

RINGLING COLLEGE OF ART AND DESIGN  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED MAY 31, 2013 AND 2012

RINGLING COLLEGE OF ART AND DESIGN  
FINANCIAL STATEMENTS  
MAY 31, 2013 AND 2012

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying statements of financial position of Ringling College of Art and Design (the "College") as of May 31, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the College as of May 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-of-matter**

As discussed in Note 19 to the financial statements, the 2012 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to that matter.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cheryl Behrman LLP". The signature is written in a cursive style.

Orlando, Florida  
September 16, 2013

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u> (Restated)
<u>Current assets</u>		
Cash and cash equivalents	\$ 11,605,369	\$ 11,618,033
Short-term investments	3,713,632	2,788,320
Accounts receivable - students	118,262	197,632
Contributions receivable, net of long-term portion	3,089,837	3,726,589
Other receivables	42,094	17,354
Prepaid expenses and other assets	1,534,514	954,827
Total Current Assets	20,103,708	19,302,755
<u>Non-current assets</u>		
Cash and cash equivalents restricted by donors	1,320,569	6,852,637
Long-term investments	13,670,558	6,182,238
Long-term contributions receivable	3,784,119	5,170,447
Contributions receivable from remainder trusts	103,943	101,458
Debt issuance costs, net of amortization	295,605	380,037
Investment in property	1,965,000	1,565,000
Other non-current assets	3,449,498	2,739,404
Total Non-Current Assets	24,589,292	22,991,221
<u>Endowment</u>		
Cash and cash equivalents restricted for endowment	227,087	16,662
Contributions receivable restricted for endowment	810,874	2,551,974
Contributions receivable from remainder trusts	721,075	1,195,842
Long-term investments	34,347,452	23,556,190
Total Endowment Assets	36,106,488	27,320,668
<u>Property and equipment</u>		
at cost less accumulated depreciation	107,792,847	109,160,948
TOTAL ASSETS	\$ 188,592,335	\$ 178,775,592

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2013 AND 2012

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u> (Restated)
<u>Current liabilities</u>		
Accounts payable	\$ 1,597,810	\$ 1,008,054
Accrued salaries and wages	3,346,661	3,028,842
Other accrued expenses	1,613,082	948,043
Current portion of long-term debt	1,620,000	1,590,000
Student deposits	463,943	481,590
Deferred revenue	837,517	839,874
Amounts held in custody for others	8,195	8,976
Total Current Liabilities	<u>9,487,208</u>	<u>7,905,379</u>
<u>Long-term liabilities</u>		
Long-term debt, net of current portion	64,380,000	66,000,000
Annuity payable	711,639	746,990
Interest rate swap liability	3,788,499	4,678,809
Other long-term liabilities	3,394	-
Amounts held in custody for others	156,428	123,482
Total Long-Term Liabilities	<u>69,039,960</u>	<u>71,549,281</u>
Total Liabilities	<u>78,527,168</u>	<u>79,454,660</u>
<u>Net assets</u>		
Unrestricted	51,230,777	44,302,690
Temporarily restricted	40,615,882	37,355,312
Permanently restricted	18,218,508	17,662,930
Total Net Assets	<u>110,065,167</u>	<u>99,320,932</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 188,592,335</u>	 <u>\$ 178,775,592</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MAY 31, 2013

	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Operating revenues, gains and other support</u>				
Gross tuition and fees	\$ 48,598,020	\$ -	\$ -	\$ 48,598,020
Less: Scholarship allowance	(6,452,177)	-	-	(6,452,177)
Net tuition and fees	42,145,843	-	-	42,145,843
Government grants and contracts	292,306	-	-	292,306
Private gifts and grants	997,931	7,316,647	-	8,314,578
Sales and services of continuing education	898,921	-	-	898,921
Sales and services of auxiliary enterprises	8,552,492	-	-	8,552,492
Investment income	127,583	154,684	-	282,267
Endowment distribution designated for operations	846,950	-	-	846,950
Other revenue	374,627	-	-	374,627
Total Operating Revenues and Gains	54,236,653	7,471,331	-	61,707,984
Net Assets Released from Restrictions	7,164,891	(7,164,891)	-	-
Total Operating Revenues, Gains and Other Support	61,401,544	306,440	-	61,707,984
<u>Operating expenses and losses</u>				
Education and general:				
Instruction	22,016,526	-	-	22,016,526
Academic support	7,651,618	-	-	7,651,618
Student services	6,384,424	-	-	6,384,424
Scholarships and stipends	215,615	-	-	215,615
Institutional support	12,421,217	-	-	12,421,217
Total Education and General	48,689,400	-	-	48,689,400
Auxiliary enterprises	8,034,488	-	-	8,034,488
Total Operating Expenses and Losses	56,723,888	-	-	56,723,888
Increase in Net Assets from Operating Activities	4,677,656	306,440	-	4,984,096
<u>Nonoperating activities</u>				
Private gifts	47,000	-	893,206	940,206
Interest and dividend income	351,247	394,445	63,026	808,718
Net realized and unrealized gain on investments	1,653,874	2,632,677	11,804	4,298,355
Endowment distribution designated for operations	(846,950)	-	-	(846,950)
Unrealized principal gain of true endowment	46,618	-	-	46,618
Unrealized gain on interest rate swap	890,310	-	-	890,310
Change in value of split interest agreements	-	(59,572)	11,022	(48,550)
Change in donor designation	-	(32,500)	32,500	-
Reclassification of appreciation	-	455,980	(455,980)	-
Write-down of capitalized assets	(328,568)	-	-	(328,568)
Net assets released from restrictions	436,900	(436,900)	-	-
Increase in Net Assets from Nonoperating Activities	2,250,431	2,954,130	555,578	5,760,139
Total Change in Net Assets	6,928,087	3,260,570	555,578	10,744,235
Net Assets at Beginning of Year, As Restated	44,302,690	37,355,312	17,662,930	99,320,932
NET ASSETS AT END OF YEAR	<u>\$ 51,230,777</u>	<u>\$ 40,615,882</u>	<u>\$ 18,218,508</u>	<u>\$ 110,065,167</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MAY 31, 2012

	2012 (Restated)			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	6,103,956	-	6,902,419
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	6,241,030	-	57,784,567
Net Assets Released from Restrictions	4,956,244	(4,956,244)	-	-
Total Operating Revenues, Gains and Other Support	56,499,781	1,284,786	-	57,784,567
<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	1,284,786	-	5,068,146
<u>Nonoperating activities</u>				
Private gifts	1,921,450	-	2,036,198	3,957,648
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	(133,756)	(1,110,153)	1,881,320	637,411
Total Change in Net Assets	3,649,604	174,633	1,881,320	5,705,557
Net Assets at Beginning of Year	40,653,086	37,180,679	15,781,610	93,615,375
NET ASSETS AT END OF YEAR, AS RESTATED	<u>\$ 44,302,690</u>	<u>\$ 37,355,312</u>	<u>\$ 17,662,930</u>	<u>\$ 99,320,932</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT



RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MAY 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u> (Restated)
<u>Cash flows from operating activities</u>		
Increase in net assets	\$ 10,744,235	\$ 5,705,557
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,022,309	9,492,545
Change in interest rate swap liability	(890,310)	1,120,289
Loss on disposal of equipment	265,919	400
In-kind contributions of property and equipment	(2,422,437)	(1,945,171)
Realized and unrealized (gains) losses on investments	(4,235,319)	1,602,768
Decrease in current assets excluding cash and investments	111,695	774,297
Decrease (increase) in long-term contributions receivable	3,599,710	(535,987)
Increase in other non-current assets	(710,094)	(2,374,006)
Increase (decrease) in current liabilities excluding debt	1,551,829	(342,238)
Increase in other long-term liabilities	988	34,945
Contributions received restricted for -		
Endowment	(3,154,666)	(891,873)
Property and equipment	(1,760,470)	(1,829,035)
Net cash provided by operating activities	<u>13,123,389</u>	<u>10,812,491</u>
<u>Cash flows from investing activities</u>		
Proceeds from sale of investments	1,080,417	9,160,034
Purchase of investments	(10,449,991)	(10,436,643)
Purchase of property and equipment	(6,413,258)	(7,174,813)
Net cash used by investing activities	<u>(15,782,832)</u>	<u>(8,451,422)</u>
<u>Cash flows from financing activities</u>		
Deposited from (into) accounts restricted for -		
Endowment	(210,425)	473,237
Long-term purposes	(467,932)	1,352,085
Project Reserve Fund	-	470,894
Contributions received restricted for -		
Endowment	3,154,666	891,873
Property and equipment	1,760,470	1,829,035
Debt issuance costs	-	(5,000)
Principal repayments on debt	(1,590,000)	(1,784,638)
Net cash provided by financing activities	<u>2,646,779</u>	<u>3,227,486</u>
Net increase (decrease) in cash	(12,664)	5,588,555
Cash - Beginning of year	<u>11,618,033</u>	<u>6,029,478</u>
CASH - END OF YEAR	<u>\$ 11,605,369</u>	<u>\$ 11,618,033</u>
 SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u>\$ 1,945,741</u>	<u>\$ 2,041,291</u>
Non-cash in-kind contributions of capital assets	<u>\$ 2,422,437</u>	<u>\$ 1,945,171</u>
Non-cash contributions of works of art	<u>\$ 226,000</u>	<u>\$ 2,517,760</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2013 AND 2012

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. Revenues of the College are generated primarily from tuition, fees, and other sales and services to its students and contributions from the general public. 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 design, 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 over 50 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.

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.

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 recognize an implied 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.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2013 AND 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$84,872 and \$92,435 at May 31, 2013 and 2012, 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.

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. Quantitative information for level 2 and level 3 valuation inputs and related sensitivities is maintained by third parties and is not reasonably available to the College.

Endowment

Endowment consists 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.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2013 AND 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013, and 2012, were \$2,042,307 and \$1,650,411, respectively.

Advertising Expenses

The College expenses advertising costs for marketing materials as incurred, amounting to \$1,192,876 and \$1,227,585 for the years ended May 31, 2013 and 2012, respectively.

Debt Issuance Costs

Debt issuance costs are amortized over the lives of the related debt issues. Accumulated amortization at May 31, 2013, and 2012, was \$262,108 and \$177,676, 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 estimable useful life is not capitalized.

Useful lives for 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 \$1,946,995 and \$1,897,216, respectively, for the years ended May 31, 2013 and 2012.

Interest Rate Swap Liability

The interest rate swap liability on the statement of financial position is presented at fair value, based on valuation models and assumptions applied by the counterparty to the swap agreements. 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.

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.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2013 AND 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2013 and May 31, 2012 and accordingly, no liability has been accrued. The College's remaining open tax years subject to examination by the Internal Revenue Service include the years ended May 31, 2010 through 2012.

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.

The College's policy is to capitalize donated works of art at fair value and purchased works of art at cost if not preserved and held for public exhibition or if intended to be sold without proceeds used for purchases of works of art. Of the \$3,449,498 and \$2,739,404 presented in Other non-current assets on the statements of financial position, \$2,743,760 and \$2,517,760 as of May 31, 2013 and 2012, respectively, are donated works of art which are being held with the intent of resale and do not meet the definition of a collection.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2013 AND 2012

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Long-term contributions receivable presented at May 31, 2012 of \$1,775,771 have been reclassified to contributions receivable, net of long-term portion, to more accurately reflect payment schedules from donors. In addition, \$678,850 of contributions receivable from remainder trusts presented at May 31, 2012 has been reclassified to endowment assets and certain activities have been reclassified in fiscal 2012 to conform to 2013 presentation.

Subsequent Events

The College has evaluated subsequent events through September 16, 2013, in connection with the preparation of these financial statements, which is the date the financial statements were issued.

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, 2013, the Federal Deposit Insurance Corporation ("FDIC") covers all accounts at a single depository institution up to \$250,000. As of May 31, 2013, the College had \$13,752,602 in cash and cash equivalents in excess of insured amounts.

NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment for the years ending May 31, 2013, and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$23,119,649	\$22,932,267
Buildings	94,558,718	93,157,169
Furniture, fixtures, and equipment	25,634,000	23,615,726
Library books	2,660,846	2,502,792
Computer equipment	19,397,114	16,868,882
Construction in progress	1,835,428	1,297,320
Leasehold improvements	<u>92,416</u>	<u>92,416</u>
Total Plant Fixed Assets	167,298,171	160,466,572
Less accumulated depreciation	<u>(59,505,324)</u>	<u>(51,305,624)</u>
NET PROPERTY AND EQUIPMENT	<u>\$107,792,847</u>	<u>\$109,160,948</u>

Total depreciation expense for the years ended May 31, 2013, and 2012, was \$9,937,877 and \$9,408,125, respectively.

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NOTE 5—LONG-TERM DEBT

Long-term debt at May 31, 2013, and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Series 2008 Loan	\$18,750,000	\$19,755,000
Series 2009 Loan	17,250,000	17,835,000
Series 2010 Loan	<u>30,000,000</u>	<u>30,000,000</u>
Total	66,000,000	67,590,000
Less current portion	<u>(1,620,000)</u>	<u>(1,590,000)</u>
 LONG-TERM DEBT	 <u>\$64,380,000</u>	 <u>\$66,000,000</u>

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

2014	\$ 1,620,000
2015	1,665,000
2016	1,700,000
2017	1,805,000
2018	1,850,000
Thereafter	<u>57,360,000</u>
TOTAL	<u>\$66,000,000</u>

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, 2013 and 2012.

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 \$18,996,575. The variable rate was .12% and .16% as of May 31, 2013 and 2012, respectively. 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).

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, 2013 and 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, 2013 and 2012, was 1.63% and 1.66%, respectively.

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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, 2013 and 2012, the swap had a notional amount of \$8,775,000 and \$9,125,000, respectively. 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, 2013 and 2012, the swap had a notional amount of \$24,950,000 and \$25,377,500, respectively. The difference between interest earned and the interest obligation accrued is recorded as interest expense.

The interest rate swap agreements 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 \$3,788,499 and \$4,678,809 as of May 31, 2013 and 2012, respectively.

NOTE 7—LEASE COMMITMENTS

The College has entered into a number of lease agreements for minor equipment and facilities. A retail gallery featuring student work is leased in exchange for promotional services. The lease has an initial term ending May 31, 2012 and has been extended through May 31, 2014. A value for the services provided is not considered material or easily estimatable and has not been reflected in the financial statements. The Sarasota High School Building (see Note 13) has been leased for 99 years, unless terminated according to the provisions of the lease agreement, with consideration of \$1 per year. In 2013, a student gallery space in a prominent retail area with an initial term ending February 29, 2016 has been leased. Prior to year end, an additional space for temporary sound stage use by the digital film department was leased with a term beginning July 1, 2013 and ending June 30, 2016. The following is a schedule by year of future minimum rental payments required under all operating leases that have initial or remaining non-cancelable lease terms of one year or more as of May 31, 2013:

2014	\$110,570
2015	104,114
2016	100,745
2017	7,977
2018	<u>175</u>
TOTAL	<u>\$323,581</u>

Total rental expense on operating leases was approximately \$39,265 and \$36,101 in 2013 and 2012, respectively.



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NOTE 8—INVESTMENTS

Investments, stated at fair value, at May 31, 2013, and 2012, include:

	<u>2013</u>		<u>2012</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
<b>Short-term</b>				
Certificate of deposit	\$ 26,500	\$ 26,500	\$ 26,560	\$ 26,560
Money market funds	1,507,706	1,507,706	372,858	372,858
Common stock	-	-	41,180	41,124
Mutual funds invested in:				
U.S. equity securities	-	-	340,331	271,486
Int'l equity securities	-	-	68,092	76,638
Corporate bonds	2,087,548	2,121,956	1,482,545	1,540,279
U.S. agency bonds	<u>91,878</u>	<u>92,877</u>	<u>456,754</u>	<u>451,583</u>
TOTAL SHORT-TERM	<u>\$ 3,713,632</u>	<u>\$ 3,749,039</u>	<u>\$ 2,788,320</u>	<u>\$ 2,780,528</u>
<b>Long-term</b>				
Money market funds	\$ 22,945	\$ 22,945	\$ -	\$ -
Mutual funds invested in:				
Debt securities	426,483	433,028	9,485	9,725
U.S. equity securities	391,088	335,211	48,145	46,883
Int'l equity securities	55,813	48,522	14,078	14,714
Corporate bonds	11,879,423	12,069,377	6,110,530	6,082,903
Foreign bonds	126,081	127,152	-	-
Municipal bonds	183,720	184,377	-	-
U.S. gov't obligations	277,953	281,739	-	-
U.S. agency bonds	<u>307,052</u>	<u>280,095</u>	-	-
Subtotal	13,670,558	13,782,446	6,182,238	6,154,225
Investment in property*	<u>1,965,000</u>	<u>2,200,000</u>	<u>1,565,000</u>	<u>2,200,000</u>
TOTAL NON-CURRENT ASSETS	<u>\$15,635,558</u>	<u>\$15,982,446</u>	<u>\$ 7,747,238</u>	<u>\$ 8,354,225</u>
<b>Endowment</b>				
Cash held for investment	\$ 869,923	\$ 869,923	\$ 435,853	\$ 435,853
Cash surrender value of life insurance contracts	37,523	43,937	39,593	43,937
Common stock	9,324,094	8,227,779	9,323,381	9,649,809
Mutual funds invested in:				
Debt securities	4,467,298	4,432,438	5,385,831	5,404,878
U.S. equity securities	7,003,604	6,528,549	1,037,227	1,098,923
Int'l equity securities	5,200,104	4,428,711	2,558,295	3,279,285
Corporate bonds	1,179,312	1,177,962	385,894	379,848
U.S. gov't obligations	3,202,089	3,210,774	1,429,363	1,395,495
Alternative investments:				
Long Biased	1,717,843	1,500,000	1,594,250	1,500,000
Absolute Return	1,132,128	1,000,000	1,007,876	1,000,000
Distressed opport. fund	<u>213,534</u>	<u>125,089</u>	<u>358,627</u>	<u>269,064</u>
TOTAL ENDOWMENT	<u>\$34,347,452</u>	<u>\$31,545,162</u>	<u>\$23,556,190</u>	<u>\$24,457,092</u>

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

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NOTE 8—INVESTMENTS (Continued)

The College incurs investment management and investment consulting fees which are reported as a reduction of investment earnings of \$310,395 and \$222,898 for the years ended May 31, 2013, and 2012, 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, 2013, and 2012:

	<u>2013</u>			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Operating Investment Return				
Interest income	\$ 190,374	\$ 201,547	\$ -	\$ 391,921
Unrealized losses	(62,791)	(46,863)	-	(109,654)
Nonoperating Investment Return				
Interest and dividend income	351,247	394,445	63,026	808,718
Realized gains	105,688	150,051	966	256,705
Unrealized gains	1,548,186	2,482,626	10,838	4,041,650
Unrealized principal gain of true endowment	<u>46,618</u>	<u>-</u>	<u>-</u>	<u>46,618</u>
Total Investment Return	2,179,322	3,181,806	74,830	5,435,958
Investment return designated for current operations	<u>(846,950)</u>	<u>-</u>	<u>-</u>	<u>(846,950)</u>
INVESTMENT RETURN LONG-TERM	<u>\$1,332,372</u>	<u>\$3,181,806</u>	<u>\$ 74,830</u>	<u>\$4,589,008</u>
	<u>2012</u>			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</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>

RINGLING COLLEGE OF ART AND DESIGN  
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NOTE 8—INVESTMENTS (Continued)

Alternative investments consist of funds 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 9—ENDOWMENT

The College has interpreted the *Florida Uniform Management of Institutional Funds Act of 2003* and its successor enacted law, the *Florida Uniform Prudent Management of Institutional Funds Act*, effective July 1, 2012, 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, 2013, and 2012 were \$0 and \$46,618, 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.

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.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 9—ENDOWMENT (Continued)

Changes in endowment net assets for the year ended May 31, 2013, and 2012 are as follows:

	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>9,064,740</u>	\$ <u>592,998</u>	\$ <u>17,662,930</u>	\$ <u>27,320,668</u>
Interest and dividends, net	351,247	394,436	63,026	808,709
Net realized and unrealized gain on investments	1,596,233	2,279,296	11,804	3,887,333
Principal gain reallocation	46,618	(46,618)	-	-
Contributions	-	-	893,206	893,206
Institutional contribution	4,000,000	-	-	4,000,000
Distributions	(410,050)	(436,900)	-	(846,950)
Change in donor designation	-	-	32,500	32,500
Appreciation reclassification	-	455,980	(455,980)	-
Other changes	-	-	<u>11,022</u>	<u>11,022</u>
Change in Net Assets	<u>5,584,048</u>	<u>2,646,194</u>	<u>555,578</u>	<u>8,785,820</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$14,648,788</u>	<u>\$ 3,239,192</u>	<u>\$18,218,508</u>	<u>\$36,106,488</u>
	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</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	-	-	2,036,198	2,036,198
Distributions	(445,650)	(403,625)	-	(849,275)
Change in donor designation	-	-	25,000	25,000
Other changes	-	-	<u>(179,920)</u>	<u>(179,920)</u>
Change in Net Assets	<u>(934,527)</u>	<u>(1,020,103)</u>	<u>1,881,320</u>	<u>(73,310)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$9,064,740</u>	<u>\$ 592,998</u>	<u>\$17,662,930</u>	<u>\$27,320,668</u>

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NOTE 9—ENDOWMENT (Continued)

Endowment net asset compositions as of May 31, 2013, and 2012 are as follows:

		<u>2013</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor Designated	\$ -	\$3,239,192	\$18,218,508	\$21,457,700
Board Designated	<u>14,648,788</u>	-	-	<u>14,648,788</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<u>\$14,648,788</u>	<u>\$3,239,192</u>	<u>\$18,218,508</u>	<u>\$36,106,488</u>

  

		<u>2012</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor Designated	\$ -	\$592,998	\$17,662,930	\$18,255,928
Board Designated	<u>9,064,740</u>	-	-	<u>9,064,740</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<u>\$9,064,740</u>	<u>\$592,998</u>	<u>\$17,662,930</u>	<u>\$27,320,668</u>

NOTE 10—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 11—CONTRIBUTIONS RECEIVABLE AND CONDITIONAL PROMISES RECEIVED

Contributions receivable, net, are summarized as follows at May 31, 2013, and 2012.

Unconditional promises expected to be collected in:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 3,287,982	\$ 3,978,402
One year to five years	3,606,141	7,583,112
Greater than five years	<u>5,583,984</u>	<u>5,456,484</u>
	12,478,107	17,017,998
Less discount to net present value	(1,875,444)	(1,887,372)
Less allowance for uncollectible contributions receivable	<u>(2,917,833)</u>	<u>(3,681,616)</u>
	<u>\$ 7,684,830</u>	<u>\$ 11,449,010</u>

Contributions receivable have been discounted based on rates ranging from .12% to 5.0% at May 31, 2013, and 2012, respectively.

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NOTE 11—CONTRIBUTIONS RECEIVABLE AND CONDITIONAL PROMISES RECEIVED (Cont.)

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.

NOTE 12—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, 2013, and 2012, was \$621,411 and \$647,490, respectively.

NOTE 13—SPLIT-INTEREST AGREEMENTS

Contribution revenue for the years ended May 31, 2013, and 2012, from irrevocable charitable remainder trusts was \$0 and \$1,017,138, respectively. The present value of contributions receivable from remainder trusts as of May 31, 2013, and 2012, were \$825,018 and \$1,297,300, 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 College maintained investments of \$896,329 at May 31, 2013, which met the reserves and investment limitations required by Florida Statutes. Florida Statute 627.481 requires reserves to be maintained equal to the sum of the reserves on its outstanding annuity agreements plus a surplus of 10%. In addition, the annuity investments are limited to no more than 50% equities (including mutual funds) and no more than 10% may be invested in any one stock or fund. The annuity payment liability as of May 31, 2013, and 2012, was \$711,639 and \$746,990, respectively.

NOTE 14—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.

RINGLING COLLEGE OF ART AND DESIGN  
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NOTE 14—SARASOTA MUSEUM OF ART (Continued)

As of May 31, 2013, fundraising for the project reflected in the financial statements includes \$13,354,616 plus funds held for others of \$150,000. Components of fundraising include \$10,842,613 for the capital project, \$1,989,245 for endowment, and \$522,558 for programming and fundraising support. In addition, gifts not reflected in the financial statements because of the conditions under which they were given total \$4,734,928, which includes \$4,149,928 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.

NOTE 15—TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are for the following purposes as of May 31, 2013, and 2012, were:

	<u>2013</u>	<u>2012</u>
Capital	\$34,197,385	\$31,901,694
Departmental purposes	1,630,504	1,626,066
Time restricted	777,708	2,665,342
Scholarships	766,816	564,934
Long-term investment	<u>3,243,469</u>	<u>597,276</u>
	<u>\$40,615,882</u>	<u>\$37,355,312</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, 2013, and 2012:

	<u>2013</u>	<u>2012</u>
Departmental purposes	\$ 5,132,845	\$ 5,183,639
Institutional	750,711	750,711
Scholarships	<u>12,334,954</u>	<u>11,728,580</u>
	<u>\$18,218,510</u>	<u>\$17,662,930</u>

As of May 31, 2013 and 2012, \$721,075 and \$1,195,842, respectively, represent contributions receivable from remainder trusts included in permanently restricted net assets.

Net assets released from restrictions for the years ended May 31, 2013, and 2012, in the amount of \$7,601,791 and \$5,359,869, respectively, resulted from amortization of restricted gifts to acquire long-lived assets and expiration of donor imposed restrictions.

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.

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NOTE 17—EXPENSES BY NATURAL CLASSIFICATION

Expenses by natural classification, for the years ended May 31, 2013, and 2012 were:

	<u>2013</u>	<u>2012</u>
Personnel compensation	\$20,288,285	\$18,638,624
Employee benefits	6,655,044	5,762,187
Supplies and equipment	1,976,654	1,898,265
Telephone and other communications	464,883	491,011
Marketing and publications	1,192,876	1,285,084
Professional development/travel	1,365,970	1,322,745
Computers and technology	973,475	999,146
Contracted services	7,666,144	6,831,428
Student related expenses	621,683	626,947
Other expenses	180,912	156,721
Insurance	1,356,350	1,175,296
Utilities	1,632,101	1,709,404
Taxes	123,206	166,434
Interest and loan fees	2,203,684	2,159,367
Depreciation	9,937,877	9,408,125
Amortization	84,431	84,420
Losses	<u>313</u>	<u>1,217</u>
TOTAL EXPENSES	<u>\$56,723,888</u>	<u>\$52,716,421</u>

NOTE 18—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).



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NOTE 18—FAIR VALUE MEASUREMENTS (Continued)

A summary of financial instruments, measured at fair value in accordance with the measurements described above, as of May 31, 2013, and 2012, is as follows:

<u>Description of investment</u>	<u>5/31/2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 3,687,132	\$ 3,687,132	\$ -	\$ -
Long-term bond investments	12,797,174	-	12,797,174	-
Remainder trusts	825,018	-	-	825,018
Cash surrender value of life insurance	37,523	-	37,523	-
U.S. Gov't Obligations	3,202,089	3,202,089	-	-
Common stock	9,324,094	9,324,094	-	-
Corporate bonds	1,179,312	1,179,312	-	-
Mutual funds	17,544,390	17,544,390	-	-
Alternative investments	<u>3,063,505</u>	<u>-</u>	<u>-</u>	<u>3,063,505</u>
TOTAL	<u>\$51,660,237</u>	<u>\$34,937,017</u>	<u>\$12,834,697</u>	<u>\$3,888,523</u>

<u>Description of liability</u>	<u>5/31/2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	<u>\$ 3,788,499</u>	<u>\$ -</u>	<u>\$ 3,788,499</u>	<u>\$ -</u>

<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>

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NOTE 18—FAIR VALUE MEASUREMENTS (Continued)

The following sets forth the changes in fair value of the College's Level 3 investments for the years ended May 31, 2013 and 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, 2012	\$1,297,300	\$1,007,876	\$358,627	\$1,594,250
Liquidations	-	-	(143,975)	-
Distributions	(512,860)	-	-	-
Change in value of split interest agreements	40,578	-	-	-
Total gains (losses) included in changes in net assets	<u>-</u>	<u>124,252</u>	<u>(1,118)</u>	<u>123,593</u>
Balance as of May 31, 2013	<u>\$825,018</u>	<u>\$1,132,128</u>	<u>\$213,534</u>	<u>\$1,717,843</u>
The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to the assets held at the reporting date	<u>\$ 40,578</u>	<u>\$ 124,252</u>	<u>\$ 2,115</u>	<u>\$ 123,593</u>

	<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 held at the reporting date	<u>\$(176,646)</u>	<u>\$ 7,876</u>	<u>\$ (9,556)</u>	<u>\$ 16,348</u>

The unrealized gains and losses included in changes in net assets for the periods above are reported in net realized and unrealized gain on investments in the Statement of Activities.

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NOTE 19—RESTATEMENT

In connection with the original issuance of the College's financial statements, the 2012 Statements of Financial Position and the Statements of Activities contained an error which has been corrected in these financial statements. In 2012, the College received contributions of artwork which did not meet the criteria for inclusion in collections protected and preserved for public exhibition, education, and research and should have been capitalized as other assets. The effect of the correction was to increase other non-current assets by \$2,517,760, to increase unrestricted nonoperating private gifts and grants as well as ending unrestricted net assets for 2012 by \$1,921,450 and to increase temporarily restricted operating private gifts and grants and ending temporarily restricted net assets for 2012 by \$596,310.