,418
Investments	1,078,742	-	-	1,078,742
Art Inventory	303,517	-	-	303,517
Grant Receivable	440,000	-	-	440,000
Beneficial Interest in Perpetual Trust	188,059	-	-	188,059
Beneficial Interest in Charitable Remainder Trusts	50,304	-	-	50,304
Deposits	-	12,775	-	12,775
Other Assets, Net	6,349	-	-	6,349
	<u>6,349</u>	<u>-</u>	<u>-</u>	<u>6,349</u>
Total Assets	\$ 8,590,953	\$ 1,757,210	\$ (3,459,921)	\$ 6,888,242

LIABILITIES AND NET ASSETS

Current Liabilities				
Line of Credit	\$ 300,000	\$ -	\$ -	\$ 300,000
Accounts Payable	350,076	-	-	350,076
Accrued Expenses	379,793	39,050	-	418,843
Capital Lease	3,600	-	-	3,600
Note Payable - Related Party	1,787,285	1,672,636	(3,459,921)	-
Note Payable	5,784	-	-	5,784
	<u>2,826,538</u>	<u>1,711,686</u>	<u>(3,459,921)</u>	<u>1,078,303</u>
Total Current Liabilities	2,826,538	1,711,686	(3,459,921)	1,078,303
Long-Term Liabilities				
Charitable Remainder Trust	8,068	-	-	8,068
Deferred Revenue	480,000	-	-	480,000
Capital Lease (Less Current Portion)	9,091	-	-	9,091
Note Payable (Less Current Portion)	158,327	-	-	158,327
	<u>655,486</u>	<u>-</u>	<u>-</u>	<u>655,486</u>
Total Long-Term Liabilities	655,486	-	-	655,486
Total Liabilities	3,482,024	1,711,686	(3,459,921)	1,733,789
Net Assets	5,108,929	45,524	-	5,154,453
	<u>5,108,929</u>	<u>45,524</u>	<u>-</u>	<u>5,154,453</u>
Total Liabilities and Net Assets	\$ 8,590,953	\$ 1,757,210	\$ (3,459,921)	\$ 6,888,242

**ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended May 31, 2016**

	<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	\$ 629,197	\$ -	\$ -	\$ 629,197
Tuition Income	5,689,445	-	-	5,689,445
Investment Income	44,990	-	-	44,990
Other Income	11,082	252,202	-	263,284
	<u>6,374,714</u>	<u>252,202</u>	<u>-</u>	<u>6,626,916</u>
Expenses				
Program Services	5,517,630	205,991	-	5,723,621
Management and General	652,919	-	-	652,919
Fundraising	170,610	-	-	170,610
	<u>6,341,159</u>	<u>205,991</u>	<u>-</u>	<u>6,547,150</u>
Excess of Revenue, Support and Reclassifications Over Expenses	33,555	46,211	-	79,766
Realized Gain on Investments	25,642	-	-	25,642
Unrealized Loss on Investments	(118,484)	-	-	(118,484)
Change in Beneficial Interest in Perpetual Trust	(18,891)	-	-	(18,891)
Change in Beneficial Interest in Charitable Remainder Trusts	<u>(12,903)</u>	<u>-</u>	<u>-</u>	<u>(12,903)</u>
Change in Net Assets	(91,081)	46,211	-	(44,870)
Net Assets Beginning of Year	<u>5,200,010</u>	<u>(687)</u>	<u>-</u>	<u>5,199,323</u>
Net Assets End of Year	<u>\$ 5,108,929</u>	<u>\$ 45,524</u>	<u>\$ -</u>	<u>\$ 5,154,453</u>