

RINGLING COLLEGE OF ART AND DESIGN  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED MAY 31, 2018 AND 2017

RINGLING COLLEGE OF ART AND DESIGN  
FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 11, 2018, 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 11, 2018

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 12,324,024	\$ 13,354,761
Accounts receivable - students	89,518	100,180
Contributions receivable, net of long-term portion	4,764,221	2,273,489
Other receivables	38,255	370,070
Prepaid expenses and other assets	2,024,245	1,910,423
	<u>19,240,263</u>	<u>18,008,923</u>
 <u>Non-current assets</u>		
Cash and cash equivalents restricted by donors	1,320,292	812,241
Long-term investments	5,855,296	7,871,350
Long-term contributions receivable	7,671,847	9,409,719
Cash reserve for project fund	48,310,071	-
Investment in property	2,065,000	2,065,000
Other non-current assets	6,524,167	7,052,409
	<u>71,746,673</u>	<u>27,210,719</u>
 <u>Endowment</u>		
Cash and cash equivalents restricted for endowment	53,457	308,059
Contributions receivable restricted for endowment	2,498,512	1,714,934
Contributions receivable from remainder trusts	349,158	344,718
Other non-current assets	37,720	-
Long-term investments	50,190,491	45,121,148
	<u>53,129,338</u>	<u>47,488,859</u>
 <u>Property and equipment</u>		
at cost less accumulated depreciation	<u>181,004,302</u>	<u>147,878,425</u>
 TOTAL ASSETS	 <u>\$ 325,120,576</u>	 <u>\$ 240,586,926</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2018 AND 2017

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
<u>Current liabilities</u>		
Accounts payable	\$ 9,638,036	\$ 5,152,722
Accrued salaries and wages	4,724,798	4,217,831
Other accrued expenses	2,084,345	1,007,503
Notes payable	-	577,678
Current portion of long-term debt	2,742,105	1,850,000
Current portion of long-term capital lease	69,017	61,000
Student deposits	636,400	598,867
Deferred revenue	1,110,929	1,287,846
Amounts held in custody for others	9,086	106,714
	<u>21,014,716</u>	<u>14,860,161</u>
<u>Long-term liabilities</u>		
Long-term debt, net of current portion and net issuance cost	129,403,753	68,071,008
Capital lease obligation, net of current portion	4,723,700	4,792,717
Annuity payable	1,146,028	1,400,377
Interest rate swap liability	-	585,460
Amounts held in custody for others	717,909	283,958
	<u>135,991,390</u>	<u>75,133,520</u>
Total Long-Term Liabilities	<u>135,991,390</u>	<u>75,133,520</u>
Total Liabilities	<u>157,006,106</u>	<u>89,993,681</u>
<u>Net assets</u>		
Unrestricted	68,045,649	63,504,506
Temporarily restricted	73,426,968	64,110,762
Permanently restricted	26,641,853	22,977,977
	<u>168,114,470</u>	<u>150,593,245</u>
Total Net Assets	<u>168,114,470</u>	<u>150,593,245</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 325,120,576</u>	 <u>\$ 240,586,926</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, 2018

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<u>Operating revenues, gains and other support</u>				
Gross tuition and fees	\$ 63,397,308	\$ -	\$ -	\$ 63,397,308
Less: Scholarship allowance	(15,352,092)	-	-	(15,352,092)
Net tuition and fees	48,045,216	-	-	48,045,216
Government grants and contracts	290,774	860,029	-	1,150,803
Private gifts and grants	1,265,113	11,158,434	-	12,423,547
Sales and services of continuing education	1,384,930	-	-	1,384,930
Sales and services of auxiliary enterprises	12,714,357	-	-	12,714,357
Investment income (loss)	194,164	(8,736)	-	185,428
Endowment distribution designated for operations	1,839,050	189,991	-	2,029,041
Annuity distribution for operations	34,458	-	-	34,458
Other revenue	606,491	-	-	606,491
Total Operating Revenues and Gains	66,374,553	12,199,718	-	78,574,271
Net Assets Released from Restrictions	5,026,048	(5,026,048)	-	-
Total Operating Revenues, Gains and Other Support	71,400,601	7,173,670	-	78,574,271
<u>Operating expenses and losses</u>				
Education and general:				
Instruction	26,465,885	-	-	26,465,885
Academic support	10,833,916	-	-	10,833,916
Student services	7,015,394	-	-	7,015,394
Scholarships and stipends	201,521	-	-	201,521
Institutional support	14,298,986	-	-	14,298,986
Total Education and General	58,815,702	-	-	58,815,702
Auxiliary enterprises	9,946,514	-	-	9,946,514
Total Operating Expenses and Losses	68,762,216	-	-	68,762,216
Increase in Net Assets from Operating Activities	2,638,385	7,173,670	-	9,812,055
<u>Nonoperating activities</u>				
Private gifts	450,195	61,423	4,525,762	5,037,380
Interest and dividend income	570,073	681,188	-	1,251,261
Net realized and unrealized gain on investments	1,219,646	1,570,814	-	2,790,460
Endowment distribution designated for operations	(1,839,050)	(189,991)	-	(2,029,041)
Annuity distribution for operations	(34,458)	-	-	(34,458)
Unrealized principal loss of true endowment	(3,583)	-	-	(3,583)
Unrealized gain on interest rate swap	585,460	-	-	585,460
Change in value of split interest agreements	-	109,434	3,189	112,623
Realized gain on gift-in-kind inventory	5,542	-	-	5,542
Change in donor designation	-	865,075	(865,075)	-
Change in value of gifted artwork	(5,600)	(874)	-	(6,474)
Net assets released from restrictions	954,533	(954,533)	-	-
Increase in Net Assets from Nonoperating Activities	1,902,758	2,142,536	3,663,876	7,709,170
Total Change in Net Assets	4,541,143	9,316,206	3,663,876	17,521,225
Net Assets at Beginning of Year	63,504,506	64,110,762	22,977,977	150,593,245
NET ASSETS AT END OF YEAR	<u>\$ 68,045,649</u>	<u>\$ 73,426,968</u>	<u>\$ 26,641,853</u>	<u>\$ 168,114,470</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, 2017

	<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	\$ 56,016,018	\$ -	\$ -	\$ 56,016,018
Less: Scholarship allowance	(12,716,556)	-	-	(12,716,556)
Net tuition and fees	43,299,462	-	-	43,299,462
Government grants and contracts	275,696	802,471	-	1,078,167
Private gifts and grants	1,090,664	11,010,699	-	12,101,363
Sales and services of continuing education	1,293,110	-	-	1,293,110
Sales and services of auxiliary enterprises	11,474,427	-	-	11,474,427
Investment income	3,423	26,936	-	30,359
Endowment distribution designated for operations	1,217,206	50,032	-	1,267,238
Other revenue	626,451	-	-	626,451
Total Operating Revenues and Gains	59,280,439	11,890,138	-	71,170,577
Net Assets Released from Restrictions	6,589,926	(6,589,926)	-	-
Total Operating Revenues, Gains and Other Support	65,870,365	5,300,212	-	71,170,577
<u>Operating expenses and losses</u>				
Education and general:				
Instruction	24,574,959	-	-	24,574,959
Academic support	10,303,257	-	-	10,303,257
Student services	6,411,343	-	-	6,411,343
Scholarships and stipends	182,970	-	-	182,970
Institutional support	12,395,916	-	-	12,395,916
Total Education and General	53,868,445	-	-	53,868,445
Auxiliary enterprises	8,696,710	-	-	8,696,710
Total Operating Expenses and Losses	62,565,155	-	-	62,565,155
Increase in Net Assets from Operating Activities	3,305,210	5,300,212	-	8,605,422
<u>Nonoperating activities</u>				
Private gifts	8,600	46,868	1,991,891	2,047,359
Interest and dividend income	505,922	561,919	-	1,067,841
Net realized and unrealized gain on investments	1,705,926	1,555,849	-	3,261,775
Endowment distribution designated for operations	(1,217,206)	(50,032)	-	(1,267,238)
Unrealized principal gain of true endowment	29,689	-	-	29,689
Unrealized gain on interest rate swap	875,005	-	-	875,005
Change in value of split interest agreements	-	(135,839)	8,317	(127,522)
Loss on sale of property	(1,514,433)	-	-	(1,514,433)
Change in value of gifted artwork	-	32,740	-	32,740
Net assets released from restrictions	723,856	(723,856)	-	-
Increase in Net Assets from Nonoperating Activities	1,117,359	1,287,649	2,000,208	4,405,216
Total Change in Net Assets	4,422,569	6,587,861	2,000,208	13,010,638
Net Assets at Beginning of Year	59,081,937	57,522,901	20,977,769	137,582,607
NET ASSETS AT END OF YEAR	<u>\$ 63,504,506</u>	<u>\$ 64,110,762</u>	<u>\$ 22,977,977</u>	<u>\$ 150,593,245</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>Cash flows from operating activities</u>		
Increase in net assets	\$ 17,521,225	\$ 13,010,638
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,961,512	10,316,939
Bond premium amortization	(365,055)	-
Change in interest rate swap liability	(585,460)	(875,005)
Loss on disposal of property and equipment	1,813	90,937
Loss on sale of property	-	1,514,433
In-kind contributions of property and equipment	(871,468)	(715,863)
Realized and unrealized gains on investments	(2,605,663)	(3,176,338)
Increase in current assets excluding cash and investments	(2,263,025)	(644,265)
Increase (decrease) in long-term contributions receivable	949,854	(810,284)
Decrease (increase) in other non-current assets	470,522	(1,005,000)
Increase (decrease) in current liabilities excluding debt	1,550,248	(451,673)
Increase in other long-term liabilities	263,416	79,130
Contributions received restricted for -		
Endowment	(2,877,109)	(1,285,800)
Property and equipment	(4,593,854)	(4,178,894)
Net cash provided by operating activities	<u>17,556,956</u>	<u>11,868,955</u>
<u>Cash flows from investing activities</u>		
Proceeds from sale of investments	7,102,378	6,409,650
Proceeds from sale of property and equipment	-	1,820,572
Purchase of investments	(7,550,004)	(4,753,653)
Purchase of property and equipment	(39,492,601)	(31,340,796)
Net cash used by investing activities	<u>(39,940,227)</u>	<u>(27,864,227)</u>
<u>Cash flows from financing activities</u>		
Deposited from (into) accounts restricted for -		
Endowment	254,602	(82,731)
Long-term purposes	(508,051)	(278,805)
Project Reserve Fund	(48,310,071)	-
Contributions received restricted for -		
Endowment	2,877,109	1,285,800
Property and equipment	4,593,854	4,178,894
Debt issuance costs, net	(885,215)	(123,388)
Payments on capital leases	(61,000)	(16,431)
Proceeds of long-term debt	108,741,306	10,914,953
Principal repayments on debt	(45,350,000)	(1,805,000)
Net cash provided by financing activities	<u>21,352,534</u>	<u>14,073,292</u>
Net decrease in cash	(1,030,737)	(1,921,980)
Cash - Beginning of year	13,354,761	15,276,741
CASH - END OF YEAR	<u>\$ 12,324,024</u>	<u>\$ 13,354,761</u>
 SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u>\$ 3,966,951</u>	<u>\$ 2,142,183</u>
Non-cash in-kind contributions of capital assets	<u>\$ 871,468</u>	<u>\$ 715,863</u>
Non-cash contributions of works of art	<u>\$ 412,885</u>	<u>\$ 8,600</u>
Non-cash capital assets acquired through capital lease	<u>\$ -</u>	<u>\$ 4,870,148</u>
Non-cash capital assets in accounts payable	<u>\$ 6,122,099</u>	<u>\$ 2,417,914</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

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 located in Sarasota, Florida, offering degrees in advertising design, business of art and design, computer animation, creative writing, film, fine arts, game art, graphic design, illustration, interior design, motion design, photography and imaging, and visual studies. The College enrolls over 1,400 students from the United States and 55 countries worldwide. Approximately one-third come from Florida. The College provides lifelong learning classes through its School of Continuing Studies, which includes art centers and the Ringling College Lifelong Learning Academy (RCLLA). An art center is located in Englewood, Florida; in 2017, prior to its sale, the College also operated an art center in Longboat Key, Florida. The College entered into an agreement with the Town of Longboat Key to provide conceptual design and programming for a new Arts, Culture, and Education Center. This facility will be supported through philanthropy; it will be owned by the Town and operated by the College.

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, contributions of artwork, 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 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, 2018 AND 2017

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 \$57,407 and \$43,411 at May 31, 2018 and 2017, respectively.

Student Deposits

Student deposits represent housing damage deposits and 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 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, 2018 and 2017, were \$2,561,754 and \$2,284,976, respectively.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Expenses

The College expenses advertising costs for marketing materials as incurred, amounting to \$1,225,521 and \$1,072,592 for the years ended May 31, 2018 and 2017, respectively.

Debt Issuance Costs

Debt issuance costs are recognized over the lives of the related debt issues on a straight-line basis and are presented as a direct deduction from the related debt liability charged to interest expense. Accumulated amortization at May 31, 2018 and 2017, was \$165,512 and \$81,698, 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	5-20 years
Buildings and improvements	10-40 years
Furniture, fixtures, vehicles, and equipment	5-10 years
Library books	10 years
Computer and related equipment	3-20 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 as of May 31, 2017 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. The interest rate swap expired in March 2018.

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, 2018 and May 31, 2017 and, accordingly, no liability has been accrued.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

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 ten 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 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 \$6,561,887 and \$7,052,409 presented in Other non-current assets on the statements of financial position, \$5,028,058 and \$4,565,328 as of May 31, 2018 and 2017, respectively, are donated works of art which are being held with the intent of resale and do not meet the definition of a collection.

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.

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 11, 2018, in connection with the preparation of these financial statements, which is the date the financial statements were issued. There were no subsequent events requiring accrual or disclosure in the fiscal 2018 statements.

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, 2018, the College had \$19,224,653 in cash and cash equivalents in excess of insured amounts.

NOTE 4—CONTRIBUTIONS RECEIVABLE AND CONDITIONAL PROMISES RECEIVED

Contributions receivable, net, are summarized as follows at May 31, 2018, and 2017.

	<u>2018</u>	<u>2017</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 5,802,789	\$ 3,171,735
One year to five years	2,696,423	7,137,415
Greater than five years	<u>11,935,634</u>	<u>8,109,309</u>
	20,434,846	18,418,459
Less discount to net present value	(3,284,167)	(2,517,868)
Less allowance for uncollectible contributions receivable	<u>(2,216,099)</u>	<u>(2,502,449)</u>
	<u>\$14,934,580</u>	<u>\$13,398,142</u>

Contributions receivable are reflected in the financial statements as of May 31, 2018 and 2017 as:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 4,764,221	\$ 2,273,489
Non-current assets	7,671,847	9,409,719
Endowment	<u>2,498,512</u>	<u>1,714,934</u>
	<u>\$14,934,580</u>	<u>\$13,398,142</u>

Contributions receivable have been discounted based on rates ranging from .11% to 5% at May 31, 2018, and 2017, respectively.

The College received four conditional promises which have not yet been recorded as support in the statement of activities. The first is subject to the commencement of construction by a particular date for the Sarasota Museum of Art and the second for its completion to the donor's satisfaction. At May 31, 2018, \$1,300,000 has been promised, \$700,000 of which has received and recorded as funds held for others. The third is subject to securing sufficient resources from fundraising activities to support \$1,800,000 for student scholarships and \$1,200,000 for the library collection and operations. The last is a \$9,000,000 promise towards construction for a new building.

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NOTE 4—CONTRIBUTIONS RECEIVABLE AND CONDITIONAL PROMISES RECEIVED (Continued)

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 their net realizable value.

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 5—INVESTMENTS

Investments, stated at fair value, at May 31, 2018, and 2017, include:

	<u>2018</u>		<u>2017</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Long-term				
Money market funds	\$2,600,569	\$2,600,569	2,434,195	\$ 2,434,195
Common stock	-	-	72,000	506,250
Mutual funds invested in:				
Debt securities	853,417	878,382	919,374	926,608
U.S. equity securities	495,136	475,010	591,087	493,887
Int'l equity securities	303,781	280,133	239,328	213,496
Corporate bonds	<u>1,602,393</u>	<u>1,676,206</u>	<u>3,615,366</u>	<u>3,795,076</u>
Subtotal	5,855,296	5,910,300	7,871,350	8,369,512
Investment in property	<u>2,065,000</u>	<u>2,200,000</u>	<u>2,065,000</u>	<u>2,200,000</u>
TOTAL NON-CURRENT ASSETS	<u>\$7,920,296</u>	<u>\$8,110,300</u>	<u>\$9,936,350</u>	<u>\$10,569,512</u>
Endowment				
Cash held for investment	\$ 109,547	\$ 109,547	\$ 404,600	\$ 404,600
Cash surrender value of life insurance contracts	16,210	27,917	17,461	29,168
Mutual funds invested in:				
Debt securities	13,801,989	14,158,886	13,280,947	13,193,103
U.S. equity securities	25,034,218	20,326,360	21,473,989	19,081,942
Int'l equity securities	11,228,527	9,198,830	9,821,577	8,536,656
Alternative investments:				
Absolute return	-	-	122,574	100,003
TOTAL ENDOWMENT	<u>\$50,190,491</u>	<u>\$43,821,540</u>	<u>\$45,121,148</u>	<u>\$41,345,472</u>

Investment in property reflects contributions of real estate under gift annuity agreements. The College incurred investment management and investment consulting fees, which are reported as a reduction of investment earnings, of \$195,430 and \$151,746 for the years ended May 31, 2018, and 2017, respectively.





RINGLING COLLEGE OF ART AND DESIGN  
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NOTE 5—INVESTMENTS (Continued)

Alternative investments consist of funds of hedge fund holdings. The College provided notice for redemption 60-100 days prior to a fixed redemption time, depending upon the investment. There are no future funding commitments. 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 remaining alternative investments include the absolute return fund of hedge funds which was liquidated during 2018.

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment for the years ending May 31, 2018, and 2017 consisted of:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 31,323,256	\$ 28,855,005
Buildings	125,434,445	117,052,657
Buildings under capital lease	4,870,148	4,870,148
Furniture, fixtures, equipment, and deposits	37,769,970	35,037,814
Library books	3,305,683	3,136,868
Computer equipment	35,382,596	32,019,225
Construction in progress	43,421,935	18,763,524
Leasehold improvements	<u>957,829</u>	<u>799,927</u>
Total Plant Fixed Assets	282,465,862	240,535,168
Less accumulated depreciation	<u>(101,461,560)</u>	<u>(92,656,743)</u>
 NET PROPERTY AND EQUIPMENT	 <u>\$181,004,302</u>	 <u>\$147,878,425</u>

Total depreciation expense for the years ended May 31, 2018, and 2017, was \$10,941,512 and \$10,296,939, respectively. Construction of the Basch Visual Arts Center was completed in 2018. Site improvements adjacent to the Post Production site commenced in 2016 and construction of the Post Production building began in 2017. Exterior renovations of Sarasota High School and design modifications were undertaken in 2015, with renovations beginning in 2018. New projects for a chilled water plant and a residential facility were designed in 2016 and 2017, respectively, and began construction in 2018.

Detail of construction in progress for the years ending May 31, 2018, and 2017 consisted of:

	<u>2018</u>	<u>2017</u>
Sarasota High School/Building 42	12,254,018	6,246,404
Basch Visual Arts Center	-	6,083,670
Chilled Water Plant	3,994,629	1,206,492
Post Production	6,749,791	2,776,079
Post Production Site	1,703,139	1,421,682
Bridge Apartments	18,316,819	905,596
Other	<u>403,539</u>	<u>123,601</u>
	<u>\$43,421,935</u>	<u>\$18,763,524</u>

Capitalized interest as of May 31, 2018 was \$149,005 for Sarasota High School/Building 42, \$672,510 for Bridge Apartments, and \$398,127 for Chilled Water Plant. Outstanding commitments not yet reflected in construction in progress include \$13,735,882 for Sarasota High School/Building 42, \$1,775,139 for the Post Production building and related site improvements, \$3,197,487 for the Chilled Water Plant, and \$7,085,705 for the Bridge Apartments.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 7—LONG-TERM DEBT

Long-term debt at May 31, 2018, and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Series 2009 Loan	\$14,065,000	\$14,740,000
Series 2010 Loan	-	30,000,000
Series 2014 Loan	13,295,000	14,470,000
Series 2017 Bond	90,255,000	-
Loan Payable	<u>6,500,000</u>	<u>10,914,953</u>
Total	124,115,000	70,124,953
Add unamortized issuance premium	9,036,204	-
Less current portion	(2,742,105)	(1,850,000)
Less unamortized debt issuance costs	<u>(1,005,346)</u>	<u>(203,945)</u>
<b>LONG-TERM DEBT</b>	<b><u>\$129,403,753</u></b>	<b><u>\$68,071,008</u></b>

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

2019	\$ 2,742,105
2020	2,782,105
2021	2,822,105
2022	2,872,105
2023	7,706,580
Thereafter	<u>105,190,000</u>
<b>TOTAL</b>	<b><u>\$124,115,000</u></b>

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, 2018 and 2017.

Series 2009 Bonds were issued to refund the Series 2004 Bonds and are subject to partial mandatory sinking fund redemption each March 1, through March 2034. The 2009 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, 2018 and 2017 was 3.59% and 2.34%, respectively.

Series 2010 Bonds were issued to refund \$30,000,000 of the Series 2008 Bonds and were subject to partial mandatory sinking fund redemption each March 1, beginning in 2027 through March 2038. The 2010 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 were subject to put options on December 1, 2015, 2020, 2025, 2030 and 2035. PNC waived its option in regards to the 2015 put date. The variable rate as of May 31, 2017 was 2.15%.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

NOTE 7—LONG-TERM DEBT (Continued)

Series 2014 Bonds were issued to refund the remaining Series 2008 Bonds and are subject to partial mandatory sinking fund redemption each March 1, beginning in 2015 through 2026. The 2014 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, 2018 and 2017 was 2.77% and 1.67%, respectively.

The interest rate on approximately 50% of the outstanding variable rate debt as of May 31, 2017 was effectively fixed through a swap agreement at 4.651% (see Note 8).

The College obtained a \$20,000,000 taxable loan from SunTrust Bank to provide interim construction financing for certain capital projects, for which \$6,500,000 and \$10,914,953 was outstanding at May 31, 2018 and 2017, respectively. The loan is 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. The variable rate as of May 31, 2018 and 2017 was 3.76% and 2.84%, respectively.

Series 2017 Bonds were issued as fixed rate tax-exempt bonds to refund the Series 2010 Bonds and \$13,500,000 of the SunTrust taxable loan and are subject to partial mandatory sinking fund redemption each March 1, beginning in 2019 through 2047. The bonds were sold at a premium, resulting in effective yields between 1.41% and 4.05%. The 2017 Bonds bear interest, payable semiannually, at fixed rates ranging from 3% to 5%.

NOTE 8—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 for the purpose of fixing the interest rate on a portion of the outstanding debt. 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, 2017, the swap had a notional amount of \$30,260,000.

For both agreements, the difference between interest earned and the interest obligation accrued is recorded as interest expense. The estimated fair value of these agreements, based on various factors related to the underlying debt facility and interest rates, represented an unrealized loss of \$585,460 as of May 31, 2017.

NOTE 9—LEASE COMMITMENTS

Capital Leases

Effective March 1, 2017, the College leases two soundstage buildings under a twenty-year capital lease to finance the acquisition of the assets through the lease and accordingly, it is recorded in the College's assets and liabilities. The lease contains various buy-out provisions. The Sarasota High School Building, which is being transformed into a continuing education center with a museum of contemporary art, is being leased for 99 years, under a lease initiated in 2008, and amended in 2017 to include an adjacent building, unless terminated according to the provisions of the lease agreement, with consideration of \$1 per year.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

NOTE 9—LEASE COMMITMENTS (Continued)

The amortization of assets held under capital lease is included with depreciation expense.

	<u>2018</u>	<u>2017</u>
Buildings under capital lease	\$4,870,148	\$4,870,148
Less accumulated depreciation	<u>(284,092)</u>	<u>(40,585)</u>
	<u>\$4,586,056</u>	<u>\$4,829,563</u>

The following is a schedule by years of future minimum payments required under the lease, together with their present value as of May 31, 2018:

2019	\$	660,000
2020		660,000
2021		660,000
2022		660,000
2023		660,000
Thereafter		<u>9,075,000</u>
Total minimum lease payments		12,375,000
Less amount representing interest		<u>(7,582,283)</u>
Present value of minimum lease payments		<u>\$ 4,792,717</u>

Operating Leases

In 2016, the College leased classroom and office facilities for Ringling College Lifelong Learning Academy with an initial term ending October 31, 2017. This lease was expanded and extended to June 30, 2019. The College has also leased various apartments and houses to provide additional housing to students under a master lease with an initial term of August 1, 2017 to July 31, 2018. This lease was extended to July 31, 2019. Storage facilities are also leased under various contracts through 2022. 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, 2018:

2019		\$470,525
2020		75,948
2021		70,180
2022		<u>72,133</u>
TOTAL		<u>\$688,786</u>

Total rental expense on operating leases was approximately \$455,661 and \$334,473 in 2018 and 2017, respectively.

NOTE 10—NOTES PAYABLE

The College entered into agreements to finance \$1,169,667 in insurance costs for policy premiums, loss fund allocations, and administrative costs at a fixed rate of 2.99%. As of May 31, 2018 and 2017, the outstanding balance was \$0 and \$577,678, respectively.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

NOTE 11—SPLIT-INTEREST AGREEMENTS

The present value of contributions receivable from remainder trusts as of May 31, 2018, and 2017, were \$349,158 and \$344,718, respectively.

The College has entered into ten 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 \$1,860,098 at May 31, 2018, 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, 2018, and 2017, was \$1,146,028 and \$1,400,377, respectively.

NOTE 12—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, 2018 AND 2017

NOTE 12—ENDOWMENT (Continued)

Changes in endowment net assets for the year ended May 31, 2018, and 2017 are as follows:

	<u>2018</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ <u>20,146,796</u>	\$ <u>4,364,086</u>	\$ <u>22,977,977</u>	\$ <u>47,488,859</u>
Interest and dividends, net	511,592	681,188	-	1,192,780
Net realized and unrealized gain on investments	1,184,210	1,570,814	-	2,755,024
Principal loss of endowment	(3,583)	-	-	(3,583)
Contributions	-	61,423	4,525,762	4,587,185
Distributions	(918,975)	(937,475)	-	(1,856,450)
Change in donor designation	-	-	(865,075)	(865,075)
Reclassification of appreciation	-	(172,591)	-	(172,591)
Other changes	-	-	<u>3,189</u>	<u>3,189</u>
Change in Net Assets	<u>773,246</u>	<u>1,203,359</u>	<u>3,663,876</u>	<u>5,640,481</u>
 ENDOWMENT NET ASSETS, END OF YEAR	 \$ <u>20,920,040</u>	 \$ <u>5,567,445</u>	 \$ <u>26,641,853</u>	 \$ <u>53,129,338</u>
		<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>18,540,031</u>	\$ <u>2,573,338</u>	\$ <u>20,977,769</u>	\$ <u>42,091,138</u>
Interest and dividends, net	463,080	561,919	-	1,024,999
Net realized and unrealized gain on investments	1,607,346	1,955,849	-	3,563,195
Principal gain of endowment	29,689	-	-	29,689
Contributions	-	46,868	1,991,891	2,038,759
Distributions	(493,350)	(773,888)	-	(1,267,238)
Other changes	-	-	<u>8,317</u>	<u>8,317</u>
Change in Net Assets	<u>1,606,765</u>	<u>1,790,748</u>	<u>2,000,208</u>	<u>5,397,721</u>
 ENDOWMENT NET ASSETS, END OF YEAR	 \$ <u>20,146,796</u>	 \$ <u>4,364,086</u>	 \$ <u>22,977,977</u>	 \$ <u>47,488,859</u>

RINGLING COLLEGE OF ART AND DESIGN  
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MAY 31, 2018 AND 2017

NOTE 12—ENDOWMENT (Continued)

Endowment net asset compositions as of May 31, 2018, and 2017 are as follows:

		<u>2018</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor Designated	\$ -	\$5,567,445	\$26,641,853	\$32,209,298
Board Designated	<u>20,920,040</u>	<u>-</u>	<u>-</u>	<u>20,920,040</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$20,920,040</u></b>	<b><u>\$5,567,445</u></b>	<b><u>\$26,641,853</u></b>	<b><u>\$53,129,338</u></b>

  

		<u>2017</u>		
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor Designated		\$4,364,086	\$22,977,977	\$27,342,063
Board Designated	<u>20,146,796</u>	<u>-</u>	<u>-</u>	<u>20,146,796</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$20,146,796</u></b>	<b><u>\$4,364,086</u></b>	<b><u>\$22,977,977</u></b>	<b><u>\$47,488,859</u></b>

NOTE 13—TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets for the following purposes as of May 31, 2018, and 2017 were:

	<u>2018</u>	<u>2017</u>
Capital	\$ 60,873,027	\$ 55,384,087
Departmental purposes	4,220,082	2,543,550
Time restricted	385,886	372,089
Scholarships	2,418,251	1,446,950
Long-term investment	<u>5,529,722</u>	<u>4,364,086</u>
	<b><u>\$73,426,968</u></b>	<b><u>\$64,110,762</u></b>

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, 2018, and 2017:

	<u>2018</u>	<u>2017</u>
Departmental purposes	\$ 7,543,205	\$ 5,647,907
Institutional	767,771	767,771
Scholarships	<u>18,330,877</u>	<u>16,562,299</u>
	<b><u>\$26,641,853</u></b>	<b><u>\$22,977,977</u></b>

As of May 31, 2018 and 2017, \$349,158 and \$344,718, respectively, represent contributions receivable from remainder trusts included in permanently restricted net assets.

Net assets released from restrictions for the years ended May 31, 2018, and 2017, in the amount of \$5,980,581 and \$7,313,782, respectively, resulted from amortization of restricted gifts to acquire long-lived assets and expiration of donor imposed restrictions.

RINGLING COLLEGE OF ART AND DESIGN  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2018 AND 2017

NOTE 14—OPERATING EXPENSES AND LOSSES BY NATURAL CLASSIFICATION

Operating expenses and losses by natural classification, for the years ended May 31, 2018, and 2017 were:

	<u>2018</u>	<u>2017</u>
Personnel compensation	\$24,319,706	\$22,961,554
Employee benefits	7,443,234	6,271,644
Supplies and equipment	1,940,236	1,958,758
Telephone and other communications	448,253	443,139
Marketing and publications	1,225,521	1,072,592
Professional development/travel	1,766,679	1,473,371
Computers and technology	1,634,575	1,432,165
Contracted services	10,709,435	10,227,193
Student related expenses	609,713	609,070
Other expenses	100,648	113,912
Insurance	1,829,684	1,408,745
Utilities	2,036,018	1,845,450
Taxes	214,482	147,432
Interest and loan fees	3,520,708	2,192,254
Depreciation	10,941,512	10,296,939
Amortization	20,000	20,000
Losses	<u>1,812</u>	<u>90,937</u>
TOTAL OPERATING EXPENSES AND LOSSES	<u>\$68,762,216</u>	<u>\$62,565,155</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.

NOTE 16—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 17—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, 2018, and 2017, was \$789,700 and \$767,958, respectively.



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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).

A summary of financial instruments, measured at fair value in accordance with the measurements described above, as of May 31, 2018, and 2017, is as follows:

<u>Description of investment</u>	<u>5/31/2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$2,600,569	\$2,600,569	\$ -	\$ -
Long-term bond investments	1,602,393	-	1,602,393	-
Remainder trusts	349,158	-	-	349,158
Cash surrender value of life insurance	16,210	-	16,210	-
Mutual funds	<u>51,717,068</u>	<u>51,717,068</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$56,285,398</u>	<u>\$54,317,637</u>	<u>\$1,618,603</u>	<u>\$349,158</u>

<u>Description of investment</u>	<u>5/31/2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 2,434,195	\$2,434,195	\$ -	\$ -
Long-term bond investments	3,615,366	-	3,615,366	-
Remainder trusts	344,718	-	-	344,718
Cash surrender value of life insurance	17,461	-	17,461	-
Common stock	72,000	72,000	-	-
Mutual funds	46,326,302	46,326,302	-	-
Alternative investments <sup>(a)</sup>	<u>122,574</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$52,932,616</u>	<u>\$48,832,497</u>	<u>\$3,632,827</u>	<u>\$344,718</u>

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NOTE 18—FAIR VALUE MEASUREMENTS (Continued)

<u>Description of liability</u>	<u>5/31/2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	<u>\$ 585,460</u>	<u>\$ _____ -</u>	<u>\$585,460</u>	<u>\$ _____ -</u>

(a) In accordance with ASU 2015-07, certain investments that are measured at fair value using the net asset value per share or its equivalent as an expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the amounts presented in the statements of financial position.

The following sets forth the changes in fair value of the College’s Level 3 investments for the years ended May 31, 2018 and 2017:

	<u>Remainder Trusts</u>
Balance as of May 31, 2017	\$344,718
Change in value of split interest agreements	<u>4,440</u>
Balance as of May 31, 2018	<u>\$349,158</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>\$ 4,440</u>
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Balance as of May 31, 2016	\$335,581
Change in value of split interest agreements	<u>9,137</u>
Balance as of May 31, 2017	<u>\$344,718</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>\$ 9,137</u>
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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.

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NOTE 19—LIFELONG LEARNING ACADEMY AND PIERIAN SPRING ACADEMY

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, now Ringling College Lifelong Learning Academy (RCLLA), has been accounted for using the acquisition method. Upon the combination, the College reported a contribution received in the amount of \$114,496 for the identifiable net assets acquired. The contribution is classified as temporarily restricted.

The College entered into an agreement on April 19, 2016 with the Pierian Spring Academy (PSA), an exempt organization created provide lifelong learning programs throughout the greater Sarasota-Manatee region. Under the terms of the agreement, PSA merged into the RCLLA department of the College effective June 1, 2017. The combination of PSA as a department of the College has been accounted for using the acquisition method. Upon the combination, the College reported a contribution received in the amount of \$66,620 for the identifiable net assets acquired. The contribution is classified as temporarily restricted.