

RINGLING COLLEGE OF ART AND DESIGN
FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

RINGLING COLLEGE OF ART AND DESIGN
FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT.....	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3-4
Statements of Activities	5-6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8-28
SINGLE AUDIT	
Schedule of Expenditures of Federal Awards and State Financial Assistance.....	29
Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance.....	30
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-32
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650, <i>Rules of the Auditor General of the State of Florida</i>	33-34
Schedule of Findings and Questioned Costs	35-37



Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Ringling College of Art and Design (the "College") as of May 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the College for the year ended May 31, 2009 were audited by other auditors whose report, dated September 21, 2009, expressed an unqualified opinion on those statements.

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

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Ringling College of Art and Design as of May 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 3, 2010 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Ringling College of Art and Design taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Orlando, Florida
September 3, 2010

RINGLING COLLEGE OF ART AND DESIGN
STATEMENTS OF FINANCIAL POSITION
MAY 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 10,040,913	\$ 5,724,142
Short-term investments	510,057	499,699
Accounts receivable - students	152,739	127,563
Contributions receivable, net of long-term portion	3,965,826	1,277,851
Contributions receivable from remainder trusts	-	286,125
Other receivables	66,285	24,968
Prepaid expenses and other assets	<u>967,209</u>	<u>1,089,648</u>
Total Current Assets	<u>15,703,029</u>	<u>9,029,996</u>
<u>NON-CURRENT ASSETS</u>		
Cash and cash equivalents restricted by donors	6,246,493	7,049,618
Long-term contributions receivable	6,944,960	6,923,150
Contributions receivable from remainder trusts	98,993	148,639
Debt issuance costs, net of amortization	331,417	686,129
Debt Service Reserve Fund	-	1,318,352
Cash reserve for project fund	2,199,531	9,331,754
Investment in property	2,094,320	2,200,000
Other non-current assets	<u>382,061</u>	<u>515,592</u>
Total Non-Current Assets	<u>18,297,775</u>	<u>28,173,234</u>
<u>ENDOWMENT</u>		
Cash and cash equivalents restricted for endowment	446,619	349,600
Contributions receivable restricted for endowment	3,055,074	2,450,520
Contributions receivable from remainder trusts	426,133	14,825
Long-term investments	<u>17,649,401</u>	<u>15,183,739</u>
Total Endowment Assets	<u>21,577,227</u>	<u>17,998,684</u>
<u>PROPERTY AND EQUIPMENT</u>		
at cost less accumulated depreciation	<u>109,052,963</u>	<u>108,666,139</u>
TOTAL ASSETS	<u>\$ 164,630,994</u>	<u>\$ 163,868,053</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,367,015	\$ 6,954,511
Accrued salaries and wages	2,701,802	2,479,363
Other accrued expenses	154,567	193,621
Current portion of long-term debt	1,494,481	1,383,855
Student deposits	489,199	520,490
Deferred revenue	754,943	908,575
Amounts held in custody for others	3,907	1,576
	<hr/>	<hr/>
Total Current Liabilities	6,965,914	12,441,991
	<hr/>	<hr/>
<u>LONG-TERM LIABILITIES</u>		
Long-term debt, net of current portion	69,374,628	72,219,099
Annuity payable	774,901	837,882
Interest rate swap liability	2,880,128	2,170,813
Amounts held in custody for others	60,012	30,012
Total Long-Term Liabilities	73,089,669	75,257,806
	<hr/>	<hr/>
Total Liabilities	80,055,583	87,699,797
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Unrestricted	35,967,750	32,984,261
Temporarily restricted	34,046,667	30,631,869
Permanently restricted	14,560,994	12,552,126
	<hr/>	<hr/>
Total Net Assets	84,575,411	76,168,256
	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 164,630,994</u>	<u>\$ 163,868,053</u>

RINGLING COLLEGE OF ART AND DESIGN
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>Operating revenues, gains and other support:</u>				
Gross tuition and fees	\$ 38,959,320	\$ -	\$ -	\$ 38,959,320
Less: Scholarship allowance	<u>(3,317,812)</u>	-	-	<u>(3,317,812)</u>
Net tuition and fees	35,641,508	-	-	35,641,508
Grants and contracts	508,102	-	-	508,102
Gifts and grants	771,993	7,261,919	-	8,033,912
Sales and services of continuing education	762,117	-	-	762,117
Sales and services of auxiliary enterprises	7,296,466	-	-	7,296,466
Interest income	105,355	-	-	105,355
Net investment appreciation designated for operations	11,850	-	-	11,850
Other revenue	<u>168,887</u>	-	-	<u>168,887</u>
Total operating revenues and gains	45,266,278	7,261,919	-	52,528,197
Net assets released from restrictions	<u>3,802,998</u>	<u>(3,802,998)</u>	-	<u>-</u>
Total operating revenues, gains and other support	<u>49,069,276</u>	<u>3,458,921</u>	-	<u>52,528,197</u>
<u>Operating expenses and losses:</u>				
Education and general:				
Instruction	17,670,797	-	-	17,670,797
Academic support	5,838,860	-	-	5,838,860
Student services	5,084,413	-	-	5,084,413
Scholarships and stipends	80,109	-	-	80,109
Institutional support	<u>9,814,308</u>	-	-	<u>9,814,308</u>
Total education and general	38,488,487	-	-	38,488,487
Auxiliary enterprises	<u>7,652,546</u>	-	-	<u>7,652,546</u>
Total operating expenses and losses	<u>46,141,033</u>	-	-	<u>46,141,033</u>
Increase in net assets from operating activities	2,928,243	3,458,921	-	6,387,164
<u>Nonoperating activities:</u>				
Gifts	-	-	1,901,933	1,901,933
Interest and dividend income	33,218	38,822	7,926	79,966
Net realized and unrealized gain on investments	697,882	16,475	136,929	851,286
Net investment appreciation designated for operations	(11,850)	-	-	(11,850)
Unrealized principal recovery of true endowment	720,422	-	-	720,422
Unrealized loss on interest rate swap	(709,315)	-	-	(709,315)
Change in value of split interest agreements	38,579	(80,672)	7,598	(34,495)
Change in donor designation	23,018	-	(23,018)	-
Net assets released from restrictions	41,248	(18,748)	(22,500)	-
Write-off of loan fees	(502,956)	-	-	(502,956)
Write-off of unrecoverable deposits	-	-	-	-
Write down of capitalized assets	<u>(275,000)</u>	-	-	<u>(275,000)</u>
Increase (decrease) in net assets from nonoperating activities	55,246	(44,123)	2,008,868	2,019,991
Total change in net assets	2,983,489	3,414,798	2,008,868	8,407,155
Net assets at beginning of year	<u>32,984,261</u>	<u>30,631,869</u>	<u>12,552,126</u>	<u>76,168,256</u>
Net assets at end of year	<u>\$ 35,967,750</u>	<u>\$ 34,046,667</u>	<u>\$ 14,560,994</u>	<u>\$ 84,575,411</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>Operating revenues, gains and other support:</u>				
Gross tuition and fees	\$ 33,715,724	\$ -	\$ -	\$ 33,715,724
Less: Scholarship allowance	(2,252,713)	-	-	(2,252,713)
Net tuition and fees	31,463,011	-	-	31,463,011
Grants and contracts	368,624	-	-	368,624
Gifts and grants	1,276,826	9,126,708	-	10,403,534
Sales and services of continuing education	885,247	-	-	885,247
Sales and services of auxiliary enterprises	5,624,173	-	-	5,624,173
Interest income	139,605	8,416	-	148,021
Net investment appreciation designated for operations	730,625	-	-	730,625
Other revenue	222,086	-	-	222,086
Total operating revenues and gains	40,710,197	9,135,124	-	49,845,321
Net assets released from restrictions	2,837,564	(2,837,564)	-	-
Total operating revenues, gains and other support	43,547,761	6,297,560	-	49,845,321
<u>Operating expenses and losses:</u>				
Education and general:				
Instruction	14,402,032	-	-	14,402,032
Academic support	5,791,411	-	-	5,791,411
Student services	4,619,789	-	-	4,619,789
Scholarships and stipends	-	-	-	-
Institutional support	10,411,859	-	-	10,411,859
Total education and general	35,225,091	-	-	35,225,091
Auxiliary enterprises	5,720,095	-	-	5,720,095
Total operating expenses and losses	40,945,186	-	-	40,945,186
Increase in net assets from operating activities	2,602,575	6,297,560	-	8,900,135
<u>Nonoperating activities:</u>				
Gifts	-	-	1,073,027	1,073,027
Interest and dividend income	196,176	41,593	9,141	246,910
Net realized and unrealized loss on investments	(1,770,378)	(886,005)	(374,409)	(3,030,792)
Net investment appreciation designated for operations	(730,625)	-	-	(730,625)
Unrealized principal loss of true endowment	(972,943)	-	-	(972,943)
Unrealized loss on interest rate swap	(1,724,181)	-	-	(1,724,181)
Change in value of split interest agreements	(119,530)	(54,346)	(2,936)	(176,812)
Change in donor designation	-	-	-	-
Net assets released from restrictions	1,309,380	(1,309,155)	(225)	-
Write-off of loan fees	(641,198)	-	-	(641,198)
Write-off of unrecoverable deposits	(438,572)	-	-	(438,572)
Write down of capitalized assets	(125,000)	-	-	(125,000)
Increase (decrease) in net assets from nonoperating activities	(5,016,871)	(2,207,913)	704,598	(6,520,186)
Total change in net assets	(2,414,296)	4,089,647	704,598	2,379,949
Net assets at beginning of year	35,398,557	26,542,222	11,847,528	73,788,307
Net assets at end of year	\$ 32,984,261	\$ 30,631,869	\$ 12,552,126	\$ 76,168,256

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, 2010 AND 2009

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	<u>2010</u>	<u>2009</u>
Increase in net assets	\$ 8,407,155	\$ 2,379,948
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,285,407	5,708,009
Write-off of loan fees	502,956	641,198
Write-off of unrecoverable deposits	-	438,572
Loss on disposal of equipment	9,226	24,849
In-kind contributions of property and equipment	(758,253)	(376,065)
Realized and unrealized losses on investments	(1,554,872)	4,003,735
Increase in current assets excluding cash and investments	(2,707,566)	(1,235,522)
Increase in long-term contributions receivable	(626,364)	(791,408)
(Increase) decrease in other non-current assets	133,531	(146,445)
Increase (decrease) in current liabilities excluding debt	(5,586,704)	2,818,050
Increase in other long-term liabilities	676,334	1,216,686
Contributions received restricted for - Endowment	(871,933)	(630,990)
Property and equipment	(4,160,114)	(7,039,420)
Net cash provided by operating activities	<u>1,748,803</u>	<u>7,011,197</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceeds from sale of investments	1,617,929	1,950,000
Purchase of investments	(2,433,397)	(1,488,845)
Purchase of property and equipment	(7,880,133)	(42,144,629)
Net cash used by investing activities	<u>(8,695,601)</u>	<u>(41,683,474)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Deposited from (into) accounts restricted for - Endowment	(97,019)	653,633
Long-term purposes	803,125	(2,303,828)
Project Reserve Fund	7,132,223	(9,331,754)
Debt Service Reserve Fund	1,318,352	(2,503)
Contributions received restricted for - Endowment	871,933	630,990
Property and equipment	4,160,114	7,039,421
Debt issuance costs	(191,314)	(410,329)
Proceeds of long-term debt	19,400,000	52,500,000
Principal repayments on debt	(22,133,845)	(9,274,492)
Net cash provided by financing activities	<u>11,263,569</u>	<u>39,501,138</u>
 NET INCREASE IN CASH	4,316,771	4,828,861
 CASH - BEGINNING OF YEAR	<u>5,724,142</u>	<u>895,281</u>
 CASH - END OF YEAR	<u>\$ 10,040,913</u>	<u>\$ 5,724,142</u>
 SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u>\$ 1,992,477</u>	<u>\$ 1,205,398</u>
Non-cash in-kind contributions	<u>\$ 523,970</u>	<u>\$ 376,065</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ringling College of Art and Design's (the College) primary mission is to provide a professional education in the visual arts. Founded in 1931, it is a private, non-profit, independent, four year college offering degrees in computer animation, digital filmmaking, fine arts, game art and design, graphic and interactive communication, illustration, interior design, and photography and digital imaging. The College enrolls approximately 1,300 students from the United States and more than 40 countries worldwide. In May 2007, the College was approved to offer six additional majors in advertising design, business of art and design, motion design, painting, sculpture and printmaking. All new majors were offered in Fall 2008 except motion design, which began Fall 2009. The College also operates two art centers located in Longboat Key and Englewood to promote knowledge, appreciation and education in the visual arts.

Revenues of the College are generated primarily from tuition, fees and other sales and services to its students and contributions from the general public. In October 2008, the City of Sarasota approved the campus master plan which outlined future campus boundaries and permitted growth in areas of the campus. The second phase of the campus master planning process is underway to identify specific infrastructure needs and site plans for buildings needed to support anticipated growth.

Basis of Presentation

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

Operating and Nonoperating Activities

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

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expiration of Donor-Imposed Restrictions

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

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

Cash and Cash Equivalents

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

Accounts Receivable – Students

Accounts receivable - students is presented net of allowance for doubtful accounts of \$142,621 and \$127,846 at May 31, 2010 and 2009, respectively.

Student Deposits

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

Contributions Receivable

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

Contributions In-Kind

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

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

Debt issuance costs are amortized over the lives of the related debt issues. Due to planned cancelation of bond insurance on the Series 2004 Bonds, \$641,198 of unamortized bond insurance was written off and \$160,300 of previous amortization was reversed for the year ended May 31, 2009. Additional unamortized debt issuance costs of \$281,820 were written off and \$135,548 of previous amortization was reversed for the Series 2004 Bonds reissued as Series 2009 Bonds during the year ended May 31, 2010. In addition, during the year ended May 31, 2010, \$221,136 of unamortized debt issuance costs were written off and \$19,229 of previous amortization reversed for the portion of the Series 2008 Bonds which are intended to be refunded into a tax-exempt, bank-qualified loan. Accumulated amortization at May 31, 2010, and 2009, was \$32,992 and \$144,870, respectively.

Investments

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

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

Endowments

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

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund-Raising Expenses

Fund-raising expenses are included in institutional support on the statement of activities. Total fund-raising expenses for the years ended May 31, 2010, and 2009, were \$1,512,867 and \$1,548,691, respectively.

Property and Equipment

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

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

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

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

Interest expense on debt to finance facilities totaled \$1,962,440 and \$1,297,979, respectively, for the years ended May 31, 2010 and 2009. Capitalized interest for the years ended May 31, 2010 and 2009 was \$212,059 and \$990,755, respectively.

Interest Rate Swap Liability

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

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split Interest Agreements

The College is designated as a beneficiary of several irrevocable charitable remainder unitrusts. The terms of these trusts require distribution to the College of the remainder interest on the death of the grantors of the trust. The trusts have independent trustees and are not controlled by the College. The assets of the trusts consist of cash, stocks, bonds, and real estate. The present value of the expected receipt of the remainder interest upon termination of the trust is recognized as a contribution at the time of the creation of the trust. Revaluations of the expected future benefits to be received are recognized in the statement of changes in net assets. A discount rate of five percent (5%) is used in determining present value amounts for contributions received prior to May 31, 2009. Present value calculations for subsequent contributions are based upon risk-free rates for terms based upon actuarially determined mortality rates.

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

Federal Income Tax

A ruling from the U.S. Treasury Department, dated May 19, 1938, states that Ringling School of Art and Design is exempt from Federal income tax under the provisions of 101(6) of the Revenue Act of 1936, which is now 501(c)(3) of the 1986 Code. However, the College's unrelated business income is subject to income tax at corporate rates.

The College's policy is to record a liability for any tax position taken that is beneficial to the College, 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, 2010 and accordingly, no liability has been accrued.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collections

The College's collections include works of art that are maintained in the College's galleries and library and loaned to on-campus departments and local entities. These collections are protected and preserved for public exhibition, education and research. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed periodically.

The collections, which were acquired through purchases and contributions since the College's inception, are not recognized as assets in the Statement of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or in temporarily restricted net assets if the assets used to purchase the items are restricted by donors.

Use of Estimates

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

Reclassifications

Certain reclassifications are reflected in the 2009 presentation to conform to the 2010 presentation.

Subsequent Events

The College has evaluated subsequent events through September 4, 2010, in connection with the preparation of these financial statements, which is the date the financial statements were issued.

NOTE 2—FEDERAL FINANCIAL AID

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

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 3—PROPERTY AND EQUIPMENT

Property and equipment for the years ending May 31, 2010, and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$20,498,495	\$19,865,942
Buildings	89,888,811	50,839,090
Furniture, fixtures and equipment	20,065,540	13,077,517
Library books	2,302,690	2,167,015
Computer equipment	12,376,599	10,839,002
Construction in progress	870,853	41,968,595
Leasehold Improvements	<u>92,416</u>	<u>81,940</u>
Total plant fixed assets	146,095,404	138,839,101
Less accumulated depreciation	<u>(37,042,441)</u>	<u>(30,172,962)</u>
Net property and equipment	<u>\$109,052,963</u>	<u>\$108,666,139</u>

Total depreciation expense for the years ended May 31, 2010, and 2009, was \$8,242,337 and \$5,621,254, respectively. During 2008, construction of a new student residence building and a new academic building commenced. Amounts reflected in construction in progress for the new student residence building as of May 31, 2009 was \$17,240,758 while the amount reflected for the new academic building was \$23,725,381, both of which were completed during the year ended May 31, 2010.

NOTE 4—LONG-TERM DEBT

Long-term debt at May 31, 2010, and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Note payable	\$ 294,109	\$ 302,954
Series 2004 Loan	-	20,800,000
Series 2008 Loan	51,625,000	52,500,000
Series 2009 Loan	<u>18,950,000</u>	<u>-</u>
Total	70,869,109	73,602,954
Less current portion	<u>(1,494,481)</u>	<u>(1,383,855)</u>
Long-term debt	<u>\$69,374,628</u>	<u>\$72,219,099</u>

RINGLING COLLEGE OF ART AND DESIGN
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2010 AND 2009

NOTE 4—LONG-TERM DEBT (Continued)

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

2011	\$ 1,494,481
2012	1,784,628
2013	1,590,000
2014	1,620,000
2015	1,665,000
Thereafter	<u>62,715,000</u>
Total	<u>\$70,869,109</u>

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

All Series Loans consist of borrowings funded by the issuance of Educational Facilities Revenue Bonds through the Higher Educational Facilities Financing Authority (HEFFA) and have been issued under the terms of the Master Trust Indenture dated June 1, 2004 between the master trustee and the College as amended by supplemental master trust indentures. The master trustee has a secured interest in all pledged revenues and a mortgage on the Student Center. Under terms of the loan agreements with HEFFA, the College is responsible for payment of principle 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, 2010 and 2009.

Series 2008 Bonds are variable rate bonds subject to partial mandatory sinking fund redemption each March 1, through March 2038 and are secured by a Letter of Credit issued by SunTrust Bank in the amount of \$53,190,411 (see Note 5). The variable rate was .51% as of May 31, 2010 and the floating interest rate applicable to 50% of the bonds has been effectively fixed at 3.615% (see Note 6). The Series 2008 Bonds continue to be remarketed at a premium to the index as a result of the credit risk associated with SunTrust Bank. The long and short-term ratings on the Bank were downgraded in May 2009, with a long-term rating downgrade in February 2010.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 4—LONG-TERM DEBT (Continued)

Series 2009 Bonds were issued to refund the Series 2004 Bonds. The bonds are subject to partial mandatory sinking fund redemption each March 1, through March 2034. The Bonds were sold to SunTrust Bank under the terms of a Guaranty and Credit Agreement dated December 1, 2009 as a tax-exempt bank-qualified loan. The variable rate as of May 31, 2010 was 1.86% and the floating interest rate applicable to approximately 50% of the bonds has been effectively fixed at 3.963% (see Note 6).

NOTE 5—FAILED REMARKETING OF SERIES 2004 AND 2008 BONDS

As a result of the May 2009 downgrades of SunTrust Bank, the Series 2004 and 2008 bonds were remarketed at a significant premium to the index, SIFMA, initially 1.50%, increasing to 2.75% as of May 31, 2009 as compared to a SIFMA index of .39%. A portion of the Series 2008 Bonds and all of the Series 2004 Bonds experienced failed remarketings and began either bank or pledged bonds status. At May 31, 2009, all \$20,800,000 of the Series 2004 had been tendered to the Trustee and \$24,500,000 of the Series 2008 had been tendered to the Trustee. The Series 2004 Bonds carried a rate of interest equal to the AA commercial paper rate which was .32% as of May 31, 2009. The Series 2008 Bonds carried a rate of interest equal to prime plus 2% or 5.25% as of May 31, 2009.

As of July 1, 2009, all of these tendered bonds were remarketed. However, the remarketed bonds have been priced at varying premiums to the index, which was .29% at May 31, 2010. The College addressed a portion of credit risk exposure by reissuing the Series 2004 Bonds as Series 2009 Bonds placed with SunTrust as a tax-exempt, bank-qualified loan with a variable interest rate using a LIBOR-based calculation. Additionally, the College plans to convert a portion of the Series 2008 Bonds to tax-exempt bank qualified debt.

NOTE 6—INTEREST RATE SWAP AGREEMENTS

On June 16, 2004, the College entered into an \$11,625,000 swap transaction with a termination date of February 19, 2014. Under the terms of the agreement, the College pays a fixed rate of 3.963% to SunTrust Bank on a monthly basis and in return SunTrust Bank pays the College based on the BMA Municipal Swap Index. At May 31, 2010, the swap had a notional amount of \$9,775,000. The difference between interest earned and the interest obligation accrued is recorded as interest expense.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 6—INTEREST RATE SWAP AGREEMENT (Continued)

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 pays a fixed rate of 3.615% to SunTrust Bank on a monthly basis and, in return SunTrust Bank pays the College based on the BMA Municipal Swap Index. At May 31, 2010, the swap had a notional amount of \$26,187,500. The difference between interest earned and the interest obligation accrued is recorded as interest expense.

By using a derivative financial instrument to hedge its exposure to changes in interest rates, the College exposes itself to credit risk and market risk. Credit risk is the failure of the counter party to perform under the terms of the derivative contract. The College minimizes the credit risk in derivative instruments by entering into transactions with high-quality counter parties. Due to SunTrust's ratings downgrade, the College is exposed to the cost of paying for the difference between the variable rate of interest on the remarketed bonds and the reimbursed rate of interest based on the SIFMA index. That differential was .22% at May 31, 2010. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The interest rate swap agreement can be terminated by the counter party only under events of default and termination events, which management believes are unlikely to happen. The estimated fair value of this agreement, based on various factors related to the underlying debt facility and interest rates, represents an unrealized loss of \$2,880,128 as of May 31, 2010.

NOTE 7—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, 2010, and 2009, was \$528,531 and \$559,450, respectively.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 8—INVESTMENTS

Investments, stated at fair value, at May 31, 2010, and 2009, include:

	<u>2010</u>		<u>2009</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
Current assets				
Short-term investment	\$ 510,057	\$ 500,063	\$ 499,699	\$ 499,699
Total current assets	<u>\$ 510,057</u>	<u>\$ 500,063</u>	<u>\$ 499,699</u>	<u>\$ 499,699</u>
Non-current assets				
Investment in property	\$ 2,094,320	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
Total non-current assets	<u>\$ 2,094,320</u>	<u>\$ 2,200,000</u>	<u>\$ 2,200,000</u>	<u>\$ 2,200,000</u>
Endowment and similar assets				
Cash held for investment	\$ 441,181	\$ 441,181	\$ 413,401	\$ 413,401
Cash surrender value of life insurance contracts	42,805	43,937	43,569	43,937
Money market fund	-	-	19,742	19,742
Corporate bonds	786,915	791,567	611,842	590,210
Mutual funds invested in:				
Debt securities	2,611,639	*	2,784,144	*
U.S. equity securities	7,143,888	*	5,024,424	*
Int'l equity securities	4,183,825	*	3,701,366	*
U.S. gov't obligations	130,089	124,109	134,511	124,109
Alternative investments:				
Long Biased	1,011,675	1,000,000	-	-
Hedged equity fund	28,419	25,000	1,269,709	1,250,000
Distressed opport. fund	<u>1,268,965</u>	<u>1,250,000</u>	<u>1,181,031</u>	<u>1,250,000</u>
Total endowment	<u>\$17,649,401</u>	<u>\$17,776,794</u>	<u>\$15,183,739</u>	<u>\$16,294,476</u>

* Cost basis allocation was not available for mutual funds; however, the total cost basis was \$14,101,000 and \$12,603,077 as of May 31, 2010 and 2009, respectively.

The College incurs investment management and investment consulting fees which are reported as a reduction of investment earnings of \$138,763 and \$140,095 for the years ended May 31, 2010, and 2009, respectively.

Investment in property reflects contributions of real estate under gift annuity agreements. One property, valued at \$394,320, is currently offered for sale.

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 8—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, 2010, and 2009:

	<u>2010</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Operating Investment Return				
Interest income	\$105,355	\$ -	\$ -	\$ 105,355
Nonoperating Investment Return				
Interest and dividend income	33,218	38,822	7,926	79,966
Realized gains (losses)	98,801	93,405	18,490	210,696
Unrealized gains (losses)	599,081	(76,930)	118,439	640,590
Unrealized principal gain/(loss) of true endowment	<u>720,422</u>	<u>-</u>	<u>-</u>	<u>720,422</u>
Total Investment Return	<u>1,556,877</u>	<u>55,297</u>	<u>144,855</u>	<u>1,757,029</u>
Investment return designated for current operations	<u>(11,850)</u>	<u>-</u>	<u>-</u>	<u>(11,850)</u>
Investment return – long term	<u>\$1,545,027</u>	<u>\$ 55,297</u>	<u>\$ 144,855</u>	<u>\$1,745,179</u>
	<u>2009</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Investment Return				
Interest income	\$139,605	\$ 8,416	\$ -	\$ 148,021
Nonoperating Investment Return				
Interest and dividend income	196,176	41,593	9,141	246,910
Realized gains (losses)	596	705	154	1,455
Unrealized gains (losses)	(1,770,974)	(886,710)	(374,563)	(3,032,247)
Unrealized principal gain/(loss) of true endowment	<u>(972,943)</u>	<u>-</u>	<u>-</u>	<u>(972,943)</u>
Total Investment Return	<u>(2,407,540)</u>	<u>(835,996)</u>	<u>(365,268)</u>	<u>(3,608,804)</u>
Investment return designated for current operations	<u>(730,625)</u>	<u>-</u>	<u>-</u>	<u>(730,625)</u>
Investment return – long term	<u>\$(3,138,165)</u>	<u>\$(835,996)</u>	<u>\$(365,268)</u>	<u>\$(4,339,429)</u>

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 8—INVESTMENTS (Continued)

Alternative investments consist of hedge fund holdings. The College is obligated to provide notice for redemption 60-100 days prior to a fixed redemption time, depending upon the investment. There are no future funding commitments. The long biased fund is an equity-focused fund of hedge funds averaging between 20% to 70% net long exposure and has an objective to outperform the US equity markets over a full cycle. The hedged equity and distressed opportunity funds are invested with a long-term perspective understanding return is based upon the price paid and forward-looking analysis.

NOTE 9—ENDOWMENT

The College has interpreted the *Florida Uniform Management of Institutional Funds Act of 2003* as requiring the preservation of the fair 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 at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted net assets until those amounts are appropriated for expenditure by the College in accordance with the College's endowment spending policy. Unrestricted net assets also reflect losses to permanently restricted contributions that exceed the fair value of the original and subsequent gifts. Accumulated losses at May 31, 2010, and 2009, were \$263,628 and \$972,943, respectively.

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

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 9—ENDOWMENT (Continued)

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

Changes in endowment net assets for the year ended May 31, 2010 and 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$5,309,752	\$136,806	\$12,552,126	\$17,998,684
Interest and dividends, net	33,110	38,794	7,926	79,830
Net realized and unrealized gain on investments	669,639	121,695	136,929	928,263
Principal loss recovery	720,422	-	-	720,422
Contributions	-	-	1,901,933	1,901,933
Distributions	-	(13,985)	-	(13,985)
Change in donor designation	-	-	(23,018)	(23,018)
Other Changes	-	-	(14,902)	(14,902)
Change in net assets	1,423,171	146,504	2,008,868	3,578,543
Endowment net assets, end of year	<u>\$6,732,923</u>	<u>\$ 283,310</u>	<u>\$14,560,994</u>	<u>\$21,577,227</u>

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 9—ENDOWMENT (Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009 Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$8,424,473	\$1,300,834	\$11,847,528	\$21,572,835
Interest and dividends, net	38,764	41,593	9,141	89,498
Net realized and unrealized loss on investments	(1,770,378)	(1,826,357)	(407,000)	(4,003,735)
Principal loss reallocation	(972,943)	940,352	32,591	-
Contributions	-	-	1,073,027	1,073,027
Distributions	(411,590)	(318,810)	(225)	(730,625)
Other Changes	<u>1,426</u>	<u>(806)</u>	<u>(2,936)</u>	<u>(2,316)</u>
Change in net assets	(3,114,721)	(1,164,028)	704,598	(3,574,151)
Endowment net assets, end of year	<u>\$5,309,752</u>	<u>\$ 136,806</u>	<u>\$12,552,126</u>	<u>\$17,998,684</u>

Endowment net asset compositions as of May 31, 2010 and 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010 Permanently Restricted</u>	<u>Total</u>
Donor Designated	\$ -	\$ 283,310	\$14,560,994	\$14,844,304
Board Designated	<u>6,732,923</u>	<u>-</u>	<u>-</u>	<u>6,732,923</u>
Total Endowment Funds	<u>\$6,732,923</u>	<u>\$ 283,310</u>	<u>\$14,560,994</u>	<u>\$21,577,227</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009 Permanently Restricted</u>	<u>Total</u>
Donor Designated	\$ -	\$ 136,806	\$12,552,126	\$12,688,932
Board Designated	<u>5,309,752</u>	<u>-</u>	<u>-</u>	<u>5,309,752</u>
Total Endowment Funds	<u>\$5,309,752</u>	<u>\$ 136,806</u>	<u>\$12,552,126</u>	<u>\$17,998,684</u>

RINGLING COLLEGE OF ART AND DESIGN
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2010 AND 2009

NOTE 10—FUND RAISING ORGANIZATION

An organization known as the Ringling College of Art Library Association raises funds in the name 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 of Art Library Association has approved use of funds raised for other College purposes such as scholarships. The organization has a separate Board of Trustees and is not controlled by the Ringling College of Art and Design.

NOTE 11—CONTRIBUTIONS RECEIVABLE AND CONDITIONAL PROMISES RECEIVED

Contributions receivable, net, are summarized as follows at May 31, 2010, and 2009.

Unconditional promises expected to be collected in:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 4,058,513	\$ 1,420,085
One year to five years	2,828,884	2,368,055
Greater than five years	<u>12,572,417</u>	<u>12,653,945</u>
	19,459,814	16,442,085
Less discounts to net present value	(2,727,185)	(2,775,067)
Less allowance for uncollectible contributions receivable	<u>(2,766,769)</u>	<u>(3,015,497)</u>
	<u>\$ 13,965,860</u>	<u>\$ 10,651,521</u>

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

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

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 12—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 \$250,000 for substantially all depository accounts. As of May 31, 2010, the College had \$16,761,374 in cash and cash equivalents in excess of insured amounts.

NOTE 13—SPLIT-INTEREST AGREEMENTS

Contribution revenue for the year ended May 31, 2010 from irrevocable charitable remainder trusts was \$447,718. The present value of contributions receivable from remainder trusts as of May 31, 2010, and 2009, were \$525,126 and \$449,589, respectively.

The College has entered into three charitable gift annuities in which the donors have contributed property to the College in consideration for the payment of a life annuity. The annuity payment liability as of May 31, 2010 and 2009 was \$774,901 and \$837,882.

NOTE 14—SARASOTA MUSEUM OF ART

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

As of May 31, 2010, fundraising for the project reflected in the financial statements includes \$7,900,212 plus funds held for others of \$60,000. In addition, gifts not reflected in the financial statements because of the conditions under which they were given total \$11,426,521, which includes \$10,911,521 in planned gifts. In the event the project is abandoned, the College will relinquish any artwork and endowment monies it holds to a successor organization after repayment of all monies that the College invested to cover operating expenses of the SMOA division.

RINGLING COLLEGE OF ART AND DESIGN
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2010 AND 2009

NOTE 15—BOARD DESIGNATIONS

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

	<u>2010</u>	<u>2009</u>
Board designated endowment	\$ 6,732,923	\$ 5,309,752
Board designated debt service reserve	<u> -</u>	<u> 186,908</u>
Total Board designated	<u>\$ 6,732,923</u>	<u>\$ 5,496,660</u>

NOTE 16—TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are for the following purposes as of May 31, 2010, and 2009:

	<u>2010</u>	<u>2009</u>
Capital	\$28,678,184	\$26,021,648
Departmental purposes	895,781	714,566
Time restricted	3,362,613	3,568,168
Scholarships	826,779	192,981
Long-term investment	<u> 283,310</u>	<u> 134,506</u>
	<u>\$34,046,667</u>	<u>\$30,631,869</u>

Permanently restricted assets are restricted to investments in perpetuity, the income from which is expendable for the following purposes as of May 31, 2010, and 2009:

	<u>2010</u>	<u>2009</u>
Departmental purposes	\$ 4,075,525	\$ 3,805,419
Institutional	750,711	750,711
Scholarships	<u> 9,734,758</u>	<u> 7,995,996</u>
	<u>\$14,560,994</u>	<u>\$12,552,126</u>

As of May 31, 2010 and 2009, \$426,133 and \$14,825 represents contributions receivable from remainder trusts included in permanently restricted net assets.

Net assets released from restrictions for the years ended May 31, 2010, and 2009, in the amount of \$3,844,246 and \$4,146,944, 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, 2010 AND 2009

NOTE 17—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 18—LEASE COMMITMENTS

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

NOTE 19—EXPENSES BY NATURAL CLASSIFICATION

Expenses by natural classification, for the years ended May 31, 2010, and 2009 were:

	<u>2010</u>	<u>2009</u>
Personnel compensation	\$17,227,168	\$16,479,729
Employee benefits	4,633,567	4,545,501
Supplies and equipment	1,603,597	1,505,420
Telephone and other communications	447,001	532,572
Marketing and publications	996,940	1,251,583
Professional development/travel	1,066,200	951,227
Computers and technology	586,593	417,806
Contracted services	4,831,089	4,282,859
Student related expenses	647,239	529,645
Other expenses	420,306	340,397
Insurance	1,024,028	1,025,175
Utilities	1,729,368	1,562,777
Taxes	103,944	105,711
Interest and loan fees	2,529,361	1,653,341
Depreciation	8,242,337	5,621,254
Amortization	43,070	86,425
Losses	9,225	53,764
Total Expenses	<u>\$46,141,033</u>	<u>\$40,945,186</u>

RINGLING COLLEGE OF ART AND DESIGN
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2010 AND 2009

NOTE 20—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. Fair value for alternative investments included in this category is determined based on the College's proportionate share of the underlying fair value of net assets of distressed asset funds, derived from financial statement information provided by the distressed asset funds.

A summary of financial instruments, measured at fair value in accordance with the fair value measurements described above, as of May 31, 2010 and 2009, is as follows:

<u>Description of investment</u>	<u>5/31/2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	510,057	510,057	\$ -	\$ -
Remainder trusts	525,126	-	-	525,126
Cash surrender value of life insurance	42,805	-	42,805	-
Bonds and mutual funds	14,856,356	14,856,356	-	-
Alternative investments	<u>2,309,059</u>	<u>-</u>	<u>-</u>	<u>2,309,059</u>
Total	<u>\$18,243,403</u>	<u>\$15,366,413</u>	<u>\$ 42,805</u>	<u>\$2,834,185</u>

<u>Description of liability</u>	<u>5/31/2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	\$ 2,880,128	\$ -	\$ 2,880,128	-

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010 AND 2009

NOTE 20—FAIR VALUE MEASUREMENTS (Continued)

<u>Description of investment</u>	<u>5/31/2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term investments	\$ 499,699	\$ 499,699	\$ -	\$ -
Remainder trusts	163,464	-	-	163,464
Cash surrender value of life insurance	43,569	-	43,569	-
Bonds and mutual funds	12,256,287	12,256,287	-	-
Alternative investments	<u>2,450,740</u>	<u>-</u>	<u>-</u>	<u>2,450,740</u>
Total	<u>\$15,413,759</u>	<u>\$12,755,986</u>	<u>\$ 43,569</u>	<u>\$2,614,204</u>

<u>Description of liability</u>	<u>5/31/2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swap liability	\$ 2,170,813	\$ -	\$ 2,170,813	\$ -

The following sets forth the changes in fair value of the College's Level 3 investments for the years ended May 31, 2010 and 2009:

	<u>Remainder Trusts</u>	<u>Alternative Investments</u>
Balance as of June 1, 2009	\$163,464	\$2,450,740
Additions	402,947	
Purchases		1,000,000
Liquidations		(1,392,504)
Distributions		
Change in value of split Interest agreements	(41,285)	
Total gains(losses) included in changes in net assets	<u> </u>	<u>250,823</u>
Balance as of May 31, 2010	<u>\$525,126</u>	<u>\$2,309,059</u>

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

<u>\$(41,285)</u>	<u>\$ 102,634</u>
-------------------	-------------------

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

RINGLING COLLEGE OF ART AND DESIGN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED MAY 31, 2010

	Federal CFDA Number	Federal Grant or Other Federal Identification	Federal Expenditures
U.S. Department of Education			
<i>Student Financial Aid Cluster</i>			
Federal Supplemental Educational Opportunity Grant	84.007	P007A094730	\$ 194,538
Federal Work-Study Program	84.033	P033A094730	128,803
ARRA - Federal Work-Study Program	84.033	POO033A094730	39,078
Federal Pell Grant Program	84.063	P063P093557	1,765,394
Federal Direct Student Loan Program	84.268	P268K103557	27,864
Academic Competitiveness Grants	84.375	P375A093557	<u>72,668</u>
Total Student Financial Aid Cluster			2,228,345
<i>Federal Family Education Loans</i>	84.032		<u>14,542,529</u>
Total U.S. Department of Education			<u>16,770,874</u>
National Endowment for the Arts			
Renna Grant	45.024	741827087	<u>48,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 16,818,874</u></u>
	State CSFA Number	State Grant or Other State Identification	State Expenditures
Florida Department of Education			
Florida Resident Access Grant	48.064		\$ 1,292,166
Florida Private Student Assistance Grant	48.054		222,847
Florida Bright Futures Scholarship Project Children and Spouses of Deceased or Disabled Veterans or Servicemembers (CDDV)	48.059		658,021
Robert C. Byrd Honors Scholarship	48.055		7,938
	84.185		<u>1,500</u>
Total Florida Student Financial Aid Cluster			2,182,472
Florida Division of Cultural Affairs			
Power of Art in Healing--Culture Builds Florida	45.058		19,761
Florida Department of Highway Safety and Motor Vehicles			
Ringling College of Art and Design License Plate Project	76.055		<u>11,910</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u><u>\$ 2,214,143</u></u>

RINGLING COLLEGE OF ART AND DESIGN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED MAY 31, 2010

NOTE 1—BASIS OF PRESENTATION

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

NOTE 2—FEDERAL FAMILY EDUCATION LOAN PROGRAM

During the fiscal year ended May 31, 2010, the College processed the following amounts under the Federal Family Education Loan Program (which includes Stafford Loans, Parents' Loans for Undergraduate Students, and Supplemental Loans for Students):

	CFDA Number	Amount Authorized
Federal Family Education Loans	84.032	\$14,542,529



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

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

We have audited the financial statements of Ringling College of Art and Design (the "College") as of and for the year ended May 31, 2010, and have issued our report thereon dated September 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the College in a separate letter dated September 3, 2010

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

Cheryl Bohart & Holland, L.L.P.

Orlando, Florida
September 3, 2010



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and State Project and on Internal
Control Over Compliance in Accordance With OMB Circular A-133 and
Chapter 10.650, *Rules of the Auditor General* of the State of Florida**

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

Compliance

We have audited the compliance of Ringling College of Art and Design (the "College") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state financial assistance projects for the year ended May 31, 2010. The College's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and each of its major state financial assistance projects for the year ended May 31, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected, on a timely basis.

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

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

Cheng, Bohart & Holland, L.L.P.

Orlando, Florida
September 3, 2010

RINGLING COLLEGE
 Schedule of Findings and Questioned Costs -
 Federal Awards Programs and State Financial Assistance Projects
 Year Ended May 31, 2010

Part I - Summary of Auditors' Results

Financial Statement Section

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes x no

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

Noncompliance material to financial statements noted yes x no

Federal Awards and State Projects Section

Dollar threshold used to determine Type A programs:

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

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

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

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

RINGLING COLLEGE
 Schedule of Findings and Questioned Costs -
 Federal Awards Programs and State Financial Assistance Projects (continued)
 Year Ended May 31, 2010

Part I - Summary of Auditors' Results (continued)

Federal Awards and State Projects Section (continued)

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

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

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

Identification of major federal programs and state projects:

Federal Programs:

CFDA Numbers	Name of Program or Cluster
84.063, 84.375, 84.033, 84.007, 84.268, 84.032	U.S. Department of Education - Student Financial Aid Cluster

State Projects:

CSFA Numbers	Name of Project
48.064, 48.054, 48.059, 48.055	Florida Student Financial Assistance Cluster

RINGLING COLLEGE
Schedule of Findings and Questioned Costs -
Federal Awards Programs and State Financial Assistance Projects (continued)
Year Ended May 31, 2010

Part II - Schedule of Financial Statement Findings

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

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

Part III - Federal Award Findings and Questioned Costs

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

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

Part IV - State Project Findings and Questioned Costs

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

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