



MARYLAND INSTITUTE COLLEGE OF ART

Financial Statements

May 31, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Trustees
Maryland Institute College of Art:

We have audited the accompanying statements of financial position of Maryland Institute College of Art (the College) as of May 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maryland Institute College of Art as of May 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 25, 2008

MARYLAND INSTITUTE COLLEGE OF ART

Statements of Financial Position

May 31, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 5,439,333	7,632,951
Receivables, net:		
Contributions	4,384,765	5,520,573
Student loans and tuition	2,059,016	2,089,620
Other	710,461	179,359
	<u>7,154,242</u>	<u>7,789,552</u>
Prepaid expenses and other assets	2,906,236	3,045,760
Investments	73,020,111	66,918,250
Interest in funds held in trust by others	3,307,285	3,632,315
Deposits with bond trustees	11,725,566	26,252,017
Property and equipment, net	113,904,080	92,062,658
Total assets	<u>\$ 217,456,853</u>	<u>207,333,503</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 9,892,302	11,227,205
Deferred revenue	2,712,450	3,035,553
Refundable advances from U.S. Government	2,116,588	2,107,421
Liabilities under trust agreements	286,370	492,389
Debt	84,060,004	75,119,432
Total liabilities	<u>99,067,714</u>	<u>91,982,000</u>
Net assets:		
Unrestricted	81,463,016	79,982,787
Temporarily restricted	9,759,644	9,016,161
Permanently restricted	27,166,479	26,352,555
Total net assets	<u>118,389,139</u>	<u>115,351,503</u>
Total liabilities and net assets	<u>\$ 217,456,853</u>	<u>207,333,503</u>

See accompanying notes to financial statements.

MARYLAND INSTITUTE COLLEGE OF ART

Statement of Activities

Year ended May 31, 2008

(With Comparative Totals for the Year ended May 31, 2007)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>	
				<u>2008</u>	<u>2007</u>
Revenues, gains, and other support:					
Tuition and fees, net of financial aid of \$16,887,818 in 2008 and \$15,225,924 in 2007	\$ 41,047,679	—	—	41,047,679	38,239,469
Auxiliary enterprises	8,085,244	9,085	—	8,094,329	8,265,923
Contributions for capital and endowment	482,185	1,179,000	607,905	2,269,090	4,020,559
Contributions for operations	639,014	1,592,610	—	2,231,624	2,019,843
Government grants	—	755,883	—	755,883	547,822
State appropriations	2,721,170	3,000,000	—	5,721,170	2,250,002
Net realized and unrealized gains on investments	(234,270)	(228,781)	206,019	(257,032)	7,420,752
Dividends and interest income	1,071,948	1,176,608	—	2,248,556	2,749,828
Other	376,488	55,622	—	432,110	671,109
Net assets released from restrictions	6,796,544	(6,796,544)	—	—	—
Total revenues, gains, and other support	<u>60,986,002</u>	<u>743,483</u>	<u>813,924</u>	<u>62,543,409</u>	<u>66,185,307</u>
Expenses:					
Instruction	22,359,551	—	—	22,359,551	20,112,657
Public service	36,597	—	—	36,597	30,076
Academic support	9,425,204	—	—	9,425,204	8,291,020
Student services	2,426,326	—	—	2,426,326	2,156,934
Institutional support	13,601,278	—	—	13,601,278	10,843,310
Auxiliary enterprises	10,285,118	—	—	10,285,118	9,659,365
Total expenses	<u>58,134,074</u>	<u>—</u>	<u>—</u>	<u>58,134,074</u>	<u>51,093,362</u>
Increase in net assets before loss on debt refunding	2,851,928	743,483	813,924	4,409,335	15,091,945
Expenses associated with debt refunding	1,371,699	—	—	1,371,699	—
Net increase in net assets	1,480,229	743,483	813,924	3,037,636	15,091,945
Net assets at beginning of year	<u>79,982,787</u>	<u>9,016,161</u>	<u>26,352,555</u>	<u>115,351,503</u>	<u>100,259,558</u>
Net assets at end of year	\$ <u>81,463,016</u>	<u>9,759,644</u>	<u>27,166,479</u>	<u>118,389,139</u>	<u>115,351,503</u>

See accompanying notes to financial statements.

MARYLAND INSTITUTE COLLEGE OF ART

Statement of Activities

Year ended May 31, 2007

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Tuition and fees, net of financial aid of \$15,225,924	\$ 38,239,469	—	—	38,239,469
Auxiliary enterprises	8,265,923	—	—	8,265,923
Contributions for capital and endowment	3,660	1,684,390	2,332,509	4,020,559
Contributions for operations	1,128,545	891,298	—	2,019,843
Government grants	—	547,822	—	547,822
State appropriations	2,250,002	—	—	2,250,002
Net realized and unrealized gains on investments	6,923,215	442,626	54,911	7,420,752
Dividends and interest income	1,732,588	1,017,240	—	2,749,828
Other	284,997	386,112	—	671,109
Net assets released from restrictions	4,849,054	(4,849,054)	—	—
Total revenues, gains, and other support	<u>63,677,453</u>	<u>120,434</u>	<u>2,387,420</u>	<u>66,185,307</u>
Expenses:				
Instruction	20,112,657	—	—	20,112,657
Public service	30,076	—	—	30,076
Academic support	8,291,020	—	—	8,291,020
Student services	2,156,934	—	—	2,156,934
Institutional support	10,843,310	—	—	10,843,310
Auxiliary enterprises	9,659,365	—	—	9,659,365
Total expenses	<u>51,093,362</u>	<u>—</u>	<u>—</u>	<u>51,093,362</u>
Net increase in net assets	12,584,091	120,434	2,387,420	15,091,945
Net assets at beginning of year	<u>67,398,696</u>	<u>8,895,727</u>	<u>23,965,135</u>	<u>100,259,558</u>
Net assets at end of year	<u>\$ 79,982,787</u>	<u>9,016,161</u>	<u>26,352,555</u>	<u>115,351,503</u>

See accompanying notes to financial statements.

MARYLAND INSTITUTE COLLEGE OF ART

Statements of Cash Flows

Years ended May 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 3,037,636	15,091,945
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	3,589,759	3,308,864
Non-cash expenses associated with debt refunding	820,845	—
Proceeds from restricted contributions	(2,365,067)	(3,884,691)
Proceeds from state capital grant	(3,000,000)	—
Realized and unrealized investments (gains) losses	463,051	(7,365,841)
Changes in assets and liabilities:		
Receivables	845,875	972,020
Prepaid expenses and other assets	(307,520)	(192,620)
Interest in funds held in trust by others	325,030	(345,457)
Accounts payable and accrued expenses	1,709,163	607,392
Deferred revenue	(323,103)	(331,130)
Liabilities under trust agreements	(206,019)	(54,911)
Other	27,818	27,400
Net cash provided by operating activities	4,617,468	7,832,971
Cash flows from investing activities:		
Purchases of property and equipment	(28,475,247)	(13,958,235)
Purchases of investments	(70,032,229)	(113,777,584)
Proceeds from sales and maturities of investments	63,467,317	112,742,286
Student loan disbursements	(447,200)	(501,463)
Student loan principal payments	236,635	264,242
Decrease in deposits with bond trustees, net	14,526,451	7,509,441
Net cash used by investing activities	(20,724,273)	(7,721,313)
Cash flows from financing activities:		
Increase in refundable advances from U.S. Government, net	9,167	175,926
Debt principal payments	(29,805,000)	(540,000)
Proceeds from bond issuance	38,740,000	—
Debt issue costs	(396,047)	—
Proceeds from restricted contributions	2,365,067	3,884,691
Proceeds from state capital grant	3,000,000	—
Net cash provided by financing activities	13,913,187	3,520,617
Net (decrease) increase in cash and cash equivalents	(2,193,618)	3,632,275
Cash and cash equivalents at beginning of year	7,632,951	4,000,676
Cash and cash equivalents at end of year	\$ 5,439,333	7,632,951
Supplemental disclosure of cash flow information:		
Noncash investing activities:		
Property and equipment purchases included in accounts payable and accrued expenses	\$ 2,468,523	5,512,589

See accompanying notes to financial statements.

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) General

Maryland Institute College of Art (the College) is the oldest private college in the United States of America dedicated to the education of professional artists and the further advancement of art in the community. The College offers undergraduate and graduate degree programs to approximately 1,800 students, primarily at the undergraduate level. The College also provides continuing education programs for working artists and other students who would benefit from professional-level art education. The students come from over forty-seven states and forty-four countries.

(b) Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the College are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the College and/or the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed into service.

Assets and liabilities are presented in the order of liquidity in the statement of financial position except that investments including short-term U.S. Government Securities of \$10,965,309 and \$11,036,083 as of May 31, 2008 and 2007, respectively are available for operations.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Significant items subject to such estimates and judgments include valuation allowances for receivables; actuarial assumptions related to annuities; and the fair values of investments. Actual results could differ from those estimates.

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

(d) Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with maturities at dates of purchase of three months or less, except that any such investments purchased with funds on deposit with bond trustees or held by endowment investment managers are classified with those applicable assets. Cash restricted for purpose as of May 31, 2008 and 2007 totaled \$53,233 and \$615,890, respectively.

(e) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year are discounted using an appropriate rate for the expected period of collection. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for estimated uncollectible contributions based on management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

(f) Investments

Investments in fixed income and marketable equity securities with readily determinable fair values are recorded at fair value based upon quoted market prices. Private equity and limited partnership interests, which include venture capital and hedge funds, are valued based on amounts estimated by the investment managers. These estimated fair values, which are reviewed and evaluated by the College, may differ from values that would have been used had a ready market existed for these investments and the differences could be significant. Net realized and unrealized gains and losses on investments are reflected in the statement of activities. Investment transactions are accounted for on a trade date basis.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Investments of endowment and similar funds are maintained in a pool under a trust agreement with a bank. The investment pool is unitized on a market value basis with individual funds subscribing to or disposing of units on the basis of the market value per unit. The income from the investment pool is proportionately allocated to the purposes designated by the donors of the individual funds.

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

(g) *Interest in Funds Held in Trust by Others*

The College's interest in funds held in trust by others consists primarily of irrevocable perpetual trusts held and administered by others. At the dates the trusts are established, the fair values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues. The contributions are classified as permanently restricted. Distributions from the trusts are recognized as investment income and used in accordance with donor-imposed stipulations. The carrying values of the assets are adjusted for changes in the estimates of future cash receipts. The adjustments are recognized as permanently restricted gains or losses.

(h) *Deposits with Bond Trustees*

Deposits with bond trustees consist of debt service funds and the unexpended proceeds of certain debt. These funds are invested primarily in short-term, highly liquid securities and will be used for construction of certain facilities or payment of debt service on related bonds.

(i) *Property and Equipment*

Property and equipment are stated at cost, if purchased, or at fair market value at date of gift, if donated. Additions or improvements that extend the useful life of existing facilities are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of 40 years for buildings and improvements, 20 years for library books, seven years for equipment, and three years for technology assets. Repairs and maintenance costs are expensed as incurred.

(j) *Split Interest Agreements*

The College is trustee of certain assets under split-interest agreements which provide for payments to the donors or their beneficiaries of income earned on related investments or specified annuity amounts. Assets held under these agreements are included in investments. Contribution revenues are recognized at the dates of the agreements after providing for the present value of estimated future payments to be made to the donors and/or their beneficiaries. The liabilities are adjusted during the terms of the agreements for accretion of the discount, payments made, and other changes in estimates of future benefits.

(k) *Tuition and fees*

Student tuition and fees are recorded as revenues during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by the college for tuition and educational fees is reflected as a reduction of tuition and educational fees. Student aid does not include payments made to students for services rendered to the college.

(l) *Functional Expenses*

Costs related to the operation and maintenance of physical plant, including depreciation and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

facilities. Total fundraising expenses were approximately \$2,151,000 and \$1,932,000 for 2008 and 2007, respectively.

(m) *Financial Instruments*

The fair values of investments are generally determined based on quoted market prices or estimated fair values provided by external investment managers or other sources. The fair value of indebtedness is provided in note 5 and is determined based on quoted market prices from a pricing service. The book value of all other financial instruments approximates fair value due to the short-term maturities of the instruments.

(n) *Federal Student Financial Aid Programs*

Funds provided by the United States Government under the Federal Perkins Loan Program (Perkins) are loaned to qualified students and may be reloaned after collection. All student loans outstanding at May 31, 2008 and 2007 were Perkins loans. Such funds are ultimately refundable to the government and are reported as a liability. Federal student financial aid programs (including Perkins or guaranteed loan programs, grant and work-study programs) funded approximately 24% and 29% of tuition and room and board revenues in 2008 and 2007, respectively.

(o) *Income Taxes*

As an educational institution meeting the requirements of Section 501(c)(3) of the Internal Revenue Code, the College is exempt from income taxes on income related to its exempt purpose as provided in Section 501(a), except to the extent it has taxable income from activities that are not related to its exempt purpose. No provision for income taxes was required for 2008 or 2007.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109* (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and financial statement disclosures. FIN 48 was effective for the College on June 1, 2007, and had no significant impact on the College's financial statements.

(p) *Recently Issued Accounting Pronouncement*

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. This statement does not require any new fair value measures. SFAS No. 157 will be effective for the College in fiscal year 2009.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

(FSP No. 117-1). FSP No. 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA). The State of Maryland has not enacted a version of UPMIFA. Should the State of Maryland enact a version of UPMIFA in the future, the College will need to interpret the relevant law and assess the impact of that law on the College's financial statements. Based on the interpretation of the law, FSP No. 117-1 could require reclassification of some portion of donor-restricted endowment funds from unrestricted net assets to temporarily restricted net assets until appropriated for expenditure. The FSP also requires additional disclosures about endowments for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The disclosure provisions of FSP No. 117-1 are effective for the College for fiscal 2009.

(2) Receivables

Contributions receivable, net, are summarized as follows as of May 31, 2008 and 2007:

	2008	2007
Contributions expected to be collected in:		
Less than one year	\$ 1,459,404	2,064,312
One year to five years	3,212,361	4,006,261
	4,671,765	6,070,573
Less unamortized discount (interest of 4.8%)	287,000	550,000
	\$ 4,384,765	5,520,573

As of May 31, 2008 and 2007, approximately 62% and 53%, respectively, of the gross contributions receivable was due from four donors. For 2008 and 2007, approximately 34% and 52% of contribution revenues were from six donors and four donors, respectively.

As of May 31, 2008 the College has received bequest intentions and certain other conditional promises to give of approximately \$4,000,000. These intentions to give have not been recognized as assets or revenues and will generally be restricted for specific purposes stipulated by the donors. In September 2008, the College received these gifts.

Student loans are net of allowances for doubtful accounts of \$370,000 and \$332,000, as of May 31, 2008 and 2007, respectively. Tuition receivables are net of allowances for doubtful accounts of \$771,612 and \$767,363, as of May 31, 2008 and 2007, respectively.

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

(3) Investments

Investments are summarized as follows as of May 31, 2008 and 2007:

	2008		
	Endowment and similar funds	Other funds	Total
Money markets	\$ 12,969,446	—	12,969,446
U.S. Government securities	—	10,965,309	10,965,309
Common and preferred stocks	13,567,423	—	13,567,423
Equity mutual and other funds	21,097,589	—	21,097,589
Fixed income mutual funds	1,244,491	—	1,244,491
Private equity and limited partnership interests	13,175,853	—	13,175,853
	\$ 62,054,802	10,965,309	73,020,111
	2007		
	Endowment and similar funds	Other funds	Total
Money markets	\$ 8,108,694	—	8,108,694
U.S. Government securities	1,498,125	11,036,083	12,534,208
Common and preferred stocks	12,174,187	—	12,174,187
Equity mutual and other funds	24,897,424	—	24,897,424
Fixed income mutual funds	947,532	—	947,532
Private equity and limited partnership interests	8,256,205	—	8,256,205
	\$ 55,882,167	11,036,083	66,918,250

Investments are professionally managed by outside investment management organizations, subject to direction and oversight by a committee of the Board of Trustees. The Board has established investment policies and guidelines which cover asset allocation and performance objectives and impose various restrictions and limitations on the managers. These restrictions and limitations are specific to each asset classification and cover concentrations of credit risk, credit quality of fixed-income and short-term investments and various other matters.

As of May 31, 2008, commitments to fund investments in private equity and limited partnership interests were \$4,500,000.

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

(4) Property and Equipment

Property and equipment is summarized as follows as of May 31, 2008 and 2007:

	2008	2007
Buildings and improvements	\$ 92,164,089	87,669,524
Equipment and vehicles	13,690,726	12,207,624
Land	2,837,723	2,837,723
Library books and art work	651,934	651,934
Construction in progress	35,892,612	16,339,098
	145,237,084	119,705,903
Less accumulated depreciation	31,333,004	27,643,245
	\$ 113,904,080	92,062,658

Construction in progress includes costs capitalized for the construction of a new dormitory.

(5) Debt

Debt includes loans issued through Maryland Health and Higher Educational Facilities Authority (MHHEFA) and is summarized as follows as of May 31, 2008 and 2007:

	2008	2007
Series 2007 Revenue Bonds, 5.13%, principal payable annually beginning June 1, 2008 in varying amounts, maturing June 1, 2042	\$ 38,740,000	—
Series 2006 Revenue Bonds, 5%, principal payable annually beginning June 1, 2024 in varying amounts, maturing June 1, 2040	30,740,000	30,740,000
Pooled Loan Program Note, variable rate, principal payable semi-annually beginning July 1, 2004 in varying amounts, maturing July 1, 2023. (3.75% 2007)	—	4,420,000
Series 2001 Revenue Bonds, 5.5%, principal payable annually beginning May 31, 2017 in varying amounts, maturing May 31, 2036	—	25,000,000
Series 1998 Revenue Bonds, 5.4%, principal payable annually beginning June 1, 2000 in varying amounts, maturing June 1, 2029	15,275,000	15,660,000
	84,755,000	75,820,000
Unamortized discount on bonds payable	(694,996)	(700,568)
	\$ 84,060,004	75,119,432

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

The MHHEFA Pooled Loan Program note is secured by a letter of credit issued by a commercial bank.

On June 27, 2007, MHHEFA issued tax-exempt bonds of \$38,740,000 (Series 2007 Revenue Bonds) on behalf of the College. A portion of the proceeds were used to advance refund the Series 2001 Revenue Bonds and the Pooled Loan Program Note. These funds were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the advanced refunded Series 2001 Revenue Bonds. In conjunction with the creation of the trust, MHHEFA released the College from its obligation relating to the refunded Series 2001 Revenue Bonds. Accordingly, the trusted assets and the refunded Series 2001 Revenue Bonds are not reflected in the accompanying 2008 balance sheet. As a result of this refunding, the College recognized a charge for approximately \$1,372,000 in fiscal 2008, which reflects the excess of escrowed funds over the carrying value of the refunded debt, as well as the write-off of unamortized bond issuance costs and original issue discount associated with the Series 2001 Revenue Bonds. The remaining proceeds were used to finance construction and renovations of facilities.

During 2008 and 2007, interest paid was approximately \$2,636,000 and \$2,437,000, respectively. Interest of \$1,767,575 and \$1,725,738 was capitalized in 2008 and 2007, respectively, and income earned from investments of the unexpended proceeds of the Series 2006 Revenue Bonds of \$822,988 and \$1,273,867 was applied to reduce the cost of the related asset in 2008 and 2007, respectively.

As of May 31, 2008, the estimated fair value of the College's bonds, determined based on quoted market prices, is approximately \$84,074,000. Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of judgment. The College is not required to settle its debt obligations at fair value and settlement is not possible in most cases because of the terms under which the debt was issued and legal limitations on refunding tax-exempt debt.

Principal debt payments, after the subsequent financing described above, are due as follows for the next five fiscal years:

2009	\$	555,000
2010		805,000
2011		840,000
2012		875,000
2013		915,000
2014 and thereafter		<u>80,765,000</u>
	\$	<u><u>84,755,000</u></u>

The College also maintains a \$3,000,000 line of credit with a bank to support short-term borrowing needs. The line bears interest at LIBOR plus 1.75% points. The line of credit was unused as of May 31, 2008 and 2007. The College has outstanding letters of credit of \$317,924 as of May 31, 2008.

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

(6) Net Assets

Unrestricted net assets consisted of the following board designated funds as of May 31, 2008 and 2007:

	2008	2007
Property and equipment	\$ 38,887,820	39,772,872
Funds functioning as endowment funds	35,639,902	37,502,178
Other operations	6,935,294	2,707,737
	\$ 81,463,016	79,982,787

Temporarily restricted net assets consist of the following as of May 31, 2008 and 2007:

	2008	2007
Contributions for facilities	\$ 6,217,855	5,455,399
Other contributions	2,468,679	2,163,187
Annuity and life income funds	1,073,110	1,397,575
	\$ 9,759,644	9,016,161

Permanently restricted net assets consist of endowment funds of \$27,166,479 and \$26,352,555 as of May 31, 2008 and 2007, respectively.

(7) Functional Expenses

Functional expenses, including allocations of operation and maintenance of physical plant, depreciation and interest, are summarized as follows for the years ended May 31, 2008 and 2007:

	Direct expense	Operation and maintenance of physical plant	Depreciation	Functional expense
2008:				
Instruction	\$ 16,699,501	3,732,190	1,927,860	22,359,551
Public service	36,597	—	—	36,597
Academic support	8,415,075	668,491	341,638	9,425,204
Student services	2,271,835	102,240	52,251	2,426,326
Institutional support	12,247,069	896,199	458,010	13,601,278
Auxiliary enterprises	6,834,657	2,640,461	810,000	10,285,118
Operation and maintenance of physical plant	8,039,581	(8,039,581)	—	—
Depreciation	3,589,759	—	(3,589,759)	—
	\$ 58,134,074	—	—	58,134,074

MARYLAND INSTITUTE COLLEGE OF ART

Notes to Financial Statements

May 31, 2008 and 2007

	<u>Direct expense</u>	<u>Operation and maintenance of physical plant</u>	<u>Depreciation</u>	<u>Functional expense</u>
2007:				
Instruction	\$ 15,208,385	3,169,728	1,734,545	20,112,657
Public service	30,076	—	—	30,076
Academic support	7,427,414	560,508	303,098	8,291,020
Student services	2,025,158	85,526	46,249	2,156,934
Institutional support	9,660,947	767,391	414,972	10,843,310
Auxiliary enterprises	6,664,786	2,184,579	810,000	9,659,365
Operation and maintenance of physical plant	6,767,732	(6,767,732)	—	—
Depreciation	3,308,864	—	(3,308,864)	—
	<u>\$ 51,093,362</u>	<u>—</u>	<u>—</u>	<u>51,093,362</u>

(8) Retirement Plan

Retirement benefits are provided to faculty and other employees under a defined contribution plan. All participants have a fully vested interest in the contributions made to their accounts, and the College has no liabilities under the plan other than its annual contribution (approximately \$1,377,000 and \$812,000 in 2008 and 2007, respectively), which is calculated as a percentage of employees' salaries.

(9) Commitments and Contingencies

Amounts received and expended by the College under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the College.

The College is occasionally a party to various litigation and other claims in the ordinary course of business. In the opinion of management, appropriate provision has been made for possible losses, where applicable, and the ultimate resolution of these matters will not have a significant effect on the financial position of the College.