

RINGLING COLLEGE OF ART AND DESIGN  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED MAY 31, 2012 AND 2011

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FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

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## **Independent Auditors' Report**

To the Board of Trustees  
Ringling College of Art and Design  
Sarasota, Florida

We have audited the accompanying statements of financial position of Ringling College of Art and Design (the "College") as of May 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Florida Auditor General*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Cheng, Behaert & Holland, L.L.P.*

Orlando, Florida  
September 10, 2012

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 11,644,593	\$ 6,029,478
Short-term investments	2,761,760	2,825,415
Accounts receivable - students	197,632	106,649
Contributions receivable, net of long-term portion	1,950,818	2,562,132
Contributions receivable from remainder trusts	678,850	-
Other receivables	17,354	108,451
Prepaid expenses and other assets	954,827	1,117,696
	<u>18,205,834</u>	<u>12,749,821</u>
 <u>Non-current assets</u>		
Cash and cash equivalents restricted by donors	6,852,637	8,204,722
Long-term investments	6,182,238	5,879,767
Long-term contributions receivable	6,946,218	7,402,910
Contributions receivable from remainder trusts	101,458	100,240
Debt issuance costs, net of amortization	380,037	459,457
Cash reserve for project fund	-	470,894
Investment in property	1,565,000	1,565,000
Other non-current assets	221,644	365,398
	<u>22,249,232</u>	<u>24,448,388</u>
 <u>Endowment</u>		
Cash and cash equivalents restricted for endowment	16,662	489,899
Contributions receivable restricted for endowment	2,551,974	2,324,359
Contributions receivable from remainder trusts	516,992	431,996
Long-term investments	23,556,190	24,147,724
	<u>26,641,818</u>	<u>27,393,978</u>
 <u>Property and equipment</u>		
at cost less accumulated depreciation	109,160,948	109,449,490
	<u>109,160,948</u>	<u>109,449,490</u>
 TOTAL ASSETS	<u>\$ 176,257,832</u>	<u>\$ 174,041,677</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
<u>Current liabilities</u>		
Accounts payable	\$ 1,807,751	\$ 2,199,514
Accrued salaries and wages	3,028,842	2,955,897
Other accrued expenses	148,346	171,218
Current portion of long-term debt	1,590,000	1,784,638
Student deposits	481,590	445,497
Deferred revenue	839,874	879,620
Amounts held in custody for others	<u>8,976</u>	<u>5,871</u>
Total Current Liabilities	<u>7,905,379</u>	<u>8,442,255</u>
<u>Long-term liabilities</u>		
Long-term debt, net of current portion	66,000,000	67,590,000
Annuity payable	746,990	744,663
Interest rate swap liability	4,678,809	3,558,520
Amounts held in custody for others	<u>123,482</u>	<u>90,864</u>
Total Long-Term Liabilities	<u>71,549,281</u>	<u>71,984,047</u>
Total Liabilities	<u>79,454,660</u>	<u>80,426,302</u>
<u>Net assets</u>		
Unrestricted	42,381,240	40,653,086
Temporarily restricted	37,437,852	37,180,679
Permanently restricted	<u>16,984,080</u>	<u>15,781,610</u>
Total Net Assets	<u>96,803,172</u>	<u>93,615,375</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 176,257,832</u>	 <u>\$ 174,041,677</u>

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED MAY 31, 2012 AND 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>Operating revenues, gains and other support:</u>				
Gross tuition and fees	\$ 46,207,893	\$ -	\$ -	\$ 46,207,893
Less: Scholarship allowance	(6,016,340)	-	-	(6,016,340)
Net tuition and fees	40,191,553	-	-	40,191,553
Government grants and contracts	352,310	-	-	352,310
Private gifts and grants	798,463	6,186,496	-	6,984,959
Sales and services of continuing education	862,470	-	-	862,470
Sales and services of auxiliary enterprises	8,117,226	-	-	8,117,226
Investment income	16,516	137,074	-	153,590
Endowment distribution designated for operations	849,275	-	-	849,275
Other revenue	355,724	-	-	355,724
Total operating revenues and gains	51,543,537	6,323,570	-	57,867,107
Net assets released from restrictions	4,956,244	(4,956,244)	-	-
Total operating revenues, gains and other support	56,499,781	1,367,326	-	57,867,107
<u>Operating expenses and losses:</u>				
Education and general:				
Instruction	20,115,120	-	-	20,115,120
Academic support	7,479,982	-	-	7,479,982
Student services	5,784,824	-	-	5,784,824
Scholarships and stipends	171,271	-	-	171,271
Institutional support	10,520,401	-	-	10,520,401
Total education and general	44,071,598	-	-	44,071,598
Auxiliary enterprises	8,644,823	-	-	8,644,823
Total operating expenses and losses	52,716,421	-	-	52,716,421
Increase in net assets from operating activities	3,783,360	1,367,326	-	5,150,686
<u>Nonoperating activities:</u>				
Private gifts	-	-	1,357,348	1,357,348
Interest and dividend income	162,993	222,170	22,473	407,636
Net realized and unrealized loss on investments	(607,599)	(838,639)	(22,431)	(1,468,669)
Endowment distribution designated for operations	(849,275)	-	-	(849,275)
Unrealized principal loss of true endowment	(44,660)	-	-	(44,660)
Unrealized loss on interest rate swap	(1,120,290)	-	-	(1,120,290)
Change in value of split interest agreements	-	(65,059)	(179,920)	(244,979)
Change in donor designation	-	(25,000)	25,000	-
Net assets released from restrictions	403,625	(403,625)	-	-
Increase (decrease) in net assets from nonoperating activities	(2,055,206)	(1,110,153)	1,202,470	(1,962,889)
Total change in net assets	1,728,154	257,173	1,202,470	3,187,797
Net assets at beginning of year	40,653,086	37,180,679	15,781,610	93,615,375
NET ASSETS AT END OF YEAR	<u>\$ 42,381,240</u>	<u>\$ 37,437,852</u>	<u>\$ 16,984,080</u>	<u>\$ 96,803,172</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED MAY 31, 2012 AND 2011

	2011			Total
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
<u>Operating revenues, gains and other support:</u>				
Gross tuition and fees	\$42,611,373	\$ -	\$ -	\$42,611,373
Less: Scholarship allowance	<u>(4,112,403)</u>	-	-	<u>(4,112,403)</u>
Net tuition and fees	38,498,970	-	-	38,498,970
Government grants and contracts	368,837	-	-	368,837
Private gifts and grants	1,020,417	6,881,735	-	7,902,152
Sales and services of continuing education	857,626	-	-	857,626
Sales and services of auxiliary enterprises	7,447,006	-	-	7,447,006
Investment income	133,667	47,274	-	180,941
Endowment distribution designated for operations	484,450	-	-	484,450
Other revenue	<u>221,307</u>	-	-	<u>221,307</u>
Total operating revenues and gains	49,032,280	6,929,009	-	55,961,289
Net assets released from restrictions	<u>4,449,769</u>	<u>(4,449,769)</u>	-	-
Total operating revenues, gains and other support	<u>53,482,049</u>	<u>2,479,240</u>	-	<u>55,961,289</u>
<u>Operating expenses and losses:</u>				
Education and general:				
Instruction	19,192,038	-	-	19,192,038
Academic support	6,827,070	-	-	6,827,070
Student services	5,407,618	-	-	5,407,618
Scholarships and stipends	134,581	-	-	134,581
Institutional support	<u>10,121,554</u>	-	-	<u>10,121,554</u>
Total education and general	41,682,861	-	-	41,682,861
Auxiliary enterprises	<u>7,888,405</u>	-	-	<u>7,888,405</u>
Total operating expenses and losses	<u>49,571,266</u>	-	-	<u>49,571,266</u>
Increase in net assets from operating activities	<u>3,910,783</u>	<u>2,479,240</u>	-	<u>6,390,023</u>
<u>Nonoperating activities:</u>				
Private gifts	-	-	979,729	979,729
Interest and dividend income	67,969	82,305	12,467	162,741
Net realized and unrealized gain on investments	1,342,428	911,201	223,938	2,477,567
Endowment distribution designated for operations	(484,450)	-	-	(484,450)
Unrealized principal recovery of true endowment	250,563	-	-	250,563
Unrealized loss on interest rate swap	(678,392)	-	-	(678,392)
Change in value of split interest agreements	-	(62,524)	4,707	(57,817)
Net assets released from restrictions	<u>276,435</u>	<u>(276,210)</u>	<u>(225)</u>	-
Increase in net assets from nonoperating activities	<u>774,553</u>	<u>654,772</u>	<u>1,220,616</u>	<u>2,649,941</u>
Total change in net assets	4,685,336	3,134,012	1,220,616	9,039,964
Net assets at beginning of year	<u>35,967,750</u>	<u>34,046,667</u>	<u>14,560,994</u>	<u>84,575,411</u>
NET ASSETS AT END OF YEAR	<u>\$40,653,086</u>	<u>\$ 37,180,679</u>	<u>\$15,781,610</u>	<u>\$93,615,375</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS



RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MAY 31, 2012 AND 2011

<u>Cash flows from operating activities:</u>	<u>2012</u>	<u>2011</u>
Increase in net assets	\$ 3,187,797	\$ 9,039,964
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,492,545	8,978,412
Change in interest rate swap liability	1,120,289	678,391
Loss on disposal of equipment	400	2,006
In-kind contributions of property and equipment	(1,945,171)	(1,506,894)
Realized and unrealized (gains) losses on investments	1,602,768	(2,835,334)
Decrease in current assets excluding cash and investments	774,297	1,257,131
(Increase) decrease in long-term contributions receivable	(535,987)	265,655
(Increase) decrease in other non-current assets	143,754	(6,606)
Increase (decrease) in current liabilities excluding debt	(342,238)	1,186,186
Increase in other long-term liabilities	34,945	614
Contributions received restricted for -		
Endowment	(891,873)	(1,710,219)
Property and equipment	(1,829,035)	(2,031,822)
Net cash provided by operating activities	<u>10,812,491</u>	<u>13,317,484</u>
<u>Cash flows from investing activities:</u>		
Proceeds from sale of investments	9,160,034	3,816,703
Purchase of investments	(10,410,083)	(15,122,228)
Purchase of property and equipment	(7,174,813)	(7,809,956)
Net cash used by investing activities	<u>(8,424,862)</u>	<u>(19,115,481)</u>
<u>Cash flows from financing activities:</u>		
Deposited from (into) accounts restricted for -		
Endowment	473,237	(43,280)
Long-term purposes	1,352,085	(1,958,229)
Project Reserve Fund	470,894	1,728,637
Contributions received restricted for -		
Endowment	891,873	1,710,219
Property and equipment	1,829,035	2,031,822
Debt issuance costs	(5,000)	(188,136)
Proceeds of long-term debt	-	30,000,000
Principal repayments on debt	(1,784,638)	(31,494,471)
Net cash provided by financing activities	<u>3,227,486</u>	<u>1,786,562</u>
Net increase (decrease) in cash	5,615,115	(4,011,435)
Cash - Beginning of year	<u>6,029,478</u>	<u>10,040,913</u>
CASH - END OF YEAR	<u>\$11,644,593</u>	<u>\$ 6,029,478</u>
 SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u>\$ 2,041,291</u>	<u>\$ 2,016,467</u>
Non-cash in-kind contributions	<u>\$ 1,945,171</u>	<u>\$ 1,506,894</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ringling College of Art and Design's (the College) primary mission is to provide a professional education in the visual arts. Founded in 1931, it is a private, non-profit, independent, four-year college offering degrees in advertising design, business of art and design, computer animation, digital filmmaking, fine arts, game art and design, graphic and interactive communication, illustration, interior design, motion design, painting, photography and digital imaging, printmaking, and sculpture. The College enrolls approximately 1,400 students from the United States and nearly 40 countries worldwide. The College also operates two art centers located in Longboat Key and Englewood to promote knowledge, appreciation and education in the visual arts.

Revenues of the College are generated primarily from tuition, fees and other sales and services to its students and contributions from the general public. In October 2008, the City of Sarasota approved the campus master plan which outlined future campus boundaries and permitted growth in areas of the campus. The second phase of the campus master plan has been completed and identifies specific infrastructure needs and site locations for new buildings to support anticipated growth.

Basis of Presentation

The financial statements of the College have been prepared on the accrual basis. These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with financial accounting standards adopted by the Financial Accounting Standards Board. This has been done by classification of fund transactions and balances into three categories for net assets: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted net assets which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets which have donor-imposed restrictions that do not expire.

Operating and Nonoperating Activities

The accompanying statements of activities report the change in unrestricted, temporarily restricted and permanently restricted net assets, distinguishing between operating and nonoperating activities. Operating revenues consist of all the activity of the College except for certain items specifically considered to be of a nonoperating nature. Nonoperating activities include contributions for endowment, contributions and other activity related to annuity and unitrust agreements, endowment income and gains and losses, net of amounts distributed to support operations in accordance with the spending policy, changes in the fair value of the interest rate swap agreements, and certain other unusual or non-recurring items.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The College follows the policy of reporting donor-imposed restricted contributions and endowment income whose restrictions are met in the same period as received as unrestricted support. It is also the College's policy to impose a time restriction on contributions received for long-lived assets. These restrictions expire over the useful life of the related asset received or acquired.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the College considers all highly liquid instruments held by banks with a maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions for long-term purposes are not considered cash and cash equivalents for purposes of the statement of cash flows.

Accounts Receivable – Students

Accounts Receivable - Students consists of tuition earned but not yet received. The allowance for doubtful accounts is based on management's evaluation of outstanding accounts receivable at the end of the year. It is the College's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The allowance for doubtful accounts was \$92,435 and \$84,672 at May 31, 2012 and 2011, respectively.

Student Deposits

Student deposits represent payments that will be applied to College charges for tuition and other costs for future semesters, as well as excess payments made by students for prior semesters which are refundable to them.

Contributions Receivable

Contributions receivable are recorded at their estimated fair value at the date of the gift, less an appropriate reserve for uncollectible amounts. Amounts scheduled to be received after one year are discounted using the appropriate risk-free rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions. The College does not require collateral in relation to these receivables.

Contributions In-Kind

Contributions of tangible assets are recognized at their estimated fair value at the date of donation.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

Debt issuance costs are amortized over the lives of the related debt issues. Accumulated amortization at May 31, 2012, and 2011, was \$177,676 and \$93,256, respectively.

Investments

Investments are reported at fair value on the statements of financial position. Investments received by gift are recorded at fair value at the date of donation. Fair value on short-term investments and marketable securities is based on quoted market price. Fair value for alternative investments is estimated based on the College's proportionate share of the underlying fair value of the investments as determined by the external investment manager and are reviewed by the College's investment advisers and Finance and Investment Committee. Investment in property is reported at fair value based on most recent appraisal. Investment income or loss (including gains and losses on investments, interest and dividends) is included in unrestricted net assets unless the income or loss is restricted by the donor.

The College's investments include various types of securities which are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain securities and the level of uncertainty related to changes in the value of securities, it is possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

Endowment

Endowment consist of funds functioning as endowment and true endowment funds. Funds functioning as endowment are board-designated funds whose income is unrestricted. It is the College's policy to unitize endowment fund investments. All endowment investments are assigned units which provide the basis to determine an individual fund's ownership in the investment pool and its share of the gains, losses, and distributed income.

Fund-Raising Expenses

Fund-raising expenses are included in institutional support on the statement of activities. Total fund-raising expenses for the years ended May 31, 2012, and 2011, were \$1,621,888 and \$1,633,186, respectively.

Property and Equipment

Property and equipment is recorded at cost at the date of acquisition or, if acquired by gift, at the estimated fair value as of the date of the gift. Depreciation is calculated using the straight line method over the useful life of the respective assets. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend its estimatable useful life is not capitalized.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment Cont.

Useful lives used in the accumulated depreciation calculation by category of assets are as follows:

Land improvements	15 years
Buildings and improvements	15-40 years
Computers	3 years
Vehicles	7 years
Furniture, fixtures and equipment	5-10 years

Depreciation for leasehold improvements is based upon the life of the related lease unless the improvements have a shorter useful life.

Interest expense on debt to finance facilities totaled \$1,897,216 and \$2,052,885, respectively, for the years ended May 31, 2012 and 2011.

Interest Rate Swap Liability

The interest rate swap liability on the statement of financial position is presented at fair value. Changes in the fair value of derivatives are recorded as unrealized loss on interest swap on the statement of activities. Using derivative financial instruments may increase the College's exposure to credit risk and market risk. The College minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties and monitoring the counterparties' financial condition. Market risk is the adverse effect on the value of a derivative financial instrument that results from a change in interest rates. The College manages the market risk associated with derivative financial instruments by requiring Board of Trustees' approval for all such activities.

Split Interest Agreements

The College is designated as a beneficiary of several irrevocable charitable remainder unitrusts. The terms of these trusts require distribution to the College of the remainder interest on the death of the grantors of the trust. The trusts have independent trustees and are not controlled by the College. The assets of the trusts consist of cash, stocks, bonds, and real estate. The present value of the expected receipt of the remainder interest upon termination of the trust is recognized as a contribution at the time of the creation of the trust. Revaluations of the expected future benefits to be received are recognized in the statement of changes in net assets, with present value calculations based on risk-free rates and actuarially determined mortality rates.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split Interest Agreements Cont.

The College has entered into five charitable gift annuities in which the donors have contributed property to the College in consideration for the payment of a life annuity. The property was recognized at fair value when received and an annuity payment liability recognized at the present value of future cash flows expected to be paid to the donor using a discount rate of 5 to 7.3%. Subsequent revaluations of the annuity payable are based upon a risk-free rate for terms based upon actuarially determined mortality rates.

Federal Income Tax

A ruling from the U.S. Treasury Department, dated May 19, 1938, states that Ringling School of Art and Design is exempt from Federal income tax under the provisions of 101(6) of the Revenue Act of 1936, which is now 501(c)(3) of the 1986 Code. However, the College's unrelated business income is subject to income tax at corporate rates. The College's policy is to record a liability for any beneficial tax position, excluding any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of May 31, 2012 and accordingly, no liability has been accrued.

Collections

The College's collections include works of art that are maintained in the College's galleries and library and loaned to on-campus departments and local entities. These collections are protected and preserved for public exhibition, education and research. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed periodically. The collections, which were acquired through purchases and contributions since the College's inception, are not recognized as assets in the Statement of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or in temporarily restricted net assets if the assets used to purchase the items are restricted by donors.

Use of Estimates

The preparation of financial statements in conformity with United States of America's generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications are reflected in the 2011 presentation to conform to the 2012 presentation.

Subsequent Events

The College has evaluated subsequent events through September 10, 2012, in connection with the preparation of these financial statements, which is the date the financial statements were issued.

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NOTE 2—FEDERAL FINANCIAL AID

The College participates in federally funded student aid programs known as Pell Grants, Supplemental Educational Opportunity Grants, Academic Competitiveness Grant, and Federal Work-Study. Supplemental Educational Opportunity Grants and Federal Work-Study are included in Federal grant revenues presented in these financial statements. The College applies directly for funding of these programs, and recipients are selected by the College, based on need. The Pell Grants are awarded and administered by a governmental agency. The College's responsibility is to coordinate information between the applicant and the agency and to disburse funds to recipients at the proper time.

NOTE 3—CONCENTRATIONS OF CREDIT RISK

The College maintains its cash and cash equivalents on deposit with financial institutions in the United States. Effective January 1, 2011, the Federal Deposit Insurance Corporation ("FDIC") covers all non-interest bearing accounts and up to \$250,000 for interest bearing accounts. As of May 31, 2012, the College had no amounts in excess of insured amounts.

NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment for the years ending May 31, 2012, and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$22,932,267	\$21,757,387
Buildings	93,157,169	91,435,029
Furniture, fixtures and equipment	23,615,726	21,557,351
Library books	2,502,792	2,368,570
Computer equipment	16,868,882	14,370,525
Construction in progress	1,297,320	1,211,840
Leasehold Improvements	<u>92,416</u>	<u>92,416</u>
Total plant fixed assets	160,466,572	152,793,118
Less accumulated depreciation	<u>(51,305,624)</u>	<u>(43,343,628)</u>
Net property and equipment	<u>\$109,160,948</u>	<u>\$109,449,490</u>

Total depreciation expense for the years ended May 31, 2012, and 2011, was \$9,408,125 and \$8,918,316, respectively.

RINGLING COLLEGE OF ART AND DESIGN  
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NOTE 5—LONG-TERM DEBT

Long-term debt at May 31, 2012, and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
Note payable	\$ -	\$ 284,638
Series 2008 Loan	19,755,000	20,690,000
Series 2009 Loan	17,835,000	18,400,000
Series 2010 Loan	<u>30,000,000</u>	<u>30,000,000</u>
Total	67,590,000	69,374,638
Less current portion	<u>(1,590,000)</u>	<u>(1,784,638)</u>
Long-term debt	<u>\$66,000,000</u>	<u>\$67,590,000</u>

Principal maturities of long-term debt are as follows for the years ending May 31:

2013	\$ 1,590,000
2014	1,620,000
2015	1,665,000
2016	1,700,000
2017	1,805,000
Thereafter	<u>59,210,000</u>
Total	<u>\$67,590,000</u>

The note payable to Northern Trust arose from the assumption of debt in the merger with the Longboat Key Center for the Arts. Monthly payments were based on a twenty-year amortization at a fixed interest rate of 6.75% until May 2012, when the remaining principal was paid. The note was secured by property at the Center.

All Series Loans consist of borrowings funded by the issuance of Educational Facilities Revenue Bonds through the Higher Educational Facilities Financing Authority (HEFFA) and have been issued under the terms of the Master Trust Indenture dated June 1, 2004 between the master trustee and the College as amended by supplemental master trust indentures. The master trustee has a secured interest in all pledged revenues and a mortgage on the Student Center. Under terms of the loan agreements with HEFFA, the College is responsible for payment of principal and interest on the bonds and the master trust indenture, as amended, contains a debt service coverage ratio of 1 to 1.1, for which management believes the College was in compliance at May 31, 2012 and 2011.

Series 2008 Bonds are variable rate bonds subject to partial mandatory sinking fund redemption each March 1, through March 2038 and are secured by a Letter of Credit issued by PNC Bank in the amount of \$20,962,088. The variable rate was .16% as of May 31, 2012. Shortly after issuance, the floating interest rate applicable to 50% of the initial bond proceeds of \$52,500,000 was effectively fixed at 3.615%. This was amended to 4.651% effective December 1, 2010 (see Note 6).



RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 5—LONG-TERM DEBT (Continued)

Series 2009 Bonds were issued to refund the Series 2004 Bonds. The bonds are subject to partial mandatory sinking fund redemption each March 1, through March 2034. The Bonds were sold to SunTrust Bank under the terms of a Guaranty and Credit Agreement dated December 1, 2009 as a tax-exempt bank-qualified loan. The variable rate as of May 31, 2012 was 1.85% and the floating interest rate applicable to approximately 50% of the bonds has been effectively fixed at 3.963% (see Note 6).

Series 2010 Bonds were issued to refund \$30,000,000 of the Series 2008 Bonds. The bonds are subject to partial mandatory sinking fund redemption each March 1, beginning in 2027 through March 2038. The Bonds were sold to PNC Bank under the terms of a Guaranty and Credit Agreement dated December 1, 2010 as a tax-exempt bank-qualified loan. The variable rate as of May 31, 2012 was 1.66%.

NOTE 6—INTEREST RATE SWAP AGREEMENTS

On June 16, 2004, the College entered into an \$11,625,000 swap transaction with a termination date of February 19, 2014. Under the terms of the agreement, the College pays a fixed rate of 3.963% to SunTrust Bank on a monthly basis and in return SunTrust Bank pays the College based on the BMA Municipal Swap Index. At May 31, 2012, the swap had a notional amount of \$9,125,000. The difference between interest earned and the interest obligation accrued is recorded as interest expense.

On July 7, 2008, the College entered into a \$26,525,000 swap transaction with a termination date of March 1, 2018. Under the terms of the agreement, the College paid a fixed rate of 3.615% to SunTrust Bank on a monthly basis and, in return SunTrust Bank paid the College based on the BMA Municipal Swap Index. Effective December 1, 2010, the swap transaction was amended to pay a fixed rate of 4.651% to SunTrust Bank on a monthly basis and, in return, SunTrust Bank pays the College 65% of LIBOR plus 1.50%. At May 31, 2012, the swap had a notional amount of \$25,377,500. The difference between interest earned and the interest obligation accrued is recorded as interest expense.

Due to SunTrust's ratings downgrade, the College was exposed to the cost of paying for the difference between the variable rate of interest on the remarketed bonds and the reimbursed rate of interest based on the SIFMA index. That differential was .44% at May 31, 2011, but no longer exists with the replacement letter of credit with PNC Bank effective June 1, 2011. The interest rate swap agreement can be terminated by the counterparty only under events of default and termination events, which management believes are unlikely to happen. The estimated fair value of these agreements, based on various factors related to the underlying debt facility and interest rates, represents an unrealized loss of \$4,678,809 and \$3,558,520 as of May 31, 2012 and 2011, respectively.

RINGLING COLLEGE OF ART AND DESIGN  
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NOTE 7—INVESTMENTS

Investments, stated at fair value, at May 31, 2012, and 2011, include:

	<u>2012</u>		<u>2011</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
<b>Short-term</b>				
Money market funds	\$ 372,858	\$ 372,858	\$ 183,391	\$ 183,391
Common stock	41,180	41,124	-	-
Mutual funds invested in:				
Debt related securities	-	-	561,802	559,165
U.S. equity securities	340,331	271,486	353,412	271,486
Int'l equity securities	68,092	76,638	89,137	76,638
Corporate bonds	1,482,545	1,540,279	249,924	249,837
U.S. agency bonds	<u>456,754</u>	<u>451,583</u>	<u>1,387,749</u>	<u>1,384,478</u>
Total short-term	<u>\$ 2,761,760</u>	<u>\$ 2,753,968</u>	<u>\$ 2,825,415</u>	<u>\$ 2,724,995</u>
<b>Long-term</b>				
Corporate bonds	\$ 6,110,530	\$ 6,082,903	\$ 5,551,380	\$ 5,542,945
Mutual funds invested in:				
Debt securities	9,485	9,725	1,425	1,409
U.S. equity securities	48,145	46,883	16,692	16,417
Int'l equity securities	14,078	14,714	5,152	5,100
U.S. agency bonds	<u>-</u>	<u>-</u>	<u>305,118</u>	<u>305,739</u>
Subtotal	6,182,238	6,154,225	5,879,767	5,871,610
Investment in property*	<u>1,565,000</u>	<u>2,200,000</u>	<u>1,565,000</u>	<u>2,200,000</u>
Total non-current assets	<u>\$ 7,747,238</u>	<u>\$ 8,354,225</u>	<u>\$ 7,444,767</u>	<u>\$ 8,071,610</u>
<b>Endowment</b>				
Cash held for investment	\$ 435,853	\$ 435,853	\$ 1,538,663	\$ 1,538,663
Cash surrender value of life insurance contracts	39,593	43,937	41,649	43,937
Common stock	9,323,381	9,649,809	-	-
Corporate bonds	385,894	379,848	-	-
Mutual funds invested in:				
Debt securities	5,385,831	5,404,878	5,845,902	*
U.S. equity securities	1,037,227	1,098,923	8,791,223	*
Int'l equity securities	2,558,295	3,279,285	5,750,582	*
U.S. gov't obligations	1,429,363	1,395,495	-	-
Alternative investments:				
Long Biased	1,594,250	1,500,000	1,577,902	1,500,000
Absolute Return	1,007,876	1,000,000	-	-
Distressed opport. fund	<u>358,627</u>	<u>269,064</u>	<u>601,803</u>	<u>495,803</u>
Total endowment	<u>\$23,556,190</u>	<u>\$24,457,092</u>	<u>\$24,147,724</u>	<u>\$21,588,029</u>

\* Investment in property reflects contributions of real estate under gift annuity agreements.

\*\*While cost basis allocation was not available; the total cost basis was \$18,009,626.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 7—INVESTMENTS (Continued)

The College incurs investment management and investment consulting fees which are reported as a reduction of investment earnings of \$222,898 and \$167,761 for the years ended May 31, 2012, and 2011, respectively.

The following schedule summarizes the investment return from cash and cash equivalents and investments and its classification in the statement of activities for the years ended May 31, 2012, and 2011:

	<u>2012</u>			<u>Total</u>
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Operating Investment Return				
Interest income	\$ 105,955	\$ 137,074	\$ -	\$ 243,029
Unrealized losses	(89,439)	-	-	(89,439)
Nonoperating Investment Return				
Interest and dividend income	162,993	222,170	22,473	407,636
Realized losses	(22,116)	(19,635)	(9,151)	(50,902)
Unrealized losses	(585,483)	(819,004)	(13,280)	(1,417,767)
Unrealized principal loss of true endowment	<u>(44,660)</u>	<u>-</u>	<u>-</u>	<u>(44,660)</u>
Total Investment Return	(472,750)	(479,395)	42	(952,103)
Investment return designated for current operations	<u>(849,275)</u>	<u>-</u>	<u>-</u>	<u>(849,275)</u>
Investment return – long term	<u>\$(1,322,025)</u>	<u>\$(479,395)</u>	<u>\$ 42</u>	<u>\$(1,801,378)</u>

	<u>2011</u>			<u>Total</u>
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Operating Investment Return				
Interest income	\$ 26,463	\$ 47,274	\$ -	\$ 73,737
Unrealized gains	107,204	-	-	107,204
Nonoperating Investment Return				
Interest and dividend income	67,969	82,305	12,467	162,741
Realized gains (losses)	(1,628)	(7,770)	918	(8,480)
Unrealized gains	1,344,056	918,971	223,020	2,486,047
Unrealized principal gain of true endowment	<u>250,563</u>	<u>-</u>	<u>-</u>	<u>250,563</u>
Total Investment Return	1,794,627	1,040,780	236,405	3,071,812
Investment return designated for current operations	<u>(484,450)</u>	<u>-</u>	<u>-</u>	<u>(484,450)</u>
Investment return – long term	<u>\$1,310,177</u>	<u>\$1,040,780</u>	<u>\$ 236,405</u>	<u>\$2,587,362</u>

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 7—INVESTMENTS (Continued)

Alternative investments consist of hedge fund holdings. The College is obligated to provide notice for redemption 60-100 days prior to a fixed redemption time, depending upon the investment. There are no future funding commitments. The long biased fund is an equity-focused directional fund of hedge funds averaging between 20% to 70% net long exposure and has an objective to outperform the U.S. equity markets over a full cycle. The absolute return fund of hedge funds is comprised of strategies that are generally non-directional in nature and are designed to neutralize market risk and provide a return greater than fixed income over a full cycle with less volatility than the equity market. The distressed opportunity fund of hedge funds is in the process of liquidation and the assets held within the fund are minimal.

NOTE 8—ENDOWMENT

The College has interpreted the *Florida Uniform Management of Institutional Funds Act of 2003* as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulation to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment plus the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted net assets until those amounts are appropriated for expenditure by the College in accordance with the College's endowment spending policy. Unrestricted net assets also reflect losses to permanently restricted contributions that exceed the fair value of the original and subsequent gifts. Accumulated losses at May 31, 2012, and 2011, were \$46,618 and \$1,958, respectively.

The College has adopted investment and spending policies for endowment assets that attempt to provide a predictable income stream to support their endowed purposes, while maintaining their purchasing power. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term objective is to achieve a return that exceeds the rate of inflation as measured by CPI plus the spending rate which is anticipated to not exceed 5%, net of investment consulting and management fees. Actual returns in any given year may vary from this amount. To satisfy its long-term return objectives, the College relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The College targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk parameters.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8—ENDOWMENT (Continued)

The spending policy calculates the amount of money annually distributed from the College's various endowed funds, for the purposes for which they were created. The current spending policy is to distribute an amount equal to 5% of a moving three year/twelve quarter average, measured at the end of each calendar year-end for the subsequent fiscal year. The distribution is further limited by actual appreciation in each fund at the time of the distribution. Accordingly, over the long term, the College expects its spending policy to allow endowment assets to grow to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

The state of Florida adopted legislation during June 2011 that incorporates the provisions outlined in the Uniform Prudent Management Institutional Funds Act (UPMIFA), to be effective July 1, 2012. The College does not expect there to be a financial statement impact when UPMIFA requirements become effective.

Changes in endowment net assets for the year ended May 31, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>2012</u>		<u>Total</u>
		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ <u>9,999,267</u>	\$ <u>1,613,101</u>	\$ <u>15,781,610</u>	\$ <u>27,393,978</u>
Interest and dividends, net	162,993	222,161	22,473	407,627
Net realized and unrealized loss on investments	(607,210)	(883,299)	(22,431)	(1,512,940)
Principal loss reallocation	(44,660)	44,660	-	-
Contributions	-	-	1,357,348	1,357,348
Distributions	(445,650)	(403,625)	-	(849,275)
Change in donor designation	-	-	25,000	25,000
Other Changes	<u>-</u>	<u>-</u>	<u>(179,920)</u>	<u>(179,920)</u>
Change in net assets	<u>(934,527)</u>	<u>(1,020,103)</u>	<u>1,202,470</u>	<u>(752,160)</u>
Endowment net assets, end of year	\$ <u>9,064,740</u>	\$ <u>592,998</u>	\$ <u>16,984,080</u>	\$ <u>26,641,818</u>

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 8—ENDOWMENT (Continued)

	<u>Unrestricted</u>	<u>2011</u> Temporarily Permanently <u>Restricted Restricted</u>		<u>Total</u>
Endowment net assets, beginning of year	\$ <u>6,732,923</u>	\$ <u>283,310</u>	\$ <u>14,560,994</u>	\$ <u>21,577,227</u>
Interest and dividends, net	67,948	82,289	12,467	162,704
Net realized and unrealized gain on investments	1,339,633	1,440,152	223,938	3,003,723
Principal loss recovery	250,563	-	-	250,563
Contributions	-	-	979,729	979,729
Institutional Contribution	1,900,000	-	-	1,900,000
Distributions	(291,800)	(192,650)	-	(484,450)
Other Changes	<u>-</u>	<u>-</u>	<u>4,482</u>	<u>4,482</u>
Change in net assets	<u>3,266,344</u>	<u>1,329,791</u>	<u>1,220,616</u>	<u>5,816,751</u>
Endowment net assets, end of year	<u>\$9,999,267</u>	<u>\$ 1,613,101</u>	<u>\$15,781,610</u>	<u>\$27,393,978</u>

Endowment net asset compositions as of May 31, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>2012</u> Temporarily Permanently <u>Restricted Restricted</u>		<u>Total</u>
Donor Designated	\$ -	\$592,998	\$16,984,080	\$17,577,078
Board Designated	<u>9,064,740</u>	<u>-</u>	<u>-</u>	<u>9,064,740</u>
Total Endowment Funds	<u>\$9,064,740</u>	<u>\$592,998</u>	<u>\$16,984,080</u>	<u>\$26,641,818</u>

	<u>Unrestricted</u>	<u>2011</u> Temporarily Permanently <u>Restricted Restricted</u>		<u>Total</u>
Donor Designated	\$ -	\$1,613,101	\$15,781,610	\$17,394,711
Board Designated	<u>9,999,267</u>	<u>-</u>	<u>-</u>	<u>9,999,267</u>
Total Endowment Funds	<u>\$9,999,267</u>	<u>\$1,613,101</u>	<u>\$15,781,610</u>	<u>\$27,393,978</u>

RINGLING COLLEGE OF ART AND DESIGN  
 NOTES TO FINANCIAL STATEMENTS  
 MAY 31, 2012 AND 2011

NOTE 9—FUND RAISING ORGANIZATION

An organization known as the Ringling College Library Association, Inc. raises funds in support of the Ringling College of Art and Design. Funds raised (net of related expenses) are used primarily for the benefit of the College library. However, the Ringling College Library Association has approved use of funds raised for other College purposes such as scholarships. The organization has a separate Board of Trustees and is not controlled by the Ringling College of Art and Design.

NOTE 10—CONTRIBUTIONS RECEIVABLE AND CONDITIONAL PROMISES RECEIVED

Contributions receivable, net, are summarized as follows at May 31, 2012, and 2011.

Unconditional promises expected to be collected in:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 2,005,323	\$ 2,930,051
One year to five years	6,744,484	4,395,611
Greater than five years	<u>8,268,191</u>	<u>9,784,325</u>
	17,017,998	17,109,987
Less discount to net present value	(1,887,372)	(2,561,326)
Less allowance for uncollectible contributions receivable	<u>(3,681,616)</u>	<u>(2,259,260)</u>
	<u>\$ 11,449,010</u>	<u>\$ 12,289,401</u>

Contributions receivable have been discounted based on rates ranging from .2% to 5.0% at May 31, 2012 and 2011, respectively.

The College has also received conditional promises of bequests which, if received, would generally be restricted for specific purposes stipulated by the donors. It is not practical to estimate the net realizable value of such promises.

The College cooperates with local community foundations which provide the College's donors opportunities to set up gift agreements to provide income to the College with funds maintained by the community foundation in perpetuity or distributed at a specified point in the future. Presently, the College or organizations which later merged with the College are named in gift annuity agreements where the foundations retain the obligation to pay the annuity to the income beneficiaries and the remainder is maintained in perpetuity by the foundation. As the community foundations maintain variance power over the contributions, contribution income will be recognized as distributed. Gifts to the foundations are not reflected in the College's financial statements.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 11—RETIREMENT PROGRAM

The College offers employees an opportunity to voluntarily participate in a defined contribution retirement plan designed in accordance with the provisions of section 403(b) of the Internal Revenue Code. The plan provides that each participant is immediately vested in their elective contributions and the College's match. The College will match 100% of the employee's elective contributions, up to five (5%) of annual compensation once a service period has been satisfied. Total plan expense for the years ended May 31, 2012, and 2011, was \$647,490 and \$649,640, respectively.

NOTE 12—SPLIT-INTEREST AGREEMENTS

Contribution revenue for the years ended May 31, 2012 and 2011 from irrevocable charitable remainder trusts was \$1,017,138 and \$0, respectively. The present value of contributions receivable from remainder trusts as of May 31, 2012, and 2011, were \$1,297,300 and \$532,236, respectively.

The College has entered into five charitable gift annuities in which the donors have contributed property or cash to the College in consideration for the payment of a life annuity. The annuity payment liability as of May 31, 2012 and 2011 was \$746,990 and \$744,663, respectively.

NOTE 13—SARASOTA MUSEUM OF ART

The College entered into an agreement on March 20, 2006 with the Sarasota Museum of Art (SMOA), an exempt organization created to form a museum of modern and contemporary art in Sarasota, Florida. Under the terms of the agreement, SMOA became a division of the College with the purpose of transforming the historic Sarasota High School into a visual arts education center with a museum of modern and contemporary art at a cost of \$20 million, including an endowment of \$8 million.

As of May 31, 2012, fundraising for the project reflected in the financial statements includes \$12,010,720 plus funds held for others of \$120,000. In addition, gifts not reflected in the financial statements because of the conditions under which they were given total \$4,654,568, which includes \$3,999,848 in planned gifts. In the event the project is abandoned, the College will relinquish any artwork and endowment monies it holds to a successor organization after repayment of all monies that the College invested to cover operating expenses of the SMOA division.



RINGLING COLLEGE OF ART AND DESIGN  
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 MAY 31, 2012 AND 2011

NOTE 14—BOARD DESIGNATIONS

Unrestricted net assets have been designated by the Board of Trustees for the following purposes:

	<u>2012</u>	<u>2011</u>
Board designated endowment	\$ <u>9,064,738</u>	\$ <u>9,999,267</u>

NOTE 15—TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are for the following purposes as of May 31, 2012, and 2011:

	<u>2012</u>	<u>2011</u>
Capital	\$31,305,384	\$30,690,786
Departmental purposes	1,626,066	1,378,333
Time restricted	3,344,192	2,759,118
Scholarships	564,934	735,062
Long-term investment	<u>597,276</u>	<u>1,617,380</u>
	<u>\$37,437,852</u>	<u>\$37,180,679</u>

Permanently restricted assets are restricted to investments in perpetuity, the income (including net appreciation) from which is expendable for the following purposes as of May 31, 2012, and 2011:

	<u>2012</u>	<u>2011</u>
Departmental purposes	\$ 5,183,639	\$ 4,677,310
Institutional	750,711	750,711
Scholarships	<u>11,049,730</u>	<u>10,353,589</u>
	<u>\$16,984,080</u>	<u>\$15,781,610</u>

As of May 31, 2012 and 2011, \$516,992 and \$431,996, respectively, represent contributions receivable from remainder trusts included in permanently restricted net assets.

Net assets released from restrictions for the years ended May 31, 2012, and 2011, in the amount of \$5,359,869 and \$4,726,204, respectively, resulted from amortization of restricted gifts to acquire long-lived assets and expiration of donor imposed restrictions.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 16—LIMITED LIABILITY CORPORATION MEMBER

The College is a member of a limited liability corporation that consists of private, not-for-profit institutions, formed to provide a means of self-insuring certain property and liability loss coverage. The College has remitted premiums, which amounts may be refunded in future periods based upon the loss experience by members of the limited liability corporation. No amounts have been recorded for future refunds or the College's interest in the limited liability corporation. The College also maintains certain other coverages which management believes are sufficient to cover all material claims.

NOTE 17—LEASE COMMITMENTS

The College has entered into two lease agreements. The first is in exchange for promotional services to establish a retail gallery featuring student work. The lease has an initial term ending May 31, 2012 and has been extended through May 31, 2013. A value for the services provided is not considered material or easily estimatable and has not been reflected in the financial statements. The second lease agreement is to acquire and renovate the Sarasota High School Building. The lease term is for 99 years, unless terminated according to the provisions of the lease agreement, with consideration of \$1 per year.

NOTE 18—EXPENSES BY NATURAL CLASSIFICATION

Expenses by natural classification, for the years ended May 31, 2012, and 2011 were:

	<u>2012</u>	<u>2011</u>
Personnel compensation	\$18,638,624	\$18,036,395
Employee benefits	5,762,187	5,369,062
Supplies and equipment	1,898,265	1,804,822
Telephone and other communications	491,011	430,290
Marketing and publications	1,285,084	1,031,709
Professional development/travel	1,322,745	1,161,600
Computers and technology	999,146	879,175
Contracted services	6,831,428	5,935,327
Student related expenses	626,947	484,619
Other expenses	156,721	234,294
Insurance	1,175,296	1,063,719
Utilities	1,709,404	1,618,444
Taxes	166,434	127,290
Interest and loan fees	2,159,367	2,414,102
Depreciation	9,408,125	8,918,316
Amortization	84,420	60,096
Losses	1,217	2,006
Total Expenses	<u>\$52,716,421</u>	<u>\$49,571,266</u>

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 19—FAIR VALUE MEASUREMENTS

The fair value of financial instruments has been determined based upon a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the College. Unobservable inputs reflect the College's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the following inputs:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in the active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable, supported by little or no market activity and that are significant to the overall fair value measurement. (See Note 1 – Investments and Split Interest Agreements).

A summary of financial instruments, measured at fair value in accordance with the measurements described above, as of May 31, 2012 and 2011, is as follows:

<u>Description of investment</u>	<u>5/31/2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 2,761,760	\$ 2,761,760	-	-
Long-term bond investments	6,110,530	-	6,110,530	-
Remainder trusts	1,297,300	-	-	1,297,300
Cash surrender value of life insurance	39,594	-	39,594	-
U.S. Gov't Obligations	1,429,363	1,429,363	-	-
Common stock	9,323,381	9,323,381	-	-
Corporate bonds	385,894	385,894	-	-
Mutual funds	9,053,061	9,053,061	-	-
Alternative investments	<u>2,960,753</u>	<u>-</u>	<u>-</u>	<u>2,960,753</u>
Total	<u>\$33,361,636</u>	<u>\$22,953,459</u>	<u>\$6,150,124</u>	<u>\$4,258,053</u>
<u>Description of liability</u>	<u>5/31/2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	<u>\$ 4,678,809</u>	<u>-</u>	<u>\$ 4,678,809</u>	<u>-</u>

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 19—FAIR VALUE MEASUREMENTS (Continued)

<u>Description of investment</u>	<u>5/31/2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 2,825,415	\$ 2,825,415	-\$	-
Long-term bond investments	5,856,498	-	5,856,498	-
Remainder trusts	532,236	-	-	532,236
Cash surrender value of life insurance	41,649	-	41,649	-
Mutual funds	20,410,976	20,410,976	-	-
Alternative investments	<u>2,179,705</u>	-	-	<u>2,179,705</u>
Total	<u>\$31,846,479</u>	<u>\$23,236,391</u>	<u>\$5,898,147</u>	<u>\$2,711,941</u>

  

<u>Description of liability</u>	<u>5/31/2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	<u>\$ 3,558,520</u>	<u>\$ -</u>	<u>\$ 3,558,520</u>	<u>\$ -</u>

The following sets forth the changes in fair value of the College's Level 3 investments for the year ended May 31, 2012:

	<u>Alternative Investment Funds</u>			
	<u>Remainder Trusts</u>	<u>Hedged Equity</u>	<u>Distressed Opportunity</u>	<u>Common Sense</u>
Balance as of June 1, 2011	\$532,236	\$ -	\$601,803	\$1,577,902
Additions/Purchases	941,710	1,000,000	-	-
Liquidations	-	-	(226,739)	-
Change in value of split interest agreements	(176,646)	-	-	-
Total gains (losses) included in changes in net assets	<u>-</u>	<u>7,876</u>	<u>(16,437)</u>	<u>16,348</u>
Balance as of May 31, 2012	<u>\$1,297,300</u>	<u>\$1,007,876</u>	<u>\$358,627</u>	<u>\$1,594,250</u>

The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to the assets still held at the reporting date

<u>\$ (176,646)</u>	<u>\$ 7,876</u>	<u>\$ (9,556)</u>	<u>\$ 16,348</u>
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The unrealized gains and losses included in changes in net assets for the period above are reported in net realized and unrealized gain on investments in the Statement of Activities.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012 AND 2011

NOTE 19—FAIR VALUE MEASUREMENTS (Continued)

The following sets forth the changes in fair value of the College's Level 3 investments for the year ended May 31, 2011:

		<u>Alternative Investment Funds</u>		
	<u>Remainder Trusts</u>	<u>Hedged Equity</u>	<u>Distressed Opportunity</u>	<u>Common Sense</u>
Balance as of June 1, 2010	\$525,126	\$28,419	\$1,268,965	\$1,011,675
Purchases	-	-	-	500,000
Liquidations	-	(28,419)	(754,197)	-
Change in value of split interest agreements	7,110	-	-	-
Total gains included in changes in net assets	<u>-</u>	<u>-</u>	<u>87,035</u>	<u>66,227</u>
Balance as of May 31, 2011	<u>\$532,236</u>	<u>\$ -</u>	<u>\$601,803</u>	<u>\$1,577,902</u>

The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to the assets still held at the reporting date

<u>\$ 7,110</u>	<u>\$ -</u>	<u>\$ 87,035</u>	<u>\$ 66,226</u>
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The unrealized gains and losses included in changes in net assets for the period above are reported in net realized and unrealized gain on investments in the Statement of Activities.

RINGLING COLLEGE OF ART AND DESIGN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED MAY 31, 2012

	Federal CFDA Number	Federal Grant or Other Federal Identification	Federal Expenditures
<b>U.S. Department of Education</b>			
<b><i>Student Financial Aid Cluster</i></b>			
Federal Supplemental Educational Opportunity Grant	84.007	P007A114730	\$ 129,384
Federal Work-Study Program	84.033	P033A114730	126,069
Federal Pell Grant Program	84.063	P063P113557	1,935,399
Federal Direct Student Loan Program	84.268	P268K123557	<u>17,138,306</u>
Total Student Financial Aid Cluster			19,329,158
<b>National Endowment for the Arts</b>			
Renna Grant	45.024	741827087	<u>56,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$19,385,158</u></u>
	State CSFA Number	State Grant or Other State Identification	State Expenditures
<b>Florida Department of Education</b>			
Florida Resident Access Grant	48.064		\$ 1,126,101
Florida Private Student Assistance Grant	48.054		211,705
Florida Bright Futures Scholarship Project Children and Spouses of Deceased or Disabled Veterans or Servicemembers (CDDV)	48.059		565,062
	48.055		<u>8,848</u>
Total Florida Student Financial Aid Cluster			1,911,716
<b>Florida Department of Highway Safety and Motor Vehicles</b>			
Ringling College of Art and Design License Plate Project	76.055		<u>11,397</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u><u>\$ 1,923,113</u></u>

RINGLING COLLEGE OF ART AND DESIGN  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS AND STATE FINANCIAL ASSISTANCE  
FOR THE FISCAL YEAR ENDED MAY 31, 2012

NOTE 1—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of Ringling College of Art and Design and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.



**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Board of Trustees of  
Ringling College of Art and Design  
Sarasota, Florida

We have audited the financial statements of Ringling College of Art and Design (the "College") as of and for the year ended May 31, 2012, and have issued our report thereon dated September 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



## Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, management and applicable federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Chey, Bohart & Holland, L.L.P.*

Orlando, Florida  
September 10, 2012



**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Federal Major Program and State Project and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and Chapter 10.650, Rules of the Florida Auditor General**

To the Board of Trustees  
Ringling College of Art and Design  
Sarasota, Florida

**Compliance**

We have audited the compliance of Ringling College of Art and Design (the "College") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement*, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state financial assistance projects for the year ended May 31, 2012. The College's major federal programs and state financial assistance projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, *Rules of the Florida Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.650, 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 or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the College'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. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and each of its major state financial assistance projects for the year ended May 31, 2012.

## Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program or a major state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College'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 or state financial assistance project 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 or state financial assistance project will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Trustees, management and applicable federal and state awarding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

*Cheng, Behaert & Holland, L.L.P.*

Orlando, Florida  
September 10, 2012

RINGLING COLLEGE  
 Schedule of Findings and Questioned Costs -  
 Federal Awards Programs and State Financial Assistance Projects  
 Year Ended May 31, 2012

**Part I - Summary of Auditors' Results**

**Financial Statement Section**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?            yes   x   no

Significant deficiency(ies) identified not considered to be material weakness(es)?            yes   x   none reported

Noncompliance material to financial statements noted            yes   x   no

**Federal Awards and State Projects Section**

Dollar threshold used to determine Type A programs:

Federal programs	\$ 300,000
State programs	\$ 300,000

Auditee qualified as low-risk auditee for federal purposes?   x   yes            no

Type of auditors' report on compliance for major federal programs and state projects: Unqualified

A summary Schedule of Prior Audit Findings is not necessary since there were no prior audit findings.

RINGLING COLLEGE  
 Schedule of Findings and Questioned Costs -  
 Federal Awards Programs and State Financial Assistance Projects (continued)  
 Year Ended May 31, 2012

**Part I - Summary of Auditors' Results (continued)**

**Federal Awards and State Projects Section (continued)**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  x  no

Significant deficiency(ies) identified not considered to be material weakness(es)? \_\_\_\_\_ yes  x  none reported

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 and/or Chapter 10.650 \_\_\_\_\_ yes  x  no

Identification of major federal programs and state projects:

Federal Programs:

CFDA Numbers	Name of Program or Cluster
84.007, 84.033, 84.063, 84.268	U.S. Department of Education - Student Financial Aid Cluster

State Projects:

CSFA Numbers	Name of Project
48.054	Florida Private Student Assistance Grant
48.059	Florida Bright Futures Scholarship Project
48.064	Florida Resident Access Grant

RINGLING COLLEGE  
Schedule of Findings and Questioned Costs -  
Federal Awards Programs and State Financial Assistance Projects (continued)  
Year Ended May 31, 2012

**Part II - Schedule of Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

**Part III - Federal Award Findings and Questioned Costs**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by OMB Circular A-133.

There were no findings required to be reported by OMB Circular A-133.

**Part IV - State Project Findings and Questioned Costs**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of state financial assistance projects, as required to be reported by Chapter 10.650 of the Rules of the Auditor General.

There were no findings required to be reported by Chapter 10.650 of the Rules of the Auditor General.