ART ACADEMY OF CINCINNATI AND AFFILIATE

May 31, 2018

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT INCLUDING SUPPLEMENTARY INFORMATION

Art Academy of Cincinnati
College of Art & Design

ART ACADEMY OF CINCINNATI AND AFFILIATE
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VonLehman
CPA & ADVISORY FIRM

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 (a nonprofit organization), which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, 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. 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, 2018 and 2017, 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.

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Other Matters

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 the consolidating statement of activities on pages 22 and 23 are 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.

VonLehman & Company Inc.

Fort Wright, Kentucky
October 22, 2018

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2018

ASSETS

	Unrestricted				Permanently Restricted	
	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Current Assets						
Cash and Cash Equivalents	$ 7,012	$ 35,825	$ -	$ 57,856	$ 15,816	$ 116,509
Accounts Receivable, Net	286,633	-	-	8,822	-	295,455
Investments	45,262	601,130	-	89,537	-	735,929
Grant Receivable	-	-	-	40,000	-	40,000
Investment Receivable	(20,095)	-	-	20,095	-	-
Due From (to) Funds	27,872	(3,446)	(33,972)	9,546	-	-
Prepaid Expenses	88,895	-	-	-	-	88,895
Total Current Assets	435,579	633,509	(33,972)	225,856	15,816	1,276,788
Buildings and Equipment, Net	-	-	3,206,583	-	-	3,206,583
Investments	-	-	-	334,859	1,209,997	1,544,856
Art Inventory	-	-	153,957	-	-	153,957
Grant Receivable	-	-	-	360,000	-	360,000
Beneficial Interest in Perpetual Trust	-	-	-	-	194,476	194,476
Beneficial Interest in Charitable Remainder Trusts	-	-	-	24,097	-	24,097
Deposits	-	-	12,775	-	-	12,775
Total Assets	$ 435,579	$ 633,509	$ 3,339,343	$ 944,812	$ 1,420,289	$ 6,773,532

LIABILITIES AND NET ASSETS

	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Current Liabilities						
Line of Credit	$ 860,000	$ -	$ -	$ -	$ -	$ 860,000
Accounts Payable	201,247	-	-	-	-	201,247
Accrued Expenses	286,072	-	24,100	-	-	310,172
Capital Leases	-	-	3,956	-	-	3,956
Note Payable	-	-	13,972	-	-	13,972
Total Current Liabilities	1,347,319	-	42,028	-	-	1,389,347
Long-Term Liabilities						
Charitable Remainder Trust	-	-	-	1,838	-	1,838
Deferred Revenue	-	-	-	400,000	-	400,000
Capital Leases (Less Current Portion)	-	-	1,077	-	-	1,077
Note Payable (Less Current Portion)	-	-	129,432	-	-	129,432
Total Long-Term Liabilities	-	-	130,509	401,838	-	532,347
Total Liabilities	1,347,319	-	172,537	401,838	-	1,921,694
Net Assets	(911,740)	633,509	3,166,806	542,974	1,420,289	4,851,838
Total Liabilities and Net Assets	$ 435,579	$ 633,509	$ 3,339,343	$ 944,812	$ 1,420,289	$ 6,773,532

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
May 31, 2017

ASSETS

	Unrestricted				Permanently Restricted	
	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Current Assets						
Cash and Cash Equivalents	$ 10,339	$ 20,967	$ -	$ 51,527	$ 15,816	$ 98,649
Accounts Receivable, Net	325,124	-	-	-	-	325,124
Investments	41,563	667,420	-	82,220	-	791,203
Grant Receivable	-	-	-	40,000	-	40,000
Investment Receivable	(16,396)	-	-	16,396	-	-
Due From (to) Funds	16,972	3,035	(33,971)	13,964	-	-
Prepaid Expenses	67,519	-	-	-	-	67,519
Total Current Assets	445,121	691,422	(33,971)	204,107	15,816	1,322,495
Buildings and Equipment, Net	-	-	3,337,605	-	-	3,337,605
Investments	-	-	-	237,957	931,755	1,169,712
Art Inventory	-	-	206,007	-	-	206,007
Grant Receivable	-	-	-	400,000	-	400,000
Beneficial Interest in Perpetual Trust	-	-	-	-	196,063	196,063
Beneficial Interest in Charitable Remainder Trusts	-	-	-	32,480	-	32,480
Deposits	-	-	12,775	-	-	12,775
Other Assets, Net	-	-	1,933	-	-	1,933
Total Assets	$ 445,121	$ 691,422	$ 3,524,349	$ 874,544	$ 1,143,634	$ 6,679,070

LIABILITIES AND NET ASSETS

	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Current Liabilities						
Line of Credit	$ 450,000	$ -	$ -	$ -	$ -	$ 450,000
Accounts Payable	194,398	-	-	-	-	194,398
Accrued Expenses	110,322	-	-	173,144	-	283,466
Capital Lease	-	-	3,774	-	-	3,774
Note Payable	-	-	13,426	-	-	13,426
Total Current Liabilities	754,720	-	17,200	173,144	-	945,064
Long-Term Liabilities						
Charitable Remainder Trust	-	-	-	3,787	-	3,787
Deferred Revenue	-	-	-	440,000	-	440,000
Capital Leases (Less Current Portion)			5,317			5,317
Note Payable (Less Current Portion)	-	-	143,378	-	-	143,378
Total Long-Term Liabilities	-	-	148,695	443,787	-	592,482
Total Liabilities	754,720	-	165,895	616,931	-	1,537,546
Net Assets	(309,599)	691,422	3,358,454	257,613	1,143,634	5,141,524
Total Liabilities and Net Assets	$ 445,121	$ 691,422	$ 3,524,349	$ 874,544	$ 1,143,634	$ 6,679,070

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended May 31, 2018

	Unrestricted				Permanently Restricted	
	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Revenue and Support						
Grants, Contributions and Gifts	$ 353,001	$ -	$ -	$ 97,134	$ 278,242	$ 728,377
Tuition and Fees Income	5,358,792	-	-	-	-	5,358,792
Community Education	170,550	-	-	-	-	170,550
Investment Income	-	18,567	-	40,974	-	59,541
Loss on Sale of Art Inventory	-	-	(30,182)	-	-	(30,182)
Other Income	39,881	-	140,578	-	-	180,459
Total Revenue and Support	5,922,224	18,567	110,396	138,108	278,242	6,467,537
Net Assets Released From Restrictions	37,237	-	-	(37,237)	-	-
Total Revenue, Support and Reclassifications	5,959,461	18,567	110,396	100,871	278,242	6,467,537
Expenses						
Program Services	5,061,702	-	367,876	-	-	5,429,578
Management and General	1,231,809	10,418	1,854	-	-	1,244,081
Fundraising	196,807	-	927	-	-	197,734
Total Expenses	6,490,318	10,418	370,657	-	-	6,871,393
(Deficit) Excess of Revenue, Support and Reclassifications Over Expenses	(530,857)	8,149	(260,261)	100,871	278,242	(403,856)
Interfund Equity Transfers	(76,316)	(114,779)	68,613	122,482	-	-
Realized Gain on Investments	-	28,822	-	42,372	-	71,194
Unrealized Gain on Investments	-	19,895	-	31,102	-	50,997
Change in Excess (Loss) on Endowment Investments	5,032	-	-	(5,032)	-	-
Change in Beneficial Interest in Perpetual Trust	-	-	-	-	(1,587)	(1,587)
Change in Beneficial Interest in Charitable Remainder Trusts	-	-	-	(6,434)	-	(6,434)
Change in Net Assets	(602,141)	(57,913)	(191,648)	285,361	276,655	(289,686)
Net Assets Beginning of Year	(309,599)	691,422	3,358,454	257,613	1,143,634	5,141,524
Net Assets End of Year	$ (911,740)	$ 633,509	$ 3,166,806	$ 542,974	$ 1,420,289	$ 4,851,838

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended May 31, 2017

	Unrestricted				Permanently Restricted	
	General	Board Designated	Plant	Temporarily Restricted	Endowment	Total
Revenue and Support						
Grants, Contributions and Gifts	$ 326,780	$ -	$ -	$ -	$ -	$ 326,780
Tuition and Fees Income	5,656,395	-	-	-	-	5,656,395
Community Education	276,323	-	-	-	-	276,323
Investment Income	880	17,754	-	23,212	-	41,846
Loss on Sale of Art Inventory	-	-	(76,543)			(76,543)
Other Income	30,127	-	225,548	-	-	255,675
Total Revenue and Support	6,290,505	17,754	149,005	23,212	-	6,480,476
Net Assets Released From Restrictions	71,849	-	-	(71,849)	-	-
Total Revenue, Support and Reclassifications	6,362,354	17,754	149,005	(48,637)	-	6,480,476
Expenses						
Program Services	5,118,799	-	378,272	-	-	5,497,071
Management and General	888,496	9,177	1,718	-	-	899,391
Fundraising	235,974	-	859	-	-	236,833
Total Expenses	6,243,269	9,177	380,849	-	-	6,633,295
Excess (Deficit) of Revenue, Support and Reclassifications Over Expenses	119,085	8,577	(231,844)	(48,637)	-	(152,819)
Interfund Equity Transfers	20,157	25,709	(3,959)	(41,907)	-	-
Realized Gain on Investments	-	11,655	-	14,217	-	25,872
Unrealized Gain on Investments	-	52,588	-	66,969	-	119,557
Change in Excess (Loss) on Endowment Investments	22,265	-	-	(22,265)	-	-
Change in Beneficial Interest in Perpetual Trust	-	-	-	-	8,004	8,004
Change in Beneficial Interest in Charitable Remainder Trusts	-	-	-	(13,543)	-	(13,543)
Change in Net Assets	161,507	98,529	(235,803)	(45,166)	8,004	(12,929)
Net Assets Beginning of Year	(471,106)	592,893	3,594,257	302,779	1,135,630	5,154,453
Net Assets End of Year	$ (309,599)	$ 691,422	$ 3,358,454	$ 257,613	$ 1,143,634	$ 5,141,524

See accompanying notes.

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended May 31, 2018	Years Ended May 31, 2017
Cash Flows From Operating Activities		
Change in Net Assets	$ (289,686)	$ (12,929)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Depreciation	152,273	150,570
Amortization	1,933	4,416
Realized Gain on Investments	(71,194)	(25,872)
Unrealized Gain on Investments	(50,997)	(119,557)
Loss on Sale of Art Inventory	30,182	76,543
Change in Beneficial Interest in Perpetual Trust	1,587	(8,004)
Change in Beneficial Interest in Charitable Remainder Trusts	6,434	13,543
Changes in		
Accounts Receivable, Net	29,669	(81,762)
Grant Receivable	40,000	40,000
Prepaid Expenses	(21,376)	(7,556)
Accounts Payable	6,849	(155,678)
Accrued Expenses	26,706	(135,377)
Deferred Revenue	(40,000)	(40,000)
Net Cash Used by Operating Activities	(177,620)	(301,663)
Cash Flows From Investing Activities		
Proceeds From Sale of Investments	907,190	739,686
Purchase of Investments	(1,104,869)	(770,770)
Proceeds from Sale of Art Inventory	21,868	20,967
Acquisition of Buildings and Equipment	(21,251)	(39,757)
Net Cash Used by Investing Activities	(197,062)	(49,874)
Cash Flows From Financing Activities		
Net Change in Line of Credit	410,000	150,000
Payments on Note Payable	(13,400)	(7,307)
Payments on Capital Leases	(4,058)	(3,600)
Net Cash Provided by Financing Activities	392,542	139,093
Net Change in Cash and Cash Equivalents	17,860	(212,444)
Beginning Balance - Cash and Cash Equivalents	98,649	311,093
Ending Balance - Cash and Cash Equivalents	$ 116,509	$ 98,649

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

The Art Academy of Cincinnati's purpose is to serve as an accredited educational institution of degreed and non-degreed students from across the country with diverse majors in studio arts and creative writing.

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 $111,176 and $86,000 at May 31, 2018 and 2017, 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, 2018 and 2017, sales of art inventory totaled $21,868 and $20,967, 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, 2018 or 2017.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2018 and 2017, sales of art totaled $-0-. During both the years ended May 31, 2018 and 2017, 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 2018 or 2017.

Advertising Costs

The Academy expenses advertising costs as they are incurred.

Amortization

Closing costs associated with the purchase of a building and parking lot were capitalized and are being amortized over fifteen years using the straight-line method. At May 31, 2018, all closing costs were fully amortized.

Income Tax Status

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

The Academy has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Academy recognized no interest or penalties in the consolidated statements of activities for either of the years ended May 31, 2018 or 2017. If the situation arose in which the Academy would have interest to recognize, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statute of limitations and remain subject to review and change. The Academy is not currently under audit, nor has the Academy been contacted by these jurisdictions.

Based on the evaluation of the Academy's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended May 31, 2018 or 2017.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Significant Accounting Standards

Lease Accounting Standard

In February, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842.) The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements,* and therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The ASU is effective for nonpublic entities for years beginning after December 15, 2019.

Revenue Recognition Standard

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard may have an impact on the timing of when an entity recognizes certain revenue. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

Nonprofit Standard

In August, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (Topic 958).The core principles of the guidance are a reduction in the number of net asset categories from three to two, reporting investment return net of external and internal investment expenses, the placed-in-service approach for reporting expirations of restrictions on donated assets and enhanced disclosures regarding designations and donor restrictions, qualitative and quantitative liquidity information, expense allocation methods, expenses by natural classification and function and underwater endowments. The ASU is effective for years beginning after December 15, 2017.

The Academy is currently in the process of evaluating the impact of adoption of these ASUs on their consolidated financial statements.

Subsequent Events

The Academy has evaluated subsequent events through October 22, 2018, 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. Cash equivalents that are held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to $500,000 of protection for each brokerage account with a limit of $250,000 for claims of uninvested cash balances.

The 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 $31,243 and $16,819 in 2018 and 2017, respectively.

NOTE 2 - CASH AND CASH FLOW INFORMATION (Continued)

The Academy had noncash financing or investing activities as follows:

	Years Ended May 31, 2018	Years Ended May 31, 2017
Refinance of Note Payable	$ -	$ 160,000

NOTE 3 - BUILDINGS AND EQUIPMENT

Buildings and equipment and related accumulated depreciation consist of the following at May 31, 2018 and 2017.

2018	Cost	Accumulated Depreciation	Net Book Value
Land	$ 89,170	$ -	$ 89,170
Buildings and Improvements	3,668,290	615,729	3,052,561
Office Furniture and Equipment	1,206,245	1,141,393	64,852
	$ 4,963,705	$ 1,757,122	$ 3,206,583
2017			
Land	$ 89,170	$ -	$ 89,170
Buildings and Improvements	3,668,290	491,036	3,177,254
Office Furniture and Equipment	1,184,994	1,113,813	71,181
	$ 4,942,454	$ 1,604,849	$ 3,337,605

NOTE 4 - INVESTMENTS

The Academy's investments are summarized as follows:

	May 31, 2018		May 31, 2017	
	Cost	Fair Value	Cost	Fair Value
Unrestricted Fund	$ 522,584	$ 646,392	$ 608,432	$ 708,983
Temporarily Restricted	452,204	424,396	350,854	320,177
Permanently Restricted	1,087,201	1,209,997	840,398	931,755
	$ 2,061,989	$ 2,280,785	$ 1,799,684	$ 1,960,915

NOTE 4 - INVESTMENTS (Continued)

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

	May 31, 2018 Cost	May 31, 2018 Fair Value	May 31, 2017 Cost	May 31, 2017 Fair Value
Cash Equivalents	$ 23,538	$ 23,538	$ 38,402	$ 38,402
Corporate Stocks and Bonds	289,491	377,365	304,474	377,796
Collective and Mutual Funds	1,237,874	1,294,745	1,175,896	1,231,108
Fixed Income	4,228	4,670	-	-
Exchange-Traded Fund	506,858	580,467	280,912	313,609
	$ 2,061,989	$ 2,280,785	$ 1,799,684	$ 1,960,915

The following schedule summarizes investment return and its classification in the consolidated statements of activities for the years ended May 31, 2018 and 2017.

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and Dividends	$ 18,567	$ 40,974	$ -	$ 59,541
Realized Gains	28,822	42,372	-	71,194
Unrealized Gains	19,895	31,102	-	50,997
Fees	(10,418)	-	-	(10,418)
Total Investment Return	$ 56,866	$ 114,448	$ -	$ 171,314
2017				
Interest and Dividends	$ 18,634	$ 23,212	$ -	$ 41,846
Realized Gains	11,655	14,217	-	25,872
Unrealized Losses	52,588	66,969	-	119,557
Fees	(9,177)	-	-	(9,177)
Total Investment Return	$ 73,700	$ 104,398	$ -	$ 178,098

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, 2018 and 2017, respectively. The distribution is recognized in the general fund as investment income. For fiscal years 2018 and 2017, the total cash distributions were $130,000, and $-0- 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 2018 and 2017 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, 2018	May 31, 2017
Wilmer D. Glenn Trust	100%	$ 194,476	$ 196,063

NOTE 7 - ART INVENTORY

Art inventory consists of the following:

	May 31, 2018	May 31, 2017
Works of Art	$ 153,957	$ 206,007

NOTE 8 - OTHER ASSETS

The following is a summary of other assets:

	May 31, 2018	May 31, 2017
Cost	$ 25,247	$ 25,247
Accumulated Amortization	25,247	23,314
Other Assets, Net	$ -	$ 1,933

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% (3.73% and 3.99% at May 31, 2018 and 2017, respectively). The line matures in May, 2019. At May 31, 2018 and 2017, the outstanding balance on the line of credit was $860,000 and $450,000, respectively. Art Academy Housing has guaranteed the line of credit.

NOTE 10 - NOTE PAYABLE

	May 31, 2018	May 31, 2017
The Academy has a note payable to a bank. The note charges interest at 3.73% with final payment due in February, 2024. The note is due in monthly principal and interest payments of $1,623, and is collateralized by a parcel of land.	$ 143,404	$ 156,804
Less Current Portion	13,972	13,426
Long-Term Portion	$ 129,432	$ 143,378

The remaining maturities on this note are as follows:

Years Ending May 31,	
2019	$ 13,972
2020	14,540
2021	15,131
2022	15,746
2023	16,386
Thereafter	67,629
	$ 143,404

NOTE 11 - CAPITAL LEASE OBLIGATIONS

The Academy entered into a capital lease obligation in 2013, collateralized by the computer server purchased, that charged interest at 12.2%. The Academy 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 $3,750 for both years ended May 31, 2018 and 2017.

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

	May 31, 2018	May 31, 2017
Computer Equipment	$ 14,999	$ 14,999
Computer Server	18,250	18,250
Less Accumulated Depreciation	27,937	24,187
Net Capital Lease Obligation Equipment	$ 5,312	$ 9,062

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,		
2019	$ 4,357	
2020	1,168	
Total Minimum Lease Payments	5,525	
Less Amounts Representing Interest	492	
Present Value of Net Minimum Lease Payments	5,033	$ 9,091
Less Current Portion	3,956	3,774
Long-Term Capital Lease Obligation	$ 1,077	$ 5,317

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted as follows:

	May 31, 2018	2017
Time Restricted		
Cash and Investments	$ 176,066	$ (15,794)
Beneficial Interest in Charitable Remainder Trusts	22,259	28,693
Purpose Restricted		
Contributions and Gifts	4,757	6,757
Endowments	334,859	237,957
Temporarily Restricted Net Assets	$ 537,941	$ 257,613

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are included in the following:

Cash	$ 15,816	$ 15,816
Beneficial Interest in Perpetual Trust	194,476	196,063
Endowments	1,209,997	931,755
Permanently Restricted Net Assets	$ 1,420,289	$ 1,143,634

NOTE 14 - 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 14 - 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, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Asset Composition by Type of Fund	$ 601,130	$ 334,859	$ 1,209,997	$ 2,145,986

NOTE 14 - ENDOWMENTS (Continued)

Changes in endowment net assets for the year ended May 31, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 667,420	$ 237,957	$ 931,755	$ 1,837,132
Investment Return				
Investment Income	18,555	29,959	-	48,514
Net Appreciation (Realized and Unrealized)	48,717	73,474	-	122,191
Total Investment Return	67,272	103,433	-	170,705
Contributions	40,380	-	278,242	318,622
Appropriation of Endowment Assets for Expenditures	(173,942)	(6,531)	-	(180,473)
Endowment Net Assets, End of Year	$ 601,130	$ 334,859	$ 1,209,997	$ 2,145,986

As of May 31, 2018, the amount of permanently restricted endowment funds whose balance dropped below the restricted amount was $11,364. The change for the year ended May 31, 2018 was a decrease of $5,032.

Endowment net asset composition by type of fund as of May 31, 2017 is as follows:

Endowment Net Asset Composition by Type of Fund	$ 667,420	$ 237,957	$ 931,755	$ 1,837,132

Changes in endowment net assets for the year ended May 31, 2017 are as follows:

Endowment Net Assets, Beginning of Year	$ 592,893	$ 146,987	$ 931,755	$ 1,671,635
Investment Return				
Investment Income	17,754	23,212	-	40,966
Net Appreciation (Realized and Unrealized)	64,243	81,186	-	145,429
Total Investment Return	81,997	104,398	-	186,395
Contributions	1,707	-	-	1,707
Appropriation of Endowment Assets for Expenditures	(9,177)	(13,428)	-	(22,605)
Endowment Net Assets, End of Year	$ 667,420	$ 237,957	$ 931,755	$ 1,837,132

As of May 31, 2017, the amount of permanently restricted endowment funds whose balance dropped below the restricted amount was $16,396. The change for the year ended May 31, 2017 was an increase of $22,265.

NOTE 15 - FUNCTIONAL EXPENSES

The detail of functional expenses is as follows:

	Years Ended May 31,							
	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,575,545	$ 591,217	$ 127,919	$ 2,294,681	$ 1,496,149	$ 437,032	$ 130,351	$ 2,063,532
Payroll Taxes	67,254	94,066	11,669	172,989	129,249	36,057	11,295	176,601
Employee Benefits	79,045	128,025	11,376	218,446	85,104	91,937	11,319	188,360
Rent	183,592	-	-	183,592	179,217	-	-	179,217
Utilities	233,640	469	-	234,109	251,657	-	-	251,657
Security	212,706	-	-	212,706	210,402	-	-	210,402
Insurance	135	39,830	-	39,965	232	34,570	-	34,802
Bank Charges	6,327	17,932	-	24,259	180	18,015	158	18,353
Supplies	157,870	27,864	9,695	195,429	133,106	25,797	7,362	166,265
Purchased Services	262,496	227,335	26,656	516,487	230,390	91,909	47,907	370,206
Model Fees	9,576	-	-	9,576	12,247	-	-	12,247
Lecturer's Honorarium	3,850	-	-	3,850	7,818	-	-	7,818
Hospitality	28,367	8,351	2,706	39,424	16,337	5,209	9,102	30,648
Memberships and Fees	61,765	13,952	2,087	77,804	51,495	22,829	6,731	81,055
Books, Videos, and Subscriptions	3,401	69	34	3,504	1,168	-	298	1,466
Email and Internet	11,589	28,867	-	40,456	18,575	18,595	-	37,170
Postage and Mail Service	-	8,896	-	8,896	-	9,404	-	9,404
Travel	39,488	10,006	291	49,785	40,733	4,431	143	45,307
Per Diem	2,375	176	-	2,551	12,882	3,422	-	16,304
Personnel and Instructional Development	615	1,943	-	2,558	-	-	-	-
Promotion	227,106	-	4,374	231,480	150,371	359	10,764	161,494
Equipment Maintenance and Rental	67,753	17,053	-	84,806	58,915	23,251	544	82,710
Plant Maintenance	93,287	-	-	93,287	62,941	-	-	62,941
Student Activities	44,707	-	-	44,707	32,739	-	-	32,739
Student Exhibition	17,289	-	-	17,289	16,891	-	-	16,891
Equipment Purchases	1,278	-	-	1,278	6,525	2,356	-	8,881
Information Technology	2,161	-	-	2,161	-	-	-	-
Scholarships	1,853,693	-	-	1,853,693	2,122,520	-	-	2,122,520
Depreciation and Amortization	151,893	1,542	771	154,206	152,661	1,550	775	154,986
Interest Expense	30,775	312	156	31,243	16,567	168	84	16,819
Bad Debt Expense	-	26,176	-	26,176	-	72,500	-	72,500
	$ 5,429,578	$ 1,244,081	$ 197,734	$ 6,871,393	$ 5,497,071	$ 899,391	$ 236,833	$ 6,633,295

NOTE 16 - OPERATING LEASES

The Academy is the lessee in the following lease agreements:

Equipment

The Academy leases equipment for total monthly payments of $5,314. The leases have varying expiration dates ranging from June, 2020 to September, 2022. The Academy incurred lease expense of $59,046 and $43,575 for 2018 and 2017, 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 2018 and 2017.

The Academy also has additional leases for student housing. The leases vary in payment from $540 to $2,500 per month. One lease is on a month to month basis and one expires September, 2019. The Academy incurred lease expense of $62,272 and $61,680 for 2018 and 2017, respectively.

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

Years Ending May 31,	Housing	Equipment	Total
2019	$ 131,320	$ 63,768	$ 195,088
2020	121,320	63,768	185,088
2021	121,320	21,253	142,573
2022	121,320	17,388	138,708
2023	121,320	3,747	125,067
Thereafter	242,640	-	242,640
	$ 859,240	$ 169,924	$ 1,029,164

NOTE 17 - 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, 2018 and 2017, the Academy had transactions with related parties as follows:

	Years Ended May 31, 2018	2017
Legal Services	$ 26,244	$ 12,294
Event Rental	-	4,250
	$ 26,244	$ 16,544

NOTE 18 - OTHER EMPLOYEE BENEFITS

In 2014, the Academy signed an employment agreement with an employee; under the agreement the named employee was to be reviewed for two bonuses annually: fixed longevity and review-based. The agreement stated the fixed longevity bonus would be $25,000 per year employed and the review-based bonus was to be determined and approved annually by the Board of Trustees. All amounts were to be accumulated and payed out only if the reason for termination were based on agreeable terms. The named employee was approved for a cumulative total for the review-based payout in the amount of $43,000 as of both May 31, 2018 and 2017. The named employee was approved for cumulative total for the fixed longevity payout in the amount of $100,000 and $75,000 as of May 31, 2018 and 2017, respectively. During 2018, the employee named ceased employment with the Academy based on agreeable terms and therefore the Academy accrued a total of $143,000 of salary expenses to fulfill the employment agreement.

NOTE 19 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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, 2018 and 2017.

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 Exchange Traded Funds - Valued at the net asset value (NAV) of shares held by the Academy 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 19 - FAIR VALUE MEASUREMENTS (Continued)

The following assets and liabilities were measured at fair value as of May 31, 2018:

	Quoted Price In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	$ 23,538	$ -	$ -	$ 23,538
Mutual Funds				
Money Market Funds	1,039	-	-	1,039
Blended Funds	147,991	-	-	147,991
Growth Funds	79,718	-	-	79,718
Fixed Funds	678,033	-	-	678,033
Emerging Markets	53,229	-	-	53,229
Value Funds	91,873	-	-	91,873
International Funds	242,862	-	-	242,862
Total Mutual Funds	1,294,745	-	-	1,294,745
Stocks				
Consumer Discretionary	47,802	-	-	47,802
Consumer Staples	24,644	-	-	24,644
Energy	20,935	-	-	20,935
Financial	69,629	-	-	69,629
Health Care	50,619	-	-	50,619
Industrials	44,399	-	-	44,399
Information Technology	83,102	-	-	83,102
Materials	12,896	-	-	12,896
Telecommunication Services	10,270	-	-	10,270
Real Estate	6,467	-	-	6,467
Utilities	6,602	-	-	6,602
Total Stocks	377,365	-	-	377,365
Fixed Income	4,670	-	-	4,670
Exchange-Traded Funds	580,467	-	-	580,467
Total Investments	$ 2,280,785	$ -	$ -	$ 2,280,785
Beneficial Interest In Trusts	$ 218,573	$ -	$ (1,838)	$ 216,735

NOTE 19 - FAIR VALUE MEASUREMENTS (Continued)

The following assets and liabilities were measured at fair value as of May 31, 2017:

	Quoted Price In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	$ 38,402	$ -	$ -	$ 38,402
Mutual Funds				
Money Market Funds	4,911	-	-	4,911
Blended Funds	80,861	-	-	80,861
Growth Funds	259,169	-	-	259,169
Fixed Funds	607,853	-	-	607,853
International Funds	278,314	-	-	278,314
Total Mutual Funds	1,231,108	-	-	1,231,108
Stocks				
Consumer Discretionary	52,693	-	-	52,693
Consumer Staples	32,138	-	-	32,138
Energy	20,708	-	-	20,708
Financial	63,532	-	-	63,532
Health Care	45,231	-	-	45,231
Industrials	44,820	-	-	44,820
Information Technology	82,268	-	-	82,268
Materials	14,250	-	-	14,250
Telecommunication Services	4,912	-	-	4,912
Utilities	5,831	-	-	5,831
Unclassified Stock	11,413	-	-	11,413
Total Stocks	377,796	-	-	377,796
Exchange-Traded Funds	313,609	-	-	313,609
Total Investments	$ 1,960,915	$ -	$ -	$ 1,960,915
Beneficial Interest In Trusts	$ 228,543	$ -	$ (3,787)	$ 224,756

NOTE 19 - 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, 2016	$ (8,068)
Change in Value	4,281
May 31, 2017	(3,787)
Change in Value	1,949
May 31, 2018	$ (1,838)

NOTE 20 - 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 21 - 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, 2018 and 2017, financial aid awards received accounted for approximately 45% and 44%, respectively, of tuition income. In the event the financial aid program ceases, the Academy's future as a going concern would be in jeopardy.

NOTE 22 - GOING CONCERN

As shown in the accompanying consolidated financial statements, the Academy incurred a decrease in net assets of $289,686 and $12,929 for the years ended May 31, 2018 and 2017, respectively. During this time, the general fund net asset balance remains in a deficit. In addition, the general fund current liabilities exceed current assets as of both May 31, 2018 and 2017. The Academy was not able to reach its budgeted student Full Time Enrollment (FTE) numbers for the year ended May 31, 2018 therefore revenue was under budget. In response, the Academy has made cuts to expenses where possible. Due to the reduction in revenue, the Academy has experienced a shortfall in cash flow. The cash flow needs have been met through the line of credit. The line of credit expires May, 2019. Based on the above factors, the Admissions department is changing the methods to attract and retain students for the 2018 - 2019 school year. Also the Academy has made significant changes in personnel in both the Financial Aid Office and the Business Office. The experienced professionals have made a positive impact at the Academy.

The ability of the Academy to continue as a going concern is dependent on the success of the recruitment of new students and retention of the experienced professionals in the Financial Aid Office and Business Office. Management feels the changes made have been successful and will lead to increased enrollments and improved cash flow. The consolidated financial statements do not include any adjustments that might be necessary if the Academy is unable to continue as a going concern.

SUPPLEMENTARY INFORMATION

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
May 31, 2018

ASSETS

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Current Assets				
Cash and Cash Equivalents	$ 116,509	$ -	$ -	$ 116,509
Accounts Receivable, Net	295,455	-	-	295,455
Investments	735,929	-	-	735,929
Grant Receivable	40,000	-	-	40,000
Note Receivable - Related Party	58,281	-	(58,281)	-
Prepaid Expenses	88,895	-	-	88,895
Total Current Assets	1,335,069	-	(58,281)	1,276,788
Buildings and Equipment, Net	3,161,392	45,191	-	3,206,583
Investments	1,544,856	-	-	1,544,856
Art Inventory	153,957	-	-	153,957
Grant Receivable	360,000	-	-	360,000
Beneficial Interest in Perpetual Trust	194,476	-	-	194,476
Beneficial Interest in Charitable Remainder Trusts	24,097	-	-	24,097
Deposits	-	12,775	-	12,775
Total Assets	$ 6,773,847	$ 57,966	$ (58,281)	$ 6,773,532

LIABILITIES AND NET ASSETS

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Current Liabilities				
Line of Credit	$ 860,000	$ -	$ -	$ 860,000
Accounts Payable	201,247	-	-	201,247
Accrued Expenses	286,072	24,100	-	310,172
Capital Leases	3,956	-	-	3,956
Note Payable - Related Party	-	58,281	(58,281)	-
Note Payable	13,972	-	-	13,972
Total Current Liabilities	1,365,247	82,381	(58,281)	1,389,347
Long-Term Liabilities				
Charitable Remainder Trust	1,838	-	-	1,838
Deferred Revenue	400,000	-	-	400,000
Capital Leases (Less Current Portion)	1,077	-	-	1,077
Note Payable (Less Current Portion)	129,432	-	-	129,432
Total Long-Term Liabilities	532,347	-	-	532,347
Total Liabilities	1,897,594	82,381	(58,281)	1,921,694
Net Assets	4,876,253	(24,415)	-	4,851,838
Total Liabilities and Net Assets	$ 6,773,847	$ 57,966	$ (58,281)	$ 6,773,532

ART ACADEMY OF CINCINNATI AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended May 31, 2018

	Art Academy of Cincinnati	Art Academy Housing, Inc.	Eliminations	Total
Revenue and Support				
Grants, Contributions and Gifts	$ 728,377	$ -	$ -	$ 728,377
Tuition and Fees Income	5,358,792	-	-	5,358,792
Community Education	170,550	-	-	170,550
Investment Income	59,541	-	-	59,541
Loss on Sale of Art Inventory	(30,182)			(30,182)
Other Income	39,881	140,578	-	180,459
Total Revenue and Support	6,326,959	140,578	-	6,467,537
Expenses				
Program Services	5,212,270	217,308	-	5,429,578
Management and General	1,244,081	-	-	1,244,081
Fundraising	197,734	-	-	197,734
Total Expenses	6,654,085	217,308	-	6,871,393
Deficit of Revenue, Support and Reclassifications Over Expenses	(327,126)	(76,730)	-	(403,856)
Realized Gain on Investments	71,194	-	-	71,194
Unrealized Gain on Investments	50,997	-	-	50,997
Change in Beneficial Interest in Perpetual Trust	(1,587)	-	-	(1,587)
Change in Beneficial Interest in Charitable Remainder Trusts	(6,434)	-	-	(6,434)
Change in Net Assets	(212,956)	(76,730)	-	(289,686)
Net Assets Beginning of Year	5,089,209	52,315	-	5,141,524
Net Assets End of Year	$ 4,876,253	$ (24,415)	$ -	$ 4,851,838