

RINGLING COLLEGE OF ART AND DESIGN
FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2016 AND 2015

RINGLING COLLEGE OF ART AND DESIGN
FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

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Report of Independent Auditor

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, 2016 and 2015, 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, 2016 and 2015, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2016, 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, flowing style.

Orlando, Florida
September 8, 2016

RINGLING COLLEGE OF ART AND DESIGN
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 15,276,741	\$ 10,547,149
Short-term investments	1,013,190	6,399,577
Accounts receivable - students	84,614	104,570
Contributions receivable, net of long-term portion	1,665,097	1,663,266
Other receivables	419,793	130,183
Prepaid expenses and other assets	1,840,855	1,677,227
	<u>20,300,290</u>	<u>20,521,972</u>
<u>Non-current assets</u>		
Cash and cash equivalents restricted by donors	533,436	4,873,597
Long-term investments	9,537,580	12,912,548
Long-term contributions receivable	9,314,664	8,462,172
Contributions receivable from remainder trusts	-	104,822
Debt issuance costs, net of amortization	136,657	117,208
Investment in property	2,465,000	2,465,000
Other non-current assets	6,067,409	5,425,652
	<u>28,054,746</u>	<u>34,360,999</u>
<u>Endowment</u>		
Cash and cash equivalents restricted for endowment	225,328	266,957
Contributions receivable restricted for endowment	1,008,842	1,232,608
Contributions receivable from remainder trusts	335,581	360,468
Long-term investments	40,521,387	43,985,970
	<u>42,091,138</u>	<u>45,846,003</u>
<u>Property and equipment</u>		
at cost less accumulated depreciation	122,256,123	108,738,089
	<u>122,256,123</u>	<u>108,738,089</u>
TOTAL ASSETS	\$ 212,702,297	\$ 209,467,063

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2016 AND 2015

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
<u>Current liabilities</u>		
Accounts payable	\$ 4,276,978	\$ 1,988,349
Accrued salaries and wages	4,156,161	4,145,982
Other accrued expenses	965,798	974,220
Current portion of long-term debt	1,805,000	1,700,000
Student deposits	545,963	496,507
Deferred revenue	979,869	980,769
Amounts held in custody for others	58,151	22,205
	<u>12,787,920</u>	<u>10,308,032</u>
 <u>Long-term liabilities</u>		
Long-term debt, net of current portion	59,210,000	61,015,000
Annuity payable	1,409,225	1,468,665
Interest rate swap liability	1,460,465	2,214,079
Amounts held in custody for others	252,080	447,866
Other long-term liabilities	-	9,182
	<u>62,331,770</u>	<u>65,154,792</u>
Total Long-Term Liabilities	<u>62,331,770</u>	<u>65,154,792</u>
Total Liabilities	<u>75,119,690</u>	<u>75,462,824</u>
 <u>Net assets</u>		
Unrestricted	59,081,937	57,973,616
Temporarily restricted	57,522,901	55,599,448
Permanently restricted	20,977,769	20,431,175
	<u>137,582,607</u>	<u>134,004,239</u>
Total Net Assets	<u>137,582,607</u>	<u>134,004,239</u>
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 212,702,297</u>	<u>\$ 209,467,063</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, 2016

	2016			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
<u>Operating revenues, gains and other support</u>				
Gross tuition and fees	\$ 50,916,671	\$ -	\$ -	\$ 50,916,671
Less: Scholarship allowance	(10,372,529)	-	-	(10,372,529)
Net tuition and fees	40,544,142	-	-	40,544,142
Government grants and contracts	274,038	-	-	274,038
Private gifts and grants	1,159,207	9,933,133	-	11,092,340
Sales and services of continuing education	886,786	-	-	886,786
Sales and services of auxiliary enterprises	10,234,074	-	-	10,234,074
Investment income	91,817	30,211	-	122,028
Endowment distribution designated for operations	1,599,973	-	-	1,599,973
Other revenue	627,909	-	-	627,909
Total Operating Revenues and Gains	55,417,946	9,963,344	-	65,381,290
Net Assets Released from Restrictions	5,735,765	(5,735,765)	-	-
Total Operating Revenues, Gains and Other Support	61,153,711	4,227,579	-	65,381,290
<u>Operating expenses and losses</u>				
Education and general:				
Instruction	22,587,012	-	-	22,587,012
Academic support	9,216,843	-	-	9,216,843
Student services	6,496,826	-	-	6,496,826
Scholarships and stipends	189,275	-	-	189,275
Institutional support	12,228,964	-	-	12,228,964
Total Education and General	50,718,920	-	-	50,718,920
Auxiliary enterprises	8,035,608	-	-	8,035,608
Total Operating Expenses and Losses	58,754,528	-	-	58,754,528
Increase in Net Assets from Operating Activities	2,399,183	4,227,579	-	6,626,762
<u>Nonoperating activities</u>				
Private gifts	156,343	-	553,041	709,384
Interest and dividend income	510,244	591,277	-	1,101,521
Net realized and unrealized loss on investments	(1,845,871)	(2,001,562)	-	(3,847,433)
Endowment distribution designated for operations	(1,599,973)	-	-	(1,599,973)
Unrealized principal loss of true endowment	(29,689)	-	-	(29,689)
Unrealized gain on interest rate swap	753,614	-	-	753,614
Change in value of split interest agreements	-	(98,818)	(26,500)	(125,318)
Gain on sale of gift-in-kind	500	-	-	500
Change in donor designation	(20,053)	-	20,053	-
Change in value of gifted artwork	(11,000)	-	-	(11,000)
Net assets released from restrictions	795,023	(795,023)	-	-
Increase (Decrease) in Net Assets from Nonoperating Activities	(1,290,862)	(2,304,126)	546,594	(3,048,394)
Total Change in Net Assets	1,108,321	1,923,453	546,594	3,578,368
Net Assets at Beginning of Year	57,973,616	55,599,448	20,431,175	134,004,239
NET ASSETS AT END OF YEAR	<u>\$ 59,081,937</u>	<u>\$ 57,522,901</u>	<u>\$ 20,977,769</u>	<u>\$ 137,582,607</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, 2015

	2015			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
<u>Operating revenues, gains and other support</u>				
Gross tuition and fees	\$ 47,601,386	\$ -	\$ -	\$ 47,601,386
Less: Scholarship allowance	(8,721,153)	-	-	(8,721,153)
Net tuition and fees	<u>38,880,233</u>	-	-	<u>38,880,233</u>
Government grants and contracts	263,346	-	-	263,346
Private gifts and grants	1,521,893	14,198,834	-	15,720,727
Sales and services of continuing education	904,521	-	-	904,521
Sales and services of auxiliary enterprises	8,891,430	-	-	8,891,430
Investment income (loss)	297,610	(282,329)	-	15,281
Endowment distribution designated for operations	1,352,550	-	-	1,352,550
Other revenue	<u>728,081</u>	-	-	<u>728,081</u>
Total Operating Revenues and Gains	52,839,664	13,916,505	-	66,756,169
Net Assets Released from Restrictions	<u>5,968,036</u>	<u>(5,968,036)</u>	-	<u>-</u>
Total Operating Revenues, Gains and Other Support	<u>58,807,700</u>	<u>7,948,469</u>	-	<u>66,756,169</u>
<u>Operating expenses and losses</u>				
Education and general:				
Instruction	21,983,302	-	-	21,983,302
Academic support	8,671,361	-	-	8,671,361
Student services	6,410,325	-	-	6,410,325
Scholarships and stipends	192,000	-	-	192,000
Institutional support	<u>12,077,560</u>	-	-	<u>12,077,560</u>
Total Education and General	49,334,548	-	-	49,334,548
Auxiliary enterprises	<u>7,872,182</u>	-	-	<u>7,872,182</u>
Total Operating Expenses and Losses	<u>57,206,730</u>	-	-	<u>57,206,730</u>
Increase in Net Assets from Operating Activities	<u>1,600,970</u>	<u>7,948,469</u>	-	<u>9,549,439</u>
<u>Nonoperating activities</u>				
Private gifts	174,775	-	785,934	960,709
Interest and dividend income	527,313	598,861	-	1,126,174
Net realized and unrealized gain on investments	82,231	648,320	-	730,551
Endowment distribution designated for operations	(1,352,550)	-	-	(1,352,550)
Unrealized gain on interest rate swap	709,196	-	-	709,196
Change in value of split interest agreements	-	(131,836)	(46,225)	(178,061)
Gain on sale of gift-in-kind	6,400	-	-	6,400
Change in donor designation	-	(7,500)	7,500	-
Change in value of gifted artwork	(26,500)	-	-	(26,500)
Net assets released from restrictions	<u>770,100</u>	<u>(770,100)</u>	-	<u>-</u>
Increase in Net Assets from Nonoperating Activities	<u>890,965</u>	<u>337,745</u>	<u>747,209</u>	<u>1,975,919</u>
Total Change in Net Assets	2,491,935	8,286,214	747,209	11,525,358
Net Assets at Beginning of Year	<u>55,481,681</u>	<u>47,313,234</u>	<u>19,683,966</u>	<u>122,478,881</u>
NET ASSETS AT END OF YEAR	<u>\$ 57,973,616</u>	<u>\$ 55,599,448</u>	<u>\$ 20,431,175</u>	<u>\$ 134,004,239</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Cash flows from operating activities</u>		
Increase in net assets	\$ 3,578,368	\$ 11,525,358
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,941,517	10,012,750
Change in interest rate swap liability	(753,614)	(709,196)
Loss on disposal of property and equipment	414,895	435,151
In-kind contributions of property and equipment	(388,021)	(3,131,841)
Realized and unrealized (gains) and losses on investments	4,083,737	(420,520)
Decrease (increase) in current assets excluding cash and investments	(435,343)	42,515
Increase in long-term contributions receivable	(499,017)	(3,184,004)
Increase in other non-current assets	(661,757)	(1,178,975)
Increase in current liabilities excluding debt	2,374,888	491,696
Increase (decrease) in other long-term liabilities	(264,408)	252,030
Contributions received restricted for -		
Endowment	(796,860)	(1,127,611)
Property and equipment	(3,584,959)	(1,815,109)
Net cash provided by operating activities	<u>13,009,426</u>	<u>11,192,244</u>
<u>Cash flows from investing activities</u>		
Proceeds from sale of investments	10,620,042	1,924,608
Purchase of investments	(2,477,841)	(4,799,950)
Purchase of property and equipment	(23,434,869)	(10,009,906)
Net cash used by investing activities	<u>(15,292,668)</u>	<u>(12,885,248)</u>
<u>Cash flows from financing activities</u>		
Deposited from (into) accounts restricted for -		
Endowment	41,629	(45,120)
Long-term purposes	4,340,161	(2,397,090)
Contributions received restricted for -		
Endowment	796,860	1,127,611
Property and equipment	3,584,959	1,815,109
Debt issuance costs	(50,775)	(110,480)
Proceeds of long-term debt	-	17,730,000
Principal repayments on debt	(1,700,000)	(19,395,000)
Net cash used by financing activities	<u>7,012,834</u>	<u>(1,274,970)</u>
Net increase (decrease) in cash	4,729,592	(2,967,974)
Cash - Beginning of year	<u>10,547,149</u>	<u>13,515,123</u>
CASH - END OF YEAR	<u>\$ 15,276,741</u>	<u>\$ 10,547,149</u>
 SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u>\$ 1,957,690</u>	<u>\$ 1,969,950</u>
Non-cash in-kind contributions of capital assets	<u>\$ 388,021</u>	<u>\$ 3,131,841</u>
Non-cash contributions of works of art	<u>\$ 156,343</u>	<u>\$ 1,156,775</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

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, film, fine arts, game art, graphic design, illustration, interior design, motion design, and photography and imaging. The College enrolls approximately 1,300 students from the United States and 60 countries worldwide. Two art centers located in Longboat Key and Englewood are also operated by the College 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

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.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

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 \$52,538 and \$40,422 at May 31, 2016 and 2015, 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.

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 the most recent appraisals. 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.

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, 2016, and 2015, were \$2,135,944 and \$2,336,012, respectively.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Expenses

The College expenses advertising costs for marketing materials as incurred, amounting to \$1,092,503 and \$1,440,124 for the years ended May 31, 2016 and 2015, respectively.

Debt Issuance Costs

Debt issuance costs are amortized over the lives of the related debt issues. Accumulated amortization at May 31, 2016, and 2015, was \$168,599 and \$328,587, 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	5-15 years
Buildings and improvements	15-40 years
Furniture, fixtures, vehicles, and equipment	5-10 years
Library books	10 years
Computer equipment	3 years

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

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 or gain on interest rate 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.

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, 2016 and May 31, 2015 and, accordingly, no liability has been accrued.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

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 activities, with present value calculations based on risk-free rates and actuarially determined mortality rates.

The College has entered into seven 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 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 7.6%. Subsequent revaluations of the annuity payable are based upon a risk-free rate for terms based upon actuarially determined mortality rates.

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 statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired 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 \$6,067,409 and \$5,425,652 presented in Other non-current assets on the statements of financial position, \$4,671,428 and \$4,532,085 as of May 31, 2016 and 2015, respectively, are donated works of art which are being held with the intent of resale and do not meet the definition of a collection.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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.

Subsequent Events

The College has evaluated subsequent events through September 8, 2016, in connection with the preparation of these financial statements, which is the date the financial statements were issued (see Note 6 and Note 18).

RINGLING COLLEGE OF ART AND DESIGN
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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 (SEOG), and Federal Work-Study (FWS). SEOG and FWS 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. 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. The Federal Deposit Insurance Corporation ("FDIC") covers all accounts at a single depository institution up to \$250,000. As of May 31, 2016, the College had \$16,620,016 in cash and cash equivalents in excess of insured amounts.

NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment for the years ending May 31, 2016, and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 29,044,997	\$ 27,862,324
Buildings	96,076,282	94,272,790
Furniture, fixtures, equipment, and deposits	30,529,655	27,799,874
Library books	3,027,095	2,940,171
Computer equipment	27,778,994	27,123,905
Construction in progress	19,534,847	5,656,524
Leasehold improvements	<u>91,380</u>	<u>91,380</u>
Total Plant Fixed Assets	206,083,250	185,746,968
Less accumulated depreciation	<u>(83,827,127)</u>	<u>(77,008,879)</u>
NET PROPERTY AND EQUIPMENT	<u>\$122,256,123</u>	<u>\$108,738,089</u>

Total depreciation expense for the years ended May 31, 2016, and 2015, was \$9,890,191 and \$9,956,629, respectively. During 2015, renovation of the Keating Center and exterior renovation of the historic Sarasota High School for the Sarasota Museum of Art commenced, while construction of the Goldstein Library and Basch Visual Arts Center commenced in 2016.

Detail of construction in progress projects for the years ending May 31, 2016, and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Keating Center	\$ -	\$ 910,571
Sarasota High School	5,012,715	2,938,684
Goldstein Library	10,773,689	1,472,752
Basch Visual Arts Center	1,584,463	-
Other	<u>2,163,980</u>	<u>334,517</u>
	<u>\$19,534,847</u>	<u>\$5,656,524</u>

Outstanding commitments not yet reflected in construction in progress total approximately \$3,058,000 for the Sarasota High School, \$7,113,000 for the Goldstein Library, and \$10,873,000 for the Basch Visual Arts Center.

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NOTE 5—LEASE COMMITMENTS

The College has entered into lease agreements for minor equipment and facilities. The Sarasota High School Building, which is being transformed into a continuing education center with a museum of modern and contemporary art, is being leased for 99 years, under a lease initiated in 2008, unless terminated according to the provisions of the lease agreement, with consideration of \$1 per year. In 2013, a lease was entered for a student gallery with an initial term ending February 29, 2016. This lease was terminated effective July 31, 2015, as the space was no longer needed. Temporary space for use by the digital film department was leased with a term beginning July 1, 2013 and ending June 30, 2016, with two additional units in the same facility leased beginning June 1, 2015 and ending May 31, 2017. 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, 2016:

2017	\$276,714
2018	39,265
2019	420
2020	420
2021	420
Thereafter	<u>280</u>
 TOTAL	 <u>\$317,519</u>

Total rental expense on operating leases was approximately \$304,851 and \$285,929 in 2016 and 2015, respectively.

NOTE 6—LONG-TERM DEBT

Long-term debt at May 31, 2016, and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Series 2009 Loan	\$15,395,000	\$16,030,000
Series 2010 Loan	30,000,000	30,000,000
Series 2014 Loan	<u>15,620,000</u>	<u>16,685,000</u>
Total	61,015,000	62,715,000
Less current portion	<u>(1,805,000)</u>	<u>(1,700,000)</u>
 LONG-TERM DEBT	 <u>\$59,210,000</u>	 <u>\$61,015,000</u>

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

2017	\$ 1,805,000
2018	1,850,000
2019	1,945,000
2020	2,045,000
2021	2,120,000
Thereafter	<u>51,250,000</u>
 TOTAL	 <u>\$61,015,000</u>

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 6—LONG-TERM DEBT (Continued)

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. 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, 2016 and 2015.

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 and are subject to put options on December 1, 2014, 2019, 2024 and 2029. SunTrust has waived its option in regards to the 2014 put date. The variable rate as of May 31, 2016 and 2015 was 1.97% and 1.85%, respectively.

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 and are subject to put options on December 1, 2015, 2020, 2025, 2030 and 2035. PNC has waived its option in regards to the 2015 put date. The variable rate as of May 31, 2016 and 2015, was 1.79% and 1.62%, respectively.

Series 2014 Bonds were issued to refund the remaining Series 2008 Bonds. The bonds are subject to partial mandatory sinking fund redemption each March 1, beginning in 2015 through 2026. The Bonds were sold to SunTrust Bank under the terms of a Guaranty and Credit Agreement dated June 1, 2014 as a tax-exempt loan. The variable rate as of May 31, 2016 and 2015 was 1.30% and 1.13%, respectively.

The interest rate on approximately 50% of the outstanding variable rate debt is effectively fixed through a swap agreement at 4.651% (see Note 7).

Subsequent to the fiscal year end, the College obtained a \$20,000,000 taxable loan from SunTrust Bank to provide interim construction financing for certain capital projects. The loan will be secured by capital campaign pledges and is subject to put options at two and four years from origination. Interest is variable, based upon 1.85% plus 30-day LIBOR.

NOTE 7—INTEREST RATE SWAP AGREEMENTS

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 March 1, 2014, the notional amount was increased to \$32,915,000 to reflect the termination of the 2004 swap transaction. At May 31, 2016 and 2015, the swap had a notional amount of \$31,185,500 and \$32,067,500, respectively.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 7—INTEREST RATE SWAP AGREEMENTS (Continued)

For both agreements, 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 \$1,460,465 and \$2,214,079 as of May 31, 2016 and 2015, respectively.

NOTE 8—CONTRIBUTIONS RECEIVABLE AND CONDITIONAL PROMISES RECEIVED

Contributions receivable, net, are summarized as follows at May 31, 2016, and 2015.

	<u>2016</u>	<u>2015</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 2,427,504	\$ 1,844,741
One year to five years	7,178,549	7,975,696
Greater than five years	<u>7,746,809</u>	<u>7,487,466</u>
	17,352,862	17,307,903
Less discount to net present value	(2,522,859)	(2,637,770)
Less allowance for uncollectible contributions receivable	<u>(2,841,400)</u>	<u>(3,312,087)</u>
	<u>\$11,988,603</u>	<u>\$11,358,046</u>

Contributions receivable have been discounted based on rates ranging from .12% to 5.0% at May 31, 2016, and 2015, respectively.

The College has received two conditional promises which have not yet been recorded as support in the statement of activities. The first is subject to the commencement of construction for the Sarasota Museum of Art and at May 31, 2016, \$300,000 has been promised, \$240,000 of which has been received and has been recorded as funds held for others. Additionally, \$2,500,000 has been promised for the New Library from a community foundation on behalf of a College donor. 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.

Local community foundations provide the College's donors opportunities to set up gift agreements to provide contributions or income to the College with funds maintained by the community foundation until a specified future date or in perpetuity. Presently, the College or organizations which 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 maintain the remainder in perpetuity. As the community foundations maintain variance power over the contributions and distributions, contribution income will be recognized as distributed. Gifts to the foundations are not reflected in the College's financial statements.

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.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 10—INVESTMENTS

Investments, stated at fair value, at May 31, 2016, and 2015, include:

	<u>2016</u>		<u>2015</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Short-term				
Certificate of deposit	\$ -	\$ -	\$ 26,626	\$ 26,626
Money market funds	822,779	822,779	3,448,592	3,448,592
Corporate bonds	190,411	196,051	2,904,005	2,977,444
U.S. agency bonds	<u>-</u>	<u>-</u>	<u>20,354</u>	<u>20,521</u>
TOTAL SHORT-TERM	<u>\$ 1,013,190</u>	<u>\$ 1,018,830</u>	<u>\$ 6,399,577</u>	<u>\$ 6,473,183</u>
Long-term				
Money market funds	\$ 46,609	\$ 46,609	\$ 36,443	\$ 36,443
Common stock	85,500	506,250	114,000	506,250
Mutual funds invested in:				
Debt securities	1,184,991	1,189,237	1,177,976	1,184,661
U.S. equity securities	664,229	622,874	750,562	673,608
Int'l equity securities	345,794	384,190	388,654	399,127
Corporate bonds	7,210,457	7,424,028	9,616,664	9,838,626
Municipal bonds	-	-	352,735	353,306
U.S. gov't obligations	-	-	251,218	254,034
U.S. agency bonds	<u>-</u>	<u>-</u>	<u>224,296</u>	<u>224,219</u>
Subtotal	9,537,580	10,173,188	12,912,548	13,470,274
Investment in property*	<u>2,465,000</u>	<u>2,200,000</u>	<u>2,465,000</u>	<u>2,200,000</u>
TOTAL NON-CURRENT ASSETS	<u>\$12,002,580</u>	<u>\$12,373,188</u>	<u>\$15,377,548</u>	<u>\$15,670,274</u>
Endowment				
Cash held for investment	\$ 380,682	\$ 380,682	\$ 136,747	\$ 136,747
Cash surrender value of life insurance contracts	18,281	29,988	19,894	30,875
Common stock	-	-	3,479,269	3,334,304
Mutual funds invested in:				
Debt securities	8,839,238	8,823,854	7,019,388	7,094,315
U.S. equity securities	14,982,928	14,985,794	16,052,559	13,902,109
Int'l equity securities	14,136,215	14,167,817	14,905,434	14,246,724
Alternative investments:				
Long biased	944,510	1,000,000	1,081,728	1,010,558
Absolute return	1,184,295	1,000,000	1,242,178	1,000,000
Distressed opport. fund	<u>35,238</u>	<u>20,643</u>	<u>48,773</u>	<u>28,571</u>
TOTAL ENDOWMENT	<u>\$40,521,387</u>	<u>\$40,408,778</u>	<u>\$43,985,970</u>	<u>\$40,784,203</u>

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

The College incurs investment management and investment consulting fees which are reported as a reduction of investment earnings of \$301,073 and \$349,320 for the years ended May 31, 2016, and 2015, respectively.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 10—INVESTMENTS (Continued)

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, 2016, and 2015:

	<u>2016</u>			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Operating Investment Return				
Interest income	\$ 137,930	\$ 181,758	\$ -	\$ 319,688
Realized losses	(62,494)	(175,454)	-	(237,948)
Unrealized gains	16,381	23,907	-	40,288
Nonoperating Investment Return				
Interest and dividend income	510,244	591,277	-	1,101,521
Realized losses	(252,780)	(275,377)	-	(528,157)
Unrealized losses	(1,593,091)	(1,726,185)	-	(3,319,276)
Unrealized principal loss of true endowment	<u>(29,689)</u>	<u>-</u>	<u>-</u>	<u>(29,689)</u>
Total Investment Return	(1,273,499)	(1,380,074)	-	(2,653,573)
Investment return designated for current operations	<u>(1,599,973)</u>	<u>-</u>	<u>-</u>	<u>(1,599,973)</u>
INVESTMENT RETURN LONG-TERM	<u>\$(2,873,472)</u>	<u>\$(1,380,074)</u>	<u>\$ -</u>	<u>\$(4,253,546)</u>

	<u>2015</u>			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Operating Investment Return				
Interest income	\$ 152,228	\$ 298,813	\$ -	\$ 451,041
Realized losses	(21,418)	(193,753)	-	(215,171)
Unrealized gains and (losses)	166,800	(387,389)	-	(220,589)
Nonoperating Investment Return				
Interest and dividend income	527,313	598,861	-	1,126,174
Realized gains	255,890	275,206	-	531,096
Unrealized gains and (losses)	<u>(173,659)</u>	<u>373,114</u>	<u>-</u>	<u>199,455</u>
Total Investment Return	907,154	964,852	-	1,872,006
Investment return designated for current operations	<u>(1,352,550)</u>	<u>-</u>	<u>-</u>	<u>(1,352,550)</u>
INVESTMENT RETURN LONG-TERM	<u>\$(445,396)</u>	<u>\$ 964,852</u>	<u>\$ -</u>	<u>\$ 519,456</u>

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 10—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 11—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.

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
MAY 31, 2016 AND 2015

NOTE 11—ENDOWMENT (Continued)

Endowment net asset compositions as of May 31, 2016, and 2015 are as follows:

		<u>2016</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor Designated	\$ -	\$2,573,338	\$20,977,769	\$23,551,107
Board Designated	<u>18,540,031</u>	-	-	<u>18,540,031</u>
TOTAL ENDOWMENT FUNDS	<u>\$18,540,031</u>	<u>\$2,573,338</u>	<u>\$20,977,769</u>	<u>\$42,091,138</u>

		<u>2015</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor Designated	\$ -	\$4,778,646	\$20,431,175	\$25,209,821
Board Designated	<u>20,636,182</u>	-	-	<u>20,636,182</u>
TOTAL ENDOWMENT FUNDS	<u>\$20,636,182</u>	<u>\$4,778,646</u>	<u>\$20,431,175</u>	<u>\$45,846,003</u>

NOTE 12—SPLIT-INTEREST AGREEMENTS

Contribution revenue for the years ended May 31, 2016, and 2015, from irrevocable charitable remainder trusts was \$1,350 and \$0, respectively. The present value of contributions receivable from remainder trusts as of May 31, 2016, and 2015, were \$335,581 and \$465,290, respectively.

The College has entered into seven 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 \$2,241,624 at May 31, 2016, 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, 2016, and 2015, was \$1,409,225 and \$1,468,665, respectively.

NOTE 13—TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are for the following purposes as of May 31, 2016, and 2015, were:

	<u>2016</u>	<u>2015</u>
Capital	\$50,403,560	\$46,956,233
Departmental purposes	2,659,967	1,918,518
Time restricted	909,286	1,050,401
Scholarships	976,752	895,650
Long-term investment	<u>2,573,336</u>	<u>4,778,646</u>
	<u>\$57,522,901</u>	<u>\$55,599,448</u>

RINGLING COLLEGE OF ART AND DESIGN
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MAY 31, 2016 AND 2015

NOTE 13—TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

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, 2016, and 2015:

	<u>2016</u>	<u>2015</u>
Departmental purposes	\$ 5,636,230	\$ 5,638,354
Institutional	767,771	767,771
Scholarships	<u>14,573,768</u>	<u>14,025,050</u>
	<u>\$20,977,769</u>	<u>\$20,431,175</u>

As of May 31, 2016 and 2015, \$335,581 and \$360,468, respectively, represent contributions receivable from remainder trusts included in permanently restricted net assets.

Net assets released from restrictions for the years ended May 31, 2016, and 2015, in the amount of \$6,530,788 and \$6,738,136, respectively, resulted from amortization of restricted gifts to acquire long-lived assets and expiration of donor imposed restrictions.

NOTE 14—OPERATING EXPENSES AND LOSSES BY NATURAL CLASSIFICATION

Operating expenses and losses by natural classification, for the years ended May 31, 2016, and 2015 were:

	<u>2016</u>	<u>2015</u>
Personnel compensation	\$21,685,382	\$20,821,510
Employee benefits	6,200,913	5,786,303
Supplies and equipment	1,687,655	1,639,691
Telephone and other communications	391,468	396,322
Marketing and publications	1,092,503	1,440,124
Professional development/travel	1,513,582	1,506,767
Computers and technology	1,470,580	1,148,604
Contracted services	8,418,224	7,934,038
Student related expenses	608,407	604,575
Other expenses	149,967	97,067
Insurance	1,349,596	1,437,767
Utilities	1,744,843	1,809,526
Taxes	117,251	137,038
Interest and loan fees	1,967,746	1,998,927
Depreciation	9,890,191	9,956,629
Amortization	51,326	56,121
Losses	<u>414,894</u>	<u>435,721</u>
TOTAL OPERATING EXPENSES AND LOSSES	<u>\$58,754,528</u>	<u>\$57,206,730</u>

NOTE 15—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.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2016 AND 2015

NOTE 16—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, 2016, and 2015, was \$743,618 and \$717,720, respectively.

NOTE 17—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, 2016, and 2015, is as follows:

<u>Description of investment</u>	<u>5/31/2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 1,013,190	\$ 1,013,190	\$ -	\$ -
Long-term bond investments	7,257,066	-	7,257,066	-
Remainder trusts	335,581	-	-	335,581
Cash surrender value of life insurance	18,281	-	18,281	-
Common stock	85,500	85,500	-	-
Mutual funds	40,153,395	40,153,395	-	-
Alternative investments	<u>2,164,043</u>	<u>-</u>	<u>-</u>	<u>2,164,043</u>
TOTAL	<u>\$51,027,056</u>	<u>\$41,252,085</u>	<u>\$7,275,347</u>	<u>\$2,499,624</u>
<u>Description of liability</u>	<u>5/31/2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	<u>\$ 1,460,465</u>	<u>\$ -</u>	<u>\$1,460,465</u>	<u>\$ -</u>

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NOTE 17—FAIR VALUE MEASUREMENTS (Continued)

<u>Description of investment</u>	<u>5/31/2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 6,372,951	\$ 6,372,951	\$ -	\$ -
Long-term bond investments	10,481,356	-	10,481,356	-
Remainder trusts	465,290	-	-	465,290
Cash surrender value of life insurance	19,894	-	19,894	-
Common stock	3,593,269	3,593,269	-	-
Mutual funds	40,294,573	40,294,573	-	-
Alternative investments	<u>2,372,679</u>	<u>-</u>	<u>-</u>	<u>2,372,679</u>
TOTAL	<u>\$63,600,012</u>	<u>\$50,260,793</u>	<u>\$10,501,250</u>	<u>\$2,837,969</u>
<u>Description of liability</u>	<u>5/31/2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	<u>\$ 2,214,079</u>	<u>\$ -</u>	<u>\$ 2,214,079</u>	<u>\$ -</u>

The following sets forth the changes in fair value of the College's Level 3 investments for the years ended May 31, 2016 and 2015:

	<u>Alternative Investment Funds</u>			
	<u>Remainder Trusts</u>	<u>Absolute Return</u>	<u>Distressed Opportunity</u>	<u>Long Biased</u>
Balance as of June 1, 2015	\$465,290	\$1,242,178	\$48,773	\$1,081,728
Additions	1,350	-	-	-
Liquidations	-	-	(7,109)	(12,091)
Distributions	(143,500)	-	-	-
Change in value of split interest agreements	12,441	-	-	-
Total gains (losses) included in changes in net assets	<u>-</u>	<u>(57,883)</u>	<u>(6,426)</u>	<u>(125,127)</u>
Balance as of May 31, 2016	<u>\$335,581</u>	<u>\$1,184,295</u>	<u>\$35,238</u>	<u>\$ 944,510</u>
The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to the assets held at the reporting date	<u>\$ 12,441</u>	<u>\$ (57,883)</u>	<u>\$ 5,911</u>	<u>\$ (125,127)</u>

RINGLING COLLEGE OF ART AND DESIGN
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NOTE 17—FAIR VALUE MEASUREMENTS (Continued)

	<u>Alternative Investment Funds</u>			
	<u>Remainder Trusts</u>	<u>Absolute Return</u>	<u>Distressed Opportunity</u>	<u>Long Biased</u>
Balance as of June 1, 2014	\$631,013	\$1,166,743	\$ 81,772	\$1,137,641
Liquidations	-	-	(13,259)	(148,249)
Distributions	(134,775)	-	-	-
Change in value of split interest agreements	(30,948)	-	-	-
Total gains (losses) included in changes in net assets	<u>-</u>	<u>75,435</u>	<u>(19,740)</u>	<u>92,336</u>
Balance as of May 31, 2015	<u>\$465,290</u>	<u>\$1,242,178</u>	<u>\$ 48,773</u>	<u>\$1,081,728</u>
The amount of total gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains (losses) relating to the assets held at the reporting date	<u>\$ (30,948)</u>	<u>\$ 75,435</u>	<u>\$(16,929)</u>	<u>\$ 94,108</u>

The unrealized gains and losses included in changes in net assets for the periods above are reported in net realized and unrealized gain (loss) on investments in the statements of activities.

NOTE 18—SUBSEQUENT EVENT

The College entered into an agreement on December 2, 2015 with the Lifelong Learning Academy (LLA), an exempt organization created to enrich the lives of mature adults in Sarasota and Manatee counties by providing affordable and outstanding educational programs and social interaction that cover a broad spectrum of topics and are rich in intellectual stimulation, often interactive in scope, and worthy of academic consideration. Under the terms of the agreement, LLA became a department of the College effective June 1, 2016. The combination of LLA as a department of the College will be accounted for using the acquisition method.