New Issue—Book Entry Only

Ratings
Moody's: "Baa2" (positive outlook)
Fitch: "BBB" (stable outlook)
(See "MISCELLANEOUS—Ratings" herein)

In the opinion of Bond Counsel, under existing law, interest on the Series 2014 Bonds (i) is excluded from gross income for federal income tax purposes, (ii) is not an enumerated "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) is exempt from State of Georgia income taxation, subject to the exceptions, conditions, and limitations described herein. For further details, see "TAX EXEMPTION AND OTHER TAX MATTERS."

$180,970,000
PRIVATE COLLEGES AND UNIVERSITIES AUTHORITY
Revenue Bonds
(The Savannah College of Art and Design Projects)
Series 2014

SCAD

Dated: Date of Initial Issuance and Delivery **Due: April 1, as shown on inside cover**

The Private Colleges and Universities Authority Revenue Bonds (The Savannah College of Art and Design Projects) Series 2014 (the "Series 2014 Bonds") bear interest at the rates, mature on the dates and in the amounts, and are initially offered at the prices, set forth on the inside cover. Purchases of the Series 2014 Bonds will be made in book-entry only form, and individual purchasers will not receive physical delivery of Series 2014 Bond certificates. When issued, the Series 2014 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the Series 2014 Bonds, principal and interest payments on the Series 2014 Bonds will be made to Cede & Co., which will in turn remit such payments to DTC's direct participants for subsequent disbursement to the beneficial owners of the Series 2014 Bonds. Individual purchases of the Series 2014 Bonds will be made in book-entry form only, in authorized denominations of $5,000 and integral multiples of $5,000. So long as Cede & Co. is the registered owner of the Series 2014 Bonds, references herein to the registered owners of the Series 2014 Bonds are references to Cede & Co. and do not mean the beneficial owners of the Series 2014 Bonds.

Interest on the Series 2014 Bonds is payable on each April 1 and October 1, commencing April 1, 2015. The Series 2014 Bonds are subject to optional and extraordinary optional redemption as more fully described herein.

The Series 2014 Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 2014, as supplemented by the First Supplemental Trust Indenture dated as of October 1, 2014 (as supplemented, the "Indenture"), each between the Private Colleges and Universities Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee"). The proceeds of the sale of the Series 2014 Bonds will be loaned to The Savannah College of Art and Design, Inc., a Georgia nonprofit corporation ("SCAD"), pursuant to a Loan Agreement dated as of October 1, 2014, as supplemented by the First Supplemental Loan Agreement dated as of October 1, 2014 (as supplemented, the "Loan Agreement"), each between the Authority and SCAD, to be used, together with other funds, to (i) finance, refinance or reimburse all or a portion of the cost of the acquisition, construction, renovation and equipping of its main campus building located in Atlanta, Georgia, certain student housing facilities located or to be located in Savannah, Georgia and related amenities and (ii) pay all or a portion of the costs of issuing the Series 2014 Bonds. See "PLAN OF FINANCE."

THE SERIES 2014 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM AND SECURED SOLELY BY FUNDS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE HEREIN DESCRIBED INCLUDING MONEYS AND REVENUES PAYABLE UNDER THE LOAN AGREEMENT. THE SERIES 2014 BONDS AND THE INTEREST THEREON WILL NEVER CONSTITUTE AN INDEBTEDNESS OF THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION WITHIN THE MEANING OF ANY CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND WILL NEVER CONSTITUTE OR GIVE RISE TO PECUNIARY LIABILITY OF THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION THEREOF NOR WILL ANY SERIES 2014 BOND OR INTEREST THEREON BE A CHARGE AGAINST THE GENERAL CREDIT AND TAXING POWER OF THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2014 BONDS, OR OTHER COSTS INCIDENTAL THERETO. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains limited information for quick reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2014 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale, or to withdrawal or modification of the offer without notice, and subject to the approving opinion of McKenna Long & Aldridge LLP, Bond Counsel. Certain legal matters will be passed upon for SCAD by Chapman and Cutler LLP, and for the Authority by Alston & Bird LLP. Certain legal matters will be passed upon for the Underwriter by Murray Barnes Finister LLP. The Series 2014 Bonds are expected to be delivered on or about October 1, 2014.

WELLS FARGO SECURITIES

Dated: September 18, 2014

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NOS.

$83,300,000 Serial Bonds

April 1 of the Year	Principal Amount	Interest Rate	Yield	CUSIP No.
2015	$1,000,000	5.000%	0.440%	74265LA81
2016	2,930,000	5.000	0.740	74265LA99
2017	3,075,000	5.000	1.090	74265LB23
2018	3,230,000	5.000	1.490	74265LB31
2019	3,390,000	5.000	1.890	74265LB49
2020	3,560,000	5.000	2.300	74265LB56
2021	3,735,000	5.000	2.670	74265LB64
2022	3,925,000	5.000	2.960	74265LB72
2023	4,120,000	5.000	3.230	74265LB80
2024	4,325,000	5.000	3.360	74265LB98
2025	4,540,000	5.000	3.480[c]	74265LC22
2026	4,770,000	5.000	3.580[c]	74265LC30
2027	5,005,000	5.000	3.670[c]	74265LC48
2028	5,260,000	5.000	3.760[c]	74265LC55
2029	5,520,000	5.000	3.820[c]	74265LC63
2030	5,795,000	5.000	3.870[c]	74265LC71
2031	6,085,000	5.000	3.930[c]	74265LC89
2032	6,390,000	4.000	4.100	74265LC97
2033	6,645,000	5.000	4.000[c]	74265LD21

$14,245,000 4.125% Term Bond Maturing April 1, 2035, Priced to Yield 4.200%[c], CUSIP No. 74265LD39
$83,425,000 5.000% Term Bond Maturing April 1, 2044, Priced to Yield 4.200%[c], CUSIP No. 74265LD47

[c] Yield calculated to April 1, 2024 call date.

No dealer, broker or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Series 2014 Bonds offered hereby, nor will there be any offer or solicitation of such offer or sale of the Series 2014 Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. Neither the delivery of this Official Statement nor the sale of any of the Series 2014 Bonds implies that the information herein is correct as of any time subsequent to the date hereof.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget," or other similar words. These forward-looking statements include, but are not limited to, the statements in this Official Statement under the captions "PLAN OF FINANCE" and "CERTAIN BONDHOLDERS' RISKS," the information under the captions "LOCATIONS," "HOUSING," "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE," "OTHER FINANCIAL MATTERS" and "MISCELLANEOUS" in Appendix A, and the information in Appendix E. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Neither the Authority nor SCAD plans to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based, occur.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Securities and Exchange Commission Rule 15c2-12.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Series 2014 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The CUSIP numbers are included in this Official Statement for the convenience of the holders and potential holders of the Series 2014 Bonds. No assurance can be given that the CUSIP numbers for a particular maturity of Series 2014 Bonds will remain the same after the date of issuance and delivery of the Series 2014 Bonds. None of the Authority, the Bond Registrar, SCAD or the Underwriter assumes any responsibility for the accuracy of such numbers.

Information in this Official Statement concerning DTC and the book entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority, the Underwriter, the Trustee or SCAD.

No registration statement relating to the Series 2014 Bonds has been filed with the Securities and Exchange Commission (the "SEC") or with any state securities agency. The Series 2014 Bonds have not been approved or disapproved by the SEC or any state securities agency, nor has the SEC or any state securities agency passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.


The Savannah College
of Art and Design

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INTRODUCTION

General

This Official Statement, including the cover page, the inside cover page and appendices, sets forth certain information concerning the Private Colleges and Universities Authority (the "Authority"), The Savannah College of Art and Design, Inc. ("SCAD") and the Authority's proposed Revenue Bonds (The Savannah College of Art and Design Projects) Series 2014, in the aggregate principal amount of $180,970,000 (the "Series 2014 Bonds"). The descriptions and summaries of the various legal documents described in this Official Statement do not purport to be comprehensive or definitive. Reference is made to each such legal document for the complete details of its terms and conditions.

This Introduction is not a summary of this Official Statement and is intended only for quick reference. It is only a brief description of and guide to, and is qualified in its entirety by reference to, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover page and the Appendices, and the documents summarized or described herein. Investors should fully review the entire Official Statement. The offering of the Series 2014 Bonds to potential investors is made only by means of the entire Official Statement, including the Appendices hereto. No person is authorized to detach this Introduction from the Official Statement or otherwise to use it without the entire Official Statement.

Purpose of the Series 2014 Bonds

The proceeds from the sale of the Series 2014 Bonds will be loaned by the Authority to SCAD to be used, together with other funds, to (i) finance, refinance or reimburse all or a portion of the cost of the acquisition, construction, renovation and equipping of its main campus building located in Atlanta, Georgia, certain student housing facilities located or to be located in Savannah, Georgia and related amenities and (ii) pay all or a portion of the costs of issuing the Series 2014 Bonds. See "PLAN OF FINANCE."

Security and Sources of Payment for the Series 2014 Bonds

The Series 2014 Bonds are being issued pursuant to a Trust Indenture dated as of October 1, 2014, as supplemented by the First Supplemental Trust Indenture dated as of October 1, 2014 (as supplemented, the "Indenture"), each between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). Pursuant to the Indenture, the Authority will assign and pledge to the Trustee as security for the Series 2014 Bonds and all other obligations issued under the Indenture, the Trust Estate which includes all of its right, title and interest in the Loan Agreement (hereinafter defined), any notes issued by SCAD to evidence its obligations thereunder and the payments due thereunder and under such notes, excluding certain rights to payment of expenses and indemnification, together with certain moneys and securities from time to time held by the Trustee under the terms of the Indenture, subject to the provisions of the Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Indenture. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 2014 BONDS" and "SUMMARY OF THE INDENTURE."

Pursuant to a Loan Agreement dated as of October 1, 2014, as supplemented by the First Supplemental Loan Agreement dated as of October 1, 2014 (as supplemented, the "Loan Agreement"), each between the Authority and SCAD, the Authority will loan the proceeds derived from the sale of the Series 2014 Bonds to SCAD to be applied for the purposes described above. SCAD is required under the terms of the Loan Agreement to make payments to the Trustee for the account of the Authority in amounts and at times sufficient to pay the principal of, redemption premium (if any), and interest on the Series 2014 Bonds. **SCAD's obligation to make the payments required by the Loan Agreement is a general unsecured obligation of SCAD. The Series 2014 Bonds are not secured by a mortgage or pledge of any of**

SCAD's assets, properties or revenues. No debt service reserve account has been established for the Series 2014 Bonds. See "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 2014 BONDS" and "SUMMARY OF THE LOAN AGREEMENT."

The Authority may in the future issue Additional Bonds which, if issued, will rank on a parity as to lien on the Trust Estate established by the Indenture with the lien of the Series 2014 Bonds. In connection with any other series of Additional Bonds, SCAD is required to supplement the Loan Agreement to extend the obligation of SCAD under the Loan Agreement to provide for the payment of amounts due on such Additional Bonds. The Series 2014 Bonds and any Additional Bonds hereafter issued are referred to herein as the "Bonds."

Description of the Series 2014 Bonds

Redemption. The Series 2014 Bonds are subject to optional and extraordinary optional redemption prior to maturity. The Series 2014 Bonds subject to optional redemption may be purchased in lieu of redemption. See "THE SERIES 2014 BONDS—Redemption of the Series 2014 Bonds" and "—Purchase in Lieu of Redemption."

Denominations. The Series 2014 Bonds are issued in authorized denominations of $5,000 and any integral multiple thereof ("Authorized Denominations").

Registration; Transfer and Exchange. Ownership of the Series 2014 Bonds will be registered on the registration books of the Authority maintained by U.S. Bank National Association, as bond registrar (the "Bond Registrar" or "Registrar"). The Series 2014 Bonds will initially be issued only as book-entry securities. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2014 Bonds. Ownership of the Series 2014 Bonds may be registered as transferred and exchanged in the manner described under "THE SERIES 2014 BONDS—Registration of Transfer and Exchange" and "DTC AND BOOK ENTRY."

For a more complete description of the Series 2014 Bonds and the basic documentation pursuant to which they are issued, see "THE SERIES 2014 BONDS," "SUMMARY OF THE INDENTURE" and "SUMMARY OF THE LOAN AGREEMENT."

Tax Exemption

In the opinion of Bond Counsel, under existing law, interest on the Series 2014 Bonds (i) is excluded from gross income for federal income tax (including the tax imposed by Chapter 2A of Subtitle A of the Internal Revenue Code of 1986, as amended) purposes, (ii) is not an enumerated "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) is exempt from State of Georgia income taxation, subject to the exceptions, conditions, and limitations described herein. See Appendix C hereto for the form of the opinion Bond Counsel proposes to deliver in connection with the issuance of the Series 2014 Bonds. For a more complete discussion of such opinion and certain other tax consequences of owning the Series 2014 Bonds, including certain exceptions to the exclusion of the interest on the Series 2014 Bonds from gross income, see "TAX EXEMPTION AND OTHER TAX MATTERS."

Trustee, Paying Agent and Bond Registrar

U.S. Bank National Association will act as Trustee, Paying Agent and Bond Registrar for the Series 2014 Bonds. The principal corporate trust office of the Trustee is 1349 West Peachtree Street, Suite 1050, Atlanta, Georgia 30309.

Legal Authority

The Series 2014 Bonds are being issued and secured pursuant to the Private Colleges and Universities Authority Act (O.C.G.A. § 20-3-200 *et seq.*), as amended (the "Act"). The Series 2014 Bonds are issued under and in compliance with the Constitution of the State of Georgia. The Series 2014 Bonds have been authorized pursuant to a resolution of the Authority adopted on August 5, 2014, as supplemented by a resolution to be adopted on or about September 17, 2014 (as supplemented, the "Bond Resolution"). The Loan Agreement is being executed and delivered pursuant to the

Constitution of the State of Georgia, the Act, the Bond Resolution and resolutions adopted by the Board of Trustees of SCAD.

Offering and Delivery of the Series 2014 Bonds

The Series 2014 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to the approval of legality by McKenna Long & Aldridge LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by Alston & Bird LLP, for SCAD by Chapman and Cutler LLP, and for the Underwriter by Murray Barnes Finister LLP. It is expected that the Series 2014 Bonds will be available for delivery on or about October 1, 2014.

Continuing Disclosure

SCAD has undertaken all responsibilities for any continuing disclosure to bondholders as described below, and the Authority will have no obligation to the bondholders or any other person with respect to Securities and Exchange Commission Rule 15c2-12 (the "Rule"). SCAD has covenanted in a Continuing Disclosure Certificate (the "Disclosure Certificate") for the benefit of the holders and beneficial owners of the Series 2014 Bonds to furnish certain financial information and operating data relating to SCAD (the "Annual Report") by not later than 180 days after the end of each fiscal year of SCAD, commencing with fiscal year 2014, to provide certain operating data by not later than October 31 of each calendar year, commencing October 31, 2014, and to provide notices of the occurrence of certain enumerated events within 10 business days of their occurrence (the "Events Notices"). The Annual Report and the operating data will be filed annually by SCAD with the Municipal Securities Rulemaking Board ("MSRB") in an electronic format prescribed by MSRB and presently known as the Electronic Municipal Market Access System ("EMMA"). The Events Notices will be filed by SCAD with the MSRB on EMMA. The specific nature of the information to be contained in the Annual Report, the operating data or the Events Notices, and the consequences of failing to provide such information, is contained in Appendix D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The covenants in the Disclosure Certificate have been made in order to assist the Underwriter in complying with the Rule. In the previous five years, SCAD has had no obligation to provide continuing disclosure pursuant to an undertaking with respect to the Rule.

Bondholders' Risks

There are certain considerations and risks relating to an investment in the Series 2014 Bonds, which are set forth in this Official Statement under the caption "CERTAIN BONDHOLDERS' RISKS" and which should be carefully reviewed by prospective purchasers of the Series 2014 Bonds. See "CERTAIN BONDHOLDERS' RISKS."

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change without notice. All references in this Official Statement to the Indenture and the Loan Agreement are qualified in their entirety by reference to such documents, copies of which are available upon request from, and upon payment of a reasonable copying charge to, the Underwriter at 550 South Tryon Street, Mail Code D1086-271, Charlotte, North Carolina 28202, or from the Trustee. All references to the Series 2014 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture.

SCAD

Certain information with respect to SCAD and its governance, affairs, properties, programs and financial condition is set forth in Appendices A and B to this Official Statement.

THE AUTHORITY

The Authority is a body corporate and politic of the State of Georgia, created under the Act. The Authority has the power under the Act to participate in the financing and refinancing of various facilities for use by private institutions for higher education within the State of Georgia. The Series 2014 Bonds will be limited obligations of the Authority as described under "SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 2014 BONDS." The Authority has no taxing power.

THE SERIES 2014 BONDS

The following is a summary of certain terms of the Series 2014 Bonds. All references to the Series 2014 Bonds are qualified by express reference to the definitive forms thereof and the information with respect thereto included in the Indenture. Capitalized terms used in this section shall have the meanings assigned to them in the Indenture.

Description

The Series 2014 Bonds will bear interest at the rates and mature in the amounts and on the dates shown on the inside cover page. The Series 2014 Bonds will be dated the date of issuance and delivery. Interest on the Series 2014 Bonds will be payable semiannually on April 1 and October 1 of each year, beginning April 1, 2015, through and including the respective maturity dates for the Series 2014 Bonds. Payment of principal and interest on the Series 2014 Bonds will be made by the Trustee directly to Cede & Co., as nominee of DTC, and will subsequently be disbursed to Participants (as herein defined) and thereafter to Beneficial Owners (as herein defined) of the Series 2014 Bonds. See "DTC AND BOOK ENTRY."

Registration of Transfer and Exchange

When in book-entry form, beneficial interests in Series 2014 Bonds held by DTC (or its nominee, Cede & Co.) are transferable in accordance with the procedures of the book-entry system. See "DTC AND BOOK ENTRY." When not in book-entry form, the Series 2014 Bonds may, upon surrender to the Trustee at its principal office as designated in the Indenture, (i) be exchanged if such bonds are surrendered together with an assignment duly executed by the registered owner, or his attorney or legal representative or (ii) be registered as transferred upon the Bond Register if such bonds are duly endorsed for registration of transfer or accompanied by an assignment duly executed by the registered owner, or his attorney or legal representative. Upon surrender to the Registrar, the Authority will execute and the Authenticating Agent will authenticate (in the case of a registration of transfer, in the name of the transferee) new Series 2014 Bonds of the same aggregate principal amount, of any Authorized Denomination and bearing interest at the same rate. Such registrations of transfer or exchanges of the Series 2014 Bonds will be without charge to the holders thereof, but any taxes or other governmental charges required to be paid with respect to the same will be paid by the holder requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege.

Redemption of the Series 2014 Bonds

Optional Redemption. The Series 2014 Bonds maturing on or after April 1, 2025 are subject to optional redemption prior to maturity, at the option of the Authority upon written direction from SCAD, on and after April 1, 2024, in whole or in part at any time at the redemption price equal to 100 percent of the principal amount thereof plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Series 2014 Bonds maturing on April 1, 2035 are subject to mandatory redemption prior to maturity, in part by lot, in such manner as may be designated by the Trustee in its reasonable discretion, reasonably exercised, on the following dates and in the following principal amounts, at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest to the redemption date, but without premium:

Series 2014 Bonds Maturing April 1, 2035

April 1 of the Year	Principal Amount
2034	$6,980,000

(Leaving $7,265,000 to mature April 1, 2035)

The Series 2014 Bonds maturing on April 1, 2044 are subject to mandatory redemption prior to maturity, in part by lot, in such manner as may be designated by the Trustee in its reasonable discretion, reasonably exercised, on the following dates and in the following principal amounts, at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest to the redemption date, but without premium:

Series 2014 Bonds Maturing April 1, 2044

April 1 of the Year	Principal Amount
2036	$ 7,565,000
2037	7,945,000
2038	8,340,000
2039	8,760,000
2040	9,195,000
2041	9,655,000
2042	10,140,000
2043	10,645,000

(Leaving $11,180,000 to mature April 1, 2044)

Extraordinary Optional Redemption of Series 2014 Bonds. The Series 2014 Bonds are subject to extraordinary redemption prior to maturity, at the option of SCAD, in whole or in part at any time, at a redemption price equal to 100 percent of the principal amount thereof, plus accrued interest to the redemption date, upon the occurrence of any of the following events:

(a) All or a substantial portion of the Project is damaged or destroyed by fire or other casualty, or title to or the temporary use of all or a substantial portion of the Project or the facilities of which the Project is a part are condemned or taken for any public or quasi-public use by any authority exercising or threatening the exercise of the power of eminent domain, or title thereto is found to be deficient, to such extent that in the determination of SCAD (i) the Project or such facilities cannot be reasonably restored or replaced to the condition thereof preceding such event, or (ii) SCAD is thereby prevented from carrying on its normal operations with respect to the Project or the facilities of which the Project is a part for a period of 90 days, or (iii) the cost of restoration or replacement thereof would exceed the net proceeds of any casualty insurance, title insurance, condemnation awards or sale under threat of condemnation with respect thereto remaining after deducting all expenses incurred in the collection of such proceeds or award ("Net Proceeds"); or

(b) As a result of any changes in the Constitution of the State or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final direction, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by SCAD in good faith, the Indenture or the Loan Agreement becomes void or unenforceable or impossible of performance.

Selection of Series 2014 Bonds to be Redeemed. Series 2014 Bonds will be redeemed in such denominations so that the Series 2014 Bonds remaining Outstanding will only be in Authorized Denominations. If less than all Series 2014 Bonds are to be redeemed prior to maturity, the particular maturity and interest rate of the Series 2014 Bonds to be redeemed will be specified to the Trustee by SCAD, and the particular Series 2014 Bonds of such maturity and interest rate to be redeemed will be selected by the Trustee by such method as the Trustee, in its sole discretion, will deem fair and appropriate.

The Trustee will call Series 2014 Bonds for redemption and payment as provided in the Indenture upon receipt by the Trustee of a written request of SCAD at least 10 days (unless the Trustee will agree to a lesser number of days) prior to the date on which the Trustee is required to give official notice to the bondowners of such redemption.

Notice and Effect of Call for Redemption. Official notice of any such redemption will be given by the Trustee on behalf of the Authority by mailing a copy of an official redemption notice by first class mail at least 30 days and no more than 60 days prior to the redemption date to each registered owner of the Series 2014 Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Trustee.

All official notices of redemption will be dated and will state: (i) the redemption date; (ii) the redemption price; (iii) if less than all Outstanding Series 2014 Bonds are to be redeemed, the identification number, maturity and the respective principal amounts to be redeemed of the Series 2014 Bonds called for redemption; (iv) that, subject to all conditions to such redemption being satisfied, on the redemption date the redemption price will become due and payable upon each such Series 2014 Bond or portion thereof called for redemption, and that interest thereon will cease to accrue from and after said date; (v) the place where such Series 2014 Bonds are to be surrendered for payment of the redemption price, which place of payment will be the Principal Office of the Trustee for the payment of the Series 2014 Bonds; and (vi) any conditions to such redemption. Notwithstanding the foregoing, upon the written direction of SCAD, the notice of redemption for optional redemption shall contain a statement to the effect that the redemption of the Series 2014 Bonds is conditioned upon the receipt by the Trustee, prior to the date fixed for such redemption, of amounts equal to the redemption price of the Series 2014 Bonds to be redeemed, and that if such moneys shall not have been so received, the notice will be of no force and effect and the Authority shall not be required to redeem such Series 2014 Bonds and such Series 2014 Bonds shall not become due and payable.

Official notice of redemption having been given as aforesaid, and provided that all conditions to such redemption have been met, the Series 2014 Bonds or portions of Series 2014 Bonds to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the Authority will default in the payment of the redemption price) such Series 2014 Bonds or portions of Series 2014 Bonds will cease to bear interest. Upon surrender of such Series 2014 Bonds for redemption in accordance with said notice, such Series 2014 Bonds will be paid by the Trustee at the redemption price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture for payment of interest. Upon surrender for any partial redemption of any Series 2014 Bond, there will be prepared for the registered owner a new Series 2014 Bond or Series 2014 Bonds of the same maturity in the amount of the unpaid principal. All Series 2014 Bonds which have been redeemed will be canceled and destroyed by the Trustee in accordance with the Indenture and will not be reissued. A second notice of redemption will be given within 60 days after the redemption date in the manner required by the Indenture to the bondowners of redeemed Series 2014 Bonds which have not been presented for payment within 30 days after the redemption date, but the failure to give such notice or any defect therein will not affect the validity of the proceedings for the redemption of such Series 2014 Bonds for which official notice of redemption has been given as described above.

In addition to the foregoing notice, the Indenture requires the Trustee to give further notice as described in this paragraph, but no defect in such further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption. Each further notice of redemption will contain the information required above for an official notice of redemption plus (a) the CUSIP numbers of all Series 2014 Bonds being redeemed (provided that the notice may contain the Trustee’s standard disclaimer as to the correctness and use of the CUSIP numbers); (b) the series designation and date of issue of the Series 2014 Bonds as originally issued; (c) the rate of interest borne by each Series 2014 Bond being redeemed; (d) the maturity date of each Series 2014 Bond being redeemed; and (e) any other descriptive information needed to identify accurately the Series 2014 Bonds being redeemed. Each further notice of redemption will be submitted at least 30 days before the redemption date by registered or certified mail, overnight delivery service or facsimile to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Series 2014 Bonds and to one or more national information services that disseminate notices of redemption of obligations such as the Series 2014 Bonds.

Notices to Securities Depository. For so long as the Securities Depository is effecting book-entry transfers of the Series 2014 Bonds, the Trustee will provide the notices of redemption specified in the Indenture only to the Securities Depository. It is the responsibility of the Securities Depository to notify its Participants and through the Participants the beneficial owners of the Series 2014 Bonds of any redemption in accordance with the practices of such Securities Depository. Any failure on the part of the Securities Depository or a Participant, or failure on the part of a nominee of a beneficial owner of a Series 2014 Bond to notify the beneficial owner of the Series 2014 Bond so affected, will not affect the validity of the redemption of such Series 2014 Bond.

Failure to give any notice to any owner, or any defect therein, will not affect the validity of any proceedings for the redemption of any other Series 2014 Bonds as to which proper official notice is given. Any notice mailed will be conclusively presumed to have been duly given and will become effective upon mailing, whether or not any owner receives the notice.

Purchase in Lieu of Redemption

Series 2014 Bonds subject to optional redemption may be purchased in lieu of redemption on the applicable redemption date at a purchase price equal to the redemption price for the Series 2014 Bonds if the Trustee has received a written request from SCAD on or before the Business Day prior to the date the Series 2014 Bonds would otherwise be subject to redemption specifying that moneys provided or to be provided by SCAD shall be used to purchase such Series 2014 Bonds in lieu of redemption on the applicable redemption date. In the event that SCAD shall fail to provide such sufficient moneys to pay the purchase price on the applicable redemption date, the Series 2014 Bonds shall continue to be subject to redemption. No such purchase of the Series 2014 Bonds by SCAD or advance or use of any moneys to effectuate any such purpose shall be deemed to be a payment or redemption of the Series 2014 Bonds or any portions thereof, and such purchase shall not operate to extinguish or discharge the indebtedness evidenced by such Series 2014 Bonds. The Series 2014 Bonds so purchased shall not be remarketed or otherwise sold unless the Trustee has received a Favorable Opinion of Bond Counsel to the effect that such transaction does not adversely affect the exclusion from gross income of interest on the Series 2014 Bonds for federal income tax purposes.

SECURITY FOR AND SOURCES OF PAYMENT OF THE SERIES 2014 BONDS

General

The Series 2014 Bonds and any Additional Bonds are limited obligations of the Authority payable solely from and secured by the Trust Estate, including a pledge of the revenues derived by the Authority from the Loan Agreement and by other funds pledged under the Indenture. The Authority has no taxing power.

Pledge of Loan Agreement

The payment of the principal of and interest on the Series 2014 Bonds and the payment of the principal of, premium (if any) and interest on any Additional Bonds (the Series 2014 Bonds and any Additional Bonds are referred to as the "Bonds") is secured under the Indenture by a pledge to the Trustee for the benefit of the owners of the Bonds of the Trust Estate, which is defined in the Indenture to include (i) all right, title and interest of the Authority in the Loan Agreement, any notes issued by SCAD to evidence its obligations thereunder and the payments due thereunder (except for certain indemnification payments and certain fees and expenses) and under such notes, and (ii) all moneys and securities from time to time held by the Trustee under the terms of the Indenture, subject to the provisions of the Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Indenture.

SCAD's obligation to make the payments required by the Loan Agreement is a general unsecured obligation of SCAD. The Series 2014 Bonds are not secured by a mortgage or pledge of any of SCAD's assets, properties or revenues. No debt service reserve account has been established for the Series 2014 Bonds. The Loan Agreement does not restrict SCAD from issuing other general, unsecured and unsubordinated indebtedness, nor does the Loan Agreement restrict the issuance of secured indebtedness by SCAD. See "SUMMARY OF THE LOAN AGREEMENT."

Additional Bonds

The Indenture permits the Authority, for specified purposes, to issue Additional Bonds without limit. Additional Bonds are equally and ratably secured on a parity with the Series 2014 Bonds (other than with respect to amounts that may be on deposit in a Debt Service Reserve Account). **Any amounts on deposit in a Debt Service Reserve Account for a series of Additional Bonds may not be available to pay the principal of and interest on the Series 2014 Bonds.**

Limited Obligations

NEITHER THE STATE OF GEORGIA NOR ANY POLITICAL SUBDIVISION THEREOF WILL, IN ANY EVENT, BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2014 BONDS, OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER THAT MAY BE UNDERTAKEN BY THE AUTHORITY, AND NONE OF THE SERIES 2014 BONDS OR THE AUTHORITY'S AGREEMENTS OR OBLIGATIONS WILL BE CONSTRUED TO CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. THE SERIES 2014 BONDS DO NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT THEREOF. THE AUTHORITY HAS NO TAXING POWER.

PLAN OF FINANCE

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of the Series 2014 Bond proceeds.

Sources of Funds:	
Principal Amount of the Bonds	$180,970,000
Net Original Issue Premium	13,162,782
Total Sources of Funds	194,132,782
Uses of Funds:	
Project Fund	$190,250,127
Costs of Issuance[(1)]	3,882,655
Total Uses of Funds	$194,132,782

(1) Includes fees and expenses of legal fees, underwriting compensation, rating agency fees, accountant fees, consultant fees and other miscellaneous expenses.

Capital Plan

The issuance of the Series 2014 Bonds is part of an overall capital plan being implemented by SCAD. SCAD's capital plan includes two major components: (1) Debt Restructuring – SCAD intends to repay or redeem certain existing debt obligations and liabilities in order to (a) better match the term of its debt with the economic lives of its assets, (b) reduce exposure to interest rate fluctuations and (c) remove restrictive and conflicting financial covenants related to its current debt. (2) Project – SCAD is acquiring certain leased facilities to improve financial and operational control and also plans to renovate and improve certain facilities, with particular emphasis on its student housing.

SCAD intends to use a portion of Series 2014 Bond proceeds, along with unrestricted cash, to repay or redeem certain existing debt obligations and to pay a termination payment with respect to an interest rate swap. Set forth below is SCAD's existing and pro forma debt profile assuming the issuance of the Series 2014 Bonds and the application of unrestricted cash to certain current outstanding obligations.

	Current Outstanding	Unrestricted Cash Uses	Series 2014 Bond Proceed Uses[1]	Pro Forma Outstanding Debt
		(In Millions)		
Term Loan[2]	$27.0	$(27.0)	$ —	$ —
Term Loan (Montgomery House)[2]	29.1	—	(29.1)	—
Taxable Series 2004 Bonds[3]	41.1	(41.1)	—	—
NMTC Loan – Notes A & B[4]	20.0	—	—	20.0
Equipment Loan (Lucas Theatre)	0.1	—	—	0.1
Assumed Loan (Bradley Hall)[3]	4.9	(4.9)	—	—
Swap Liability[5]	9.6	(9.6)	—	—
Series 2014 Bonds	—	—	—	181.0
Total	$131.8	$(82.6)	$(29.1)	$201.1

(1) See "– The Project" below for the acquisition and redevelopment uses of other Series 2014 Bond proceeds.
(2) Expected to be repaid in full on or prior to the issuance of the Series 2014 Bonds.
(3) Expected to be repaid or redeemed in full on October 1, 2014.
(4) Consisting of New Market Tax Credit Notes of SCAD Museum, LLC, and guaranteed by SCAD, which are payable no later than 150 days after December 29, 2017 if the holder thereof exercises its put option rights to require payment of such notes following the termination of the tax credit period on December 29, 2017. Includes a $14.15 million principal balance Note A with a put option purchase price of par plus accrued interest and an approximately $5.85 million principal balance Note B (which is automatically prepayable by SCAD on behalf of SCAD Museum, LLC, if the holder exercises its put rights with respect to Note A) which has a discounted put option purchase price of $58,500 (1% of the outstanding principal balance of Note B).
(5) Consisting of an estimated market termination payment amount (September 8, 2014 computation date) expected to be paid on or prior to the issuance of the Series 2014 Bonds.

The Project

Set forth below is a description of the Project to be financed, refinanced or reimbursed with proceeds of the Series 2014 Bonds:

Acquire Existing Leased Housing. SCAD previously leased certain student housing at both its Atlanta and Savannah campuses. SCAD is using approximately $32 million of Series 2014 Bond proceeds to reimburse itself for the recent acquisition from its landlord of two Savannah student housing facilities, Barnard Village and Boundary Village. Barnard Village is a three-story building that provides apartment-style living for approximately 290 transfer, graduate and upperclassman students. Boundary Village is also a three-story residence complex that houses approximately 380 transfer, graduate and upperclassman students. Both complexes include vending, meeting and recreational amenities.

Acquire Existing Administration/Academic Building. SCAD will use approximately $42.5 million of Series 2014 Bond proceeds to acquire its main Atlanta campus building, "SCAD Atlanta," which it currently leases. SCAD expects to acquire this building on or about March 2015. The SCAD Atlanta building is located at 1600 Peachtree Street and is the main academic facility for SCAD Atlanta.

Refinance New Housing. In Fall 2013, SCAD opened its newest student housing facility located on its Savannah campus known as "Montgomery House." Montgomery House is home to approximately 500 students. SCAD intends to use approximately $29.1 million of Series 2014 Bond proceeds to refinance the commercial loan and related costs used to finance the construction and equipping of Montgomery House and a related parking structure. Montgomery House is a four-story modern building with suite-style living for transfer, graduate and upperclassman students. Amenities include laundry, vending, study and lounge spaces.

Redevelop Existing Housing. A portion of the proceeds of the Series 2014 Bonds in the approximate amount of $87 million are expected to be used to renovate and improve two student residence facilities, Weston Hall and Dyson Hall, both located on the historic Savannah campus. The renovation of these facilities will increase existing bed count from 766 to 2,037 beds and will add 448 parking spaces to the current count of 589 for a total of 1,037 spaces. The renovation of these facilities will be phased so that there will be no loss of bed count during redevelopment. The first phase is expected to be completed for Fall 2015 occupancy. All phases are expected to be completed prior to Fall 2018.

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ESTIMATED DEBT SERVICE REQUIREMENTS

Set forth in the following table are SCAD's debt service requirements on its outstanding long-term bonds and other long-term indebtedness for each fiscal year through the fiscal year ending 2044. The debt service requirements were computed based on the assumptions described in the footnotes to the table.

Fiscal Year	Existing Debt Service(1)(2)	Series 2014 Debt Service	Total Debt Service Following Issuance of Series 2014 Bonds
2015	$ 762,234	$ 5,429,978.13	$ 6,192,212.13
2016	743,960	11,739,956.26	12,483,916.26
2017	718,375	11,738,456.26	12,456,831.26
2018	20,359,188	11,739,706.26	32,098,894.26
2019	—	11,738,206.26	11,738,206.26
2020	—	11,738,706.26	11,738,706.26
2021	—	11,735,706.26	11,735,706.26
2022	—	11,738,956.26	11,738,956.26
2023	—	11,737,706.26	11,737,706.26
2024	—	11,736,706.26	11,736,706.26
2025	—	11,735,456.26	11,735,456.26
2026	—	11,738,456.26	11,738,456.26
2027	—	11,734,956.26	11,734,956.26
2028	—	11,739,706.26	11,739,706.26
2029	—	11,736,706.26	11,736,706.26
2030	—	11,735,706.26	11,735,706.26
2031	—	11,735,956.26	11,735,956.26
2032	—	11,736,706.26	11,736,706.26
2033	—	11,736,106.26	11,736,106.26
2034	—	11,738,856.26	11,738,856.26
2035	—	11,735,931.26	11,735,931.26
2036	—	11,736,250.00	11,736,250.00
2037	—	11,738,000.00	11,738,000.00
2038	—	11,735,750.00	11,735,750.00
2039	—	11,738,750.00	11,738,750.00
2040	—	11,735,750.00	11,735,750.00
2041	—	11,736,000.00	11,736,000.00
2042	—	11,738,250.00	11,738,250.00
2043	—	11,736,250.00	11,736,250.00
2044	—	11,739,000.00	11,739,000.00
Totals	$22,583,757	$345,812,628.33	$368,396,385.33

(1) Assumes that the indebtedness and swap termination payment described herein under the caption "PLAN OF FINANCE – Capital Plan" will be repaid, redeemed or paid as and when described therein.

(2) Consists of the Lucas Theater Equipment Loan and the New Market Tax Credit Notes of SCAD Museum, LLC described in note 4 in the immediately preceding table. Debt service on the NMTC Notes included above assumes that the NMTC Notes will be called by the lender for purchase within 150 days of December 29, 2017, and assumes that the variable rate (nominally, BBA Daily LIBOR plus 400 basis points) at which Note A bears interest is 5.50% per annum and that Note B bears interest at its stated fixed rate of 2.00% per annum.

SUMMARY OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete and is qualified by express reference to the provisions of the Loan Agreement, copies of which are available upon request. See "INTRODUCTION—Other Information."

Loan Payment Obligation of SCAD

SCAD's obligation to repay the loan is a general obligation of SCAD that is not secured by a pledge of or lien on any specific source of revenues or assets of SCAD. In order to provide for the repayment of the loan, SCAD has agreed and promised to pay to the Authority the following amounts:

(a) on or before each Interest Payment Date, a sum which will equal the interest on each series of the Bonds coming due on such Interest Payment Date;

(b) on or before any maturity date for each series of the Bonds (including any date on which the principal amount of the Bonds is due because such amount is accelerated under the Indenture), a sum which will equal the principal amount of such Bonds due on such date; and

(c) on or before any redemption date for any series of the Bonds, a sum equal to the principal of, and redemption premium (if any) and interest on, the Bonds which are to be redeemed on such date unless the notice of redemption delivered in connection with an optional redemption contains a statement to the effect that the redemption of the Bonds is conditioned upon the receipt by the Trustee, prior to the date fixed for such redemption, of amounts equal to the redemption price of the Bonds to be redeemed, and that if such moneys have not been so received, the notice will be of no force and effect and the Authority will not be required to redeem such Bonds and such Bonds will not become due and payable.

SCAD has agreed to make prompt payment to the Trustee for the account of the Authority of all amounts payable under subparagraphs (a) through (c) above when due; *provided, however*, that if for any reason the amounts paid by SCAD under the Loan Agreement, together with any other amounts available in the Debt Service Fund and a related Debt Service Reserve Account created under the Indenture, are not sufficient to pay the principal of and interest on any series of the Bonds when due, SCAD agrees to pay the amount required to make up such deficiency. The aggregate of the amounts payable by SCAD described in subparagraphs (a) through (c) above is hereinafter referred to as the "Loan Payment."

Other Payment Obligations

SCAD is obligated under the Loan Agreement to pay the fees and expenses of the Trustee and all fees and expenses of the Authority in connection with the transactions contemplated by the Loan Agreement and the Indenture. SCAD is also obligated to indemnify the Authority and the Trustee from any liability, loss, damage, cost, expense (including reasonable attorney's fees, costs and expenses actually incurred), cause of action, suit, claim, demand or judgment arising out of or relating to the Loan Agreement, the Indenture, the Projects or the issuance of the Bonds.

Term of Loan Agreement

The term of the Loan Agreement continues until the principal of and premium (if any) and interest on all of the Bonds and all other amounts required to be paid by SCAD under the Loan Agreement have been paid in full.

Obligations of SCAD Unconditional

So long as any Bonds remain Outstanding, the obligation of SCAD to make the payments required to be made under the Loan Agreement and to perform and observe the other agreements on its part contained in the Loan Agreement will be absolute and unconditional and will not be abated, rebated, set-off, reduced, abrogated, waived, diminished or otherwise modified in any manner or to any extent whatsoever, regardless of any rights of set-off, recoupment or counterclaim that SCAD might otherwise have against the Authority or the Trustee or any other party or parties and regardless of any contingency, act of God, event or cause whatsoever.

Maintenance of Corporate Existence and Assignment

SCAD agrees that during the term of the Loan Agreement, it will maintain its corporate existence and will not dissolve or otherwise dispose of all or substantially all of its assets nor consolidate with or merge into another corporation, unless (i) the resulting entity (if other than SCAD) agrees in writing (which writing must be delivered to the Trustee) to assume the obligations of SCAD in the Loan Agreement and any and all other agreements or instruments executed in connection with the issuance of each series of the Bonds, (ii) if SCAD is not the resulting entity, the Trustee and the Authority are furnished on the effective date of such transaction with an opinion of counsel to the resulting entity satisfactory to the Trustee to the effect that such assumption is a valid and binding obligation of such resulting entity, and that the obligations under the Loan Agreement are enforceable against such resulting entity in accordance with the terms of the Loan Agreement, (iii) the Trustee and the Authority are advised of such merger, consolidation or transfer not later than 60 days before its consummation, and (iv) the Trustee is presented with a Favorable Opinion of Bond Counsel satisfactory to the Trustee stating that the merger, consolidation or transfer will not result in the interest on each series of tax-exempt Bonds becoming includable in gross income for federal income tax purposes. Under certain conditions, SCAD may assign its interest in the Loan Agreement with the consent of the Trustee, which consent will not be unreasonably withheld, but such assignment will not relieve SCAD from primary liability for any of its obligations under the Loan Agreement.

Other Covenants

SCAD has agreed in the Loan Agreement to various other operational and financial covenants and restrictions upon itself, including, but not limited to, maintenance of its properties, maintenance of certain amounts of insurance, compliance with laws, payments of its obligations (subject to permitted contests undertaken in good faith), maintenance of its tax-exempt status and maintenance of the tax-exempt status of the Series 2014 Bonds. The Loan Agreement contains no restrictions on the issuance of additional indebtedness by SCAD, whether secured or unsecured.

Events of Default

The Loan Agreement provides that the occurrence of one or more of the following events will constitute an "Event of Default" thereunder:

(a) failure by SCAD to pay when due any installment of the Loan Payment;

(b) failure to make any payment of the fees and expenses of the Authority or the Trustee as required by the Loan Agreement, which failure continues for a period of 30 days after written notice thereof will have been given to SCAD by the Authority or the Trustee;

(c) failure by SCAD to perform or observe any other of its covenants, conditions or agreements under the Loan Agreement for a period of 60 days after written notice from the Authority or the Trustee, specifying such failure and requesting that it be remedied, unless such period is extended by agreement in writing of the Authority and the Trustee, *provided, however* if the failure stated in the notice can be corrected but not within the applicable period, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such period if corrective action is instituted by SCAD within the applicable period and diligently pursued until the failure is corrected;

(d) certain events of bankruptcy, dissolution, liquidation or reorganization by SCAD;

(e) appointment of a receiver or liquidator of SCAD or of any substantial portion of its property and the order appointing such receiver or liquidator is not vacated within 60 days; or

(f) the occurrence of an event of default under the Indenture.

Remedies

Upon the occurrence and continuance of an Event of Default, the Trustee, as assignee and pledgee of the Authority, (i) by written notice to SCAD, upon the acceleration of any series of the Bonds, declare the Loan Payment relating to such series of Bonds to be immediately due and payable and (ii) may take whatever other action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Loan Agreement, or to enforce the performance and observance of any obligation, agreement or covenant of SCAD under the Loan Agreement. Any declaration of acceleration of the Loan Payment relating to any series of the Bonds will be rescinded upon rescission of any declaration of acceleration of such series of the Bonds. See "SUMMARY OF THE INDENTURE—Defaults and Remedies."

Any amounts collected pursuant to action taken upon the occurrence of an Event of Default will be paid into the Debt Service Fund and applied in accordance with the provisions of the Indenture.

SUMMARY OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be complete and is qualified by express reference to the provisions of the Indenture, copies of which are available upon request. See "INTRODUCTION—Other Information."

Issuance of Bonds; Assignment and Pledge

The amount of Bonds that may be issued by the Authority from time to time under the Indenture is unlimited. Under the terms of the Indenture, all right, title and interest of the Authority in the Loan Agreement, any notes issued by SCAD to evidence its obligations thereunder and the payments received or receivable by the Authority from SCAD under the Loan Agreement (except for certain indemnification payments and certain fees and expenses) and under such notes, all moneys and securities from time to time held by the Trustee under the terms of the Indenture, provided that each Debt Service Reserve Account, if any, will only secure the related series of Bonds, subject to the provisions of the Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Indenture, and any and all other property (real, personal or mixed), transferred, pledged or assigned to the Trustee as security under the Indenture (collectively, the "Trust Estate"), will be assigned and pledged to the Trustee in order to secure the payment of the principal of, premium (if any), purchase price and interest on the Bonds and the performance by the Authority of its obligations under the Indenture. All Bonds, including the Series 2014 Bonds, will be equally and ratably secured by the Indenture and by the pledge of the Trust Estate without preference or distinction by reason of priority in the issuance thereof (provided, however, that each Debt Service Reserve Account created with respect to a series of Bonds will only be available to pay principal of and interest on the series of Bonds to which such account relates).

Creation of Funds

Debt Service Fund. (a) The Indenture provides for the creation of the "Private Colleges and Universities Authority Debt Service Fund – SCAD" into which the Trustee will make deposits and credits, as and when received, as set forth below:

(i) all Loan Payments payable by SCAD to the Authority specified in the Loan Agreement or pursuant to any related note;

(ii) the balance of the Net Proceeds of condemnation awards, sale under threat of condemnation or insurance received by the Trustee pursuant to the Loan Agreement;

(iii) interest earnings and other income on Investment Obligations required to be deposited in the Debt Service Fund pursuant to the Indenture; and

(iv) all other moneys received by the Trustee under the Loan Agreement or any other Bond Document as defined in the Indenture, when accompanied by directions from the Person depositing such moneys that such moneys are to be paid into the Debt Service Fund.

(b) Except as otherwise provided in the Indenture, moneys in the Debt Service Fund will be expended solely as follows: (i) to pay interest on the Bonds as the same becomes due; (ii) to pay principal of the Bonds as the same mature or become due upon mandatory sinking fund redemption; and (iii) to pay principal of and redemption premium, if any, on the Bonds as the same become due upon redemption (other than mandatory sinking fund redemption) prior to maturity.

(c) The Authority has authorized and directed the Trustee to withdraw sufficient funds from the Debt Service Fund to pay principal of and redemption premium, if any, and interest on the Bonds as the same become due and payable at maturity or upon redemption and to make said funds so withdrawn available to the Trustee and any Paying Agent for the purpose of paying said principal, redemption premium, if any, and interest.

(d) Whenever there is on deposit in the Debt Service Fund moneys sufficient to redeem all or a portion of the Bonds Outstanding and to pay interest to accrue thereon prior to such redemption and redemption premium, if any, the Trustee will, upon written request of a Responsible Officer of SCAD, take and cause to be taken the necessary steps to redeem all such Bonds on the next succeeding redemption date for which the required redemption notice may be given or on such later redemption date as may be specified by SCAD. Any moneys in the Debt Service Fund may be used to redeem a part of the Bonds Outstanding, in accordance with the Indenture, so long as SCAD is not in default with respect to any payments under the Loan Agreement and to the extent said moneys are in excess of the amounts required to be on deposit therein pursuant to the Loan Agreement and the amount required for payment of the Bonds theretofore matured or called for redemption and past due interest in all cases when such Bonds have not been presented for payment.

(e) After payment in full of the principal of and redemption premium, if any, and interest on the Bonds (or after provision has been made for the payment thereof as provided in the Indenture), all rebatable arbitrage to the United States and the fees, charges and expenses of the Trustee, any Paying Agent and the Authority, and any other amounts required to be paid under the Indenture and the Loan Agreement, all amounts remaining in the Debt Service Fund will be paid to SCAD upon the expiration or sooner termination of the Loan Agreement.

Redemption Fund. The Indenture provides for the creation of the "Private Colleges and Universities Authority Redemption Fund – SCAD" (the "Redemption Fund"). Moneys in the Redemption Fund will be applied to the payment of principal and interest on Bonds or other obligations of the Authority or SCAD being refunded by a series of Bonds issued under the Indenture, and payments of costs associated with the issuance of such refunding Bonds or of redeeming the obligations being refunded. The Trustee will deposit moneys into an account in the Redemption Fund upon receipt of written instructions from SCAD as to the account into which such moneys should be deposited and as to the obligations to be paid therefrom. Moneys in the Redemption Fund may be invested as provided in "SUMMARY OF THE INDENTURE – Permitted Investments." Moneys received from the investment of moneys in any account in the Redemption Fund will be deposited into the account in the Redemption Fund to which such investments relate and will be used to pay principal and interest on the refunded obligations as the same becomes due or other costs associated therewith as directed by SCAD. After payment in full of the refunded obligations, the Trustee is authorized to apply all remaining investment proceeds in the Redemption Fund for use in accordance with the written instructions of SCAD. In the event moneys in the Redemption Fund are insufficient to redeem any refunded obligation on its redemption date, SCAD will pay the amount of the deficiency unless the notice of redemption delivered in connection with an optional redemption contains a statement to the effect that the redemption of the Bonds is conditioned upon the receipt by the Trustee, prior to the date fixed for such redemption, of amounts equal to the redemption price of the Bonds to be redeemed, and that if such moneys have not been so received, the notice will be of no force and effect and the Authority will not be required to redeem such Bonds and such Bonds will not become due and payable.

Permitted Investments

Moneys held in each of the funds and accounts under the Indenture will, pursuant to the written direction of the Authorized SCAD Representative, be invested and reinvested by the Trustee in accordance with the provisions of the Indenture in Investment Obligations which mature or are subject to redemption by the owner thereof prior to the date such funds are expected to be needed.

Defaults and Remedies

Events of Default. Each of the following events constitutes an "Event of Default" under the Indenture:

(a) failure to make due and punctual payment of any interest on any Bond when the same becomes due and payable;

(b) failure to make due and punctual payment of the principal of or redemption premium (if any) on any Bond when the same becomes due and payable, whether at stated maturity or accelerated maturity thereof, or upon proceedings for redemption thereof;

(c) the Authority for any reason is rendered incapable of fulfilling its obligations under the Indenture, or default by the Authority in the due and punctual performance of any other of its covenants, conditions, agreements and provisions under the Indenture or in the Bonds, and such incapacity or failure continues for 30 days after written notice specifying such default and requiring the same to be remedied has been given to the Authority and SCAD by the Trustee (which notice may be given by the Trustee in its discretion and has been given at the written request of the owners of not less than 10% in aggregate principal amount of the Bonds then Outstanding), provided that, if any such default is correctable but is such that it cannot be corrected within such period, it will not constitute an Event of Default if corrective action is instituted by the Authority or SCAD within such period and diligently pursued until the default is corrected;

(d) the occurrence and continuance of an Event of Default under the Loan Agreement that has not been waived or for which a cure period has not been extended; or

(e) certain events of bankruptcy, dissolution, liquidation or reorganization by SCAD.

Acceleration. Upon the occurrence of an Event of Default under clause (a) or clause (b) above as to any one or more series of Bonds, the Trustee must declare the principal and accrued interest on each such series of Bonds as to which such failure occurred immediately due and payable.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, and if requested by the owners of not less than 25% in aggregate principal amount of all Bonds Outstanding, the Trustee will, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable. Upon any such declaration of acceleration, the Trustee is required to immediately declare the Loan Payment under the Loan Agreement to be immediately due and payable as provided in the Loan Agreement.

In the event that all such Events of Default are cured before the entry of final judgment in any suit instituted on account of such acceleration or before the completion of enforcement of any other remedy under the Indenture and certain other requirements under the Indenture are met, the acceleration of such series of Bonds and the consequences of such acceleration will be annulled or rescinded, but no such annulment or rescission will extend to or affect any subsequent acceleration of the Bonds, or impair any right consequent thereon. A rescission of a declaration of acceleration of the Bonds under the Indenture and a rescission and annulment of its consequences will constitute a waiver of the corresponding Event of Default under the Loan Agreement and a rescission and annulment of its consequences, including any acceleration of the payments due under the Loan Agreement; provided that no such waiver or rescission will extend to or affect any subsequent or other default under the Loan Agreement or impair any right consequent thereon. See "SUMMARY OF THE LOAN AGREEMENT—Remedies."

Exercise of Remedies by Trustee. If any Event of Default under the Indenture has occurred and is continuing, the Trustee may, and upon (i) written request of the owners of not less than 25% in aggregate principal amount of all Bonds then Outstanding and (ii) receipt of indemnity satisfactory to it, the Trustee will be obligated to (a) pursue any available remedy at law or equity by suit, action, mandamus or other proceeding (including any rights of a secured party under the Georgia Uniform Commercial Code) to enforce the payment of the principal of, redemption premium, if any, and interest on the Bonds then Outstanding or to any series thereof to realize on or to foreclose any of its interests or liens under the Indenture or under any other of the Bond Documents; (b) exercise any rights or remedies available to the Trustee to enforce and compel the performance of the duties and obligations of the Authority under the Indenture and to enforce or preserve any other rights or interests of the Trustee under the Indenture with respect to the Trust Estate or otherwise existing at law or in equity.

Limitations on Exercise of Remedies by Bond Owners. No owner of the Bonds will have any right to institute any proceeding for the enforcement of the Indenture unless (i) the Trustee is notified of a default in accordance with the Indenture, (ii) such default becomes an Event of Default, (iii) the owners of not less than 25% in aggregate principal amount of each series of Bonds as to which an Event of Default has occurred request the Trustee to exercise the powers granted to it by the Indenture or to institute such proceedings, and offer to the Trustee indemnity in accordance with the Indenture, and (iv) the Trustee thereafter fails or refuses to exercise such powers or to institute such proceedings in its own name. Nothing contained in the Indenture will, however, affect or impair any right of any owner of the Bonds to enforce the payment of the principal of, premium (if any) and interest on any Bond, at and after the maturity or due date thereof.

Rights of Bondholders to Direct Proceeding. Except as provided in "Limitations on Exercise of Remedies by Bond Owners" above, upon the occurrence of an Event of Default as to one or more, but not all series of Bonds, the owners of a majority in aggregate principal amount of each series of Bonds as to which such Event of Default has occurred will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture; provided, however, that such direction must be in accordance with the provisions of law and of the Indenture and provided, further, that the Trustee will have the right to decline to follow any such direction if the Trustee in good faith determines that the proceedings so directed would involve it in personal liability for which it has not been indemnified.

Except as provided in "Limitations on Exercise of Remedies by Bond Owners" above, upon the occurrence of an Event of Default as to all series of Bonds, the owners of a majority in aggregate principal amount of Bonds then Outstanding will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver, custodian or any other proceedings under the Indenture, provided that such direction will not be otherwise than in accordance with the provisions of law and of the Indenture and provided, further, that the Trustee will have the right to decline to follow any such direction if the Trustee in good faith determines that the proceedings so directed would involve it in personal liability for which it has not been indemnified.

Waivers of Events of Default. In the case of an Event of Default as to one or more, but not all series of the Bonds, the Trustee will waive any Event of Default relating to such series of Bonds under the Indenture and its consequences and rescind any declaration of acceleration of principal of any particular series of such Bonds upon the written request of the owners of at least a majority in aggregate principal amount of each such series of Bonds, provided that there may not be waived without the written consent of the owners of all Bonds of a series affected (i) an Event of Default in the payment of the principal of such series of Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on such series of Bonds unless, prior to such waiver or rescission of the Event of Default referred to in (a) or (b) above, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by such series of Bonds on overdue installments of interest in respect to which such default has occurred, and all arrears of payments of principal of such series when due, as the case may be, and all expenses of the Trustee in connection with such default must have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default has been discontinued or abandoned or determined adversely, then the Authority, SCAD, the Trustee and the bondowners of such series will be restored to their former positions, rights and obligations under the Indenture, respectively, but no such waiver or rescission will extend to any subsequent or other default, or impair any right consequent thereon.

In the case of an Event of Default as to all series of the Bonds, the Trustee will waive any Event of Default and its consequences and rescind any declaration of acceleration of principal upon the written request of the Owners of at least a majority in aggregate principal amount of all Bonds then Outstanding, provided that there will not be waived without the written consent of the Owners of all the Bonds Outstanding (i) an Event of Default in the payment of the principal of any Outstanding Bonds at the date of maturity specified therein, or (ii) any default in the payment when due of the interest on any such Bonds unless, prior to such waiver or rescission of the Event of Default referred to in (i) or (ii) above, all arrears of interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of interest in respect to which such default has occurred, and all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with such default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such default has been discontinued or abandoned or determined adversely, then and in every case the Authority, SCAD, the Trustee and the Bondowners will be restored to their former positions, rights and obligations hereunder, respectively, but no such waiver or rescission will extend to any subsequent or other default, or impair any right consequent thereon.

Supplemental Indentures

The Indenture permits the Authority and the Trustee without the consent of, or notice to, any bondowners, to enter into a supplemental indenture for the following purposes: (i) to provide for the issuance of Bonds as provided in the Indenture, including specifying additional or different redemption provisions or other terms for the Bonds authorized in such supplemental indenture; (ii) to cure any ambiguity, or formal defect or omission in the Indenture; (iii) to grant or confer upon the Trustee for the benefit of the bondowners any additional rights, remedies, powers or authorities; (iv) to subject to the pledge of the Indenture additional revenues, properties or collateral; (v) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, or any federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (vi) to provide for the refunding or advance refunding of any Bonds; (vii) to evidence the appointment of a separate trustee or the succession of a new trustee under the Indenture; and (viii) to make any other change which, in the sole judgment of the Trustee, does not materially adversely affect the interests of the Bondowners (in making such determination, the Trustee will be entitled to rely conclusively upon an Opinion of Counsel).

The Indenture also permits the Authority and the Trustee to enter into other supplemental indentures with the written consent of the owners of not less than a majority of the principal amount of the Bonds then Outstanding, provided that, without the written consent of the owners of all of the Bonds then Outstanding which would be affected by such change, the Authority and the Trustee may not enter into any supplemental indenture relating to the Bonds that has the effect of permitting (a) an extension of the maturity date or mandatory sinking fund redemption date for payment of the principal of or interest on any Bond; (b) a reduction in the principal amount of, the rate of interest on, or the redemption premium of, any Bond; (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds; or (d) a reduction in the aggregate principal amount of the Bonds the owners of which are required for consent to a supplemental indenture relating to the Bonds.

Amendment of the Loan Agreement

The Indenture allows the Trustee without the consent of any bondowners to consent to any amendment of the Loan Agreement as may be required (i) in connection with the issuance of a series of Bonds under the Indenture; (ii) for the purpose of curing any ambiguity, or formal defect or omission in the Loan Agreement or the Indenture; or (iii) in connection with any other change which, in the sole judgment of the Trustee does not materially adversely affect the interests of the bondowners (in making such determination, the Trustee will be entitled to rely conclusively upon an Opinion of Counsel). The Indenture also permits the Trustee to consent to any amendment of the Loan Agreement with the written consent of the bondowners of not less than a majority of the principal amount of the Bonds then Outstanding, provided that, without the written consent of the owners of all of such Bonds then Outstanding, the Trustee may not consent to any amendment to the Loan Agreement which permits (a) an extension of the date of payment of any Loan Payment payable under the terms of the Loan Agreement or (b) a reduction in the amount of any Loan Payment payable under the terms of the Loan Agreement.

Discharge of Lien

If the principal of and redemption premium (if any) and interest on all of the Bonds then Outstanding has been paid or provision has been made for such payment as set forth in the Indenture, and provision has also been made for paying all other sums payable, including the Trustee's fees, charges and expenses relating thereto, then the lien on the Trust Estate will cease, terminate and become void and be discharged and satisfied, and thereupon the Trustee, upon receipt by the Trustee of an opinion of Bond Counsel stating that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, and upon Written Request, will cancel, discharge and release the Indenture and will execute, acknowledge and deliver to the Authority and SCAD such instruments of satisfaction and discharge or release as may be reasonably requested to evidence such release and the satisfaction and discharge of the

Indenture and will assign and deliver to the Authority, SCAD or any other Person entitled thereto so much of the Trust Estate as may be in its possession or subject to its control, other than moneys or obligations held by the Trustee for the payment of the principal and interest and redemption premium, if any, due or to become due on the Bonds.

Any Bond, Bonds or any series of Bonds will be deemed to be paid and no longer Outstanding under the Indenture and will cease to be entitled to any lien, benefit or security under the Indenture if the Authority has paid or provided for the payment of such Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest thereon, as and when the same become due and payable;

(b) by delivering and surrendering to the Trustee, for cancellation by it, such Bond or Bonds; or

(c) by depositing with the Trustee, in trust, (i) cash or noncallable Government Obligations or both in such amounts and with maturities as the Trustee determines will be, together with other moneys deposited therein and together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, fully sufficient to pay or redeem such Bond or Bonds at or before their respective maturity dates and to pay the interest thereon as it comes due, and (ii) in the case of Bonds which do not mature or will not be redeemed within 90 days of the deposit referred to in (i) above, a verification report of a nationally recognized independent certified public accounting firm as to the adequacy of the trust funds to fully pay such Bonds deemed to be paid. If a forward supply contract is employed in connection with a refunding of Bonds, (A) the verification report described in clause (ii) above expressly states that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (B) the applicable escrow agreement will provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the Indenture, if no separate escrow agreement is executed in connection with such refunding), the terms of the escrow agreement or the Indenture, as applicable, will be controlling.

Notwithstanding the foregoing, in the case of any Bonds which by their terms may be redeemed prior to the stated maturities thereof, no deposit under the immediately preceding subparagraph (c) will be deemed a payment of such Bonds until, as to all such Bonds which are to be redeemed prior to their respective stated maturities, official notice of such redemption will have been given in accordance with the Indenture, or irrevocable instructions will have been given to the Trustee to give such notice in accordance with the Indenture.

"Government Obligations" means (i) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, (ii) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of and premium (if any) and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (i) or (ii) issued or held in book-entry form in the name of the Trustee only on the books of the Department of the Treasury of the United States of America), which obligations, in either case, are not subject to redemption prior to maturity at less than par by anyone other than the holder, or (iii) any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in (i) or (ii) which have been stripped by the Department of Treasury.

Notwithstanding any provisions of the Indenture which may be contrary, all moneys or Governmental Obligations set aside and held in trust for the payment of Bonds (including redemption premium thereon, if any) shall be held irrevocably in trust for the Owners of such Bonds and applied to and used solely for the payment of the particular Bonds (including redemption premium thereon, if any) with respect to which such moneys and Government Obligations have been so set aside in trust.

DTC AND BOOK ENTRY

The Series 2014 Bonds will be available only in book entry form in Authorized Denominations. DTC will act as securities depository for the Series 2014 Bonds. The Series 2014 Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2014 Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of Series 2014 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2014 Bonds, except in the event that use of the book-entry only system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all the Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2014 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Series 2014 Bond documents. For example, Beneficial Owners of Series 2014 Bonds may wish to ascertain that the nominee holding the Series 2014 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2014 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Authority, the Trustee or SCAD, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

So long as Cede & Co. is the registered owner of the Series 2014 Bonds, as nominee for DTC, references in this Official Statement to the bondholders, holders or registered owners of the Series 2014 Bonds will mean Cede & Co., as aforesaid, and will not mean the Beneficial Owners of the Series 2014 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference will only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they will be sent by SCAD or the Trustee to DTC only.

As long as the book-entry system is used for the Series 2014 Bonds, SCAD and the Trustee will give any notices required to be given to holders of the Series 2014 Bonds only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of any Direct Participant or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the action premised on such notice. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2014 Bonds may desire to make arrangements with a Direct Participant or Indirect Participant so that all notices of redemption or other communications to DTC which affect such Beneficial Owners will be forwarded in writing by such Direct Participant or Indirect Participant.

For every transfer and exchange of a beneficial ownership interest in the Series 2014 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge, that may be imposed in relation thereto.

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, Series 2014 Bond certificates are required to be printed and delivered.

The Authority or SCAD may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2014 Bond certificates will be printed and delivered.

NONE OF THE AUTHORITY, THE TRUSTEE OR SCAD WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR

OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON SERIES 2014 BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN HOLDERS OR OWNERS OF SERIES 2014 BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF SERIES 2014 BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF SERIES 2014 BONDS.

CERTAIN BONDHOLDERS' RISKS

The following is a discussion of certain risks that could affect payments to be made with respect to the Series 2014 Bonds. Such discussion is not exhaustive, should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2014 Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement.

Risks Relating to SCAD Operations

Revenues and Enrollment. Payment of the Series 2014 Bonds will depend upon the ability of SCAD to generate revenues sufficient to provide for the payment of the Series 2014 Bonds and its other debt while paying its operating and other expenses. SCAD has historically derived substantial income from tuition, fees and other charges to students. SCAD has not historically relied on fundraising or investment income to supplement operating income. While SCAD has consistently demonstrated a high level of student demand for its programs at current fee levels, there is no assurance it will be able to do so in the future. Demand for attendance may be subject to a number of factors beyond the control of SCAD, such as general economic and demographic conditions, demand for higher education in general or programs offered by SCAD and public and private funding of financial aid programs. In addition, competition for students is substantial. SCAD competes with other private and public colleges and universities, some of which may have, from time to time, lower tuition rates. See Appendix A to this Official Statement under the heading "STUDENTS" and Appendix E to this Official Statement. A significant decrease in enrollment for any reason could adversely affect SCAD's financial position and results of operations. SCAD cannot represent or assure that it will continue to be able to generate revenues sufficient to pay the principal of and interest on its indebtedness, including the Series 2014 Bonds.

Key Executive Risk. The current president and founder of SCAD has served in executive and leadership roles throughout SCAD's 35-year existence. Her departure could have an adverse impact on operations. SCAD has mitigated this risk by extending her contract for five years, implementing board policies and procedures and diversifying and spreading executive functions. In addition, SCAD has a Board of Trustees, Board of Visitors and Advisory Council to oversee strategies and enhance reputation and fundraising. See Appendix A – "Information Relating to the Savannah College of Art and Design, Inc. – Governance" and Appendix E.

Fundraising. SCAD has not historically relied on contributions to fund operations. However, SCAD is taking deliberate action to increase its fundraising efforts. Future fundraising, however, may be adversely affected by a number of factors, including, but not limited to, adverse economic conditions, income tax rates and tax law changes affecting the deductibility of charitable contributions.

Investment Income. Investment income on SCAD's endowment and similar funds is a source of revenue for SCAD. Such income is dependent upon a variety of economic conditions that are beyond the control of SCAD. While SCAD believes its investments are being managed prudently and has adopted policies designed to ensure sound management, there is no assurance that downturns in the securities markets will not have an adverse effect on the market value of those investments, the income they generate or the liquidity of such investments.

Grants. SCAD receives various grants from private foundations and from agencies of federal, state and local governments. Certain grants are subject to restrictions which limit the purposes for which they may be used. The competition for such funding is vigorous, and the availability of such funding may be adversely affected by reductions or discontinuance of both governmental programs and programs sponsored by private businesses and non-profit foundations. Such funding also may be reduced by economic downturns or tax law or other factors adversely affecting private funding or charitable donations for such purposes.

Financial Aid to Students. Financial assistance in the form of student loans, scholarships, grants and work programs is a significant factor in the decision of many students to attend SCAD. Many students are primarily dependent upon financial aid to pay tuition and other costs of education. Changes in the availability of federal loan programs and other forms of student aid could adversely affect the ability of students to attend SCAD with a resultant adverse impact on the revenues of SCAD.

Works of Art. A portion of SCAD's assets are comprised of art work and antiques that are held for exhibition and for educational programming. The collections are subject to a policy that requires proceeds from any sales to be used to acquire other art items for collections. The valuation of these items is subject to a number of appraisal judgments and estimates. In addition, the practical use of these assets is limited. In the event of liquidation, the market for them may be limited, the use of proceeds of their sale may be restricted and the value may be substantially reduced from the current fair value.

Foreign Operations. SCAD operates in foreign countries. Operations outside the United States are subject to risks inherent in conducting business under different legal systems and in other political and economic environments. Risks include changes in existing laws or tax regulations, restrictions on currency exchange, currency exchange rate fluctuations and political or social unrest. There is no assurance that SCAD can continue to operate in other countries on the same basis as it currently operates.

Unsecured Obligation

The Series 2014 Bonds are not secured by a mortgage or pledge of any of SCAD's assets, properties or revenues. In the event of a default and the exercise by the Trustee of remedies available to it, the Trustee would be an unsecured creditor with no rights to any specific revenues, property, collections or restricted assets of SCAD.

No Restriction on Additional Indebtedness

Neither the Indenture nor the Loan Agreement places any limitation on the amount of additional indebtedness that SCAD may incur in the future. The incurrence of additional debt by SCAD may negatively impact SCAD's ability to pay debt service on the Series 2014 Bonds.

Tax Exempt Status

SCAD is exempt from federal income taxation because it has been determined to be a charitable nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code. The federal tax-exempt status of SCAD is subject to review by the Internal Revenue Service at any time. If an examination reveals that SCAD has violated the provisions of federal tax law applicable to tax-exempt organizations, the IRS could assess monetary penalties against SCAD or revoke its tax-exempt status, depending on the severity of the violation and other factors. A loss of federal tax-exempt status could cause interest on the Series 2014 Bonds to become taxable and would be likely to materially adversely affect the financial condition of SCAD.

Amendments to Bond Documents

Certain amendments to the Indenture and the Loan Agreement may be made without notice to, or the consent of, the owners of the Series 2014 Bonds. Other amendments may be made with the consent of the owners of not less than a majority in principal amount of the Bonds then outstanding. The requisite percentage of outstanding Bonds may or may not be composed of owners of the Series 2014 Bonds. Such amendments may affect the security or rights of owners of the Series 2014 Bonds.

Environmental Issues

Except as set forth in the notes to the consolidated financial statements included herein as Appendix B to this Official Statement, SCAD is not aware of any releases of pollutants or contaminants at any sites or facilities owned by it that would give rise to enforcement actions under applicable state or federal environmental statutes. However, there could be such releases not known to SCAD as of the date of this Official Statement. SCAD is not aware of any enforcement actions currently in process with respect to any releases of pollutants or contaminants at any sites or facilities owned by it. However, there can be no assurance that an enforcement action or actions will not be instituted under such statues at a future date. In the event such enforcement actions were initiated, SCAD could be liable for the costs of removing or otherwise treating pollutants or contaminants located at its properties.

Bond Audit Risk

The IRS audits tax-exempt bonds in the charitable organization sector. The Series 2014 Bonds may be, from time to time, subject to audits by the IRS. SCAD believes that the Series 2014 Bonds comply with all applicable tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2014 Bonds. No ruling with respect to the tax-exempt status of the Series 2014 Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts and are not guarantees. There can be no assurance that an audit of the Series 2014 Bonds will not adversely affect the Series 2014 Bonds.

Change in Law

Changes in legislation at the federal, state or local level could burden the activities of non-profit corporations. Such changes in law may include, but are not limited to, the restricting of tax exempt or non-profit status, the broadening of federal and local tax law provisions relating to unrelated business income of non-profit corporations, or the reduction or elimination of real estate tax exemptions available to charitable organizations. There can be no assurance that future changes in the laws, rules, regulations, interpretations and policies relating to the definition, activities or taxation of non-profit, tax-exempt corporations will not have adverse impact on the future operations or costs of SCAD.

Future legislation, if enacted into law, or clarification of the Internal Revenue Code or court decisions, may cause interest on the Series 2014 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

Enforceability of Remedies

The remedies available to the Trustee or the owners of the Series 2014 Bonds upon an Event of Default under the Indenture or the Loan Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. The enforceability of remedies or rights with respect to the Series 2014 Bonds may be limited by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, insolvency or other laws affecting creditors' rights or remedies. Under existing constitutional and statutory law and judicial decisions, including specifically federal bankruptcy law, certain remedies specified by the Indenture or the Loan Agreement may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Bankruptcy

If SCAD were to file a petition for relief under federal bankruptcy law, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against SCAD and its property and as an automatic stay of any act or proceeding to enforce a lien upon its property. If the bankruptcy court so ordered, SCAD's property, including its revenues, could be used for the benefit of SCAD's bankruptcy estate, despite the claims of the Trustee with respect to the Indenture or the Loan Agreement. If a bankruptcy court concludes that the Trustee has "adequate protection," it may (1) substitute other security for the property, if any, subject to the lien of the Indenture or the Loan Agreement and (2) subordinate the lien of the Indenture or the Loan Agreement (a) to claims by secured creditors or persons supplying goods, services or credit to SCAD after bankruptcy and (b) to the administrative expenses of the bankruptcy proceeding. In addition, the bankruptcy laws permit wide latitude with respect to the adoption of a reorganization plan, and owners of the Series 2014 Bonds may be provided with the "indubitable equivalent" of the value of their claim. The amount realized by the Trustee might depend on a federal bankruptcy court's interpretation of "indubitable equivalent" and adequate protection under the existing circumstances.

Secondary Market and Prices

No assurance can be given that there will be a secondary market for the Series 2014 Bonds. Even if a secondary market exists, there is no assurance as to the price for which the Series 2014 Bonds may be sold. Such price may be lower than the price paid by the current owner of the Series 2014 Bonds, depending on current market conditions and factors.

Change in Tax Law and Market Value

From time to time the United States Congress has considered and can be expected in the future to consider tax reform and other legislative proposals, including some that carry retroactive effective dates, which, if enacted, could alter or amend the federal tax exempt status, or adversely affect the market value, of the Series 2014 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Series 2014 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation. See "TAX EXEMPTION AND OTHER MATTERS – Changes in Federal and State Tax Law." In the event any such legislation which amends the federal tax exempt status or adversely affects the market value of the Series 2014 Bonds become law, the Indenture does not provide for either the increase in the interest rate on the Series 2014 Bonds or the mandatory redemption of the Series 2014 Bonds. Also, Bondholders of the Series 2014 Bonds are not indemnified for any costs or losses (*e.g.*, tax deficiencies, interest and penalties, loss of market value) that may be incurred as a result of a change in law.

Changes in Rating

The lowering or withdrawal of a rating initially assigned to the Series 2014 Bonds could adversely affect the market price for the Series 2014 Bonds. No assurance can be given that a rating on the Series 2014 Bonds will not change.

Other Factors Affecting the Financial Performance of SCAD

One or more of the following factors or events, or the occurrence of other unanticipated factors or events, could adversely affect SCAD's operations and financial performance to an extent that cannot be determined at this time:

Changes in Management. Changes in key management personnel could affect the capability of management to effectively administer the business of SCAD.

Organized Labor Efforts. Efforts to organize employees of SCAD into collective bargaining units could result in adverse labor actions or increased labor costs.

Expenses. Increases in litigation and insurance costs, employee compensation expenses or costs of utilities and energy, among other things, could have an adverse effect on SCAD's cost of operating.

Technological Advances. Changes in technology, including expansions of the offering of college-level courses or degrees via the internet, could significantly impact the manner in which colleges and universities operate, could allow other competition to enter the field of education without making significant investment in capital assets such as land and buildings, and could adversely affect the financial position of established universities and colleges, such as SCAD.

Accreditation. A failure on the part of SCAD to maintain the accreditation of SCAD may result in a reduced number of students attending SCAD and a reduction in revenues and could have a material adverse effect on the financial condition of SCAD.

Natural and Other Disasters. The occurrence of natural disasters, such as hurricanes, tornadoes, floods or droughts, or other disasters could damage SCAD's facilities, interrupt services or otherwise impair operations and the ability of SCAD to produce revenues.

LEGAL MATTERS

Validation and Litigation

In accordance with the procedures set forth in the Revenue Bond Law (O.C.G.A. § 36-82-60 *et seq.*), as amended (the "Revenue Bond Law"), the Superior Court of Fulton County entered a final order validating and confirming the Series 2014 Bonds on August 27, 2014. Any judgment entered by the Superior Court of Fulton County in connection with the validation of the Series 2014 Bonds also adjudicates the validity of the Loan Agreement and the payments made thereunder as security for the payment of the Series 2014 Bonds.

There is no controversy or litigation of any nature now pending against the Authority for which service has been perfected restraining or enjoining the issuance or delivery of the Series 2014 Bonds or questioning or affecting the validity of the Series 2014 Bonds or the proceedings and authority under which they are being issued nor, to the knowledge of the Authority, is any such litigation threatened. There is no litigation pending for which service has been perfected which in any manner questions the power of the Authority to issue the Series 2014 Bonds and to secure the Series 2014 Bonds in accordance with the provisions of the Indenture, nor is there now pending any litigation which in any manner questions the powers of the Authority nor, to the knowledge of the Authority, is any such litigation threatened. The Series 2014 Bonds will not be issued until a final, nonappealable validation order has been received from the Superior Court of Fulton County.

See "MISCELLANEOUS – Absence of Litigation" in Appendix A hereto for a discussion of current legal proceedings against SCAD.

TAX EXEMPTION AND OTHER TAX MATTERS

Opinion of Bond Counsel

Certain legal matters incident to the authorization, validity, and issuance of the Series 2014 Bonds are subject to the approval of McKenna Long & Aldridge LLP, Atlanta, Georgia, Bond Counsel, whose approving opinion will be available at the time of delivery of the Series 2014 Bonds. It is anticipated that the approving opinion will be in substantially the form attached to this Official Statement as Appendix C.

Federal Income Taxation

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions that apply to the Series 2014 Bonds. These include restrictions on investments, requirements for periodic payment of arbitrage profits to the United States, requirements regarding the use of Series 2014 Bond proceeds, requirements regarding the nature and use of the facilities financed or refinanced with Series 2014 Bond proceeds, and other restrictions and requirements. The Authority and SCAD have covenanted to comply with all requirements and restrictions of the Code that must be satisfied in order for the interest on the Series 2014 Bonds to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements and restrictions may cause interest on the Series 2014 Bonds to become subject to federal income taxation, retroactive, in some cases, to the date of issuance of the Series 2014 Bonds.

In the opinion of Bond Counsel, under existing law, interest on the Series 2014 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax (including the tax imposed by Chapter 2A of Subtitle A of the Code) purposes and is not an enumerated "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. See "Collateral Federal Tax Consequences" below. For purposes of Chapter 2A of Subtitle A of the Code, interest on the Series 2014 Bonds, by virtue of being excluded from gross income under Chapter 1 of Subtitle A of the Code, is excluded from the modified adjusted gross income of individuals, from the adjusted gross income of estates and trusts, and from the net investment income of taxpayers that are subject to the 3.8% tax imposed pursuant to Section 1411 of the Code (the "Affordable Care Tax"). The foregoing opinions are subject to the condition that the Authority and SCAD comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2014 Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and SCAD have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of the interest on the Series 2014 Bonds in gross income for federal income tax (including the tax imposed by Chapter 2A of Subtitle A of the Code) purposes to be retroactive to the date of issuance of the Series 2014 Bonds.

In concluding that interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes, Bond Counsel will rely, as to questions of fact material to its opinion, upon the following items, without undertaking to verify any of them by independent investigation: (a) certified proceedings and other certifications of public officials furnished to it, (b) certifications furnished to it by or on behalf of SCAD and the Authority (including certifications made in the tax certificate of SCAD and the certificate as to arbitrage matters of the Authority), and (c) representations of the Authority and SCAD contained in such proceedings and in documents delivered in connection with the issuance of the Series 2014 Bonds. If certain of these items are incorrect, interest on the Series 2014 Bonds may become included in gross income for federal income tax (including the Affordable Care Tax) purposes retroactive, in some cases, to the date of issuance of the Series 2014 Bonds.

Pursuant to Section 1411 of the Code (which is contained in Chapter 2A of Subtitle A of the Code), for taxable years beginning after December 31, 2012, a 3.8% tax is imposed on individuals on the lesser of (1) net investment income and (2) any excess of the modified adjusted gross income over the applicable threshold amount. For individuals filing joint federal tax returns or as surviving spouses, the applicable threshold is $250,000; for married individuals filing separate returns, the applicable threshold is $125,000; and for other individuals, the applicable threshold is $200,000. This 3.8% tax is also imposed on estates and trusts on the lesser of (1) their undistributed net investment incomes and (2) any excess of their adjusted gross incomes over the dollar amount at which the highest tax bracket in Section 1(e) of the Code begins for the taxable year. Subject to the exceptions, conditions, and limitations set forth in the opinion of Bond Counsel, interest on the Series 2014 Bonds is excluded from modified adjusted gross income, adjusted gross income, and net investment income for purposes of the Affordable Care Tax. Gain, however, if any, from the sale or other disposition of Series 2014 Bonds will be taken into account in such calculations.

Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the Series 2014 Bonds. See "Collateral Federal Tax Consequences" herein for a general discussion of other selected federal tax consequences associated with ownership of the Series 2014 Bonds.

State of Georgia Income Taxation

In the further opinion of Bond Counsel, under existing law, the interest on the Series 2014 Bonds is exempt from State of Georgia income taxation, although the Series 2014 Bonds and the interest thereon may be included in the measure of State of Georgia estate and inheritance taxes and of certain State of Georgia corporate excise and franchise taxes. Bond Counsel has not opined as to whether interest on the Series 2014 Bonds is subject to state or local income taxation in jurisdictions other than Georgia; interest on the Series 2014 Bonds may or may not be subject to state or local income taxation in jurisdictions other than Georgia under applicable state or local laws. Each purchaser of Series 2014 Bonds should consult its own tax advisor regarding the tax-exempt status of the interest on the Series 2014 Bonds in a particular state or local jurisdiction other than Georgia.

Bond Premium

The Series 2014 Bonds maturing on April 1, 2015 through and including April 1, 2031, April 1, 2033 and April 1, 2044 (the "Premium Bonds") are being sold at prices in excess of the principal amount thereof. Under the Code, the excess of an owner's cost basis of a bond over the principal amount of such bond (other than a bond held as inventory, stock in trade, or for sale to customers in the ordinary course of business) is generally characterized as "bond premium." For federal income tax purposes, bond premium is amortized over the term of the related bond. An owner will therefore be required to decrease its basis in the Premium Bonds by the amount of amortizable bond premium attributable to each taxable year it holds the Premium Bonds. The amount of amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date, based on the yield to maturity of the Premium Bond. As bond premium is amortized, the owner's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the owner's basis is reduced, the amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of the Premium Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption, or other disposition of the Premium Bonds and with respect to state and local tax consequences of owning the Premium Bonds.

Original Issue Discount

In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of the Series 2014 Bonds maturing on April 1, 2032 and April 1, 2035 (the "Discount Bonds"), to the extent properly allocable to each owner of such Discount Bond, is excluded from gross income for federal income tax (including the Affordable Care Tax) purposes with respect to such owner and is not an enumerated "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations. Original issue discount is the excess of the stated redemption price at maturity of such Discount Bond over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Discount Bonds were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt obligations accrues on a constant yield-to-maturity basis. For an owner of a Discount Bond who acquires such Discount Bond in this offering at its issue price, the amount of original issue discount that accrues to such owner during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax (including the Affordable Care Tax) purposes, will not be an enumerated "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations, and will increase the owner's tax basis in such Discount Bond for the purpose of determining gain or loss upon a subsequent sale, exchange, payment, or redemption. Any gain realized by an owner from a sale, exchange, payment, or redemption of a Discount Bond will be treated as gain from the sale or exchange of such Discount Bond.

The foregoing discussion is directed at owners who purchased Discount Bonds in the initial offering at the issue price. Other owners should consult their own tax advisors to consider any additional tax consequences. Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning Discount Bonds. Under the tax laws of certain state and local jurisdictions, the amount of interest considered to have accrued to an owner of a Discount Bond may also be deemed to be received in the year of such accrual, even though there will not be a corresponding cash payment, rather than upon the disposition, redemption, or maturity of such Discount Bond, for purposes of determining such owner's income tax liability under such state or local tax laws.

Collateral Federal Tax Consequences

Ownership of the Series 2014 Bonds may result in collateral federal tax consequences to certain taxpayers, including, without limitation, corporations, financial institutions and other taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2014 Bonds, property and casualty insurance companies, certain recipients of Social Security or railroad retirement benefits, foreign corporations with branches in the United States, certain Subchapter S corporations, and taxpayers subject to backup withholding. The following is a general description of certain of these consequences:

1. Interest on the Series 2014 Bonds may be included in the adjusted current earnings of any entity owning Series 2014 Bonds that is treated as a corporation for federal income tax purposes (other than any S corporation,

regulated investment company, real estate investment trust, or REMIC), and any such entity may therefore be required to include as an adjustment in its calculation of alternative minimum taxable income 75% of the excess of adjusted current earnings over alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

2. No deduction is allowable for interest on indebtedness incurred or continued to purchase or carry the Series 2014 Bonds or, in the case of a financial institution, that portion of the owner's interest expense allocated to interest on the Series 2014 Bonds; however, certain *de minimis* exceptions may be applicable for owners of Series 2014 Bonds other than financial institutions.

3. Property and casualty insurance companies are required to reduce the amount of their deductible underwriting losses by 15% of their amount of tax-exempt interest, including interest on the Series 2014 Bonds. If the amount of this reduction exceeds the amount otherwise deductible as losses incurred, such excess may be includable in income.

4. Certain recipients of Social Security benefits and railroad retirement benefits will be required to include a portion of such benefits within gross income by reason of receipt or accrual of interest on the Series 2014 Bonds.

5. A branch-level tax is imposed on certain earnings and profits of foreign corporations with branches in the United States, and interest on the Series 2014 Bonds may be included in the determination of such domestic branches' taxable base on which this tax is imposed.

6. Passive investment income, including interest on the Series 2014 Bonds, may be subject to federal income taxation for any Subchapter S corporation that has Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income.

7. Payments of interest on the Series 2014 Bonds are subject to reporting to the Internal Revenue Service (the "IRS") and to payees on Form 1099-INT (or successor form). In addition, the Trustee (or its agent) may be required to withhold federal tax (referred to as "backup withholding") from any such payment on a Series 2014 Bond, which will be imposed at the rate of 28% of the gross amount of any such payment, if (i) the owner fails to furnish the Trustee (or its agent) with his or her taxpayer identification number ("TIN"), the accuracy of which has been certified under the penalty of perjury, (ii) the Trustee (or its agent) has been notified by the IRS that the owner of the Series 2014 Bond has supplied an incorrect TIN, (iii) the IRS has notified the Trustee (or its agent) that the owner of the Series 2014 Bond has failed properly to report certain income to the IRS, or (iv) when required to do so, the owner of the Series 2014 Bond fails to certify under the penalty of perjury that he or she is not subject to backup withholding.

The foregoing is not intended as a detailed or comprehensive description of all possible federal tax consequences of purchasing or holding the Series 2014 Bonds. Persons considering the purchase of the Series 2014 Bonds should consult with their tax advisors as to the federal tax consequences of buying or holding the Series 2014 Bonds in their particular circumstances.

Changes in Federal and State Tax Law

From time to time, legislative proposals may be made to change federal or state law that, if enacted, would eliminate the exclusion of interest on tax-exempt bonds from gross income for federal income tax purposes or any state law exemption or would otherwise diminish the advantages of ownership of tax-exempt bonds for one or more categories of taxpayers for federal or state law purposes. Any such proposal could, in certain circumstances, even become effective with respect to tax-exempt bonds issued or purchased prior to enactment or announcement of the proposal. In addition, from time to time, administrative actions, including regulations, rulings, and other administrative authorities, may be announced or proposed and litigation may be commenced or threatened that, if they become a legal authority, could eliminate or diminish the advantages of ownership of tax-exempt bonds for one or more categories of taxpayers for federal or state law purposes. The mere existence or announcement of any such legislative proposal or commencement or threatening of any such administrative action or litigation could impair the marketability or market value of the Series 2014 Bonds, at least temporarily, whether or not it is ultimately enacted into law or become a legal authority.

There are currently at least two recent examples of such proposals: the Obama Administration's Fiscal Year 2015 Revenue Proposals (the "2015 Revenue Proposals"), which were released on March 5, 2014, and a discussion draft of legislation introduced on February 21, 2014, by Mr. Camp, Chairman of the Committee on Ways and Means of the U.S. House of Representatives (the "Discussion Draft").

The 2015 Revenue Proposals include a proposal (the "28% Proposal") that would reduce the "tax value" of specified deductions and exclusions from the adjusted gross incomes of higher-income individual taxpayers to their relative "tax values," which would be determined as if the items related to such deductions and exclusions (collectively, the "Specified Modifications") had been incurred or received by a lower-income taxpayer, whose marginal rate of federal income tax is 28%. For this purpose, higher-income taxpayers would generally include those taxpayers who are subject to federal income tax at marginal tax rates of at least 33%. Interest on federally tax-exempt bonds, such as the Series 2014 Bonds, would constitute one of these Specified Modifications. To the extent that the marginal federal income tax rate on a higher-income taxpayer's taxable income as increased by the Specified Modifications (as so increased, "Modified Taxable Income") would be at least 33%, then the amount of Specified Modifications would effectively be taxed at a rate or rates equal to the excess of the applicable marginal tax rate (or rates) imposed on such a taxpayer, based on his or her Modified Taxable Income, over 28%.

The Discussion Draft contains a provision which would impose a 10% surtax (the "10% Surtax") on taxpayers with modified adjusted gross incomes above certain levels (for examples $450,000 for joint return filers). In determining modified adjusted gross income for such purposes, various items would be added to taxable income, including amounts of interest which are (otherwise) exempt from tax, such as interest on the Series 2014 Bonds.

If either the 28% Proposal or the 10% Surtax is enacted into law, as proposed, it would be effective for taxable years beginning after December 31, 2014, and, as such, could adversely affect higher-income owners of federally tax-exempt bonds issued or purchased before that date, by preventing them from realizing the full current benefit of the tax status of interest on such bonds. The threat of enactment of the 28% Proposal, the 10% Surtax or any similar proposal, also could adversely affect the market price for and marketability of such bonds, including the Series 2014 Bonds, in the secondary market, whether or not such proposal is enacted into law. No assurance can be given as to whether the 28% Proposal, the 10% Surtax or another proposal of a like nature will not be introduced in the current or a future session of Congress or be enacted into law, with adverse effects on owners of outstanding federally tax-exempt bonds that are similar to or greater than submission to Congress of either the 28% Proposal or the 10% Surtax.

The opinion expressed by Bond Counsel is based upon the U.S. Constitution and the Constitution of the State of Georgia, implemented by statutes enacted thereunder, and as interpreted by judicial, regulatory, and other administrative authorities existing as of the date of issuance and delivery of the Series 2014 Bonds. Bond Counsel expresses no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation or proposed, pending, or threatened administrative actions or litigation. Potential purchasers of the Series 2014 Bonds should consult their tax advisors regarding any pending or proposed legislation, administrative action, or litigation of the type referred to or characterized above as part of their investment decision and thereafter, as appropriate.

Approving Opinions

Legal matters incidental to authorization and issuance of the Series 2014 Bonds by the Authority are subject to the approval of McKenna Long & Aldridge LLP, Bond Counsel, whose approving opinion will be available at the time of issuance and delivery of the Series 2014 Bonds. It is anticipated that the approving opinion will be in substantially the form attached hereto as Appendix C. Certain legal matters will be passed upon for the Authority by its counsel, Alston & Bird LLP, for SCAD by its counsel, Chapman and Cutler LLP, and for the Underwriter by its counsel, Murray Barnes Finister LLP.

CERTAIN RELATIONSHIPS

McKenna Long Aldridge LLP is serving as Bond Counsel and also has a member of its firm who serves on the Board of Visitors of SCAD.

MISCELLANEOUS

Underwriting

Subject to the terms and conditions of a Bond Purchase Agreement, the Authority has agreed to sell to the Underwriter and the Underwriter has agreed to purchase from the Authority, subject to certain conditions, all but not less than all of the Series 2014 Bonds at a purchase price of $193,476,569.94 (which reflects an underwriting discount of $656,212.36 and net original issue premium of $13,162,782.30). SCAD has agreed to indemnify the Underwriter against certain liabilities arising under the securities laws with respect to this Official Statement and the offering of the Series 2014 Bonds. The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 2014 Bonds if any are purchased.

The Underwriter intends to offer the Series 2014 Bonds to the public initially at the offering prices set forth on the inside front cover hereof, which offering prices may subsequently be changed without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other dealers in offering the Series 2014 Bonds to the public. The Underwriter may offer and sell the Series 2014 Bonds to certain dealers at prices lower than the public offering price or otherwise allow concessions to such dealers who may re-allow concessions to other dealers.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

The Underwriter has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA") for the distribution of certain municipal securities offerings, including the Series 2014 Bonds. Pursuant to the Distribution Agreement, the Underwriter will share a portion of its underwriting compensation with respect to the Series 2014 Bonds with WFA. The Underwriter also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Series 2014 Bonds. In connection with utilizing the distribution capabilities of WFSLLC, the Underwriter pays a portion of WFSLLC's expenses based on its municipal securities transactions. The Underwriter, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Ratings

Moody's Investors Service and Fitch Ratings, Inc., have assigned the Series 2014 Bonds long-term ratings of "Baa2" (positive outlook) and "BBB" (stable outlook), respectively. Any desired explanation of the significance of such ratings should be obtained from the rating agencies furnishing such ratings. Generally, rating agencies base their ratings on the information and materials furnished to the agencies and on investigations, studies and assumptions made by the agencies. There is no assurance that such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such change or withdrawal of such ratings could have an adverse effect on the market price of the Series 2014 Bonds. None of the Underwriter, SCAD or the Authority has undertaken any responsibility, after the issuance of the Series 2014 Bonds, to oppose any such change or withdrawal.

Financial Statements

The consolidated financial statements of SCAD for the fiscal years ended June 30, 2013, 2012, 2011 and 2010, with comparative 2009 information, included in Appendix B hereto have been audited by Grant Thornton LLP, independent auditors, to the extent and for the periods indicated in its reports, dated October 25, 2013, October 25, 2012, October 14, 2011 and October 28, 2010, respectively, which appear in Appendix B.

Additional Information

All quotations from, and summaries and explanations of, the Loan Agreement, the Indenture and other documents referred to herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. All references herein to the Series 2014 Bonds are qualified by the definitive forms thereof and the information with respect thereto contained in the Indenture and the Loan Agreement. The agreements of the Authority with the holders of the Series 2014 Bonds are fully set forth in the Indenture and the Loan Agreement, and neither any advertisement of the Series 2014 Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers or owners of the Series 2014 Bonds. The Appendices attached hereto are a part of this Official Statement. All forecasts, estimates and other statements in this Official Statement involving matters of opinion, whether or not so expressly stated, are intended as such and not as representations of fact.

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CERTIFICATION

The Authority has consented to the distribution of this Official Statement insofar as it relates to the Authority and the transactions to which the Authority is a party. The Authority, however, neither has nor will assume responsibility as to the accuracy and completeness of the information in this Official Statement except that contained under the headings "THE AUTHORITY" and "LEGAL MATTERS – Validation and Litigation," and then only to the extent that such information relates to the Authority.

The execution, delivery and use of this Official Statement have been approved by the Authority and SCAD.

PRIVATE COLLEGES AND UNIVERSITIES
AUTHORITY

By: /s/ John W. Robinson, Jr.
Chairman

Approved:

THE SAVANNAH COLLEGE OF ART AND DESIGN, INC.

By: /s/ J.J. Waller
Treasurer

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APPENDIX A

INFORMATION RELATING TO THE SAVANNAH COLLEGE OF ART AND DESIGN, INC.

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HISTORY AND BACKGROUND

The Savannah College of Art and Design, Inc. ("SCAD" or the "University") is a Georgia nonprofit corporation that operates an accredited institution conferring bachelor's and master's degrees in over 40 art and design majors. SCAD was founded in 1978 to provide college degree programs not previously available in southeast Georgia and to create a specialized professional art university to attract students from throughout the United States and abroad. The curriculum was established with dual goals of excellent arts education and effective career preparation for students. Today, with degree-granting locations in Savannah and Atlanta, Georgia; and Hong Kong; a study abroad location in Lacoste, France; and online programs offered through SCAD eLearning, SCAD continues to adhere to these goals.

At each location, students are taught and motivated by faculty members with strong academic credentials and valuable professional experience. These professors emphasize learning through individual attention in an inspiring university environment. SCAD's innovative curriculum is enhanced by advanced professional-level technology, equipment and learning resources. SCAD's mission is to offer an exceptional education and excellent career preparation. Results of a recent survey conducted by SCAD found that of the 88% of Spring 2013 SCAD alumni respondents, 93% were employed and/or pursuing further education within 10 months of graduation.

An international university, SCAD welcomes students from more than 100 countries and six continents and from 49 U.S. states. With an average faculty retention rate of 95%, SCAD professors commit themselves to the University's consistently high standards. SCAD faculty members include Emmy and Academy Award winners, Fulbright scholars, New York Times best-selling writers, Cannes Jury Prize recipients and AIA award-winning architects. They include artists whose work has been collected by and exhibited at the Museum of Modern Art, the Library of Congress, the Smithsonian American Art Museum and the High Museum of Art. Their photography has been included in *TIME* magazine, *Esquire*, *Businessweek*, *USA Today*, *The New York Times Magazine*, *Harper's Bazaar* and *Vanity Fair*. Their credits include films by Pixar and Disney, and they have in the past routinely appeared on most admired educators lists.

This strong faculty of approximately 678 at Fall 2013 (with 77% full-time) is at the helm of SCAD's learning community at every location and online. They have honed their crafts at some of the world's most recognizable companies and studios, such as DreamWorks, CBS, CNN, Saks Fifth Avenue, Warner Bros., NASA, The New Yorker, DC Comics, and Marvel.

SCAD professors bring to bear these years of professional experience in classroom instruction, inviting industry contacts to the University to network with students and participate in one-on-one portfolio reviews. Yet for all of their vital professional insight, the greatest achievement of SCAD professors is the success of their students, within the classroom and beyond.

SCAD's innovative curriculum is enhanced by advanced, professional-level technology, equipment and learning resources, and has garnered acclaim from *3D World*, American Institute of Architects, *BusinessWeek*, *DesignIntelligence*, *U.S. News & World Report* and the *Los Angeles Times*, among others.

SCAD offers more than 40 majors, as well as minors in more than 60 disciplines, at on-ground campuses in Savannah and Atlanta, Georgia, Hong Kong, and Lacoste, France and online through SCAD eLearning. This comprehensive array of degree programs is designed to ensure that each SCAD student is provided a tailored educational experience designed to best prepare him or her for professional careers. Degrees offered by SCAD include Bachelor of Art, Bachelor of Fine Arts, Master of Arts, Master of Fine Arts, Master of Architecture and Master of Urban Design.

Fall 2013
Most Highly Enrolled Majors

Major	Count	Percent of Student Body
Animation	913	7.86%
Graphic Design	907	7.81
Illustration	581	5.00
Photography	557	4.80
Fashion	551	4.75

In just over 35 years, and with more than 29,000 alumni worldwide, SCAD has grown to become the largest non-profit institution in the United States focused on specialized education in the fields of art and design. In doing so, SCAD has stayed true to its mission to prepare talented students for professional careers, emphasizing learning through individual attention in a positively oriented university environment.

LOCATIONS

Savannah, Georgia

With a thriving artistic community and the largest and one of the most renowned National Historic Landmark districts in the United States, Savannah provides a launchpad for students' creative careers. Home to SCAD's flagship location and one of the most admired urban designs in the world, Savannah nurtures students with a mild and inviting climate, distinctly Southern hospitality and a culturally rich downtown area with more art galleries per capita than New York City according to the Savannah Economic Development Authority.

SCAD Savannah constitutes the largest of the University's locations, with 66 facilities (57 of which are owned by SCAD), occupying approximately 2.5 million square feet, interwoven throughout a port city tapestry of historic and modern structures. Students live and learn in SCAD buildings noted for their excellence by the American Institute of Architects, the National Trust for Historic Preservation and others. SCAD has a long history of acquiring and restoring buildings in historic Savannah. Major adaptations and renovations include SCAD's very first and flagship building, Poetter Hall. Originally, the Savannah Volunteer Guard Armory, Poetter Hall (pictured below) dates back to 1892. The renovated building is now home to the SCAD welcome center, the department of admissions, and ShopSCAD. SCAD's numerous renovation projects have helped to revitalize and renew historic Savannah with SCAD facilities woven into the fabric of one of the largest and most renowned National Historic Landmark districts in the United States. These historic renovations are used to simultaneously educate SCAD's students through their contribution to the design process, while preserving these historic and Victorian district buildings for the broader Savannah community as well.

Atlanta, Georgia

SCAD Atlanta stands in the heart of Midtown, close to museums, parks, shops and music venues. SCAD Atlanta's main facility is located at 1600 Peachtree Street (pictured below). At approximately 312,000 square feet, this series of connected buildings is home to advertising, arts administration, fashion, foundation studies, general education, graphic design, illustration, interior design, painting, photography, printmaking and sequential art. This facility also includes a bookstore, dining hall, library, fitness center, galleries, and an Admission Welcome Center. The SCAD Atlanta campus also includes the 13,300 square foot SCADshow Theater, two residence halls, an acclaimed sculpture studio, revitalized historic cultural arts and writing center and an expansive digital media center that offer broad avenues for student engagement and professional development. In total, SCAD Atlanta occupies approximately 613,000 square feet in seven academic, administrative, and support buildings of which four are currently owned by the University. SCAD plans to purchase its 1600 Peachtree Street main facility in 2015 using Series 2014 Bond proceeds.

Hong Kong

SCAD Hong Kong offers that area's largest concentration of art and design degree programs in SCAD's UNESCO award-winning campus, a grand courthouse that has been restored and revitalized by the University (pictured below). SCAD Hong Kong is located at 292 Tai Po Road in Sham Shui Po, in the historic former North Kowloon Magistracy Building. SCAD has adapted the nearly 70,000 square-foot historic facility to become a leading site for the study of art and design in Asia, while honoring the structure's historic and cultural significance. Features include a library and art gallery, digital labs and studios, a green screen room, classrooms, and lecture halls. The entire building is updated with the most innovative technology to ensure that students are well prepared for professional careers. In total, SCAD Hong Kong occupies approximately 108,000 square feet in two academic, administrative and support buildings.

The Hong Kong Development Bureau has granted SCAD Foundation (Hong Kong) Limited ("SCAD Hong Kong"), a wholly controlled affiliate of SCAD, a ten-year lease with a five-year renewal option on these facilities. The first classes at the SCAD Hong Kong location were held in September 2010.

Lacoste, France

Since the 15th century, artists have made the pilgrimage to Lacoste, France, to witness the purity of its light and drink inspiration from a landscape of pastoral beauty. Today, artists still flock to this well preserved medieval village, now the home of SCAD's Lacoste program. Steeped in the culture of Provence, students are invited to shed the distractions of daily life and focus on their work — be it painting, photography, art history, historic preservation, writing or the many other disciplines the University makes available at this unique location. Course offerings vary each quarter, allowing students to earn credit toward any SCAD degree program while experiencing the riches of the region.

Lacoste School of the Arts in France, Association ("SCAD Lacoste") is a wholly-owned subsidiary of SCAD that operates a study abroad location in the Provence region of France. Nearly 300 students each year live and study in facilities dating from the 9th to the 19th centuries, inhabiting history while utilizing high-end resources including a digitally connected library, printmaking and photography labs, studio and lecture classrooms, a sculpture garden, student residences and more. SCAD Lacoste provides well-equipped teaching studios, dining halls, residence halls, galleries, a library and administrative offices. In total, SCAD Lacoste occupies approximately 56,000 square feet in 33 academic, administrative and support buildings, 32 of which are owned by SCAD.

Historic Preservation

SCAD has been in the vanguard of historic preservation for more than three decades. From adaptively reusing nearly 100 historic facilities around the world and being one of the only historic preservation programs in the country to offer immersive studies in the U.S., Europe and Asia, to receiving honors from UNESCO, the American Institute of Architects, the National Trust for Historic Preservation, the Congress for New Urbanism and others, SCAD is global in its presence, influence and impact. It is SCAD's renown as a thought leader in preservation that draws the field's strongest members to engage with students and faculty, including, most recently, famed preservation economist Donovan Rypkema, American Planning Association President Paul Farmer, and Oscar-winning actor and preservationist Jeremy Irons—to name a few. SCAD's commitment to the preservation movement is evidenced by the fact that the National Trust for Historic Preservation partnered with SCAD to produce and host the 2014 National Preservation Conference.

Asset Value

The book value of SCAD's property, plant and equipment at June 30, 2009 through 2013 is shown below.

Property, Plant and Equipment Book Values[1]
(Thousands of Dollars)

June 30	Land, Buildings, Equipment and Improvements	Accumulated Depreciation	Construction in Progress	Total
2009	$298,270	($108,384)	$30,837	$220,723
2010	334,291	(119,829)	28,643	243,105
2011	370,481	(139,271)	28,223	259,433
2012	420,943	(156,974)	3,924	267,893
2013	444,356	(174,536)	22,912	292,732

(1) Book value (less accumulated depreciation) is stated at cost at acquisition or at fair market value as of the date of donation.

ACCREDITATIONS AND AFFILIATIONS

SCAD is accredited by the Southern Association of Colleges and Schools Commission on Colleges ("SACSCOC") to award bachelor's and master's degrees. In 2010, SACSCOC reaffirmed SCAD's accreditation for ten years, the maximum term possible, with no recommendations for improvement. The accreditation is effective through 2020 when the University will begin a new reaffirmation cycle.

SCAD's professional Master of Architecture degree program is accredited by the National Architectural Accrediting Board ("NAAB"). In 2013, NAAB reaffirmed SCAD's Master of Architecture accreditation for eight years, the maximum term possible. SCAD's Bachelor of Fine Arts interior design degree programs in Savannah and Atlanta are accredited by the Council for Interior Design Accreditation ("CIDA"). In 2009, CIDA reaffirmed the program's accreditation for six years, the maximum term possible.

In addition to SACSCOC accreditation, all SCAD Hong Kong degrees are accredited by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications and are recognized on the Hong Kong Qualifications Framework. The 14 original programs launched at SCAD Hong Kong have a validity period of May 1, 2011 to April 30, 2016. The additional seven programs that were added have a validity period of January 1, 2013 to December 31, 2017. All academic programs received the maximum validity period.

SCAD eLearning degree programs are available to students throughout the United States and across the world. SCAD has taken steps to ensure that eLearning degree programs and University policies are in compliance with the regulations of states that have established consumer-oriented authorization processes. The University is also a member of the American Academy in Rome; Association of Collegiate Schools of Architecture; Atlanta Regional Council for Higher Education; Cumulus, the International Association of Universities and Colleges of Art, Design, and Media; EDUCAUSE; eLearning Guild; European League of Institutes of the Arts; Georgia Independent College Association; National Association of Independent Colleges and Universities; National Association of College and University Business Officers (NACUBO); Southern Association of College and University Business Officers (SACUBO); Sloan Consortium; Southeastern College Art Conference; and the U.S. Distance Learning Association.

ACADEMIC PROGRAMS

Degree Programs

Offering one of the most diverse assortment of degree programs at any art and design university in the nation, SCAD's programs are designed to prepare students for their careers. As creative degrees grow more and more valuable in today's professional marketplace, SCAD graduates are highly qualified and prepared to excel in their chosen fields.

Undergraduate programs embrace a wide range of major areas and are designed to challenge students to perform at a high level and to prepare them for professional careers. The curriculum provides students with core courses in foundation studies and general education leading to focused major programs emphasizing development of academic knowledge, technical and analytical skills, aesthetic sensibility, and the ability to express ideas visually and verbally.

The Bachelor of Arts degree program is a four-year course of study requiring 180 quarter credit hours (equivalent to 120 semester credit hours) and incorporating a foundation studies curriculum, comprehensive general education curriculum, area of concentration curriculum and electives. The majority of the Bachelor of Arts curriculum consists of fine arts, humanities, general education and liberal arts courses. An area of concentration complements the coursework.

The Bachelor of Fine Arts degree program is also a four-year course of study requiring 180 quarter credit hours and incorporating a foundation studies curriculum, general education curriculum, major program curriculum and electives. The Bachelor of Fine Arts curriculum is designed to focus intently on acquiring knowledge and skill in the arts and design. In the foundation studies curriculum, students receive instruction in fundamental principles, elements and techniques of art and design.

SCAD also offers certificate programs to provide special preparation in an area complementary to the student's major or intended profession. The majority of certificate coursework cannot be redundant with degree program requirements. Degree-seeking students must complete certificate coursework prior to or within the final quarter of registration in degree coursework.

Academic Departments

SCAD's academic departments are organized in eight divisions consisting of the School of Building Arts, School of Communication Arts, School of Design, School of Digital Media, School of Entertainment Arts, School of Fashion, School of Foundation Studies, and School of Liberal Arts. Schools offer a variety of undergraduate and graduate programs.

Academic Year

SCAD's academic year is divided into four quarters of 10 weeks each at each of the locations. Start and end dates are adjusted for the Hong Kong and Lacoste locations to address any special calendar needs. Full-time SCAD students take three classes per quarter; full-time graduate students take two. This tightly focused schedule is designed to enable students to acquire the knowledge and master the skills required to advance in their chosen field.

Lacoste Study Abroad Program

SCAD Lacoste offers artists the unique opportunity to live, learn and create art in a supportive environment rich with culture and history. Programs occur four times annually. Students come from all over the world to study at SCAD Lacoste. Its unique rural setting serves as a springboard for a focused educational experience. Classes are taught in English with academic credit being offered through SCAD.

SCAD eLearning

SCAD eLearning is designed with the success of long-distance learners in mind, and has a proven track record of accomplishment. SCAD eLearning has been offering fully online degrees for more than 10 years, and currently offers over 21 online degree programs. SCAD eLearning classes are small to promote student and faculty engagement throughout the learning process. Lecture classes are capped at 30 students, undergraduate studio classes at 20 and graduate studio classes at 16.

FACULTY AND CURRICULUM

Faculty

SCAD had approximately 678 full-time and part-time faculty members at Fall 2013, of whom approximately 77%, or 520, were full time. Of the full-time faculty, 81% hold terminal degrees in their academic disciplines. SCAD does not have a tenure system. Faculty members receive one-year contracts that are renewed annually upon review. This enables faculty to focus on teaching and student outcomes. The system allows SCAD to remain academically flexible with its curriculum.

All classes are small, with an average faculty-to-student ratio of 1-to-18. Classes typically meet for two and one-half hours twice a week for studios, lectures, and individual or group work. Online classes are asynchronous, with students and faculty participating in discussion postings and Web chats. Fridays are open for studio time or collaboration outside class with students and faculty.

SCAD's faculty includes many accomplished writers, artists, designers and architects. While many continue to publish, exhibit, design and consult, they are dedicated to teaching and sharing their expertise and professional connections with SCAD students and alumni.

Curriculum

Technologies, trends, and disciplines evolve. SCAD has continued to grow steadily and has remained in the vanguard of international universities by offering a curriculum that is responsive to both student demand and evolution in the creative professions. Lead times in establishing new degree programs, as well as territoriality and tradition mean that outdated and unwanted courses and degree programs can stay on the books and in the catalog far longer than necessary at some institutions, with declining interest from students and employers. Because of a streamlined, collaborative development process, a new degree program can be created, approved, and offered in less than a year. By way of example, in 2010, SCAD offered 14 degree programs at the newly opened SCAD Hong Kong – and by 2013, that number had grown by a significant 50 percent to 21 degree programs and 14 minors. The following facts illustrate the speed and quality of curricular innovations at SCAD in the last seven years:

- 947 New courses created since 2008
- 1,533 Existing courses revised since 2008 to be more professionally relevant
- 567 Obsolete or underutilized courses eliminated
- 33 New academic degree programs created and offered

- 476 Existing academic degree programs revised since 2008 to be more professionally relevant
- 17 Obsolete or underutilized degree programs eliminated

Visiting Lecturers

SCAD brings noted artists and designers to teach classes as distinguished visiting faculty each year. Alexander Wang, Cat Chow, Patrick Dougherty, Nene Humphrey, Alfredo Jaar, Sandy Skoglund, Dakota Jackson and Carrie Mae Weems are a few recent examples of such artists and designers that have taught at SCAD.

Visitors and lecturers also include or have included iconic designer Massimo Vignelli; editor-in-chief of Wired magazine, Chris Anderson; executive editor of Marvel, Mike Marts; chair of the National Endowment for the Humanities, Jim Leach; founder and editor of Fraction Magazine, David Bram; Tony Award-winning playwright, Jeff Whitty; and Teen Vogue, editor-in-chief, Amy Astley.

The Savannah Film Festival (described below), the SCAD Fashion Show (described below), SCAD commencement and other events also bring renowned actors, artists and designers. Recent visitors include Patricia Clarkson, Woody Harrelson, Stan Lee, Fern Mallis, Hamish Bowles, Kelly Cutrone, Robert Klanten, Zac Posen, Angel Sanchez, Diane von Furstenberg, Isabella Rossellini and Whoopi Goldberg.

SCAD Libraries

The University's libraries are focal points for information, learning, inspiration and research. The libraries contribute to every aspect of academic and intellectual life at SCAD by providing a broad range of services to students, faculty and staff. SCAD's libraries contain more than 200,000 books, 900 current print serials, a wide variety of special collections items, 12,000 full-text e-journals, 30,000 e-books and more than one million digital images. Each collection has unique strengths to meet the needs of that particular SCAD location. More than 30 full- and part-time staff members maintain library resources and are available to assist students, staff and faculty

A collection of artists' books includes 2,100 works in book form by artists active from the 1960's through the contemporary era, comprising one of the most significant collections of artists' books in the United States. The Don Bluth Collection of Animation consists of animation drawings, storyboards, and other materials from some of the artist's most admired work in film, including *The Secret of NIMH, An American Tail, The Land Before Time, Anastasia* and *Titan AE*.

STUDENT LIFE AND SPECIAL PROGRAMS

The SCAD Museum of Art

The SCAD Museum of Art ("SCADMOA") is a contemporary art and design museum conceived and designed expressly to enrich the educational environment of SCAD students and professors and to attract and educate visitors from around the world. In the fall of 2011, SCAD opened the doors to an expansion to SCADMOA that increased overall space to more than 82,000 square feet total, enabling the museum to present engaging exhibitions and installations from renowned and emerging artists, as well as showcase works from the University's diverse permanent collection. The second floor of the museum also houses a series of classrooms and studios, allowing students to work within intimate proximity to their objects of study.

A work of art in and of itself, the museum incorporates the oldest surviving railroad depot in the country and is the recipient of the 2014 American Institute of Architects National Honor Award for Architecture, a pinnacle achievement for new buildings given annually by the AIA. In January 2014, on the heels of this honor, CNN featured SCADMOA as one of "11 Coolest Buildings in North America."

Athletics

SCAD is the first art and design university in the United States to offer a comprehensive, intercollegiate athletics program and remains the only major arts university with a competitive athletics program. SCAD is also committed to the ideal that academic pursuits should be the top priority for all student-athletes. The University competes at the intercollegiate level as a member of the Sun Conference and the National Association of Intercollegiate Athletics in cross country, track and field, equestrian, golf, lacrosse, soccer, swimming, and tennis. SCAD's equestrian team benefits from SCAD's Ronald C. Waranch Equestrian Center, which is an 80-acre complex with two horse barns.

SCAD athletics continued to shine in the 2013-2014 academic year, with SCAD's women's lacrosse team winning the National Women's Lacrosse League ("NWLL") South Region Championship and finishing second in the NWLL National Championship tournament. SCAD Atlanta men's tennis was crowned 2014's Appalachian Athletic Conference Men's Tennis Tournament Champions and advanced to the NAIA National Championship tournament. Women's cross country took first place in The Sun Conference Championship. Women's golf achieved a No. 1 ranking in the NAIA and finished the year as The Sun Conference Champions. In addition, several individual student-artist-athletes and their coaches received individual accolades during the year.

SCAD also fields a championship equestrian team that has won 39 individual and team national titles, including 22 American National Riding Commission championships — a record-breaking six of them consecutive — and 17 individual Intercollegiate Horse Show Association championships since 2002.

SCAD Collaborative Learning Center

SCAD founded the Collaborative Learning Center ("CLC") in 2010 to serve as a dedicated venue for active learning and collaboration with industry leaders. Since then, CLC has partnered with more than 80 companies including the Coca-Cola Company, Fisher-Price, AT&T, Hewlett-Packard, Adobe, Microsoft, Snap-on and Turner Broadcasting, among others. Students of CLC and its professional partners work side-by-side to explore markets, target demographic groups, establish brand guidelines, solve design issues, create an innovative design strategy, and more. Collaborative teams consist of top-level graduate and undergraduate students from around the world. This teamwork is designed to transform the industry partners' vision into reality while furthering each student team member's education. SCAD students recently worked with FOX Sports to develop an opening animation for the Super Bowl, and joined forces with Microsoft to experiment firsthand with the power of Kinect.

shopSCAD and Working Class Studio

Located in Poetter Hall, the University's gallery-boutique, shopSCAD features exclusively the artwork and designs of students, professors, staff and alumni of SCAD and gives students experience in selling their work before graduating. Working Class Studio, a product development venture of SCAD, allows students to design and market new products and designs.

Working Class product lines, all designed and created by SCAD students, were featured in articles in the *Food Network Magazine*, *HGTV Magazine*, *EveryDay with Rachel Ray* magazine, *Design NJ* magazine, and *Southern Living*, while shopSCAD received praise in the 2013-2014 academic year from the *New York Times*, *New York Post*, *Design Sponge*, and the travel blog of Lilly Pulitzer, each article the result of personal visits to shopSCAD by journalists, designers, and others.

Sidewalk Arts Festival

Sidewalk Arts Festival 2014 saw over 1,000 SCAD students, alumni and prospective students transform the pathways of Forsyth Park in Savannah into a colorful carpet of inspired chalk art, bringing an art form from 16th century Europe into the 21st century. This annual festival allows students, alumni and community to come together to appreciate and create this ancient art form in modern Savannah.

SCAD Style

SCAD Style is a week-long series of lectures, panel discussions, film screenings, and exhibitions from luminaries in the world of design and style. As an art and design university, SCAD tailors programming to appeal to students studying style-related disciplines, including fashion design, fibers, interior design, luxury marketing, architecture, furniture design and more. Recent SCAD Style guests include: Derek Lam, Hamish Bowles, Fern Mallis, Peter Arnell, Betsey Johnson, Asif Khan, Waris Ahluwalia, Dakota Jackson, Luigi Colani, and Gina Sanders.

deFINE ART

deFINE ART is an annual series of major contemporary art exhibitions, lectures and public events presented at SCAD's global locations in Savannah, Atlanta and Hong Kong. deFINE ART celebrates SCAD's School of Fine Arts, which promotes artistic expression, dialogue and innovation in a new generation of emerging artists. In collaboration with numerous departments throughout the University, deFINE ART represents one of SCAD's many initiatives to expand the learning environment beyond the boundaries of the classroom and studio.

SCAD Fashion Show

The annual runway spectacle — considered a premier student fashion show in the nation showcases the collections of more than 40 top graduating fashion and accessory design seniors. The show achieved record attendance; online viewership more than doubled this year over last, with an estimated 4,500 views from around the world.

Savannah Film Festival

The annual film festival is highlighted by cinematic creativity from both award-winning professionals and emerging student filmmakers. Each year thousands of people attend the eight day Savannah Film Festival, the largest university film festival in the country. The festival is host to a wide variety of competition film screenings, special screenings, workshops, panels, and lectures. Past guests and honorees include: Stan Lee, John Goodman, Oliver Stone, Ray Liotta, Lily Tomlin, James Cromwell, Sir Ian McKellen, Isabella Rossellini, Emmy Rossum, Jeremy Renner, and Woody Harrelson.

aTVfest

Hosted by SCAD, aTVfest is an international event focused on design, creativity and innovation in television and media production. The festival brings together professionals from all spheres of content production, including broadcast, cable, Web, social media, music videos and advertising to discuss industry trends and showcase the best work in each field. Panel discussions, workshops, award presentations and special screenings occur daily. Award presentations and nightly premieres are followed by exclusive receptions that facilitate networking and development opportunities for sponsors and attendees. The inaugural Outstanding Achievement in Television award went to Phylicia Rashad in 2013 and other guests and panelists included Emily Kinney, Laurie Holden, and Paul Gadd from The Walking Dead.

Rising Star

This challenging five-week program awards college credit to rising high school seniors who are ready for a university experience at SCAD Savannah or SCAD Atlanta. Students enroll in two college-level classes and have the opportunity to build or enhance their visual arts portfolios as well as become acquainted with SCAD and its facilities, from computer labs to studios and production galleries, among others.

GOVERNANCE

Board of Trustees

The University is governed by its nine member elected Board of Trustees (plus the president of the University who serves as an ex officio non-voting member), which serves as the governing authority of SCAD by establishing broad policies for the University, securing financial resources to adequately support the University's goals, and electing the president. The bylaws of the University require a Board (including the president of the University as an ex officio non-voting member) of no fewer than five members and no more than 25 members. SCAD's administration is accountable to the Board of Trustees. Board members direct the administration of the University to implement and comply with the policies and guidelines required by the criteria for accreditation issued by the SACSCOC. The Board of Trustees holds biannual regular meetings, and periodically schedules special meetings, to transact and resolve any and all business of the University. Trustees serve three-year staggered terms (in three panels) and may serve multiple terms according to the provisions described in the University's bylaws.

The following is a list of current elected members of the SCAD Board of Trustees, their respective year of initial election to the Board and principal employment and/or organizational affiliations.

Name	First Elected	Employment and Affiliations
Alan B. (Albie) Whitaker III, *Chair*	2011	Albie Whitaker III is a financial advisor at Morgan Stanley A passionate runner and advocate for the disabled, he occupies leadership roles at The Shepherd Center Society at Shepherd Center, a hospital for patients with brain and spinal cord injuries, and the Getting2Tri Foundation, which helps disabled athletes compete against able-bodied athletes.
Nancy Herstand	2003	Nancy Herstand is an arts management and fundraising consultant with an extensive career working with many of America's major visual and performing arts institutions, and on selected international projects. A native of Scarsdale, New York, and a graduate of Barnard College, Mrs. Herstand lives in Miami, Florida, where she led the private sector's $80-million capital campaign for Miami's $483-million Adrienne Arsht Center for the Performing Arts. She is a member of the Board of Directors of the Florida Grand Opera, a resident company of the Arsht Center, and the France Florida Foundation for the Arts, Inc. She also serves on the SCAD Board of Visitors.
Pharris (P.J.) Johnson	2013	P.J. Johnson is a retired Air Force colonel and author of four books on local history. Dr. Johnson earned a Master of Arts in historic preservation from the Savannah College of Art and Design, an M.A. in business management from Central Michigan University, and a Bachelor of Business Administration degree in accounting from the University of Georgia. From 2005 to 2012, Johnson served as vice president for SCAD Atlanta. He also serves on the SCAD Atlanta Advisory Council.

Name	First Elected	Employment and Affiliations
Chan Lai Wa	2000	Chan Lai Wa is a distinguished entrepreneur, diplomat and patroness of the arts. In 1999, she established the China Red Sandalwood Museum in Beijing, China, the first and only museum of its kind dedicated to the preservation and education of the ancient Chinese art of sandalwood carving. Dr. Chan has continuously promoted international arts education and cultural exchange and is involved with many worthy causes in Asia and abroad. In 2012, she was named to the *Time* 100, the magazine's annual list of the most influential people in the world. Dr. Chan resides in Beijing with her husband.
Robert (Bob) L. Nardelli	2011	Bob Nardelli is senior advisor of Cerberus Capital Management, L.P. Previously, he served as CEO of Cerberus Operations & Advisory Company, LLC, CEO of Freedom Group, and CEO of Chrysler. He earned a bachelor's degree in business from Western Illinois University and earned a Master's of Business Administration from the University of Louisville. Dr. Nardelli began his professional career at General Electric, then joined Case Corporation and returned to General Electric before moving to The Home Depot, where he was the president and CEO. Dr. Nardelli previously served on President George W. Bush's Council of Service and Civic Participation.
Sally Waranch Rajcic	1998	Sally Waranch Rajcic is the owner and director of the Sarah Bain Gallery in Los Angeles, California, where she represents and exhibits the work of emerging artists. Mrs. Rajcic is the former director of The Muckenthaler Cultural Center in Fullerton, California, and is president of the Ronald C. Waranch Charitable Foundation.
Stuart Saunders, M.D.	2013	Stuart Saunders is an orthopedic surgery resident at Wake Forest Baptist Medical Center in Winston-Salem, North Carolina. Dr. Saunders earned his Bachelor of Business Administration in 2004 from the University of Mississippi and his Doctor of Medicine in 2010 from the Medical University of South Carolina. His extensive volunteer service includes the Children's Home of North Carolina, the Charleston Miracle League, Special Olympics, Habitat for Humanity, and sports medicine for high school football teams.
André Leon Talley	2002	André Leon Talley is the international editor-at-large of *Numéro Russia*. Dr. Talley joined *Vogue* magazine in 1983 and now serves as a contributing editor. With a master's degree in French studies, he forged a career in the world of high style. He has worked closely with some of the most celebrated names in fashion, Hollywood and the arts. Dr. Talley resides in New York and is an active member of his community and church.

Name	First Elected	Employment and Affiliations
Anita Thomas	2014	Anita Thomas is a graduate of the University of Georgia. Ms. Thomas chaired SCAD's Atlanta Advisory Council for five years and serves on SCAD's Board of Visitors. She has been active in the community all her life, having served on the Georgia Council for the Arts and at the Michael C. Carlos Museum at Emory University. A jewelry designer, Ms. Thomas formed Anita's Accents, Ltd., and her designs were featured in The New York Times, Atlanta Journal, Northside Neighbor and several jewelry publications. She has been a contributing editor for *Southern Accents* magazine, *Verandah* magazine and *Atlanta Homes & Lifestyles*. Ms. Thomas also was honored as one of the 2014 Women of Style and Substance.

See also Appendix E to the Official Statement for additional information with respect to the SCAD Board of Trustees.

Board of Visitors and Advisory Council

The Board of Trustees is supplemented by the SCAD Board of Visitors and the SCAD Atlanta Advisory Council. The Board of Visitors is a voluntary board comprised of approximately 40 leaders in business, government, education, art and design focused on fundraising and building the reputation of SCAD. The Investment Committee of the Board of Visitors oversees the University's endowment and reports to the Chairman of the Board of Trustees.

The SCAD Atlanta Advisory Council is an advocacy and support network for SCAD. It is comprised of approximately 28 individuals in business, government, education, art and design fields.

Administration

SCAD's President is responsible for the day-to-day administration of the University. Assisting the President is an executive staff consisting of the Chief Academic Officer, Senior Vice President for University Resources, Vice President for Student Success, Vice President for Human Resources, Vice President for Financial Growth, Vice President for Business Operations, Vice President for Student Financial Services, and Executive Director of Institutional Advancement.

Biographies of the principal executive officers are as follows.

Paula Wallace, President. Paula Wallace is the president and co-founder of the University. Before her appointment as president in 2000, President Wallace served as vice president, academic dean and provost of SCAD. During her tenure as president, the University has expanded to include: SCAD Atlanta, SCAD Hong Kong, SCAD Lacoste and SCAD eLearning. As a senior administrator at SCAD, President Wallace has also initiated many of the University's most innovative academic outreach programs and signature events, including Art Educators' Forum, the Rising Star pre-college program, Summer Seminars, shopSCAD, Working Class Studio, the Sidewalk Arts Festival, SCAD Style, deFINE ART, and the annual SCAD Fashion Show. She also oversees the SCAD Museum of Art.

President Wallace also founded the Savannah Film Festival. She has also authored children's and interior design books, including *A House in the South* (Random House), co-authored with Frances Schultz, and *Perfect Porches* (Random House). President Wallace earned a B.A. degree from Furman University, and M.Ed. and Ed.S. degrees from Georgia State University. The Board recently executed a new five-year employment agreement with President Wallace, effective July 1, 2014 for a term ending on June 30, 2019.

Dr. Gokhan Ozaysin, Chief Academic Officer. Dr. Ozaysin is the chief academic officer of SCAD, collaborating across all academic and support departments to provide an exceptional education and unparalleled career preparation to SCAD students. He supervises the academic deans, department chairs, and faculty across all SCAD locations, as well as the office of institutional effectiveness and the SCAD Collaborative Learning Center.

Previously at SCAD, Dr. Ozaysin served as the vice president for academic services, the vice president for institutional effectiveness, and a film professor. As vice president for institutional effectiveness, he supervised the departments of institutional research, institutional assessment, and evaluation and policy studies at SCAD. Dr. Ozaysin earned a B.F.A. in film and television from Anadolu University in Turkey and an M.F.A. in motion picture, television, and recording arts from Florida State University, graduating summa cum laude on both occasions. Dr. Ozaysin earned his Ph.D. in film studies from Anadolu University.

Glenn Wallace, Senior Vice President for University Resources. Glenn Wallace is senior vice president for university resources, overseeing SCAD's two million square feet of space on three continents. Mr. Wallace directs the design aesthetic for the University's educational environments and has transformed numerous historic structures, including the AIA Award-winning SCAD Museum of Art (a surviving antebellum railroad complex), the UNESCO Award-winning SCAD Hong Kong (a grand mid-century courthouse), the Maison Basse at SCAD Lacoste (a centuries-old vernacular French farmhouse), and Ivy Hall at SCAD Atlanta (a 19th-century Queen Anne mansion). His most recent project, SCADpad, reuses a mid-century parking garage for microhousing (135-square-foot units that fit in one parking space). Mr. Wallace earned degrees in interior design from SCAD and marketing from Frances Marion University.

Dr. Phil Alletto, Vice President for Student Success. Dr. Phil Alletto serves as SCAD's vice president for student success, oversees admission and recruitment, career and alumni success, international student services, counseling and student support services, student success and advising, student involvement, orientation, First-year Experience course, residence life, student conduct, the student center, athletics, intramurals, student recreation and fitness. Previously, Dr. Alletto served as vice president for student services at Dixie State College in Utah, vice president for student development and enrollment planning at Westminster College in Utah, and vice president for enrollment planning at the University of Pittsburgh. Dr. Alletto earned a B.S. in elementary education and an M.Ed. in educational administration from Brigham Young University, as well as an Ed.D. in educational leadership and policy from the University of Utah.

Lesley Hanak, Vice President for Human Resources. Lesley Hanak is vice president for human resources, leading HR operations across SCAD's four global locations. Ms. Hanak's numerous accomplishments include implementing improved benefit plans for employees, contributing to the University-wide streamlining and productivity initiative, and overseeing the University's employee bonus program. Ms. Hanak has served in various HR roles at SCAD since 2000, supporting faculty, staff, and students by recruiting, developing, and retaining quality employees at every level. She earned her B.S. in health science from Armstrong Atlantic State University, and is a member of the Society of Human Resources Management.

J.J. Waller, Vice President for Financial Growth (and Treasurer). J.J. Waller is vice president for financial growth, business manager for executive administration, and treasurer of the University. Among his many accomplishments at SCAD, Mr. Waller developed and implemented budgeting and forecasting processes and led improvements in the University's business office. Mr. Waller is responsible for the financial planning and analysis function and oversees the University's institutional advancement department. Previously, Mr. Waller has worked as a financial consultant at Gates, Moore & Company and The Coker Group. Mr. Waller earned a B.B.A. in banking and finance and an M.A. in economics from the University of Mississippi.

Steve Mineo, Vice President for Business Operations. Steve Mineo is vice president for business operations and the director of internal audit. During his more than two years at SCAD, Mr. Mineo has implemented process improvements in the business office, admission department, and travel department. His previous positions include senior manager of internal controls at Warner Music Group, corporate compliance and controls manager at American Superconductor, advisory services manager at Grant Thornton, and senior associate at PricewaterhouseCoopers. Mr. Mineo is a Certified Information Systems Auditor and is a member of the Institute of Internal Auditors and the Information Systems Audit and Control Association. Mr. Mineo earned a B.S. in finance from Bentley University with a minor in corporate communication, and studied abroad at the Royal Melbourne Institute of Technology in Australia focusing on international finance.

Scott Linzey, Vice President for Student Financial Services. Scott Linzey is vice president for student financial services and is responsible for all elements of financial aid and student employment at SCAD. Mr. Linzey's accomplishments include implementing a student financial literacy program and improving protocols and procedures to better serve students and enhance retention. Prior to joining SCAD, he served as principal consultant at Stamats. Mr. Linzey earned a B.A. in political science and an M.B.A. with a concentration in marketing from Mount St. Mary's University.

Jonathan Frappier, Executive Director of Institutional Advancement. Jonathan Frappier is SCAD's executive director of institutional advancement, overseeing the University's direct and event-based fundraising. Before joining SCAD, Mr. Frappier was director of development at Emory University in Atlanta, associate director of development, individual giving, for the American Conservatory Theater in San Francisco, and a major gifts officer for the University of North Carolina Asheville. Mr. Frappier earned a B.F.A. in acting from the University of North Carolina School of the Arts and was a professional actor in New York and Los Angeles for nearly a decade. He also co-founded and managed theater companies.

See also Appendix E to the Official Statement for additional information with respect to the SCAD's executive officers.

STUDENTS

Enrollment

The table below shows enrollments (headcount) for SCAD's undergraduate and graduate programs for the previous five academic years.

Year[1][2]	Undergraduate	Graduate	Total
2009-2010	8,188	1,718	9,906
2010-2011	8,300	2,161	10,461
2011-2012	8,721	2,342	11,063
2012-2013	9,182	2,233	11,415
2013-2014	9,332	2,286	11,618

(1) Fall Quarter measurement date (September).
(2) See also Appendix E to the Official Statement.

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Admissions

The following table summarizes the University's student demand information and average SAT and ACT scores for the past five academic years.

	2009-2010		2010-2011		2011-2012		2012-2013		2013-2014[1]	
	Freshman	Transfer	Freshman	Transfer	Freshman	Transfer	Freshman	Transfer	Freshman	Transfer
Applicants	8,083	2,953	9,257	3,247	8,536	2,875	8,977	2,829	8,626	2,585
Acceptances	5,491	1,584	5,719	1,460	5,378	1,412	5,535	1,358	5,611	1,342
Enrollments	1,168	662	1,690	727	1,790	772	1,794	649	1,789	678
Acceptance Rate %	68%	54%	62%	45%	63%	49%	63%	48%	65%	52%
Matriculation Rate %	21%	42%	30%	50%	33%	55%	32%	48%	32%	51%
Average SAT Scores:	1,073		1,076		1,064		1,065		1,065	
Average ACT Scores:	23		23		23		23		24	

(1) See also Appendix E to the Official Statement.

Comparative Enrollment

The following tables compare SCAD's total enrollment and enrollment growth for the academic years listed to various competitor institutions the University has identified as design and art schools with which SCAD competes for students. See also Appendix E to the Official Statement.

Enrollment

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
SCAD[1]	**9,906**	**10,461**	**11,063**	**11,415**	**11,618**
Pratt Institute	4,830	4,633	4,724	4,881	4,938
School of the Art Institute of Chicago ("SAIC")	3,093	3,328	3,315	3,310	3,330
Rhode Island School of Design ("RISD")	2,360	2,406	2,396	2,386	2,420
Maryland Institute College of Art ("MICA")	2,116	2,102	2,253	2,282	2,280
Ringling College of Art and Design	1,318	1,368	1,376	1,364	1,253

(1) IPEDS reporting for SCAD does not include SCAD Hong Kong enrollment. Numbers are adjusted to include SCAD Hong Kong enrollment for academic years 2011-2014 of 141, 237, 351 and 525, respectively.

Source: National Center for Education Statistics, IPEDS data center (http://nces.ed.gov/ipeds/datacenter. Table Enrollment by gender, student level, and full- and part-time status: Fall 2008 – 2013).

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Enrollment Growth %[(1)]

	2010-2011	2011-2012	2012-2013	2013-2014
SCAD[(1)]	**5.6%**	**5.8%**	**3.2%**	**1.8%**
Pratt	(4.1%)	2.0%	3.3%	1.2%
SAIC	7.6%	(0.4%)	(0.2%)	0.6%
RISD	1.9%	(0.4%)	(0.4%)	1.4%
MICA	(0.7%)	7.2%	1.3%	(0.1%)
Ringling	3.8%	0.6%	(0.9%)	(8.1%)

(1) IPEDS reporting for SCAD does not include SCAD Hong Kong enrollment. Numbers are adjusted to include SCAD Hong Kong enrollment for academic years 2011-2014 of 141, 237, 351 and 525, respectively.
Source: National Center for Education Statistics, IPEDS data center (http://nces.ed.gov/ipeds/datacenter).

Retention

For the Fall 2008 through Fall 2013, the University's one year student retention rates for all full-time, first time freshman bachelor's (or equivalent) degree-seeking students were as follows:

Period	One Year Retention Rate
Entering Fall 2008, Returning Fall 2009	80%
Entering Fall 2009, Returning Fall 2010	82
Entering Fall 2010, Returning Fall 2011	82
Entering Fall 2011, Returning Fall 2012	81
Entering Fall 2012, Returning Fall 2013	81

TUITION AND FEES

General

Tuition for the 2013-2014 academic year for full-time undergraduate students at the Savannah and Atlanta campuses and for SCAD eLearning was US $32,950 (based on three courses per quarter and enrollment for a full academic year consisting of three quarters) and for 2014-2015 is US $33,795. A one-time US $500 enrollment fee is charged to new students. Room charges (with separate meal plan required) for a double occupancy room, dormitory style in Savannah for 2013-2014 was US $8,500 and is $8,715 for 2014-2015, and in Atlanta was US $7,675 and is $7,870 for 2014-2015. Other room styles include triple occupancy dorm style rooms at lower rates, and single occupancy private bedrooms at higher room rates. A base meal plan, per three quarter academic year, was US $4,875 ($1,625 per quarter) in 2013-2014 and is US $4,995 ($1,665 per quarter) in 2014-2015.

Tuition for the 2013-2014 academic year for full-time graduate students at the Savannah and Atlanta campuses and for SCAD eLearning was US $33,750 (based on three courses per quarter and enrollment for a full academic year consisting of three quarters) and for 2014-2015 is US $34,605. A one-time US $500 enrollment fee is charged to new students. Room charges and base meal plan are charged as noted above for undergraduates.

Tuition, Room, Meal Plan and Fees

The following table summarizes SCAD's undergraduate tuition, room charges, base meal plan costs and one-time enrollment fee in U.S. dollars over the past five years for the Savannah campus.

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Undergraduate Tuition	$29,070	$30,510	$31,905	$32,950	$33,795
Room (Savannah, base double occupancy)	7,460	7,785	8,220	8,500	8,715
Base Meal Plan	4,290	4,470	4,770	4,875	4,995
One time enrollment fee	500	500	500	500	500
Totals	$41,320	$43,265	$45,350	$46,825	$48,005

Tuition for the 2013-2014 academic year for full-time undergraduate students for SCAD Hong Kong was HK $255,798 (based on three courses per quarter and enrollment for a full academic year consisting of three quarters) and for 2014-2015 will be HK $261,911. A one-time HK $3,875 enrollment fee is charged to new students. Room charges (with no meal plans provided) for apartment-style housing in Hong Kong for 2013-2014 ranged from HK $72,600 to HK $79,025 based on apartment size (and will range from HK $73,780 to HK $81,530 for 2014-2015). The equivalent U.S. dollar amounts for these costs at SCAD Hong Kong approximate the U.S. dollar amounts shown in the table above.

Tuition for the 2013-2014 academic year for a quarter (15 credit hours) for undergraduate program participants at SCAD Lacoste was US $10,983 and is the same for the 2014-2015 academic year. Room, meals, and Paris excursion, and site visit fees for a quarter in the 2013-14 academic year were US $6,150, and are US $6,300 for the 2014-2015 academic year. See also Appendix E to the Official Statement.

Comparative Tuition Data

The following table compares SCAD's tuition, room and board and fee charges for the academic years listed to various competitor institutions the University has identified.

Gross Tuition, Fees & Room & Board[(1)(2)]

	FY11	FY12	FY13	FY14	% Change (FY13-14)
SCAD	**$41,320**	**$43,265**	**$45,350**	**$46,825**	**+3.25%**
Pratt	46,810	49,190	51,598	53,934	+4.53%
SAIC	49,650	51,360	52,830	54,775	+3.68%
RISD	49,605	51,429	53,312	55,204	+3.55%
MICA	45,540	48,240	50,220	52,150	+3.84%
Ringling	47,130	49,840	48,700	51,312	+5.36%

(1) Room rates based on standard, double occupancy.
(2) 2015 data not yet available.
Source: National Center for Education Statistics, IPEDS data center (http://nces.ed.gov/ipeds/datacenter/).

HOUSING

The University offers 1,725 residence hall rooms and apartments on its Savannah, Atlanta, and Hong Kong campuses. The University does not currently require students to live in SCAD provided housing. The Savannah campus offers approximately 3,500 beds and for the fall of 2014 full occupancy is expected with additional beds being added to rooms. In 2013, SCAD opened its newly constructed Montgomery House residence hall in Savannah offering approximately 490 beds. The Atlanta campus offers approximately 475 beds and for the fall of 2014 the occupancy rate is expected to be approximately 95%. The Hong Kong campus offers approximately 175 beds and for the fall of 2014 the occupancy rate is expected to be approximately 95%. All University housing is provided furnished. As part of a five year capital plan, SCAD will redevelop certain existing residence halls in Savannah and Atlanta that will add approximately 1,450 incremental beds. See "PLAN OF FINANCE" in the main body of this Official Statement.

FINANCIAL INFORMATION

Budgetary Matters

All financial operations of the University are captured in the annual budget that is prepared by SCAD and approved by the Board of Trustees. The financial resources are outlined in a budget and cover all aspects of operations:

- Operating Expenses: general and administrative and payroll
- Capital Expenditures: physical plant, information technology, and academic resource
- Cash Flow: Depreciation, amortization, interest expense, and debt service

Each of the aforementioned areas has various stakeholders that work with the finance team to compile requests and initially vet the proposals. The budget is a zero-based approach where resources are identified with the functional stakeholders to accomplish the goals set forth in the strategic plan. Past expense activity trends are taken into account when drafting the budget, though greater emphasis is focused on the upcoming initiatives in the budgeted fiscal year. The budget is initially compiled by the finance team and the functional stakeholders and presented to the budget committee for approval prior to being presented the Board of Trustees. The budget committee includes: Chief Academic Officer, Senior Vice President of University Resources, Vice President for Financial Growth, Vice President for Business Operations, Vice President for Human Resources, Vice President for Information Technology, and Associate Vice President for University Resources. The budget process starts in November of each calendar year and the final Board of Trustees approval occurs in June of the subsequent calendar year.

After the budget is finalized, the finance team meets with each functional owner on a monthly basis to discuss activity related to the budget. It is through these meetings that variances are proactively identified and remediated internally. Material variation of expense activity due to an unforeseen strategic initiative is required to be approved by the Vice President for Financial Growth, President, and reviewed with the Board of Trustees at one of the board meetings. All expenditures over $100,000 require approval of the Vice President for Business Operations, thus allowing for greater budgetary control.

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Funds Available for Debt Service

The following table provides a summary of SCAD's operating funds available for debt service for the fiscal years ended June 30, 2009 through June 30, 2013. This is an alternative measure of operating income, but is not a financial performance measure prepared in accordance with generally accepted accounting principles.

	Fiscal Years				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Unrestricted operating revenue	$227,879,706	$254,310,518	$269,512,539	$290,712,943	$308,221,883
less: operating expenses:	(210,784,549)	(251,065,961)	(254,403,469)	(262,315,028)	(252,728,832)
Change in unrestricted net assets from operating activity	$17,095,157	$3,244,557	$15,109,070	$28,397,915	$55,493,051
plus:					
Interest expense[1]	(1,179,970)	7,148,975	3,713,250	9,612,882	3,248,807
Depreciation and amortization	16,827,864	18,467,261	21,447,535	24,257,316	25,159,916
Unrestricted operating funds available for debt service	$32,743,051	$28,860,793	$40,269,855	$62,268,113	$83,901,774
Net Tuition Revenue	$186,332,223	$205,325,410	$218,719,377	$234,781,435	$244,216,326

[1] Includes expense associated with interest rate swap with Bank of America which will be terminated in connection with the plan of finance and the issuance of the Series 2014 Bonds. 2008-2009 includes a gain of $5,000,000 resulting from the termination of an interest rate swap agreement.

Accounting Matters

The University presents its financial position through the use of three separate categories of net assets: permanently restricted, temporarily restricted and unrestricted net assets. The categories are based on the existence, absence or expiration/satisfaction of donor-imposed restrictions:

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

- Temporarily restricted net assets consist of net assets subject to donor imposed stipulations that will be met either by actions of the University and/or the passage of time, as well as that portion of time restricted donor endowment funds that are subject to an enacted version of the Georgia Uniform Prudent Management of Institutional Funds Act (the "Georgia Institutional Funds Act").

- Permanently restricted net assets consist of net assets that are subject to permanent donor-imposed stipulations. The University has interpreted the Georgia Institutional Funds Act as requiring the preservation of the historical value (corpus) of all donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' historical value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated for expenditure. The University records the investment returns on the specific-purpose endowment funds in temporarily restricted net assets and makes those earnings available for expenditure for the donor-restricted purpose. In accordance with the Georgia Institutional Funds Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the donor-restricted endowment fund;
(3) General economic conditions;
(4) Effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the University; and
(7) The investment policies of the University.

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Summary Financial Statement Information

The following selected financial information of the University has been derived from the audited financial statements of the University for the fiscal years ended June 30, 2009 through June 30, 2013. Although the information for fiscal years 2009 through 2013 has been derived from the audited consolidated financial statements of SCAD, no representation is made that the information is comparable from year to year or that the information by itself presents fairly the financial condition of the University for the fiscal years presented. The financial statements for the fiscal years ended June 30, 2013, 2012, 2011, 2010 and 2009 are included in Appendix B to this Official Statement. This selected financial information should be read in conjunction with the audited financial statements and notes thereto in Appendix B and the information contained in "Management's Discussion and Analysis of Recent Financial Performance" below.

Summary Information on Consolidated Financial Condition

	Fiscal year ending June 30,				
	2009	2010	2011	2012	2013
Revenues and other support:					
Tuition and fees	$233,958,081	$262,260,056	$284,140,176	$313,586,940	$329,411,345
Less student aid	(47,625,858)	(56,934,646)	(65,420,799)	(78,805,505)	(85,195,019)
Net tuition and fees	186,332,223	205,325,410	218,719,377	234,781,435	244,216,326
Private contributions and grants	1,647,036	2,281,991	721,280	645,807	6,308,939
Sales and services of auxiliary enterprises	34,869,422	37,715,723	41,116,077	45,075,941	47,350,690
Investment income (expense) and gains (losses)	(2,706,255)	1,476,965	553,777	(63,312)	(14,875)
Other	5,244,104	3,802,095	5,443,889	6,595,838	5,847,525
	225,386,530	250,602,184	266,554,400	287,035,709	303,708,605
Change in donor intent	—	—	—	—	(92,002)
Net assets released from restrictions	2,493,176	3,708,334	2,958,139	3,677,234	4,605,280
Total unrestricted revenues and other support	227,879,706	254,310,518	269,512,539	290,712,943	308,221,883
Operating expenses:					
Instruction	77,871,763	87,925,427	95,573,946	103,617,769	102,653,873
Academic support	13,374,895	16,273,999	18,095,225	18,273,605	17,140,705
Student services	35,931,605	47,967,261	45,673,549	43,177,645	41,653,995
Institutional support	56,402,486	69,081,475	62,203,741	61,775,048	55,045,381
Auxiliary enterprises	27,203,800	29,817,799	32,857,008	35,470,961	36,234,878
Total operating expenses	210,784,549	251,065,961	254,403,469	262,315,028	252,728,832
Change in unrestricted net assets before income taxes	17,095,157	3,244,557	15,109,070	28,397,915	55,493,051
Income tax benefit (expense)	682,231	—	(21,593)	—	(897,330)
Cumulative effect of adoption of FASB Staff Position 117-1	(521,675)	—	—	—	—
Change in unrestricted net assets	17,255,713	3,244,557	15,087,477	28,397,915	54,595,721
Changes in temporarily restricted net assets:					
Private contributions and grants	2,842,162	3,512,791	4,357,381	2,705,673	2,002,008
Investment income (expense) and gains (losses)	(194,076)	(154,817)	2,148,249	49,113	2,027,166
Other	—	—	—	229,109	195,962
Net assets released from restrictions	(2,493,176)	(3,708,334)	(2,958,139)	(3,677,234)	(4,605,280)
Cumulative effect of adoption of FASB Staff Position 117-1	521,675	—	—	—	—
Change in temporarily restricted net assets	676,585	(350,360)	3,547,491	(693,339)	(380,144)
Changes in permanently restricted net assets:					
Private contributions, grants and change in donor intent	766,013	176,166	3,619,684	6,326,709	336,102
Change in value of beneficial interest in perpetual trust	(399,418)	313,912	(2,792,953)	—	—
Change in permanently restricted net assets	366,595	490,078	826,731	6,326,709	336,102
Total change in net assets	18,298,893	3,384,275	19,461,699	34,031,285	54,551,679
Net assets, beginning of year	121,802,988	140,101,881	143,486,156	162,947,855	196,979,140
Net assets, end of year	$140,101,881	$143,486,156	$162,947,855	$196,979,140	$251,530,819

Selected Financial Information

The following selected financial information of the University has been derived from the audited financial statements of the University for the fiscal years ended June 30, 2009 through June 30, 2013 and from internally prepared financial statements for fiscal year 2014. The unaudited financial information for fiscal year 2014 has not been finalized and, therefore, may be subject to adjustment.

Statement of Activities Data[1]	2009	2010	2011	2012	2013	(Unaudited)[2] 2014
			(In Millions)			
Tuition and fees	$234.0	$262.3	$284.1	$313.6	$319.4	$344.9
Less student aid	(47.6)	(56.9)	(65.4)	(78.8)	(85.2)	(88.4)
Net tuition and fees	186.3	205.3	218.7	234.8	244.2	256.5
Total unrestricted revenues and other support	227.9	254.3	269.5	290.7	308.2	321.2
Total operating expenses	210.8	251.1	254.4	262.3	252.7	263.7
Change in unrestricted net assets before income taxes	$17.1	$3.2	$15.1	$28.4	$55.5	$57.5
Statement of Position Data[1]						
Cash and cash equivalents	$7.9	$8.2	$27.7	$45.1	$80.7	$135.8
Total assets	$291.9	$319.8	$383.4	$400.5	$464.1	$518.9
Total liabilities	$151.8	$176.3	$220.4	$203.5	$212.5	$209.2
Total net assets	$140.1	$143.5	$162.9	$197.0	$251.5	$309.7

(1) May not add precisely due to rounding.
(2) Unaudited and subject to year-end audit adjustment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE

SCAD has grown to become the largest not-for-profit institution in the United States focused on specialized education in the fields of art and design. Factors contributing to SCAD's positive operating results and sustained growth include its global campus footprint; non-tenured faculty and resulting academic flexibility which enables the University to continually assess its curriculum to exit low demand offerings and to add high-quality, in-demand degree programs tailored to the evolving art and design fields, related technology, and employers; and geographic diversification of its student body throughout the United States and abroad.

As the institution has matured, SCAD has shifted considerable focus on smart growth, highly disciplined management of operations, and building the SCAD brand by continuing to provide world-class art and design education. For the past three years SCAD has used a management consulting firm to assist it in revenue optimization, expense reduction, overall operational improvement and capital budget planning. During that period, SCAD implemented instructional productivity initiatives, focused on efficient management of student aid, and performed a thorough review of its administrative expenses. This work has resulted in increased net margins and growing operating surpluses. From fiscal year 2009 through fiscal year 2013, SCAD generated unrestricted operating funds available for debt service totaling $248 million. The consulting firm's engagement terminates this calendar year.

SCAD experienced continued strong operating performance in fiscal year 2013 with a 27.7% increase in total net assets and a 17.7% net margin (change in unrestricted net assets as a percentage of total unrestricted revenues and other support). Net assets increased by $54.5 million to $251.5 million compared to $197.0 million the prior year, marking five consecutive years of growth. Total unrestricted revenues and other support increased by 6% to $308.2 million in fiscal year 2013 from $290.7 million in fiscal year 2012. The increase was primarily the result of increased enrollment driving higher tuition revenues and revenues from auxiliary services. Total operating expenses as a percentage of total unrestricted revenues and other support declined to 82.0% in fiscal year 2013 from 90.2% in fiscal year 2012. Fiscal 2013 unrestricted operating funds available for debt service totaled $83.9 million.

Unaudited consolidated financial statements as of June 30, 2014 show similar strong operating results for SCAD to the prior year, with total assets of approximately $518.9 million, liabilities of approximately $209.2 million and total net assets of approximately $309.7 million, with an overall increase in net assets of approximately $58.2 million from positive operating activities, investment returns and donor contributions. Total unrestricted revenues and other support at June 30, 2014 were approximately $321.2 million and operating expenditures are reflected as approximately $263.7 million, resulting in a change in unrestricted net assets of approximately $57.5 million (all unaudited). As of June 30, 2014, cash and cash equivalents totaled $135.8 million and Investments totaled $36.5 million. See also Appendix E to the Official Statement.

OTHER FINANCIAL MATTERS

Line of Credit

At June 30, 2014, SCAD had $48.4 million of availability on its operating line of credit with Bank of America, which has not been used since 2011. SCAD plans to terminate this line of credit either prior to or simultaneously with the Series 2014 Bond issuance. The University is currently negotiating to replace the Bank of America line of credit with a $10 million line of credit. SCAD believes it has sufficient working capital to meet its financial obligations.

Financial Aid

Each year, SCAD awards substantial funds for undergraduate student aid. For fiscal year 2013-14, approximately 98 percent of incoming undergraduate students received financial aid in the form of scholarships, grants, federal loans, and the federal work-study program. Federal aid awarded is based upon need whereas institutional aid is awarded based on academic and artistic merit as well as need. Financial assistance is available to graduate students in the form of scholarships, federal loans, and the federal work-study program.

Loans to students were outstanding in the amounts of $142,293 and $145,256 at June 30, 2013 and 2012, respectively. An allowance for uncollectibility has been recorded for the full amounts in both years. A reasonable estimate of the fair value of the loans receivable from students under government loan programs and advances from federal government for student loans could not be made because the loans receivable are not salable and can only be assigned to the U.S. government or its designees. Student loans receivable also include institutional loans to qualified students.

Investments

At the end of fiscal year 2013, SCAD investments had a market value of $31,540,291, an increase of $6,619,687 from the beginning of fiscal year 2013.

SCAD's endowment is professional managed by a variety of discretionary managers representing a diversified mix of investment styles. The investment committee of the Board of Visitors is responsible for overseeing and managing the endowment and investments and reports to the Chairman of the Board of Trustees.

SCAD's investments represent a balanced portfolio of equity securities, fixed-income securities, interest-bearing cash equivalents investments, and selected alternative and real estate investments. The University's spending policy provides for use of endowment funds up to 5% of the ending balance in the fund as of last day of the prior fiscal year. The following table shows the composition of the portfolio for the fiscal years 2009 – 2013.

Investment Portfolio

	Fiscal Years				
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Cash and cash equivalents	$3,578,326	$3,376,041	$6,612,867	$5,006,168	$3,951,889
Domestic equity securities	3,371,349	4,154,274	6,509,125	6,323,658	9,049,493
Mutual Funds	3,237,846	2,928,221	5,797,084	8,999,651	9,530,216
Bonds and notes	4,180,888	3,733,044	3,454,261	4,307,206	3,999,111
Alternative investments (1)	43,071	843,115	481,919	283,921	5,009,582
Total	$14,411,480	$15,034,695	$22,855,256	$24,920,604	$31,540,291

(1) Alternative investments include hedge funds, private equity real estate funds, and other investments which follow a variety of investment strategies.

Fundraising

As a young institution, SCAD has not relied on its endowment or contributions to fund its operations and growth as only 2,000 of its 29,000 alumni across the world are 50 years or older. However, as SCAD matures, it is focused on growing its endowment and to diversify revenue through increased philanthropic support. To this end, the University has taken several steps to strengthen fundraising through its institutional advancement department. These include the recent hiring of a new, seasoned executive director of institutional advancement, Jonathan Frappier, as well as the hiring of four additional frontline fundraising and two grant writing positions to accomplish the goal of increasing contributed revenue. To more effectively take advantage of SCAD's multiple locations, the University relocated its core fundraising function to Atlanta where it can better capitalize on the myriad of corporations and foundations that exist in the area. See also Appendix E to the Official Statement.

MISCELLANEOUS

Insurance

SCAD maintains insurance that it believes is commercially reasonable and prudent and comparable to other institutions of higher education of its size and educational scope, purchased from third-party insurance companies.

Retirement Plans

The University has adopted a Tax Sheltered Annuity Program (the "403(b) Plan") in accordance with Section 403(b) of the Code for the benefit of all employees who have been employed by the University for at least 30 days. The 403(b) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $17,500 and $17,000 per participant at June 30, 2013 and 2012, respectively, along with a catch-up provision of $5,500 for those participants age 50 or older. The University makes matching contributions to the Plan of 50%, subject to a maximum of 4% of the employee's compensation. The University contributed $357,291 and $656,569 in matching contributions for the years ended June 30, 2013 and 2012, respectively.

A Tax-qualified Defined Contribution Plan (the 401(k) Plan) was previously adopted in accordance with Section 401(k) of the Code. The 401(k) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $17,500 and $17,000 per participant at June 30, 2013 and 2012, respectively, along with a catch-up provision of $5,500 for those participants age 50 or older. Matching contributions are made to the 401(k) plan of 50%, to a maximum of 4% of the employee's compensation.

Matching contributions of $725,537 and $339,168 were made for the years ended June 30, 2013 and 2012, respectively.

Conditional Asset Retirement Obligations

The University has identified asbestos and lead paint abatement as conditional asset retirement obligations totaling $226,345 as of June 30, 2013 in certain of its properties. Asbestos abatement costs are estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. Lead paint removal costs are based on estimates received from environmental consultants. During the years ended June 30, 2013 and June 30, 2012 the University recorded no additional asset retirement obligations.

Employee Relations

As of August 24, 2014, SCAD employed approximately 1,617 employees. SCAD has no unionized employees, and management considers its relationships with its employees to be excellent.

Absence of Litigation

There is no litigation of any nature now pending or, to the knowledge of SCAD, threatened wherein an unfavorable decision would have a material adverse effect on the financial condition of the University.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE SAVANNAH COLLEGE OF ART AND DESIGN, INC.
FOR THE FISCAL YEARS ENDED JUNE 30, 2013, 2012, 2011, 2010 AND 2009

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Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Savannah College of Art and Design, Inc.

June 30, 2013 and 2012

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Audit • Tax • Advisory

Grant Thornton LLP
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New York, NY 10017-4011

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Report of Independent Certified Public Accountants

To the Board of Trustees of
The Savannah College of Art and Design, Inc.:

Report on the financial statements

We have audited the accompanying consolidated financial statements of **The Savannah College of Art and Design, Inc. and Subsidiaries and Affiliates** (the "University"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Savannah College of Art and Design, Inc. and Subsidiaries and Affiliates as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
October 25, 2013

Consolidated statements of financial position

June 30	2013	2012
Assets		
Cash and cash equivalents	**$ 80,666,370**	$ 45,136,016
Restricted cash	**-**	7,379
Student accounts receivable, net of allowance for uncollectible accounts of $2,108,275 and $1,797,380 at June 30, 2013 and 2012, respectively	**5,427,058**	4,971,031
Receivable from federal government	**8,659,952**	8,834,450
Contributions receivable, net	**917,808**	1,530,131
Inventories	**1,297,222**	1,440,151
Deferred tax asset	**-**	913,500
Prepaid expenses and other current assets	**8,234,806**	10,638,754
Investments	**31,540,291**	24,920,604
Debt issuance costs	**1,462,983**	2,087,565
Land, buildings, and equipment, net	**292,732,403**	267,893,048
Works of art	**33,119,354**	32,125,774
Total assets	**$ 464,058,247**	$ 400,498,403
Liabilities		
Accounts payable, deposits, and accrued expenses	**$ 40,110,318**	$ 38,711,139
Deferred revenues	**23,393,952**	23,774,584
Accrued interest payable	**635,927**	676,541
Bank term loans	**77,814,627**	60,454,460
Capital lease obligation	**1,073,951**	1,747,792
Deferred tax liability	**-**	913,500
Bonds payable	**45,500,000**	49,900,000
Refundable advances	**1,756,907**	1,895,000
Other liabilities	**22,241,746**	25,446,247
Total liabilities	**212,527,428**	203,519,263
Net assets		
Unrestricted	**221,489,373**	166,893,652
Temporarily restricted	**11,367,506**	11,747,650
Permanently restricted	**18,673,940**	18,337,838
Total net assets	**251,530,819**	196,979,140
Total liabilities and net assets	**$ 464,058,247**	$ 400,498,403

Consolidated statements of activities

For the years ended June 30	2013	2012
Revenues and other support:		
Tuition and fees	**$ 329,411,345**	$ 313,586,940
Less student aid	**(85,195,019)**	(78,805,505)
Net tuition and fees	**244,216,326**	234,781,435
Private contributions and grants	**6,308,939**	645,807
Sales and services of auxiliary enterprises	**47,350,690**	45,075,941
Investment losses	**(14,875)**	(63,312)
Other	**5,847,525**	6,595,838
	303,708,605	287,035,709
Change in donor intent	**(92,002)**	-
Net assets released from restrictions	**4,605,280**	3,677,234
Total unrestricted revenues and other support	**308,221,883**	290,712,943
Operating expenses:		
Instruction	**102,653,873**	103,617,769
Academic support	**17,140,705**	18,273,605
Student services	**41,653,995**	43,177,645
Institutional support	**55,045,381**	61,775,048
Auxiliary enterprises	**36,234,878**	35,470,961
Total operating expenses	**252,728,832**	262,315,028
Change in unrestricted net assets before income taxes	**55,493,051**	28,397,915
Income tax expense	**897,330**	-
Change in unrestricted net assets	**54,595,721**	28,397,915
Changes in temporarily restricted net assets:		
Private contributions and grants	**2,002,008**	2,705,673
Investment income and gains	**2,027,166**	49,113
Other	**195,962**	229,109
Net assets released from restrictions	**(4,605,280)**	(3,677,234)
Change in temporarily restricted net assets	**(380,144)**	(693,339)
Changes in permanently restricted net assets:		
Private contributions, grants, and change in donor intent	**336,102**	6,326,709
Change in permanently restricted net assets	**336,102**	6,326,709
Total change in net assets	**54,551,679**	34,031,285
Net assets, beginning of year	**196,979,140**	162,947,855
Net assets, end of year	**$ 251,530,819**	$ 196,979,140

Consolidated statements of cash flows

For the years ended June 30	2013	2012
Cash flows from operating activities:		
Change in net assets	**$ 54,551,679**	$ 34,031,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**24,535,334**	23,700,331
Amortization of debt issue costs	**624,582**	556,985
Contributions in-kind	**(6,240,874)**	(6,174,042)
Loss (gain) and impairment on sale or write-down of long-lived assets	**630,221**	6,306,888
Provision for uncollectible student accounts and loans receivable	**1,036,957**	412,769
Realized and unrealized (gains) losses on investments	**(2,012,291)**	14,199
Valuation loss (gain) on derivative instruments	**(3,183,658)**	3,207,155
Receipt of funds from federal agencies	**140,557,805**	161,643,427
Disbursement of funds from federal agencies	**(140,557,805)**	(161,643,427)
Receipt of funds from state agencies	**4,065,583**	4,192,051
Disbursement of funds from state agencies	**(4,065,583)**	(4,192,051)
Contributions restricted for long-term investment	**(266,460)**	(618,709)
Change in assets and liabilities:		
Student accounts receivable	**(1,492,984)**	8,549,993
Receivable from federal government	**174,498**	(6,967,624)
Contributions receivable	**612,323**	2,550,879
Inventories	**142,929**	(42,563)
Prepaid expenses and other current assets	**2,403,948**	(2,458,502)
Accounts payable, deposits, and accrued expenses	**(2,375,929)**	5,534,167
Deferred revenues	**(380,632)**	(3,878,647)
Accrued interest payable	**(40,614)**	63,267
Other liabilities	**(20,843)**	352,507
Refundable advances	**(138,093)**	(312,916)
Net cash provided by operating activities	**68,560,093**	64,827,422
Cash flows from investing activities:		
Changes in restricted cash	**7,379**	8,262,596
Purchases of land, buildings, and equipment and works of art	**(40,996,174)**	(37,440,673)
Proceeds from sale of property and equipment	**13,666**	111,273
Purchases of investments	**(41,161,250)**	(10,203,507)
Proceeds from sale of investments	**36,553,854**	8,123,960
Net cash used in investing activities	**(45,582,525)**	(31,146,351)

Consolidated statements of cash flows (cont'd)

Cash flows from financing activities:		
Proceeds from bank term loans	**21,610,122**	5,567,591
Principal repayments on other debt	**(9,323,796)**	(9,155,004)
Proceeds from revolving line of credit	**-**	-
Principal repayments revolving line of credit	**-**	(13,000,000)
Contributions restricted for long-term investment	**266,460**	618,709
Debt issuance costs	**-**	(243,607)
Net cash provided by (used in) financing activities	**12,552,786**	(16,212,311)
Net increase in cash and cash equivalents	**35,530,354**	17,468,760
Cash and cash equivalents at beginning of year	**45,136,016**	27,667,256
Cash and cash equivalents at end of year	**$ 80,666,370**	$ 45,136,016
Supplemental disclosure:		
Cash paid for interest	**$ 6,077,081**	$ 6,267,103
Cash paid for income taxes (state only)	**10,000**	-

Capital asset purchases included in accounts payable at June 30, 2013 and 2012, totaled $5,650,855 and $1,834,591, respectively.

Interest totaling $233,181 and $239,157 was capitalized during the years ended June 30, 2013 and 2012, respectively.

Notes to consolidated financial statements

1 Organization and Summary of Significant Accounting Policies

Organization

The Savannah College of Art and Design, Inc. (the University or SCAD) is a private, not-for-profit University which exists to prepare talented students for professional careers, emphasizing learning through individual attention in a positively oriented university environment. The University offers the Bachelor of Arts, Bachelor of Fine Arts, Master of Arts, Master of Fine Arts, Master of Architecture and Master of Urban Design degrees. The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The Master of Architecture program is additionally accredited by the National Architectural Accrediting Board. The University is licensed by the South Carolina Commission on Higher Education to offer the Bachelor of Arts in Equestrian Studies. The University recruits students both nationally and internationally.

In addition, the University is comprised of subsidiaries and affiliates, which are described below.

SCAD Group, Inc.

On March 1, 2004, the University transferred its nonacademic functions into a wholly owned for-profit subsidiary, SCAD Group, Inc. (Group).

The University and Group entered into an operating agreement on March 1, 2004 (the Agreement). The Agreement documents the terms and conditions under which the University agrees to obtain, and Group agrees to provide, certain nonacademic services, which include recruitment and communication services, academic support services, financial management services, student services, information technology services, human resource management services, and physical resource services. Group also provides facilities and equipment to the University's academic programs to support expansion and to meet current professional standards.

The University pays Group for the services that Group provides on a cost plus basis, which are eliminated in consolidation. All education services and control of the academic programs remain with the University (see Note 18).

Concurrent with its last transaction of the day on June 30, 2013, Group merged with and into SCAD, the surviving corporation (the Merger), so that Group ceased to exist. This resulted in a taxable liquidation for income tax purposes. The related gain was offset by NOL carryforwards and tax credits. No significant changes in the operations of the University occurred as a result of the Merger.

Acorn Leasing Company, LLC and Acorn Hanger, LLC

Acorn Leasing Company, LLC owns an aircraft for lease by SCAD and Group. Acorn Hanger, LLC holds the ground lease with the airport authority for the hanger that houses the aircraft owned by Acorn Leasing Company, LLC. Acorn Hanger, LLC has no assets, liabilities, or transactions as the lease is paid by Group through June 30, 2013 and the University thereafter. Both for-profit companies were wholly owned subsidiaries of Group through June 30, 2013 and are wholly owned subsidiaries of the University thereafter.

SCAD Foundation (Hong Kong) Limited

In April 2008, the University formed a new company under Hong Kong law, SCAD Foundation (Hong Kong) Limited (SCAD Hong Kong), to be the local provider in Hong Kong of certain SCAD degree programs. On October 10, 2008, Hong Kong Inland Revenue recognized SCAD Hong Kong as exempt from taxes under Section 88 of the Inland Revenue Ordinance.

In March 2010, the Hong Kong Development Bureau entered into an agreement with SCAD Hong Kong granting the right to renovate and then use the North Kowloon Magistracy Building as a campus at which SCAD degrees are offered. The Hong Kong Development Bureau has granted a ten year lease to SCAD Hong Kong with a five year renewal option. The SCAD Hong Kong campus opened in fiscal year 2011 with the first classes being held in September 2010.

Lacoste School of the Arts in France, Association

Lacoste School of the Arts in France, Association (SCAD Lacoste) is a wholly owned subsidiary of SCAD that operates a study abroad location in the Provence region of southeastern France for SCAD academic programs and other events. SCAD funds the operating costs of SCAD Lacoste and has undertaken the renovation and restoration of several sites. Compania de Navegacion Passat S.A. (Panama), also known as Lacoste School of the Arts in France S.A., is a Panamanian entity which holds ownership of certain parcels of the Lacoste property. Full ownership of this entity was transferred to SCAD at the time the remaining parcels of the Lacoste property were transferred to SCAD.

Lucas Theatre for the Arts

The Lucas Theatre for the Arts is a wholly owned not-for-profit subsidiary of SCAD, and SCAD supports the theater's overhead and uses it for a number of events.

SCAD Museum, LLC

SCAD Museum, LLC opened the SCAD Museum of Art in October 2011. The Museum hosts a year-round program of exhibitions, installations, performances and museum programs and events that engage with SCAD's instructional and other programs. The Museum is a wholly owned for-profit subsidiary of SCAD and is a disregarded entity for federal income tax purposes.

Savannah Media Support Services, LLC

Savannah Media Support Services, LLC is a corporation established to lend equipment owned by SCAD and SCAD Group to faculty and students. This corporation is a wholly owned for-profit subsidiary of SCAD, and has no annual transactions, assets, or liabilities. It is a disregarded entity for federal income tax purposes.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Consolidation

The accompanying consolidated financial statements of the Savannah College of Art and Design, Inc. include the financial position and activity of SCAD Group, Inc., Acorn Leasing Company, LLC, SCAD Foundation (Hong Kong) Limited, the Association of the Lacoste School of the Arts in France, the Lucas Theatre for the Arts, Inc., SCAD Museum, LLC and Savannah Media Support Services, LLC. All inter-organization transactions and balances have been eliminated in the accompanying consolidated financial statements.

Basis of Presentation

The net assets and revenues, expenses, gains, and losses of the University are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the University and/or the passage of time, as well as, that portion of time restricted donor endowment funds that are subject to an enacted version of the Georgia Uniform Prudent Management of Institutional Funds Act (the Act).

Permanently restricted net assets – Net assets subject to permanent donor-imposed stipulations.

Revenues, Expenses and Support

Revenues are reported as increases in unrestricted net assets unless 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 and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions 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 to unrestricted net assets. Net assets restricted for acquisition of long-lived assets are released from restriction at the time such long-lived assets are placed into service.

Georgia Uniform Prudent Management of Institutional Funds Act (the Act)

The University has interpreted the Act as requiring the preservation of the historical value (corpus) of all donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' historical value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated for expenditure. The University records the investment returns on the specific-purpose endowment funds in temporarily restricted net assets and makes those earnings available for expenditure for the donor-restricted purpose. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the donor-restricted endowment fund;
(3) General economic conditions;
(4) Effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the University; and
(7) The investment policies of the University.

The objectives of the endowment are as follows:

- To preserve and enhance the purchasing and earning value of the fund.
- To seek an average annual total rate of return of the Consumer Price Index plus 5%. Attainment of this objective shall be measured over a 3 to 5 year time frame.
- To seek competitive investment performance versus appropriate and relevant market benchmarks. Attainment of this objective shall be measured primarily by comparing investment results over a 3 to 5 year time period or full market cycle.

Commensurate with these objectives, the annual spending policy used for the endowment fund is up to 5% of the ending balance in the fund, measured on the last day of the preceding fiscal year. The spending policy attempts to balance the long-term objective of maintaining the purchasing power of the endowment for the benefit of future generations of students with the goal of providing funds to underwrite the educational needs of current and future generations of the students as well as to enhance the University's financial well-being.

Fair Value Measurements

The University's financial instruments include cash and cash equivalents, investments, student accounts receivable, accounts payable, capital lease obligations, interest rate swap agreements, notes payable, other bank loans and bonds payable.

The carrying value, which is the fair value of investments except for cash held in endowment, money market accounts and certificates of deposit, and interest rate swaps is based upon quoted market values or values provided by external investment managers. The fair values of bonds payable at June 30, 2013 and 2012 approximated their carrying values due to the variable interest rates on these loans. The bank term loans consist of the Term Loan, the Assumed Loan, and the NMTC Loan (see Note 8). The fair value of the Term Loan approximated its carrying value at June 30, 2013 and 2012 due to variable interest rates in effect. The Assumed Loan carrying value approximated its fair value determined as of June 30, 2013 and 2012 due to the short-term maturities of these financial instruments. The NMTC Loan consists of two notes, Note A and Note B. The fair value of Note A at June 30, 2013 and 2012 approximated its carrying value due to variable interest rates in effect. The fair value of Note B at June 30, 2013 and 2012 is not determinable due to its unique terms, which includes a provision that the note can be accelerated with a significantly reduced payment after December 29, 2017 if the lender so elects.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. There is a three-tier fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the University's assumptions (unobservable inputs). The categorization of financial instruments into a particular tier is not an indicator of risk but the manner in which fair value is determined.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in Level 2 are financial instruments valued at net asset value ("NAV") per share or its equivalent that may be redeemed at NAV at or near, generally considered to be within 90 days, of the University's fiscal year end.
- Level 3: Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the University. The University considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term investments with original maturities of three months or less. Cash and cash equivalents consist primarily of demand deposits at financial institutions. The credit risk is the amount on deposit in excess of federally insured limits. The University mitigates this risk by depositing and investing cash with major financial institutions. The University has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

The University's receivables are principally due from students for tuition and other fees and from federal and state agencies. Receivables are stated at amounts due net of an allowance for doubtful accounts. The University determines its allowance for doubtful accounts by considering the University's previous loss history and specific account circumstances.

Investments

The University accounts for its investments at fair value, except for cash held in endowment and money market accounts (see Note 4). Realized gains and losses on sales of securities represent the difference between net proceeds received and the cost of the investments. Realized and unrealized gains and losses are included in the statement of activities and gains and/or losses are allocated to net asset classes, depending upon donor stipulations, if any. If the underlying restriction is met in the same period, realized gains and/or losses are reported within unrestricted net assets.

Investment expenses are reported as a reduction of net realized and unrealized gains (losses) on investments.

Investments in domestic equity securities, government bonds, corporate bonds, mutual funds, alternatives and other investments are valued based on quoted market prices. In instances when market prices are obtained from active markets, the investments are classified as Level 1 inputs. The University does not adjust the quoted price for such investments. In computing fair value, investments in government bonds, corporate bonds, state and local government bonds and money market funds are classified as Level 2. The fair value of investments in the private real estate fund and other alternative investments are provided by the respective fund managers and are classified as Level 3.

Unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant investment valuation estimates. Management continues to monitor the composition of its portfolio to assess the potential impact of these market conditions on the valuation and liquidity of its investments and various financial instruments. Due to the level of risk associated with certain investments 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 University's consolidated financial statements. The changes in economic condition or model-based valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the period.

The University evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to its total portfolio and, for the years ended June 30, 2013 and 2012, there were no significant transfers in or out of Levels 1, 2 or 3.

Derivative Financial Instruments

The University does not use derivative financial instruments for speculative or trading purposes but instead utilizes interest rate swaps to hedge interest rate market exposure of the underlying bonds payable. The University uses the accrual method to account for the interest rate swaps in connection with the underlying bonds. The difference between amounts paid and received under such agreements and the changes in fair value of the swap agreements are reported as interest expense on a functional basis in the accompanying consolidated statements of activities.

As described in Note 8, the University entered into an interest rate swap agreement effectively converting a portion of the underlying debt to a fixed rate, thereby hedging against the impact of potential interest rate changes on future interest expense. This swap was the result of converting an advance refunding swap on tax-exempt bonds previously issued by the University. The fair value of the interest rate swap was based on quotes from independent sources and represents the estimated amounts that the University would expect to pay to terminate the swap. The methods and independent sources used to value the interest rate swap are considered Level 2 inputs.

Inventories

Inventories are valued at lower of cost or market, determined on a basis that approximates the first-in, first-out (FIFO) method. Inventories consist mainly of items held for resale at the University's various auxiliary enterprises.

Debt Issuance Costs

Issuance costs related to bonds payable, notes payable and other bank loans are amortized over the term of the respective instrument using the effective interest rate method. Costs in connection with the 2011 credit facility are amortized over the term of the loans using the effective and straight-line interest rate methods. Amortization of approximately $625,000 and $557,000 was recognized as a component of interest expense during the years ended June 30, 2013 and June 30, 2012, respectively.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at the date of acquisition or at estimated fair value at the date of donation if acquired as gifts, less accumulated depreciation and amortization at a capitalization threshold of $1,000.

Depreciation of buildings and equipment and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the respective assets. Amortization of the leasehold improvements is computed over the shorter of the useful life of the improvement or the lease term. Costs in connection with maintenance are expensed as incurred, while expenditures for renewals and improvements are generally capitalized. A summary of depreciable lives follows:

	Years
Buildings and major building improvements	10 - 70
Land improvements	20
Leasehold improvements	2 - 18
Furniture and fixtures	10
Equipment	5 - 10
Library books	20
Computer equipment	5 - 10
Computer software	3

Long-Lived Assets

The University reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of any impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows.

During the year ended June 30, 2012, the University reduced the carrying value of three properties purchased in 2010 to their appraised values as they are not used in the operations of the University. No loss for impairment of long-lived assets was recorded during the year ended June 30, 2013. Impairment loss on long-lived assets of $311,507 was recorded during the year ended June 30, 2012.

Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support, as appropriate. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift as determined by independent appraisal or other valuation methods as deemed appropriate by management.

The University recognizes bequests from donors once they become unconditional promises to give. The University does not consider bequests to be unconditional until the probate process is fully completed for a donor's estate and the University has received official notification from the executor that bequeathed property is forthcoming. When the University is named as a beneficiary of an irrevocable living trust, the University considers this an unconditional promise to give.

Works of Art

Works of Art is comprised of art work and antiques that are held for exhibition and various other educational program activities. Each of these items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from any sales to be used to acquire other items for collections.

The University has capitalized its collections since its inception. Purchased items are capitalized at cost; donated items are capitalized at fair value at the date of receipt from the donor. Fair value is determined by independent appraisals as of the date of receipt and is subject to a number of judgments and estimates. Gains or losses on the deaccession of collection items are classified on the consolidated statements of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Items which by donor stipulation may never be deaccessioned are classified as permanently restricted net assets.

Deferred Revenues

Deferred revenues represent tuition and fees invoiced for programs and services to be conducted in the subsequent fiscal year.

Functional Expenses

Expenses are reported in the consolidated statements of activities in categories recommended by the National Association of College and University Business Officers. The University's primary program service is instruction. Expenses reported as academic support, student services, institutional support and auxiliary enterprises are incurred in support of these program services. Facilities costs, depreciation, and interest are allocated and reported on a functional basis using a combination of specific identification and estimates of building square footages, consistently applied. Institutional support includes fund-raising expenses of $1,341,156 and $1,609,255 and advertising expenses, which are expensed as incurred, of $1,390,330 and $1,628,183 for the years ended June 30, 2013 and 2012, respectively.

Conditional Asset Retirement Obligations

The University has identified asbestos and lead paint abatement as conditional asset retirement obligations in certain of its properties. Asbestos abatement costs are estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. Lead paint removal costs are based on estimates received from environmental consultants. During the years ended June 30, 2013 and June 30, 2012 the University recorded no additional asset retirement obligations.

The following table presents the activity for the University's asset retirement obligations (included within "other liabilities" in the consolidated statements of financial position):

For the years ended June 30	2013	2012
Balance at beginning of year	**$ 222,250**	$ 218,427
Accretion expense	**4,095**	3,823
Balance at end of year	**$ 226,345**	$ 222,250

Sabbatical Leave and Other Similar Benefits

The University's faculty members are eligible for sabbatical awards after a length of service requirement has been met. The University expenses anticipated future sabbaticals or similar paid absences over the same period in which the benefits are earned. The sabbatical policy for staff was replaced on September 1, 2011 with a performance-based bonus program. Certain accruals have been maintained for future payouts to individuals who were on staff with the University at the time of the change.

Income Taxes

The University has been recognized by the Internal Revenue Service as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax (see Note 11).

Through the end of day on June 30, 2013, the University had a wholly owned subsidiary, SCAD Group, Inc. that was subject to federal and state income taxes. Panama is also a wholly owned subsidiary and is subject to certain foreign income taxes. The University provides for income taxes based on FASB ASC Topic 740 *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. The University provides an allowance for deferred tax assets when it is determined that it is more likely than not that the deferred tax assets will not be utilized.

The University is required to make provisions for uncertain tax positions. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a greater than 50% cumulative likelihood of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The University recognizes interest and penalties related to tax positions in income tax expense. Generally the University's tax years for fiscal years 2010 through 2013 remain open to examination for federal and state income tax purposes. Fiscal years 2004 through 2013 remain open to examination for certain foreign income tax purposes.

Foreign Operations

Operations outside the United States of America are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, foreign exchange controls, and restrictions on currency exchange. The University does not engage in hedging activities to mitigate its exposure to fluctuations in foreign currency exchange rates.

In accordance with Hong Kong regulatory requirements, SCAD Hong Kong's net assets are restricted and not available for distribution to the University. As of June 30, 2013 and 2012, the accumulated deficit for SCAD Hong Kong was $24.8 million and $20.5 million, respectively. As of June 30, 2013 and 2012, the University had a receivable from SCAD Hong Kong for $34.3 million and $35.4 million, respectively. This receivable is eliminated in the consolidation of and, therefore, not reflected in the University's consolidated financial statements, however the receivable is recoverable by the University and is not subject to the restriction on distribution of net assets.

Translation of Foreign Currencies

Assets and liabilities related to functional currencies other than U.S. dollars are translated into U.S. dollars at the year-end rate of exchange. Revenues and expenses, if any, are translated at the weighted average exchange rates for the year. The resulting translation adjustments are reported as gains or losses from foreign currency transactions in the current period. The functional currency of SCAD Hong Kong is the Hong Kong Dollar. The functional currency for SCAD Lacoste is the Euro. The University held €3,932 valued at $5,116 and HK$1,275,976 valued at $164,642 at June 30, 2013. The University held €15,265 valued at $19,219 and HK$3,794,601 valued at $489,601 at June 30, 2012. The University recognized foreign currency translation losses of $5,065 and $26,050 for the years ended June 30, 2013 and 2012, respectively, as other income in the consolidated statements of activities.

Related Party

During the years ended June 30, 2013 and 2012 the University disbursed under arms-length agreements for architecture services $103,561 and $142,664, respectively, to an entity in which a faculty member has an ownership interest.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the University may undertake in the future, actual results may be different from the estimates. Significant items subject to such estimates and assumptions include but are not limited to, fair value of investments, fair value of interest rate swaps, carrying amounts of property and equipment, allowances for receivable balances, liability for post-retirement medical benefits and asset retirement obligations. Actual results could differ from those estimates.

Subsequent Events

The University evaluated subsequent events through October 25, 2013, the date the accompanying consolidated financial statements were issued. There were no subsequent events requiring recognition or disclosure in the accompanying consolidated financial statements and notes thereto.

2 Contributions Receivable

Unconditional promises to give are recorded as revenue upon receipt. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of this discount is recorded as additional contribution revenue. The University has elected the Expected Present Value (EPV) 2 method in which a risk-free interest rate is adjusted for general market (systematic) risk by adding risk premium. The University has utilized the Yield to Maturity on US Treasuries based on the date of the pledge receivable for the risk-free rate and has applied a market risk of 3%. The risk-adjusted discount rate represents the expected rate of return that corresponds to an expected rate associated with probability-weighted cash flows in which the University has adjusted the cash flows for the "likelihood" of collection. The University believes substantially all contributions receivable to be fully collectible at the net amounts presented in the accompanying consolidated statements of financial position at June 30, 2013 and 2012. Contributions receivable are summarized as follows:

June 30	2013	2012
Amounts due in:		
Less than one year	**$ 530,310**	$ 924,431
One to five years	**494,830**	874,049
Unconditional promises to give	**1,025,140**	1,798,480
Less: unamortized discount	**(107,332)**	(268,349)
Net contributions receivable	**$ 917,808**	$ 1,530,131

Estimated cash flows to be received after one year were discounted at rates ranging from 3.00% to 8.03%. The discount rates are set at the time the original pledge is made based on the U.S. Treasury yield curve for the duration of the pledge.

3 Student Loans Receivable

Loans to students were outstanding in the amounts of $142,293 and $145,256 at June 30, 2013 and 2012, respectively. An allowance for uncollectibility has been recorded for the full amounts in both years. A reasonable estimate of the fair value of the loans receivable from students under government loan programs and advances from federal government for student loans could not be made because the loans receivable are not salable and can only be assigned to the U.S. government or its designees. Student loans receivable also include institutional loans to qualified students.

4 Investments

Investments consisted of the following:

June 30	2013	2012
Cash held in endowment	**$ 1,677**	$ 289,932
Money market accounts	**2,674,616**	4,272,629
Domestic equity securities	**9,049,493**	6,323,658
Government bonds	**2,031,906**	2,535,997
State and local government bonds	**52,480**	53,310
Corporate bonds	**1,844,338**	1,717,899
Mutual funds	**9,530,216**	8,999,651
Money market funds	**1,275,596**	443,607
Asset-backed securities	**70,387**	-
Limited partnerships	**2,531,469**	280,145
Hedge funds	**1,292,349**	-
Commingled funds	**1,185,764**	-
Other	-	3,776
Total	**$ 31,540,291**	$ 24,920,604

Net returns on investments consisted of the following:

For the years ended June 30	2013	2012
Realized gains (losses) and investment income	**$ 2,240,300**	$ (379,276)
Unrealized (losses) gains	**(74,969)**	473,048
Investment fees	**(153,040)**	(107,971)
Total	**$ 2,012,291**	$ (14,199)

At June 30, 2013 and 2012, donor-restricted and board-designated resources were invested in accordance with the University's endowment investment philosophy as follows:

June 30	2013	2012
Donor-restricted endowment	**$ 14,845,681**	$ 13,718,333
Board-designated endowment	**1,446,073**	1,564,209
Other donor-restricted funds	**5,152,314**	4,059,366
Total	**$ 21,444,068**	$ 19,341,908

Net returns on investments specific to the above donor-restricted and board-designated resources consisted of the following:

For the years ended June 30	2013	2012
Realized gains (losses) and investment income	**$ 2,078,055**	$ (495,636)
Unrealized (losses) gains	**(11,605)**	587,392
Investment fees	**(119,833)**	(83,449)
Total	**$ 1,946,617**	$ 8,307

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis:

June 30, 2013	Level 1	Level 2	Level 3	Total
Financial instruments - assets				
Domestic equity securities	$ 9,049,493	$ -	$ -	$ 9,049,493
Government bonds	610,177	1,421,729	-	2,031,906
State and local government bonds	-	52,480	-	52,480
Corporate bonds	1,620,933	223,405	-	1,844,338
Mutual funds	9,530,216	-	-	9,530,216
Money market funds	1,275,596	-	-	1,275,596
Asset-backed securities	-	70,387	-	70,387
Limited partnerships	-	1,985,866	545,603	2,531,469
Hedge funds	-	-	1,292,349	1,292,349
Commingled funds	-	1,185,764	-	1,185,764
Total investments	$ 22,086,415	$ 4,939,631	$ 1,837,952	$ 28,863,998
Financial instruments - derivative				
Interest rate swap - hedge / asset (liability)	$ -	$ (10,716,372)	$ -	$ (10,716,372)

June 30, 2012	Level 1	Level 2	Level 3	Total
Financial instruments - assets				
Domestic equity securities	$ 6,323,658	$ -	$ -	$ 6,323,658
Government bonds	1,746,063	789,934	-	2,535,997
State and local government bonds	-	53,310	-	53,310
Corporate bonds	1,382,577	335,322	-	1,717,899
Mutual funds	8,994,715	4,936	-	8,999,651
Money market funds	443,607	-	-	443,607
Limited partnerships	-	-	280,145	280,145
Other	3,776	-	-	3,776
Total investments	$ 18,894,396	$ 1,183,502	$ 280,145	$ 20,358,043
Financial instruments - derivative				
Interest rate swap - hedge / asset (liability)	$ -	$ (13,900,030)	$ -	$ (13,900,030)

The categorization of financial instruments into the three-tier fair value hierarchy is not an indicator of risk but the manner in which fair value is determined as described in Note 1 (Fair Value Measurements).

The University's investment of restricted funds in certificates of deposit, money market accounts as well as cash held in endowment are classified as Investments in the statement of financial position and are carried at amortized cost. The University had $2,676,293 and $4,562,561 in such investments as of June 30, 2013 and 2012, respectively. These investments do not qualify as securities as defined in ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, are not provided.

The following table summarizes the changes in fair values associated with ASC 320 Level 3 investments:

	Private Equity Real Estate LPs	Hedged Equity Fund	Total
Balance as of June 30, 2012	$ 280,145	$ -	$ 280,145
Purchase	175,000	1,250,000	1,425,000
Adjustment to fair value	90,458	42,349	132,807
Balance as of June 30, 2013	$ 545,603	$ 1,292,349	$ 1,837,952

Alternative investments represent hedge funds, a private equity real estate fund, and other investments which follow a variety of investment strategies. The terms and conditions of these investments, including liquidity provisions, differ for each fund.

The University uses the Net Asset Value per share or its equivalent to estimate the fair value of investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments by major category:

At June 30, 2013

Alternative Investment Strategy	ASC Level	Fair Value Using NAV	Remaining Life	Unfunded Commitments	Timing to Drawdown of Commitments	Redemption Terms	Redemption Restrictions
Direct investment in real estate project companies	3	$ 545,603	7/29/2021 + 5yr extension option	$ 50,000	Before 7/29/2016	None	n/a
Global Inflation-Linked Bonds	2	1,159,428	n/a	n/a	n/a	Monthly	$1 million mininum balance required
Merger arbitrage	2	826,438	n/a	n/a	n/a	Monthly	n/a
US long/short equity fund of hedge funds	3	1,292,349	n/a	n/a	n/a	Quarterly	12 month lock up for each purchase of shares
Long/short futures	2	1,185,764	n/a	n/a	n/a	Monthly	n/a
Total alternative investments		$ 5,009,582		$ 50,000			

At June 30, 2012

Alternative Investment Strategy	ASC Level	Fair Value Using NAV	Remaining Life	Unfunded Commitments	Timing to Drawdown of Commitments	Redemption Terms	Redemption Restrictions
Direct investment in real estate project companies	3	$ 280,145	7/29/2021 + 5yr extension option	$ 225,000	Before 7/29/2016	None	n/a
Total alternative investments		$ 280,145		$ 225,000			

5 Assets Held by Community Foundation

In February 2007, the University and the Community Foundation of Greater Atlanta, Inc. (the Community Foundation), as it relates to endowment funds held by the Community Foundation for the support of the Atlanta University of Art (ACA), entered into an agreement whereby the Community Foundation determined that, in accordance with the intent of the donor, the University is eligible to receive such funds pursuant to the June 5, 2006 agreement to integrate ACA into the University's Atlanta campus. The Community Foundation has variance power on the underlying trust, and as such, the value associated with the beneficial interest is not included on the University's consolidated statements of financial position. The income of the funds held in the trust is advanced to the University for scholarships for students studying in the arts in Atlanta based on the Community Foundation's spending policy. Annual income payments received by the University are recorded as temporarily restricted contributions until restrictions are met. The University received payments of $135,000 and $145,000 in the fiscal years ended June 30, 2013 and 2012, respectively. The value of funds held in trust by the Community Foundation was $3,127,039 and $2,952,139 as of June 30, 2013 and 2012, respectively. The original corpus of $500,000 was gifted in 1977.

6 Endowments

Administration of the University's endowment is subject to the general provisions of the Georgia Uniform Prudent Management of Institutional Funds Act (the Act). Under the provisions of this state law, the University may appropriate expenditures of underwater endowment funds as is deemed prudent for the uses and purposes for which an endowment fund is established.

Endowment net asset composition by type of fund and changes in endowment net assets are summarized as follows:

Endowment Net Asset Composition by type of fund as of June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (263,922)	$ 2,245,159	$ 12,965,940	$ 14,947,177
Board-designated endowment funds	1,446,073	-	-	1,446,073
Total funds	$ 1,182,151	$ 2,245,159	$ 12,965,940	$ 16,393,250

Changes in Endowment Net Assets Year ended June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 5,623,575	$ 1,193,848	$ 12,524,485	$ 19,341,908
Investment return:				
Investment income	32,541	288,066	-	320,607
Net realized and unrealized return	531,596	695,078	-	1,226,674
Total investment return	564,137	983,144	-	1,547,281
Contributions received	-	-	244,100	244,100
Reclassifications	(4,729,699)	452,294	197,355	(4,080,050)
Appropriation of endowment assets for expenditure	(275,862)	(384,127)	-	(659,989)
Endowment net assets, end of year	$ 1,182,151	$ 2,245,159	$ 12,965,940	$ 16,393,250

Endowment Net Asset Composition by type of fund as of June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (670,333)	$ 1,193,848	$ 12,524,485	$ 13,048,000
Board-designated endowment funds	6,293,908	-	-	6,293,908
Total funds	$ 5,623,575	$ 1,193,848	$ 12,524,485	$ 19,341,908

Changes in Endowment Net Assets Year ended June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 1,476,001	$ 1,063,903	$ 11,294,829	$ 13,834,733
Investment return	(51,781)	86,491	-	34,710
Contributions received	-	-	601,220	601,220
Collection of prior year receivable	282,298	357,678	628,436	1,268,412
Board-designated endowments	4,168,416	-	-	4,168,416
Appropriation of endowment assets for expenditure	(251,359)	(314,224)	-	(565,583)
Endowment net assets, end of year	$ 5,623,575	$ 1,193,848	$ 12,524,485	$ 19,341,908

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $263,922 and $670,333 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions.

7 Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

June 30	2013	2012
Land	**$ 22,584,450**	$ 16,161,653
Buildings	**97,280,521**	96,059,984
Building and land improvements	**185,962,987**	172,085,024
Equipment	**104,353,722**	104,341,387
Library books	**10,386,714**	9,741,100
Furniture and fixtures	**23,788,508**	22,554,203
Capital projects in progress	**22,911,878**	3,924,112
Total land, buildings, and equipment	**467,268,780**	424,867,463
Less - accumulated depreciation	**(174,536,377)**	(156,974,415)
Land, buildings, and equipment, net	**$ 292,732,403**	$ 267,893,048

Construction in progress consists primarily of various building improvement projects. Depreciation expense totaled $24,535,334 and $23,700,331 during the years ended June 30, 2013 and 2012, respectively.

8 Debt Obligations

The following is a summary of the University's debt obligations:

	2013	2012
Principal balance at June 30:		
2011 Credit Facility - Term Loan	**$ 31,000,000**	35,000,000
2011 Credit Facility - Accordion Loan	**21,500,000**	-
Bonds Payable	**45,500,000**	49,900,000
NMTC Loan	**20,000,000**	20,000,000
Assumed Loan	**5,217,554**	5,454,460
Equipment Loan	**97,073**	-
Capital lease	**1,073,951**	1,747,792
Total	**$124,388,578**	$112,102,252

Principal payments due on the University's debt obligations are as follows:

	Term Loan	Accordion Loan	Bonds Payable	NMTC Loan	Assumed Loan	Capital Lease	Equipment Loan	Total
For the year ending June 30:								
2014	$ 4,000,000	$ 2,400,000	$ 4,400,000	$ -	$ 251,843	$ 707,399	$ 34,087	$ 11,793,329
2015	4,000,000	3,200,000	4,400,000	-	267,723	366,552	38,391	12,272,666
2016	23,000,000	15,900,000	4,400,000	-	284,603	-	24,595	43,609,198
2017	-	-	4,400,000	-	4,413,385	-	-	8,813,385
2018	-	-	4,400,000	20,000,000	-	-	-	24,400,000
Thereafter	-	-	23,500,000	-	-	-	-	23,500,000
Total	$ 31,000,000	$ 21,500,000	$ 45,500,000	$ 20,000,000	$ 5,217,554	$ 1,073,951	$ 97,073	$124,388,578

2011 Credit Facility

On April 8, 2011, the University entered into $130,000,000 million credit facility (the "2011 Credit Facility"), which includes a $40,000,000 term loan (the "Term Loan") and a $90,000,000 revolving line of credit to support letters of credit for the outstanding taxable bonds and to support the University's working capital requirements. The 2011 Credit Facility matures on April 8, 2016.

The 2011 Credit Facility is secured by liens or a negative pledge on substantially all real property, a security interest in the property located on such real property and by the shares of capital stock in the University's present and future subsidiaries. SCAD Hong Kong is a guarantor of the 2011 Credit Facility and this guaranty is limited to the outstanding amount of all intercompany loans made by the University to SCAD Hong Kong. The Credit Facility bears LIBOR based variable interest, payable monthly or quarterly depending on the rate option selected, at rates that vary based upon the University's ratio of operating earnings (i.e. earnings before interest, depreciation, amortization and taxes) to the amount of outstanding long term debt. As of June 30, 2013, the interest rate was 2.19%. The amounts available on the revolver are reduced by the amount of the letter of credit supporting the bonds and other borrowings on the facility. As of June 30, 2013, the amount outstanding under the Term Loan was $31,000,000. Letters of credit to support the bonds amount to $46,023,562, leaving an unused amount of $43,976,438 available for the working capital line of credit. The letters of credit outstanding exceed the bonds payable balance due to interest reserves.

Aside from amounts supporting letters of credit for the bonds, amounts borrowed on the line of credit are due within the next fiscal year. There were no amounts due within the next fiscal year as of June 30, 2013 and 2012.

On May 18, 2012, the 2011 Credit Facility was amended to provide an additional term loan in the amount of $32,000,000 (the "Accordion Loan") primarily to fund the construction of a new student residence hall. The interest rate is based on the same criteria described above for the 2011 Credit Facility. Principal payments will be due quarterly starting in December 2013 in the amount of 2.5% of the aggregate principal borrowed. Any remaining principal balance outstanding will be due in full on April 8, 2016. $21,500,000 had been borrowed on the Accordion Loan as of June 30, 2013. No amounts had been borrowed as of June 30, 2012.

The terms of the University's credit facility provides for certain financial and nonfinancial covenants. At June 30, 2013, management believes that the University is in compliance with these covenants.

Interest expense on the outstanding credit facilities was $1,329,207 and $1,389,664 for the years ended June 2013 and 2012, respectively.

New Markets Tax Credit (NMTC) Loan

On December 29, 2010, $20,000,000 was financed for the construction of the SCAD Museum of Art. The financing is between SCAD Museum LLC, as Borrower, and Carver Development CDE I, LLC ("Carver CDE"), as Lender. SCAD Museum LLC is 100% owned by the University and owns the real property consisting of the SCAD Museum of Art and leases the SCAD Museum of Art to the University. Carver CDE is an affiliate of Carver State Bank and obtained all of the funds associated with the financing from Bank of America affiliates. The financing is subsidized in part through Bank of America affiliates qualifying for New Market Tax Credits available under the Internal Revenue Code (the "NMTC Program") with respect to the financing, and conditioned upon SCAD Museum LLC meeting certain requirements under the NMTC Program during a 7-year compliance period that ends in December, 2017.

The total financing of $20,000,000 (the "NMTC Loan") consists of two separate loan components summarized as follows: Loan A has a principal balance of $14,150,000 and bears interest at a fluctuating rate based on the One Month BBA LIBOR Daily Floating Rate plus 400 basis points per annum (approximately 4.19% as of June 30, 2013). Loan B has a principal balance of $5,850,000 and bears interest at a fixed rate of 2% per annum.

Monthly payments of interest-only are due under Loan B commenced on February 1, 2011 and continue until December 2040, with the entire principal balance of the Loan B due in a single balloon payment on December 29, 2040. Monthly payments of interest-only are due under Loan A commencing on February 1, 2011 and continuing thereafter until December 1, 2017. Commencing on January 1, 2018 and continuing until December 1, 2040, monthly payments of principal and interest are due with respect to Loan A in amounts sufficient to fully-amortize the principal balance of Loan A by December 1, 2040. The lender has the right, exercisable after November 29, 2017, to require payment of the entire principal balance of Loan A within 150 days of exercise. If the lender so elects to accelerate Loan A, the $5,850,000 principal balance of Loan B can be satisfied in full with a payment of $58,500. The University has the option, exercisable after the compliance period of 7 years, to allow the University to pay the entire principal balance of Loan A when the tax credits have been earned by the equity investor and when the continuation of the loan is not beneficial to either party.

The loans are secured by a pledge of the real property that comprises the SCAD Museum of Art. The University has guaranteed the payment of all amounts due under the loans and certain matters associated with the failure of SCAD Museum LLC to comply with NMTC Program requirements for an eligible NMTC program borrower.

Funds held by Bank of America on behalf of SCAD Museum LLC, as of June 30, 2013 and 2012 were $0 and $7,379, respectively. These funds are being reported as restricted cash given the restriction on the use of such funds for construction or debt service.

Interest expense on the NMTC loan was $837,735 and $922,809 for the years ended June 30, 2013 and 2012, respectively.

Bonds Payable

Bonds payable include the following:

June 30	Date Issued	Interest %	Maturity	Original Issue	Outstanding June 30, 2013	Outstanding June 30, 2012
The Savannah College of Art and Design, Inc. Taxable Variable Rate Demand Revenue Bond Series 2004	3/11/2004	Variable	04/01/2024	$85,000,000	**$45,500,000**	$49,900,000

Under the terms of the indenture, the University is required to make monthly interest payments and quarterly payments for the retirement of bond principal. Interest expense on outstanding bonds was $1,457,907 and $1,534,292 for years ended June 30, 2013 and 2012, respectively. The Series 2004 bonds are supported by a letter of credit. The letter of credit was renewed in conjunction with the closing of the 2011 Credit Facility.

The University utilizes an interest rate swap to manage interest rate market exposure of the underlying bond debt. The University has entered into an interest rate swap agreement that effectively converts a portion of the variable rate revenue bonds to a fixed rate. Significant terms of the swap agreement for June 30, 2013 and 2012 are as follows:

Agreement Date	Notional Amount	University Pays	University Receives	Expiration Date	Effective Date	Fair Value at June 30, 2013	Fair Value at June 30, 2012
12/1/2004	$ 32,521,800	7.26%	US 1M- BBA	4/1/2024	10/1/2009	**$ (10,716,372)**	$ (13,900,030)
		76.314% of US-1 Month	68.84% of USD-5YR				

Fair value of the swap agreement is included in other liabilities in the accompanying consolidated statements of financial position. Net settlement transactions related to the swap agreement resulted in a net expense to the University totaling $2,292,086 and $2,282,425 for the years ended June 30, 2013 and 2012, respectively. Change in fair value of the swap is recorded as a component of interest expense and resulted in gains of $3,183,658 and losses of $3,207,155 for the years ended June 30, 2013 and 2012, respectively.

Assumed Loan (Bradley Hall)

On December 28, 2011 the University exercised its purchase option for the Bradley Hall facility which it had been utilizing under a lease since January 2007. In connection with this transaction, the University assumed the landlord's loan on the building. The note (the "Assumed Loan") bears fixed interest rate of 6.13% and has a balloon payment due on February 1, 2017.

Interest expense on the Assumed Loan was $326,566 and $170,528 for the years ended June 2013 and 2012, respectively.

Equipment Loan

On December 31, 2012, Lucas Theatre for the Arts financed certain equipment in the amount of $110,122. The note (the "Equipment Loan") bears a fixed rate of interest of 11.95% with monthly payments of principal and interest due in 36 installments.

Interest expense on the Equipment Loan was $5,225 for the year ended June 2013.

9 Leases

Operating Leases

The University leases buildings and equipment under noncancelable operating leases that expire over the next twenty five years. Total rental expense under operating lease agreements for the years ended June 30, 2013 and 2012 was $13,786,275 and $13,720,948, respectively. These leases generally require the University to pay all operating costs such as maintenance and insurance. A number of the University's facility leases include escalation clauses and/or renewal options. The University recognizes rental expense on a straight-line basis over the lease term. The difference between actual cumulative rental payments and cumulative rental expense since the inception of such leases results in a deferred rent liability in the "other liabilities" category on the consolidated statement of financial position. Deferred rent was $3,760,428 and $3,442,867 as of June 30, 2013 and 2012, respectively.

Future minimum lease payments under noncancelable operating leases as of June 30, 2013 are as follows:

	Amount
For the year ended June 30:	
2014	$ 11,609,619
2015	7,178,240
2016	5,488,015
2017	5,327,063
2018	4,165,532
Thereafter	22,286,095
Total	$ 56,054,564

Capital Lease

During fiscal year 2005, office furniture, video equipment, and computer equipment in the amount of $5,881,090 were acquired under a capital lease. The interest rate on the capitalized lease is 4.87%. Depreciation of assets under the capital lease is included in depreciation expense, and the related accumulated depreciation related to equipment acquired under the capital lease totaled $4,975,317 and $4,416,180 at June 30, 2013 and 2012, respectively.

Future minimum lease payments under a capital lease as of June 30, 2013 are as follows:

	Amount
For the year ending June 30:	
2014	$ 744,061
2015	371,780
Total	1,115,841
Less amounts representing interest	(41,890)
Present value of minimum lease payments	1,073,951
Less current maturities	(707,399)
Capital lease obligation, excluding current maturities	$ 366,552

10 Refundable Advances

On November 3, 2005, the University entered into a gift agreement under which a substantial collection of African-American art, including paintings, sculptures, and prints will be donated to the University over a ten-year period. The collection received in connection with this gift is subject to certain conditions related to the establishment of the Walter O. Evans Center for African-American Studies. The University recorded the fair value of the collection acquired, totaling $5,708,000, as a refundable advance as of June 30, 2011. In 2012 the University met the terms of the agreement and as such the entire $5,708,000 value of the collections was recognized as permanently restricted contribution revenue.

Refundable advances at June 30, 2013 and 2012 also include refundable advances totaling $1,756,907 and $1,895,000, respectively, related to unamortized capital expenditures which were provided by certain vendors, under the terms of certain operating agreements. Should the University terminate the agreements with vendors prior to the term as defined by such agreements, the University would be required to remit the vendors an amount equal to the unamortized capital expenditures as of the termination date. The University records unrestricted in-kind contribution revenue related to these capital expenditures on a straight-line basis over the term of the agreements as conditions of the agreement are met.

Contribution revenue recorded under these operating agreements totaled $230,593 and $141,904 during the years ended June 30, 2013 and 2012, respectively. The unamortized portion is reflected in the accompanying consolidated statements of financial position as refundable advances.

11 Income Taxes

The provision for income taxes consisted of the following:

For the years ended June 30	2013	2012
Current income tax provision:		
Federal	$ -	$ -
State	-	-
Foreign	897,330	-
Income tax provision	$ 897,330	$ -

The tax effect of temporary differences give rise to significant portions of the deferred tax assets and deferred tax liabilities as of June 30, 2013 and 2012. The components of deferred income tax are as follows:

June 30	2013	2012
Deferred tax asset:		
Accounts receivable allowance	**$ -**	$ 5,000
Accrued vacation	**-**	689,400
Miscellaneous accruals	**-**	1,385,400
Deferred rent	**-**	551,400
Alternative minimum tax credit	**-**	486,500
Historic preservation tax credit	**-**	1,573,300
Operating loss carryforward	**1,208,600**	4,370,300
Total deferred tax assets	**1,208,600**	9,061,300
Deferred tax liabilities:		
Depreciation	**(39,000)**	(7,719,100)
Prepaid expenses and other	**-**	(428,700)
Total deferred tax liabilities	**(39,000)**	(8,147,800)
Net deferred income tax asset before valuation allowance	**1,169,600**	913,500
Valuation allowance	**(1,169,600)**	(913,500)
Net deferred tax asset	**$ -**	$ -
Deferred income taxes are presented on the Consolidated Statements of Financial Position as follows:		
Current deferred tax assets	**$ -**	$ 913,500
Non-current deferred tax liabilities	**-**	(913,500)
Net deferred tax liabilities	**$ -**	$ -

As a result of the Merger which occurred on June 30, 2013, the only net operating loss carryforwards (NOL's) which remain are those associated with SCAD's unrelated business income. These federal NOL's of approximately $3,500,000 will begin to expire in 2025. The state NOL's of approximately $211,000 will begin to expire in 2030.

At June 30, 2013 the University had $897,330, of total unrecognized tax benefits, including estimated interest and penalties of $360,000. Accordingly, accrued income tax expense in the amount of $897,330 was included in accounts payable, deposits and accrued expenses in the accompanying consolidated statements of financial position.

12 Other Liabilities

The University has an employment contract with the President of the University. This agreement provides for certain amounts of retirement compensation and postretirement medical and other benefits contingent upon the provision of service to the University in accordance with the terms of the contract. In June 2012, the Board of Trustees approved an additional benefit to the President related to the higher education of dependents. The liability related to these postretirement benefits totaled $7,569,200 and $7,466,763 at June 30, 2013 and 2012, respectively. Postretirement expense is recognized during the periods in which services are rendered to the University. The accrual for retirement compensation is recorded in other liabilities in the accompanying consolidated statements of financial position. The plan is unfunded and benefit payments began in fiscal year 2010. The final payment is due on or about June 30, 2014. Funds in the amount of $7,197,219 and $1,101,969 at June 30, 2013 and 2012, respectively, were held by the University to support payment of this obligation.

The following assumptions were recommended by the University's actuarial consultant and used in determining the retirement compensation liability under the terms of the plan: 0.75% discount rate and 5% compensation rate increase for year ended June 30, 2013 and 1.25% discount rate and 5% compensation rate increase for year ended June 30, 2012.

13 Net Assets

Temporarily restricted net assets consisted of the following:

June 30	2013	2012
Contributions and other unexpended revenues available for:		
Academic support	**$ 449,614**	$ 500,324
Student scholarships and aid	**8,839,220**	8,441,813
Student support	**10,607**	104,073
Buildings and equipment	**585,658**	1,145,825
Works of art	**1,439,223**	1,439,188
Auxiliary services	**-**	91,311
Community and educational events	**43,184**	25,116
Total	**$ 11,367,506**	$ 11,747,650

Permanently restricted net assets are invested in perpetuity, the income from which is expendable to support:

June 30	2013	2012
Student aid	**$ 12,965,940**	$ 12,629,838
Academic support (artwork)	**5,708,000**	5,708,000
Total	**$ 18,673,940**	$ 18,337,838

14 Net Assets Released from Restrictions

Net assets were released from donor restrictions by satisfying the restricted purposes as follows:

During the years ended June 30	2013	2012
Academic support	**$ 804,105**	$ 1,455,729
Student scholarships and aid	**2,515,183**	819,302
Student support	**29,294**	116,353
Buildings, plant operations and maintenance	**528,987**	741,316
Auxiliary services	**107,382**	224,390
Community and educational events	**620,329**	320,144
Total	**$ 4,605,280**	$ 3,677,234

15 Contributions In-Kind and Conditional Promises to Give

The following noncash contributions were received and recorded as contribution revenue at their appraised values:

For the years ended June 30	2013	2012
Land, buildings, and equipment	**$ 5,906,053**	$ 200,416
Artwork and antiques	**334,821**	5,875,025
Fashion collection	**-**	80,201
Jewelry	**-**	18,400
	$ 6,240,874	$ 6,174,042

The University was entitled to the benefit of certain W. Woodruff Arts Center, Inc. ("WAC") endowment funds that were restricted to the Atlanta College of Art's ("ACA") use. During year ended June 30, 2011, the University satisfied the certain conditions placed by WAC. Thus, as of June 30, 2013 and 2012, the University recorded the fair value of the funds as permanently restricted and temporarily restricted contributions based on the donor's original intent. All funds were disbursed to the University prior to June 30, 2013.

The University has been named as a beneficiary of numerous wills and trusts representing an estimated $5.2 million in assets as of June 30, 2013 and 2012. As described in Note 1, the University does not recognize such bequests as contribution revenue until they become unconditional promises to give.

16 Retirement Plans

The University has adopted a Tax Sheltered Annuity Program (the 403(b) Plan) in accordance with Section 403(b) of the Code for the benefit of all employees who have been employed with the University for at least 30 days. The 403(b) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $17,500 and $17,000 per participant at June 30, 2013 and 2012, respectively, along with a catch-up provision of $5,500 for those participants age 50 or older. The University makes matching contributions to the Plan of 50%, subject to a maximum of 4% of the employee's compensation. The University contributed $357,291 and $656,569 in matching contributions for the years ended June 30, 2013 and 2012, respectively.

Group has adopted a Tax-qualified Defined Contribution Plan (the 401(k) Plan) in accordance with Section 401(k) of the Code for the benefit of all employees who have been employed with Group for at least 30 days. The 401(k) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $17,500 and $17,000 per participant at June 30, 2013 and 2012, respectively, along with a catch-up provision of $5,500 for those participants age 50 or older. Group makes matching contributions to the 401(k) plan of 50%, to a maximum of 4% of the employee's compensation. Group contributed $725,537 and $339,168 in matching contributions for the years ended June 30, 2013 and 2012, respectively.

The Merger has resulted in no material changes to the retirement plans.

17 Discretionary Contributions to Retirement Plans

The University and Group, at their own discretion, may elect to make additional contributions to the retirement plans at the end of each plan year on behalf of each participant who is employed on the last day of the plan year, which is September 30. Total discretionary contributions accrued with respect to the Plan were $2,600,000 as of June 30, 2013 and 2012. The defined contribution obligation is included in other liabilities in the accompanying consolidated statements of financial position.

18 Commitments and Contingencies

Operating Structure

On March 1, 2004, the University implemented an organizational structure, whereby through June 30, 2013, certain nonacademic functions were provided by a wholly owned for-profit subsidiary, SCAD Group, Inc. While the University did not (nor was it required to) obtain advance approval from the Internal Revenue Service of such operating structure, the University was advised by its outside legal counsel that such organizational structure as implemented should not cause the University to fail to satisfy the tax-exemption requirements of Section 501(c)(3) of the Code. There was a risk that the Internal Revenue Service, upon examination, might assert that this new structure jeopardizes the University's federal tax-exempt status under Section 501(c)(3). Loss of federal tax-exempt status could have negative implications for the University beyond increased federal income tax liabilities. For example, loss of federal tax-exempt status could cause the University to be in default on its outstanding taxable bonds and bank loans due to a covenant requiring the University to comply with all operational, organizational, reporting, and other requirements necessary to maintain its exemption from federal income tax.

While the aforementioned functions were transferred to the University, at the end of day on June 30, 2013, management continues to believe that the operating structure described above will not cause the University to fail to satisfy the tax-exemption requirements of Section 501(c)(3) and will not have a material adverse effect on the consolidated financial condition of the University at June 30, 2013.

Legal Matters

The University is involved in various legal proceedings, claims and governmental inquiries that have arisen in the ordinary course of its business and have not been fully adjudicated. The University will incur legal costs to handle the pending legal matters but, when fully concluded and determined, the resolution will not, in the opinion of management, have a material adverse effect on the consolidated financial position of the University.

Federal Financial Assistance

Certain federally funded financial aid programs are routinely subject to audit by the oversight and/or sponsoring agencies. In addition, reports on examinations conducted pursuant to specific regulatory requirements by the University's independent auditors, are required to be submitted to the U.S. Department of Education, who has the authority to determine liabilities as well as to limit, suspend, or terminate the University's participation in the federal student aid program.

Foreign Tax Contingencies

The University estimated a contingent liability of $887,013 for foreign taxes unrelated to income including $180,000 of interest and penalties. The University anticipates it is probable that a foreign tax liability will materialize consistent with this estimate. Accordingly, pursuant to FASB ASC Topic 450 *Contingencies*, an accrual of $887,013 has been reflected in the accompanying consolidated statements of activities for the fiscal year ended June 30, 2013.

Commitments on Capital Projects

The University had commitments on capital projects of approximately $3,700,000 as of June 30, 2013.

Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Savannah College of Art and Design, Inc.

June 30, 2012 and 2011

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Report of Independent Certified Public Accountants

To the Board of Trustees of
The Savannah College of Art and Design, Inc.:

We have audited the accompanying consolidated statements of financial position of **The Savannah College of Art and Design, Inc. and Subsidiaries and Affiliates** (the University) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 audits to obtain reasonable assurance about whether the consolidated 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 University'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Savannah College of Art and Design, Inc. and Subsidiaries and Affiliates as of June 30, 2012 and 2011, and the consolidated changes in its net assets and its consolidated cash flows for the years 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 October 25, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's 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.

Grant Thornton LLP

Atlanta, Georgia
October 25, 2012

Consolidated statements of financial position

June 30	2012	2011
Assets		
Cash and cash equivalents	**$ 45,136,016**	$ 27,667,256
Restricted cash	**7,379**	8,269,975
Student accounts receivable, net of allowance for uncollectible accounts of $1,797,380 and $1,528,367 at June 30, 2012 and 2011, respectively	**4,971,031**	13,790,037
Receivable from Federal government	**8,834,450**	1,866,826
Contributions receivable, net	**1,530,131**	4,081,010
Inventories	**1,440,151**	1,397,588
Deferred tax asset	**913,500**	1,715,662
Prepaid expenses and other current assets	**10,638,754**	8,178,752
Student loans receivable	**-**	145,256
Investments	**24,920,604**	22,855,256
Debt issuance costs	**2,087,565**	2,400,943
Land, buildings, and equipment, net	**267,893,048**	259,433,156
Works of art	**32,125,774**	31,549,614
Total assets	**$ 400,498,403**	$ 383,351,331
Liabilities		
Accounts payable, deposits, and accrued expenses	**$ 38,711,139**	$ 31,929,143
Deferred revenues	**23,774,584**	27,653,231
Accrued interest payable	**676,541**	613,274
Revolving line of credit	**-**	13,000,000
Bank term loans	**60,454,460**	59,000,000
Bonds payable	**49,900,000**	54,300,000
Capital lease obligation	**1,747,792**	2,389,665
Refundable advances	**1,895,000**	7,915,916
Deferred tax liability	**913,500**	1,715,662
Other liabilities	**25,446,247**	21,886,585
Total liabilities	**203,519,263**	220,403,476
Net assets		
Unrestricted	**166,893,652**	138,495,737
Temporarily restricted	**11,747,650**	12,440,989
Permanently restricted	**18,337,838**	12,011,129
Total net assets	**196,979,140**	162,947,855
Total liabilities and net assets	**$ 400,498,403**	$ 383,351,331

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of activities

For the years ended June 30	2012	2011
Revenues and other support:		
Tuition and fees	**$ 313,586,940**	$ 284,140,176
Less student aid	**(78,805,505)**	(65,420,799)
Net tuition and fees	**234,781,435**	218,719,377
Private contributions and grants	**645,807**	721,280
Sales and services of auxiliary enterprises	**45,075,941**	41,116,077
Investment income and (losses) gains	**(63,312)**	553,777
Other	**6,595,838**	5,443,889
	287,035,709	266,554,400
Net asset reclassification:		
Satisfaction of program and gift restrictions	**3,677,234**	2,958,139
Total unrestricted revenues and other support	**290,712,943**	269,512,539
Operating expenses:		
Instruction	**103,617,769**	95,573,946
Academic support	**18,273,605**	18,095,225
Student services	**43,177,645**	45,673,549
Institutional support	**61,775,048**	62,203,741
Auxiliary enterprises	**35,470,961**	32,857,008
Total operating expenses	**262,315,028**	254,403,469
Change in unrestricted net assets before income taxes	**28,397,915**	15,109,070
Income tax expense	**-**	21,593
Total change in unrestricted net assets	**28,397,915**	15,087,477
Changes in temporarily restricted net assets:		
Private contributions and grants	**2,705,673**	4,357,381
Investment income and gains	**49,113**	2,148,249
Other	**229,109**	-
Net assets released from restrictions	**(3,677,234)**	(2,958,139)
Total change in temporarily restricted net assets	**(693,339)**	3,547,491
Changes in permanently restricted net assets:		
Private contributions and grants	**6,326,709**	3,619,684
Change in value of beneficial interest in perpetual trust	**-**	(2,792,953)
Change in permanently restricted net assets	**6,326,709**	826,731
Total change in net assets	**34,031,285**	19,461,699
Net assets, beginning of year	**162,947,855**	143,486,156
Net assets, end of year	**$ 196,979,140**	$ 162,947,855

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

For the years ended June 30	2012	2011
Cash flows from operating activities:		
Change in net assets	**$ 34,031,285**	$ 19,461,699
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**23,700,331**	21,069,651
Amortization of debt issue costs	**556,985**	377,884
Contributions in-kind	**(6,174,042)**	(540,493)
Loss (gain) and impairment on sale or write-down of long-lived assets	**6,306,888**	(18,235)
Provision for uncollectible student accounts and loans receivable	**412,769**	259,004
Realized and unrealized losses (gains) on investments	**14,199**	(2,702,026)
Decrease in beneficial interest in perpetual trust	**-**	2,792,953
Valuation loss (gain) on derivative instruments	**3,207,155**	(1,434,496)
Receipt of funds from federal agencies	**161,643,427**	138,723,160
Disbursement of funds from federal agencies	**(161,643,427)**	(138,723,160)
Receipt of funds from state agencies	**4,192,051**	3,868,801
Disbursement of funds from state agencies	**(4,192,051)**	(3,868,801)
Contributions restricted for long-term investment	**(618,709)**	(3,619,684)
Change in assets and liabilities:		
Student accounts receivable	**8,549,993**	(7,235,810)
Receivable from Federal government	**(6,967,624)**	(58,402)
Contributions receivable	**2,550,879**	(670,427)
Inventories	**(42,563)**	8,296
Prepaid expenses and other current assets	**(2,458,502)**	(3,353,355)
Accounts payable, deposits, and accrued expenses	**5,534,167**	(5,176,264)
Deferred revenues	**(3,878,647)**	6,587,412
Accrued interest payable	**63,267**	396,841
Other liabilities	**352,507**	3,407,126
Refundable advances	**(312,916)**	629,242
Net cash provided by operating activities	**64,827,422**	30,180,916
Cash flows from investing activities:		
Changes in restricted cash	**8,262,596**	(8,269,975)
Purchases of land, buildings, and equipment and works of art	**(37,440,673)**	(35,192,876)
Proceeds from sale of property and equipment	**111,273**	334,673
Purchases of investments	**(10,203,507)**	(11,899,103)
Proceeds from sale of investments	**8,123,960**	6,780,568
Net cash used in investing activities	**(31,146,351)**	(48,246,713)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows (cont'd)

For the years ended June 30	2012	2011
Cash flows from financing activities:		
Proceeds from bank term loans	**5,567,591**	60,000,000
Principal repayments on other debt	**(9,155,004)**	(36,060,892)
Proceeds from revolving line of credit	**-**	13,000,000
Principal repayments revolving line of credit	**(13,000,000)**	-
Contributions restricted for long-term investment	**618,709**	3,192,310
Debt issuance costs	**(243,607)**	(2,569,034)
Net cash (used in) provided by financing activities	**(16,212,311)**	37,562,384
Net increase in cash and cash equivalents	**17,468,760**	19,496,587
Cash and cash equivalents at beginning of year	**27,667,256**	8,170,669
Cash and cash equivalents at end of year	**$ 45,136,016**	$ 27,667,256
Supplemental disclosure:		
Cash paid for interest	**$ 6,267,103**	$ 4,301,118
Cash paid for income taxes (state only)	**-**	18,925

Capital asset purchases in accounts payable at June 30, 2012 and 2011 totaled $1,834,591 and $3,082,420, respectively.

Interest totaling $239,157 and $278,117 was capitalized during the years ended June 30, 2012 and 2011, respectively.

Notes to consolidated financial statements

1 Summary of Significant Accounting Policies

The Savannah College of Art and Design, Inc. (the University or SCAD) is a private, not-for-profit University which exists to prepare talented students for professional careers, emphasizing learning through individual attention in a positively oriented university environment. The University offers the Bachelor of Arts, Bachelor of Fine Arts, Master of Arts, Master of Arts in Teaching, Master of Fine Arts, Master of Architecture and Master of Urban Design degrees. The University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The Master of Architecture program is additionally accredited by the National Architectural Accrediting Board. The University is approved by the Georgia Professional Standards Commission to offer the Master of Arts in Teaching program. The University is licensed by the South Carolina Commission on Higher Education to offer the Bachelor of Arts in Equestrian Studies. The University recruits students both nationally and internationally.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Consolidation

The accompanying consolidated financial statements of the Savannah College of Art and Design, Inc. include the financial position and activity of SCAD Group, Inc., SCAD Foundation (Hong Kong) Limited, the Association of the Lacoste School of the Arts in France, the Lucas Theatre for the Arts, Inc., SCAD Museum, LLC and Savannah Media Support Services, LLC. All inter-organization transactions and balances have been eliminated in the accompanying consolidated financial statements.

SCAD Group, Inc.

On March 1, 2004, the University transferred its nonacademic functions into a wholly owned for-profit subsidiary, SCAD Group, Inc. (Group).

The University and Group entered into an operating agreement on March 1, 2004 (the Agreement). The Agreement documents the terms and conditions under which the University agrees to obtain, and Group agrees to provide, certain nonacademic services, which include recruitment and communication services, academic support services, financial management services, student services, information technology services, human resource management services, and physical resource services. Group also provides facilities and equipment to the University's academic programs to support expansion and to meet current professional standards.

The University pays Group for the services that Group provides on a cost plus basis, which are eliminated in consolidation. All education services and control of the academic programs remain with the University (see Note 18).

Acorn Leasing Company, LLC and Acorn Hanger, LLC

Acorn Leasing Company, LLC owns an aircraft for lease by SCAD and SCAD Group activities. Acorn Hanger, LLC holds the ground lease with the airport authority for the hanger that houses the aircraft owned by Acorn Leasing Company, LLC. Acorn Hanger, LLC has no assets, liabilities, or transactions as the lease is paid by SCAD Group, Inc. Both for-profit companies are wholly owned subsidiaries of SCAD Group, Inc.

SCAD Foundation (Hong Kong) Limited

In April 2008, the University formed a new company under Hong Kong law, SCAD Foundation (Hong Kong) Limited (SCAD Hong Kong), to be the local provider in Hong Kong of certain SCAD degree programs. On October 10, 2008, Hong Kong Inland Revenue recognized SCAD Hong Kong as exempt from taxes under Section 88 of the Inland Revenue Ordinance.

In March 2010, the Hong Kong Development Bureau entered into an agreement with SCAD Hong Kong granting the right to renovate and then use the North Kowloon Magistracy Building as a campus at which SCAD degrees are offered. The Hong Kong Development Bureau has granted a ten year lease to SCAD Hong Kong with a five year renewal option. The SCAD Hong Kong campus opened in fiscal year 2011 with the first classes being held in September 2010.

Lacoste School of the Arts in France, Association

Lacoste School of the Arts in France, Association (SCAD Lacoste) is a wholly owned subsidiary of SCAD that operates a study abroad location in the Provence region of southeastern France for SCAD academic programs and other events. SCAD funds the operating costs of SCAD Lacoste and has undertaken the renovation and restoration of several sites.

Lacoste School of the Arts in France S.A. (formerly known as Compania de Navegacion Passat S.A.) is an entity that held ownership of the Lacoste property prior to SCAD. Ownership of this entity was transferred to SCAD at the time the Lacoste property was transferred to SCAD. All assets, liabilities, and transactions associated with Lacoste are with SCAD Lacoste or SCAD.

Lucas Theatre for the Arts

The Lucas Theatre for the Arts is a wholly owned not-for-profit subsidiary of SCAD, and SCAD supports the theater's overhead and uses it for a number of events.

SCAD Museum, LLC

SCAD Museum, LLC opened the SCAD Museum of Art in October 2011. The Museum hosts a year-round program of exhibitions, installations, performances and museum programs and events that engage with SCAD's major and minor programs. The Museum is a wholly owned for-profit subsidiary of SCAD.

Savannah Media Support Services, LLC

Savannah Media Support Services, LLC is a corporation set up to lend equipment owned by SCAD and SCAD Group to faculty and students. This corporation is a wholly owned for-profit subsidiary of SCAD, and has no annual transactions, assets, or liabilities.

Basis of Presentation

The net assets and revenues, expenses, gains, and losses of the University are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the University and/or the passage of time, and the portion of time restricted perpetual endowment funds that are subject to an enacted version of the Georgia Uniform Prudent Management of Institutional Funds Act (the Act).

Permanently restricted net assets – Net assets subject to permanent donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless 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 and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions 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 to unrestricted net assets. Net assets restricted for acquisition of long-lived assets are released from restriction at the time such long-lived assets are placed into service.

Georgia Uniform Prudent Management of Institutional Funds Act (the Act)

The University has interpreted the Act as requiring the preservation of the historical value (corpus) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' historical value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated for expenditure. The University records the investment returns on the specific-purpose endowment funds in temporarily restricted net assets and makes those earnings available for expenditure for the donor-restricted purpose. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the donor-restricted endowment fund;
(3) General economic conditions;
(4) Effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the University; and
(7) The investment policies of the University.

The objectives of the endowment are as follows:

- To preserve and enhance the purchasing and earning value of the fund.
- To seek an average annual total rate of return of the Consumer Price Index plus 5%. Attainment of this objective shall be measured over a 3 to 5 year time frame.
- To seek competitive investment performance versus appropriate and relevant market benchmarks. Attainment of this objective shall be measured primarily by comparing investment results over a 3 to 5 year time period or full market cycle.

Commensurate with these objectives, the annual spending policy used for the endowment fund is up to 5% of the ending balance in the fund, measured on the last day of the preceding fiscal year. The spending policy attempts to balance the long-term objective of maintaining the purchasing power of the endowment for the benefit of future generations of students with the goal of providing funds to underwrite the educational needs of current and future generations of the students as well as to enhance the University's financial well-being.

Fair Value Measurements

The University's financial instruments include cash and cash equivalents, investments, student accounts receivable, accounts payable, capital lease obligations, interest rate swap agreements, notes payable, other bank loans and bonds payable.

The carrying value, which is the fair value of investments except for cash held in endowment, money market accounts and certificates of deposit, and interest rate swaps is based upon quoted market values or values provided by external investment managers. The fair values of bonds payable at June 30, 2012 and 2011 approximates their carrying values due to the variable interest rates on these loans. The bank term loans consist of the Term Loan, the Assumed Loan, and the NMTC Loan (see Note 8). The fair value of the Term Loan approximates its carrying value at June 30, 2012 and 2011 due to variable interest rates in effect. The Assumed Loan carrying value approximates its fair value determined as of June 30, 2012 and 2011 due to the short-term maturities of these financial instruments. The NMTC Loan consists of two notes, Note A and Note B. The fair value of Note A at June 30, 2012 and 2011 approximates its carrying value due to variable interest rates in effect. The fair value of Note B at June 30, 2012 and 2011 is not determinable due to its unique terms, which includes a provision that the note can be accelerated with a significantly reduced payment after December 29, 2017 if the lender so elects.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. There is a three-tier fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the University's assumptions (unobservable inputs). The categorization of financial instruments into a particular tier is not an indicator of risk but the manner in which fair value is determined.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3: Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the University. The University considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term investments with original maturities of three months or less. Cash and cash equivalents consist primarily of demand deposits at financial institutions. The credit risk is the amount on deposit in excess of federally insured limits. The University mitigates this risk by depositing and investing cash with major financial institutions. The University has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

The University's receivables are principally due from students for tuition and other fees and from federal and state agencies. Receivables are stated at amounts due net of an allowance for doubtful accounts. The University determines its allowance for doubtful accounts by considering the University's previous loss history and specific account circumstances.

Investments

The University accounts for its investments at fair value, except for cash held in endowment, money market accounts and certificates of deposit (see Note 4). Realized gains and losses on sales of securities represent the difference between net proceeds received and the cost of the investments. Realized and unrealized gains and losses are included in the statement of activities and gains and/or losses are allocated to net asset classes, dependent upon donor specifications. If the underlying restriction is met in the same period, realized gains and/or losses are reported under unrestricted net asset classes.

Investment expenses are reported as a reduction of net realized and unrealized gains (losses) on investments.

Investments in domestic equity securities, government bonds, corporate bonds, mutual funds and other investments are valued based on quoted market prices. In instances when market prices are obtained from active markets, the investments are classified as Level 1 inputs. The University does not adjust the quoted price for such investments. In computing fair value, investments in government bonds, corporate bonds, state and local government bonds and money market funds are valued using inactive markets and are classified as Level 2. The fair value of investments in the private real estate fund are provided by the fund manager and are classified as Level 3.

Unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant investment valuation estimates. Management continues to monitor the composition of its portfolio to assess the potential impact of these market conditions on the valuation and liquidity of its investments and various financial instruments. Due to the level of risk associated 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 University's consolidated financial statements. The changes in economic condition or model-based valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the period.

The University evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total endowments available for investments. The University's policy is to record transfers on the actual date of transaction. For the years ended June 30, 2012 and 2011, there were no significant transfers in or out of Levels 1, 2 or 3.

Interest Rate Swap

As described in Note 8, the University entered into an interest rate swap agreement effectively converting a portion of the underlying debt to a fixed-rate, thereby hedging against the impact of potential interest rate changes on future interest expense. This swap was the result of converting an advance refunding swap on tax-exempt bonds previously issued by the University. The fair value of the interest rate swap was based on quotes from independent sources and represents the estimated amounts that the University would expect to pay to terminate the swap. The methods and independent sources used to value the interest rate swap are considered Level 2 inputs.

Inventories

Inventories are valued at lower of cost or market, determined on a basis that approximates the first-in, first-out (FIFO) method. Inventories consist mainly of items held for resale at the University's various auxiliary enterprises.

Debt Issuance Costs

Issuance costs related to the issuance of bonds payable, notes payable and other bank loans are being amortized over the term of the instrument using the effective interest rate method. In connection with the execution of the amendment to the credit facility, the University incurred approximately $244,000 in fees in the year ended June 30, 2012 which are being amortized over the term of the loans using the effective and straight-line interest rate methods. Amortization of approximately $557,000 and $378,000 is recognized as a component of interest expense during the years ended June 30, 2012 and June 30, 2011, respectively.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at the date of acquisition or at estimated fair value at the date of donation if acquired as gifts, less accumulated depreciation and amortization at a capitalization threshold of $1,000.

Depreciation of buildings and equipment and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the respective assets. Amortization of the leasehold improvements is computed over the shorter of the useful life of the improvement or the lease term. Expenditures for maintenance are expensed; expenditures for renewals and improvements are generally capitalized. A summary of depreciable lives follows:

	Years
Buildings and major building improvements	40 - 70
Other building renovations	10 - 20
Leasehold improvements	2 - 18
Furniture and fixtures	10
Equipment	5 - 10
Library books	20
Computer equipment	5 - 10
Computer software	3

Long-Lived Assets

The University reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of any impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows.

During the year ended June 30, 2012, the University reduced the carrying value of three properties purchased in 2010 to their appraised values as they are not used in the operations of the University. The University recognized a $311,506 loss for impairment of long-lived assets as an operating expense during the year ended June 30, 2012. No loss for impairment of long-lived assets was recorded during the year ended June 30, 2011.

Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support, as appropriate. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift as determined by independent appraisal or other valuation methods as deemed appropriate by management.

Works of Art

Works of Art is comprised of art work and antiques that are held for exhibition and various other program activities. Each of these items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from any sales to be used to acquire other items for collections.

The University has capitalized its collections since its inception. Purchased items are capitalized at cost; donated items are capitalized at fair value at the date of receipt from the donor. Fair value is determined by independent appraisals as of the date of receipt and is subject to a number of judgments and estimates. Gains or losses on the deaccession of collection items are classified on the consolidated statements of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Items which by donor stipulation may never be deaccessioned are classified as permanently restricted net assets.

Deferred Revenues

Deferred revenues represent tuition and fees invoiced for programs and services to be conducted in the subsequent fiscal year.

Functional Expenses

Expenses are reported in the consolidated statements of activities in categories recommended by the National Association of College and University Business Officers. The University's primary program service is instruction. Expenses reported as academic support, student services, institutional support and auxiliary enterprises are incurred in support of these program services. Institutional support includes fund-raising expenses of $1,609,255 and $1,817,968 and advertising expenses of $1,628,183 and $1,353,502 for the years ended June 30, 2012 and 2011, respectively.

Conditional Asset Retirement Obligations

The University has identified asbestos and lead paint abatement as conditional asset retirement obligations in certain properties. Asbestos abatement costs are estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. Lead paint removal costs are based on estimates received from environmental consultants. During the years ended June 30, 2012 and June 30, 2011 the University recorded no additional asset retirement obligations.

The following table presents the activity for the University's asset retirement obligations (included within "other liabilities" on the consolidated statements of financial position):

During the year ended June 30	2012	2011
Balance at beginning of year	**$ 218,427**	$ 210,204
Accretion expense	**3,823**	8,223
Balance at end of year	**$ 222,250**	$ 218,427

Sabbatical Leave and Other Similar Benefits

The University awards sabbaticals to its faculty for a specific period of time without requiring any additional services to be performed. The University expenses future sabbaticals or similar paid absences over the same period in which the benefits are earned in instances where the compensated employee is not required to perform duties for the entity during the absence. The sabbatical policy for staff was replaced on September 1, 2011 with a performance-based bonus program. Certain accruals have been maintained for future payouts to individuals who were on staff with the University at the time of the change.

Derivative Financial Instruments

The University does not use derivative financial instruments for speculative or trading purposes. The University utilizes interest rate swaps to hedge interest rate market exposure of the underlying bonds payable. The University uses the accrual method to account for the interest rate swaps in connection with the underlying bonds. The difference between amounts paid and received under such agreements and the changes in fair value of the swap agreements are reported as interest expense on a functional basis in the accompanying consolidated statements of activities.

Income Taxes

The University has been recognized by the Internal Revenue Service as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax (see Note 11).

The University has a wholly owned subsidiary, SCAD Group, Inc. that is subject to federal and state income taxes. The University provides for income taxes based on FASB ASC Topic 740 *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. The University provides an allowance for deferred tax assets when it is determined that it is more likely than not that the deferred tax assets will not be utilized. The University's policy is to record interest and penalties related to income tax matters in income tax expense.

All wholly owned subsidiaries of the University, with the exception of SCAD Group, Inc., are single member limited liability companies, and are disregarded entities which flow through to the member's federal and state income tax return. Accordingly, no provision or benefit for federal and state income taxes is necessary since income, losses and credits are reported on the University's informational tax return.

The University is required to determine that the relevant tax authority would more likely than not sustain the tax position following an audit. The University has applied this criterion to all tax positions for which the statute of limitations remains open. Tax years open to examination by tax authorities under the statute of limitations include fiscal years 2009-2012.

Foreign Operations

Operations outside the United States of America are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, foreign exchange controls, and restrictions on currency exchange. The University does not engage in hedging activities to mitigate its exposure to fluctuations in foreign currency exchange rates.

In accordance with Hong Kong regulatory requirements, SCAD Hong Kong's net assets are restricted and not available for distribution to the University. As of June 30, 2012 and 2011, the accumulated deficit for SCAD Hong Kong was $20.5 million and $14.19 million, respectively. As of June 30, 2012 and 2011, the University has a receivable from SCAD Hong Kong for $35.4 million and $27.0 million, respectively. This receivable is eliminated in the consolidation of and is therefore not reflected in the University's consolidated financial statements, however the receivable is recoverable by the University and is not subject to the restriction on distribution of net assets.

Translation of Foreign Currencies

Assets and liabilities related to functional currencies other than U.S. dollars are translated into U.S. dollars at the year-end rate of exchange. Revenues and expenses, if any, are translated at the weighted average exchange rates for the year. The resulting translation adjustments are reported as gains or losses from foreign currency transactions in the current period. The functional currency of SCAD Hong Kong is the Hong Kong Dollar. The functional currency for SCAD Lacoste is the Euro. The University held €15,265 valued at $19,219 and HK$3,794,601 valued at $489,601 at June 30, 2012. The University held €14,017 valued at $20,169 and HK$2,118,035 valued at $273,295 at June 30, 2011. The University recognized foreign currency translation gains (losses) of $(26,050) and $96,650 for the years ended June 30, 2012 and 2011, respectively as other income on the consolidated statements of activities.

Related party

During the years ended June 30, 2012 and 2011 the University disbursed under arms-length agreements for architecture services $142,664 and $236,670, respectively, to an entity in which a faculty member has an ownership interest.

Reclassification

Certain liabilities have been reclassified as of June 30, 2011. Certain functional expense amounts have been reclassified for the year ended June 30, 2011. The presentation is consistent with the presentation as of and for the year ended June 30, 2012, and did not result in any impact to net assets or changes in net assets.

Subsequent Events

The University has addressed the accounting for and disclosure of events that occur after the consolidated financial statement date but before consolidated financial statements are issued or are available to be issued. Management has evaluated all events or transactions that occurred after June 30, 2012 through October 25, 2012, the date the consolidated financial statements are available for issuance, for potential recognition or disclosure in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the University may undertake in the future, actual results may be different from the estimates. Significant items subject to such estimates and assumptions include but are not limited to, fair value of investments, fair value of interest rate swaps, carrying amounts of property and equipment, allowances for receivable balances, liability for post-retirement medical benefits and asset retirement obligations. Actual results could differ from those estimates.

2 Contributions Receivable

Unconditional promises to give are recorded as revenue upon receipt. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of this discount is recorded as additional contribution revenue. The University has elected the Expected Present Value (EPV) 2 method in which a risk-free interest rate is adjusted for general market (systematic) risk by adding risk premium. The University has utilized the Yield to Maturity on US Treasuries based on the date of the pledge receivable for the risk-free rate and has applied a market risk of 3%. The risk-adjusted discount rate represents the expected rate of return that corresponds to an expected rate associated with probability-weighted cash flows in which the University has adjusted the cash flows for the "likelihood" of collection. The University believes substantially all contributions receivable to be fully collectible at June 30, 2012 and 2011. Contributions receivable are summarized as follows:

June 30	2012	2011
Amounts due in:		
Less than one year	**$ 924,431**	$ 2,917,407
One to five years	**874,049**	1,392,000
Unconditional promises to give	**1,798,480**	4,309,407
Less: unamortized discount	**(268,349)**	(228,397)
Net contributions receivable	**$ 1,530,131**	$ 4,081,010

Estimated cash flows to be received after one year were discounted at rates ranging from 3.11% to 8.03%. The discount rates are set at the time the original pledge is made based on the U.S. Treasury yield curve for the duration of the pledge.

3 Student Loans Receivable

A reasonable estimate of the fair value of the loans receivable from students under government loan programs and advances from federal government for student loans could not be made because the loans receivable are not salable and can only be assigned to the U.S. government or its designees. Student loans receivable also include institutional loans to qualified students.

4 Investments

Investments at carrying value consisted of the following:

June 30	2012	2011
Cash held in endowment	**$ 289,932**	$ 640,921
Domestic equity securities	**6,323,658**	6,509,125
Government bonds	**2,535,997**	1,572,599
State and local government bonds	**53,310**	315,000
Corporate bonds	**1,717,899**	1,566,662
Money market funds	**443,607**	1,289,898
Mutual funds	**8,999,651**	5,797,084
Other	**3,776**	481,919
Money market accounts	**4,272,629**	4,682,048
Real estate	**280,145**	-
Total	**$ 24,920,604**	$ 22,855,256

Net realized and unrealized gains (losses) consist of the following:

For the years ended June 30	2012	2011
Realized (losses) gains	**$ (379,276)**	$ 393,777
Unrealized gains	**473,048**	2,400,231
Investment fees	**(107,971)**	(91,982)
Total	**$ (14,199)**	$ 2,702,026

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis:

June 30, 2012	Level 1	Level 2	Level 3	Total
Financial instruments - assets				
Domestic equity securities	$ 6,323,658	$ -	$ -	$ 6,323,658
Government bonds	1,746,063	789,934	-	2,535,997
Corporate bonds	1,382,577	335,322	-	1,717,899
Mutual funds - equity	8,994,715	4,936	-	8,999,651
Real estate	-	-	280,145	280,145
State and local government bonds	-	53,310	-	53,310
Money market funds	443,607	-	-	443,607
Other	3,776	-	-	3,776
Total investments	$ 18,894,396	$ 1,183,502	$ 280,145	$ 20,358,043
Financial instruments - derivative				
Interest rate swap - hedge / asset (liability)	$ -	$ (13,900,030)	$ -	$ (13,900,030)

June 30, 2011	Level 1	Level 2	Level 3	Total
Financial instruments - assets				
Domestic equity securities	$ 6,509,125	$ -	$ -	$ 6,509,125
Government bonds	1,257,454	315,145	-	1,572,599
Corporate bonds	1,315,646	251,016	-	1,566,662
Mutual funds - bonds	253,837	-	-	253,837
Mutual funds - equity	5,543,247	-	-	5,543,247
State and local government bonds	-	315,000	-	315,000
Money market funds	-	1,289,898	-	1,289,898
Other	481,919	-	-	481,919
Total investments	$ 15,361,228	$ 2,171,059	$ -	$ 17,532,287
Financial instruments - derivative				
Interest rate swap - hedge / asset (liability)	$ -	$ (10,692,875)	$ -	$ (10,692,875)

The categorization of financial instruments into the three-tier fair value hierarchy is not an indicator of risk but the manner in which fair value is determined as described in Note 1 (Fair Value Measurements).

The University's investment of restricted funds in certificates of deposit, money market accounts as well as cash held in endowment are classified as Investments in the statement of financial position and are carried at amortized cost. The University had $4,562,561 and $5,322,969 in such investments as of June 30, 2012 and 2011, respectively. These investments do not qualify as securities as defined in ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, are not provided.

The following table summarizes the changes in fair values associated with ASC 320 Level 3 assets:

	Beneficial interest in Perpetual Trust	Real Estate
Balance as of June 30, 2010	$ 2,792,953	$ -
Decrease	(2,792,953)	-
Balance as of June 30, 2011	-	-
Purchase	-	291,000
Adjustment to fair value	-	(10,855)
Balance as of June 30, 2012	$ -	$ 280,145

5 Assets Held by Community Foundation

In February 2007, the University and the Community Foundation of Greater Atlanta, Inc. (the Community Foundation), as it relates to endowment funds held by the Community Foundation for the support of the Atlanta University of Art (ACA), entered into an agreement whereby the Community Foundation has determined that, in accordance with the intent of the donor, the University is eligible to receive such funds pursuant to the June 5, 2006 agreement to integrate ACA into the University's Atlanta campus. The Community Foundation has variance power on the underlying trust, and as such, the value associated with the beneficial interest is not included on the University's consolidated statement of financial position. The income of the funds held in the trust is advanced to the University for scholarships for students studying in the arts in Atlanta based on the Community Foundation's spending policy. Annual income payments received by the University are recorded as temporarily restricted contributions until restrictions are met. The University received payments of $145,000 and $150,000 in the fiscal years ended June 30, 2012 and 2011, respectively. The value of funds held in trust by the Community Foundation was $2,952,139 and $3,149,054 as of June 30, 2012 and 2011, respectively. The original corpus of $500,000 was gifted in 1977.

6 Endowments

Administration of the University's endowment is subject to the general provisions of the Georgia Uniform Prudent Management of Institutional Funds Act (the Act). Under the provisions of this state law, the University may appropriate expenditures of underwater endowment funds as is deemed prudent for the uses and purposes for which an endowment fund is established.

Endowment net asset composition by type of fund and changes in endowment net assets are summarized as follows:

Endowment Net Asset Composition by type of fund as of June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (670,333)	$ 1,193,848	$ 12,524,485	$ 13,048,000
Board-designated endowment funds	6,293,908	-	-	6,293,908
Total funds	$ 5,623,575	$ 1,193,848	$ 12,524,485	$ 19,341,908

Changes in Endowment Net Assets Year ended June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 1,476,001	$ 1,063,903	$ 11,294,829	$ 13,834,733
Investment return	(51,781)	86,491	-	34,710
Contributions received	-	-	601,220	601,220
Collection of prior year receivable	282,298	357,678	628,436	1,268,412
Board-designated endowments	4,168,416	-	-	4,168,416
Appropriation of endowment assets for expenditure	(251,359)	(314,224)	-	(565,583)
Endowment net assets, end of year	$ 5,623,575	$ 1,193,848	$ 12,524,485	$ 19,341,908

Endowment Net Asset Composition by type of fund as of June 30, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (594,011)	$ 1,063,903	$ 11,294,829	$ 11,764,721
Board-designated endowment funds	2,070,012	-	-	2,070,012
Total funds	$ 1,476,001	$ 1,063,903	$ 11,294,829	$ 13,834,733

Changes in Endowment Net Assets Year ended June 30, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 809,879	$ 349,154	$ 7,899,773	$ 9,058,806
Investment return	664,413	1,223,686	-	1,888,099
Contributions received	-	-	3,395,056	3,395,056
Board-designated endowments	168,000	-	-	168,000
Appropriation of endowment assets for expenditure	(166,291)	(508,937)	-	(675,228)
Endowment net assets, end of year	$ 1,476,001	$ 1,063,903	$ 11,294,829	$ 13,834,733

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $670,333 and $594,011 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions.

7 Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

June 30	2012	2011
Land	**$ 24,696,833**	$ 22,455,235
Buildings	**96,059,984**	66,684,421
Building improvements	**163,549,844**	150,201,150
Equipment	**104,711,849**	101,597,233
Library books	**9,741,100**	8,689,194
Furniture and fixtures	**22,784,114**	20,854,540
Construction in progress	**3,323,739**	28,222,530
Total land, buildings, and equipment	**424,867,463**	398,704,303
Less - accumulated depreciation	**(156,974,415)**	(139,271,147)
Land, buildings, and equipment, net	**$ 267,893,048**	$ 259,433,156

Construction in progress consists primarily of various building improvement projects. Depreciation expense totaled $23,700,331 and $21,069,651 during the years ended June 30, 2012 and 2011, respectively.

8 Debt Obligations

The following is a summary of the University's debt obligations:

	2012	2011
Principal balance at June 30:		
2011 Credit Facility - Revolving Line of Credit	$ -	$ 13,000,000
2011 Credit Facility - Term Loan	35,000,000	39,000,000
2011 Credit Facility - Accordion Loan	-	-
NMTC Loan	20,000,000	20,000,000
Bonds Payable	49,900,000	54,300,000
Assumed Loan	5,454,460	-
Capital lease	1,747,792	2,389,665
Total	$112,102,252	$128,689,665

Principal payments due on the University's debt obligations are as follows:

	Term Loan	NMTC Loan	Bonds Payable	Assumed Loan	Capital Lease	Total
For the year ended June 30:						
2013	$ 4,000,000	$ -	$ 4,400,000	$ 236,906	$ 673,841	$ 9,310,747
2014	4,000,000	-	4,400,000	251,843	707,399	9,359,242
2015	4,000,000	-	4,400,000	267,723	366,552	9,034,275
2016	23,000,000	-	4,400,000	284,603	-	27,684,603
2017	-	-	4,400,000	4,413,385	-	8,813,385
Thereafter	-	20,000,000	27,900,000	-	-	47,900,000
Total	$ 35,000,000	$ 20,000,000	$ 49,900,000	$ 5,454,460	$ 1,747,792	$112,102,252

2011 Credit Facility

On April 8, 2011, the University entered into $130,000,000 million credit facility (the "2011 Credit Facility"), which includes a $40,000,000 term loan (the "Term Loan") and a $90,000,000 revolving line of credit to support letters of credit for the outstanding taxable bonds and to support the University's working capital requirements. The 2011 Credit Facility matures on April 8, 2016.

The 2011 Credit Facility is secured by liens or a negative pledge on substantially all real property, a security interest in the property located on such real property and by the shares of capital stock in the University's present and future subsidiaries. SCAD Hong Kong is a guarantor of the 2011 Credit Facility and this guaranty is limited to the outstanding amount of all intercompany loans made by the University to SCAD Hong Kong. The Credit Facility bears LIBOR based variable interest, payable monthly or quarterly depending on the rate option selected, at rates that vary based upon the University's ratio of operating earnings (i.e. earnings before interest, depreciation, amortization and taxes) to the amount of outstanding long term debt. As of June 30, 2012, the interest rate was 2.73%. The unused amount available under the 2011 Credit Facility was $39,505,808. The amounts available on the revolver are reduced by the amount of the letter of credit supporting the bonds and other borrowings on the facility. As of June 30, 2012, the amount outstanding under the Term Loan was $35,000,000. Letters of credit to support the bonds amount to $50,494,192, leaving an unused amount of $39,505,808 available for the working capital line of credit. The letters of credit outstanding exceed the bonds payable balance due to interest reserves.

Aside from amounts supporting letters of credit for the bonds, amounts borrowed on the line of credit are due within the next fiscal year. Amounts due within the next fiscal year were $0 and $13,000,000 as of June 30, 2012 and 2011, respectively.

On May 18, 2012, the 2011 Credit Facility was amended to provide an additional term loan in the amount of $32,000,000 (the "Accordion Loan") primarily to fund the construction of a new student residence hall. The interest rate is based on the same criteria described above for the 2011 Credit Facility. Principal payments will be due quarterly starting in December 2013 in the amount of 2.5% of the aggregate principal borrowed. Any remaining principal balance outstanding will be due in full on April 8, 2016. No amounts had been borrowed on the Accordion Loan as of June 30, 2012.

The terms of the University's credit facility provides for certain financial and nonfinancial covenants. At June 30, 2012, management believes that the University is in compliance with these covenants.

Interest expense on the outstanding credit facilities was $1,389,664 and $666,218 for the years ended June 2012 and 2011, respectively.

New Markets Tax Credit (NMTC) Loan

On December 29, 2010, $20,000,000 was financed for the construction of the SCAD Museum of Art. The financing is between SCAD Museum LLC, as Borrower, and Carver Development CDE I, LLC ("Carver CDE"), as Lender. SCAD Museum LLC is 100% owned by the University and owns the real property consisting of the SCAD Museum of Art and leases the SCAD Museum of Art to the University. Carver CDE is an affiliate of Carver State Bank and obtained all of the funds associated with the financing from Bank of America affiliates. The financing is subsidized in part through Bank of America affiliates qualifying for New Market Tax Credits available under the Internal Revenue Code (the "NMTC Program") with respect to the financing, and conditioned upon SCAD Museum LLC meeting certain requirements under the NMTC Program during a 7-year compliance period that ends in December, 2017.

The total financing of $20,000,000 (the "NMTC Loan") consists of two separate loan components summarized as follows: Loan A has a principal balance of $14,150,000 and bears interest at a fluctuating rate based on the BBA LIBOR Daily Floating Rate plus 400 basis points per annum (approximately 4.25% as of June 30, 2012). Loan B has a principal balance of $5,850,000 and bears interest at a fixed rate of 2% per annum.

Monthly payments of interest-only are due under Loan B commenced on February 1, 2011 and continue until December, 2040, with the entire principal balance of the Loan B due in a single balloon payment on December 29, 2040. Monthly payments of interest-only are due under Loan A commencing on February 1, 2011 and continuing thereafter until December 1, 2017. Commencing on January 1, 2018 and continuing until December 1, 2040, monthly payments of principal and interest are due with respect to Loan A in amounts sufficient to fully-amortize the principal balance of Loan A by December 1, 2040. The lender has the right, exercisable after November 29, 2017, to require payment of the entire principal balance of Loan A within 150 days of exercise. If the lender so elects to accelerate Loan A, the $5,850,000 principal balance of Loan B can be satisfied in full with a payment of $58,500. The University has the option, exercisable after the compliance period of 7 years, to allow the University to pay the entire principal balance of Loan A when the tax credits have been earned by the equity investor and when the continuation of the loan is not beneficial to either party.

The loans are secured by a pledge of the real property that comprises the SCAD Museum of Art. The University has guaranteed the payment of all amounts due under the loans and certain matters associated with the failure of SCAD Museum LLC to comply with NMTC Program requirements for an eligible NMTC program borrower.

Funds held by Bank of America on behalf of SCAD Museum LLC, as of June 30, 2012 and 2011 were $7,379 and $8,269,975, respectively. These funds are being reported as restricted cash given the restriction on the use of such funds for construction or debt service.

Bonds Payable

Bonds payable include the following:

June 30	Date Issued	Interest %	Maturity Date	Original Issue	Outstanding June 30, 2012	2011
The Savannah College of Art and Design, Inc. Taxable Variable Rate Demand Revenue Bond Series 2004	3/11/2004	Variable	04/01/2024	$85,000,000	**$49,900,000**	$54,300,000

Under the terms of the indenture, the University is required to make monthly interest payments and quarterly payments for the retirement of bond principal. Interest expense on outstanding bonds was $1,534,292 and $1,211,083 for years ended June 30, 2012 and 2011, respectively. The Series 2004 bonds are supported by a letter of credit. The letter of credit was renewed in conjunction with the closing of the 2011 Credit Facility.

The University utilizes an interest rate swap to manage interest rate market exposure of the underlying bond debt. The University has entered into an interest rate swap agreement that effectively converts a portion of the variable rate revenue bonds to a fixed rate. Significant terms of the swap agreement for June 30, 2012 and 2011 are as follows:

Agreement Date	Notional Amount	University Pays	University Receives	Expiration Date	Effective Date	Fair Value at June 30, 2012	Fair Value at June 30, 2011
12/1/2004	$ 32,521,800	7.26%	US 1M- BBA	4/1/2024	10/1/2009	**$ (13,900,030)**	$ (10,692,875)
		76.314% of US-1 Month	68.84% of USD-5YR				

Fair value of the swap agreement is included in other liabilities in the accompanying consolidated statements of financial position. Net settlement transactions related to the swap agreement resulted in a net expense to the University totaling $2,282,425 and $2,278,719 for the years ended June 30, 2012 and 2011, respectively. Change in fair value of the swap is recorded as a component of interest expense and resulted in an approximately $3.207 million loss and $1.434 million gain for years ended June 30, 2012 and 2011, respectively.

Assumed Loan (Bradley Hall)

On December 28, 2011 the University exercised its purchase option for the Bradley Hall facility which it had been utilizing under a lease since January 2007. In connection with this transaction, the University assumed the landlord's loan on the building. The note (the "Assumed Loan") bears fixed interest rate of 6.13% and has a balloon payment due on February 1, 2017.

Interest expense on the Assumed Loan was $170,528 for the year ended June 2012.

9 Leases

Operating Leases

The University leases buildings and equipment under noncancelable operating leases that expire over the next twenty five years. Total rental expense under operating lease agreements for the years ended June 30, 2012 and 2011 was approximately $13,720,948 and $14,896,990, respectively. These leases generally require the University to pay all operating costs such as maintenance and insurance. A number of the University's facility leases include escalation clauses and/or renewal options. The University recognizes rental expense on a straight-line basis over the lease term. The difference between actual cumulative rental payments and cumulative rental expense since the inception of such leases results in a deferred rent liability in the "other liabilities" category on the consolidated statement of financial position. Deferred rent was $3,442,867 and $4,253,137 as of June 30, 2012 and 2011, respectively.

Future minimum lease payments under noncancelable operating leases as of June 30, 2012 are as follows:

	Amount
For the year ended June 30:	
2013	$ 11,708,985
2014	10,264,297
2015	5,427,536
2016	1,569,021
2017	1,330,057
Thereafter	4,986,690
Total	$ 35,286,586

Capital Lease

During fiscal year 2005, office furniture, video equipment, and computer equipment in the amount of $5,881,090 were acquired under a capital lease. The interest rate on the capitalized lease is 4.87%. Depreciation of assets under the capital lease is included in depreciation expense, and the related accumulated depreciation related to equipment acquired under the capital lease totaled $4,416,180 and $3,834,820 at June 30, 2012 and 2011, respectively.

Future minimum lease payments under a capital lease as of June 30, 2012 are as follows:

		Amount
For the year ended June 30:		
2013	$	744,062
2014		744,061
2015		371,780
Total		1,859,903
Less amounts representing interest		(112,111)
Present value of minimum lease payments		1,747,792
Less current maturities		(673,841)
Capital lease obligation, excluding current maturities	$	1,073,951

10 Refundable Advances

On November 3, 2005, the University entered into a gift agreement under which a substantial collection of African-American art, including paintings, sculptures, and prints will be donated to the University over a ten-year period. The collection received in connection with this gift is subject to certain conditions related to the establishment of the Walter O. Evans Center for African-American Studies. The University has recorded the fair value of the collection acquired, totaling $5,708,000, as a refundable advance as of June 30, 2011. In 2012 the University met the terms of the agreement and as such the entire $5,708,000 value of the collections was recognized as permanently restricted contribution revenue in the current year.

Refundable advances at June 30, 2012 and 2011 also include a refundable advances totaling $1,895,000 and $2,207,916, respectively, related to unamortized capital expenditures which were provided by certain vendors, under the terms of certain operating agreements. Should the University terminate the agreements with vendors prior to the term as defined as such agreements, the University would be required to remit the vendors an amount equal to the unamortized capital expenditures as of the termination date. The University records unrestricted in-kind contribution revenue related to these capital expenditures on a straight-line basis over the term of the agreements as conditions of the agreement are met.

Contribution revenue recorded under these operating agreements totaled $141,904 and $234,133 during the years ended June 30, 2012 and 2011, respectively. The unamortized portion is reflected in the accompanying consolidated statements of financial position as refundable advances.

11 Income Taxes

The provision for income taxes consists of the following:

For the years ended June 30		2012		2011
Federal:				
Deferred	**$**	**550,230**	$	(1,084,189)
State:				
Current		**-**		21,593
Deferred		**(157,130)**		497,490
Income tax provision before valuation allowance		**393,100**		(565,106)
Change in valuation allowance		**(393,100)**		586,699
Income tax provision	**$**	**-**	$	21,593

The income tax provision for the year ended June 30, 2011 is related to state income taxes. Income tax expense (benefit) differs from the "expected" income tax expense for the periods (computed by applying the statutory federal corporate tax rate of 34% to earnings (loss) before income taxes for Group totaling $(2,381,456) and $(2,307,129) in 2012 and 2011, respectively), as follows:

For the year ended June 30	2012	2011
Computed "expected" tax expense (benefit)	**$ (602,800)**	$ (784,424)
Increase in tax expense resulting from:		
Permanent items	**121,800**	117,623
State tax expense, net of Federal benefit	**(103,700)**	342,595
Change in valuation allowance	**(393,100)**	586,699
Prior year provision adjustment to actual	**977,800**	(240,900)
Actual tax expense (benefit)	**$ -**	$ 21,593

The tax effect of temporary differences give rise to significant portions of the deferred tax assets and deferred tax liabilities as of June 30, 2012 and 2011. The components of deferred income tax are as follows:

June 30	2012	2011
Deferred tax asset:		
Accounts receivable allowance	**$ 5,000**	$ 716,484
Accrued vacation	**689,400**	661,182
Miscellaneous accruals	**1,385,400**	1,711,271
Deferred rent	**551,400**	714,427
Alternative minimum tax credit	**486,500**	486,525
Historic preservation tax credit	**1,573,300**	1,573,270
Operating loss carryforward	**4,370,300**	1,782,408
Total deferred tax assets	**9,061,300**	7,645,567
Deferred tax liabilities:		
Depreciation	**(7,719,100)**	(6,175,544)
Prepaid expenses and other	**(428,700)**	(163,414)
Total deferred tax liabilities	**(8,147,800)**	(6,338,958)
Net deferred income tax asset before valuation allowance	**913,500**	1,306,609
Valuation allowance	**(913,500)**	(1,306,609)
Net deferred tax asset	**$ -**	$ -
Deferred income taxes are presented on the Consolidated Statements of Financial Position as follows:		
Deferred tax assets	**$ 913,500**	$ 1,715,662
Deferred tax liabilities	**(913,500)**	(1,715,662)
Net deferred tax liabilities	**$ -**	$ -

As of June 30, 2012, SCAD Group has federal net operating loss carryforwards (NOL's) of approximately $11,258,858 that will begin to expire in 2029. As of June 30, 2012, SCAD Group has state NOL's of approximately $2,317,308 that will begin to expire in 2032. In assessing the likelihood of realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The continued existence of the University's for-profit subsidiary, which generated the deferred tax assets, is subject to the University's Board making the determination that the current organizational structure meets applicable regulatory compliance requirements (see Note 18) and contributes to the strategic goals and objectives of the institution. The University's ongoing assessment of these matters may result in the subsidiary being dissolved in the future. As such, management views the realization of the deferred tax assets as uncertain. Consequently, a valuation allowance as of June 30, 2012 and 2011 has been established for the full amount of the related net deferred tax assets.

12 Other Liabilities

The University has an employment contract with the President of the University. This agreement provides for certain amounts of retirement compensation and postretirement medical and other benefits contingent upon the provision of service to the University in accordance with the terms of the contract. In June 2012, the Board of Trustees approved an additional benefit to the President related to the higher education of dependents. The liability related to these postretirement benefits totaled $7,466,763 and $6,071,021 at June 30, 2012 and 2011, respectively. Postretirement expense is recognized during the periods in which services are rendered to the University. The accrual for retirement compensation is recorded as other liabilities in the accompanying consolidated statements of financial position. The plan is unfunded and benefit payments began in fiscal year 2010. The final payment is due on or about June 30, 2014. Funds in the amount of $1,101,969 and $1,145,550 at June 30, 2012 and 2011, respectively, were held by the University to support payment of this obligation.

The following assumptions were recommended by the University's actuarial consultant and used in determining the retirement compensation liability under the terms of the plan: 1.25% discount rate and 5% compensation rate increase for year ended June 30, 2012 and 2.75% discount rate and 5% compensation rate increase for year ended June 30, 2011.

13 Net Assets

Temporarily restricted net assets consist of the following:

June 30	2012	2011
Contributions and other unexpended revenues available for:		
Academic support	**$ 500,324**	$ 109,989
Student scholarships and aid	**4,841,699**	4,788,451
Student support	**104,073**	136,756
Buildings and equipment	**1,145,825**	2,415,605
Works of art	**1,439,188**	1,439,188
Auxiliary services	**91,311**	-
Community and educational events	**25,116**	-
Accumulated donor-restricted endowment fund investment earnings	**3,600,114**	3,551,000
Total	**$ 11,747,650**	$ 12,440,989

Permanently restricted net assets are invested in perpetuity, the income from which is expendable to support:

June 30	2012	2011
Student aid	**$ 12,629,838**	$ 12,011,129
Academic support (artwork)	**5,708,000**	-
Total	**$ 18,337,838**	$ 12,011,129

14 Net Assets Released from Restrictions

Net assets were released from donor restrictions by satisfying the restricted purposes as follows:

During the years ended June 30	2012	2011
Academic support	**$ 1,455,729**	$ 214,303
Student scholarships and aid	**819,302**	456,393
Student support	**116,353**	368,607
Buildings, plant operations and maintenance	**741,316**	1,684,810
Auxiliary services	**224,390**	-
Community and educational events	**320,144**	234,026
Total	**$ 3,677,234**	$ 2,958,139

15 Contributions In-Kind and Conditional Promises to Give

The following noncash contributions were received and recorded as contribution revenue at their appraised values:

For the years ended June 30	2012	2011
Buildings and equipment	**$ 200,416**	$ 355,470
Artwork and antiques	**5,875,025**	30,343
Fashion collection	**80,201**	151,485
Jewelry	**18,400**	3,195
	$ 6,174,042	$ 540,493

The University was entitled to the benefit of certain W. Woodruff Arts Center, Inc. ("WAC") endowment funds that were restricted to the Atlanta College of Art's ("ACA") use. During year ended June 30, 2011, the University satisfied the certain conditions placed by WAC. Thus, as of June 30, 2012 and 2011, the University has recorded the fair value of the funds as permanently restricted and temporarily restricted contributions based on the donor's original intent. All funds were disbursed to the University prior to June 30, 2012.

16 Retirement Plans

The University has adopted a Tax Sheltered Annuity Program (the 403(b) Plan) in accordance with Section 403(b) of the Code for the benefit of all employees who have been employed with the University for at least 30 days. The 403(b) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled$17,000 and $16,500 per participant at June 30, 2012 and 2011, respectively, along with a catch-up provision of $5,500 for those participants age 50 or older. The University makes matching contributions to the Plan of 50%, subject to a maximum of 4% of the employee's compensation. The University contributed $656,569 and $667,298 in matching contributions for the years ended June 30, 2012 and 2011, respectively.

Group has adopted a Tax Sheltered Annuity Program (the 401(k) Plan) in accordance with Section 401(k) of the Code for the benefit of all employees who have been employed with Group for at least 30 days. The 401(k) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $17,000 and $16,500 per participant at June 30, 2012 and 2011, respectively, along with a catch-up provision of $5,500 for those participants age 50 or older. Group makes matching contributions to the 401(k) plan of 50%, to a maximum of 4% of the employee's compensation. Group contributed $339,168 and $358,650 in matching contributions for the years ended June 30, 2012 and 2011, respectively.

17 Discretionary Contributions to Retirement Plans

The University and Group, at their own discretion, may elect to make additional contributions to the retirement plans at the end of each plan year on behalf of each participant who is employed on the last day of the plan year, which is September 30. Total discretionary contributions accrued with respect to the Plan were $2,600,000 and $1,500,000 as of June 30, 2012 and 2011, respectively. The defined contribution obligation is included in Other Liabilities in the consolidated statements of financial position.

18 Commitments and Contingencies

Operating Structure

On March 1, 2004, the University implemented the current organizational structure. Certain nonacademic functions were provided by a wholly owned for-profit subsidiary, SCAD Group, Inc. The University did not obtain (nor was it required to obtain) advance approval from the Internal Revenue Service of the operating structure. The University was advised by its outside legal counsel that the organizational structure as implemented should not cause the University to fail to satisfy the tax-exemption requirements of Section 501(c)(3) of the Code. There is a risk that the Internal Revenue Service, upon examination, might assert that this new structure jeopardizes the University's federal tax-exempt status under Section 501(c)(3). Loss of federal tax-exempt status could have negative implications for the University beyond increased federal income tax liabilities. For example, loss of federal tax-exempt status could cause the University to be in default on its outstanding taxable bonds and bank loans due to a covenant requiring the University to comply with all operational, organizational, reporting, and other requirements necessary to maintain its exemption from federal income tax.

Management believes that the operating structure described above will not cause the University to fail to satisfy the tax-exemption requirements of Section 501(c)(3) and will not have a material adverse effect on the financial condition of the University at June 30, 2012.

Legal Matters

The University is involved in various legal proceedings, claims and governmental inquiries that have arisen in the ordinary course of its business and have not been fully adjudicated. The University will incur legal costs to handle the pending legal matters but, when fully concluded and determined, the resolution will not, in the opinion of management, have a material adverse effect on the financial position of the University.

Federal Financial Assistance

Certain federally funded financial aid programs are routinely subject to special audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the University, are required to be submitted to both the University and the U.S. Department of Education. Such agency has the authority to determine liabilities as well as to limit, suspend, or terminate federal student aid program.

Commitments on Capital Projects

The University had commitments on capital projects of $30 million as of June 30, 2012. This includes the construction of a new residence hall and parking garage to be completed in late summer of 2013.

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Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Savannah College of Art and Design, Inc.

June 30, 2011 and 2010

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Audit • Tax • Advisory

Grant Thornton LLP
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Report of Independent Certified Public Accountants

To the Board of Trustees of
The Savannah College of Art and Design, Inc.:

We have audited the accompanying consolidated statement of financial position of **The Savannah College of Art and Design, Inc. and Subsidiaries** (the College) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Savannah College of Art and Design, Inc. and Subsidiaries as of June 30, 2011 and 2010, and the consolidated changes in its net assets and its consolidated cash flows for the years 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 October 14, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's 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.

Grant Thornton LLP

Atlanta, Georgia
October 14, 2011

Consolidated statements of financial position

June 30	2011	2010
Assets		
Cash and cash equivalents	**$ 27,667,256**	$ 8,170,669
Restricted cash	**8,269,975**	-
Student accounts receivable, net of allowance for uncollectible accounts of $1,528,367 and $1,269,333 at June 30, 2011 and 2010, respectively	**13,790,037**	6,813,231
Receivable from Federal government	**1,866,826**	1,808,424
Contributions receivable, net	**4,081,010**	2,983,209
Inventories	**1,397,588**	1,405,884
Current deferred tax asset	**1,715,662**	2,045,593
Prepaid expenses and other current assets	**8,178,752**	4,825,397
Student loans receivable	**145,256**	145,256
Investments	**22,855,256**	15,034,695
Debt issuance costs	**2,400,943**	209,793
Land, buildings, and equipment, net	**259,433,156**	243,104,675
Beneficial interest in perpetual trust	**-**	2,792,953
Works of art	**31,549,614**	30,448,395
Total assets	**$ 383,351,331**	$ 319,788,174
Liabilities		
Accounts payable, deposits, and accrued expenses	**$ 31,929,143**	$ 34,022,987
Deferred revenues	**27,653,231**	21,065,819
Accrued interest payable	**613,274**	216,433
Notes payable	**52,000,000**	30,000,000
Other bank loans	**20,000,000**	-
Bonds payable	**54,300,000**	58,700,000
Capital lease obligation	**2,389,665**	3,050,557
Refundable advances	**7,915,916**	7,286,674
Noncurrent deferred tax liability	**1,715,662**	2,045,593
Other liabilities	**21,886,585**	19,913,955
Total liabilities	**220,403,476**	176,302,018
Net assets		
Unrestricted	**138,495,737**	123,408,260
Temporarily restricted	**12,440,989**	8,893,498
Permanently restricted	**12,011,129**	11,184,398
Total net assets	**162,947,855**	143,486,156
Total liabilities and net assets	**$ 383,351,331**	$ 319,788,174

Consolidated statements of activities

For the years ending June 30		2011		2010
Revenues and other support:				
Tuition and fees	$	**284,140,176**	$	262,260,056
Less student aid		**(65,420,799)**		(56,934,646)
Net tuition and fees		**218,719,377**		205,325,410
Private contributions and grants		**721,280**		2,281,991
Sales and services of auxiliary enterprises		**41,116,077**		37,715,723
Net realized and unrealized gains on investments		**553,777**		1,476,965
Other		**5,443,889**		3,802,095
		266,554,400		250,602,184
Net asset reclassification:				
Satisfaction of program and gift restrictions		**2,958,139**		3,708,334
Total unrestricted revenues and other support		**269,512,539**		254,310,518
Operating expenses:				
Instruction		**94,863,262**		87,925,427
Academic support		**17,562,896**		16,273,999
Student services		**45,673,549**		47,967,261
Institutional support		**63,446,754**		69,081,475
Auxiliary enterprises		**32,857,008**		29,817,799
Total operating expenses		**254,403,469**		251,065,961
Change in unrestricted net assets before income taxes		**15,109,070**		3,244,557
Income tax expense		**21,593**		-
Total change in unrestricted net assets		**15,087,477**		3,244,557
Changes in temporarily restricted net assets:				
Private contributions and grants		**4,357,381**		3,512,791
Investment income (loss)		**2,148,249**		(154,817)
Net assets released from restrictions		**(2,958,139)**		(3,708,334)
Total change in temporarily restricted net assets		**3,547,491**		(350,360)
Changes in permanently restricted net assets:				
Private contributions and grants		**3,619,684**		176,166
Change in value of beneficial interest in perpetual trust		**(2,792,953)**		313,912
Change in permanently restricted net assets		**826,731**		490,078
Total change in net assets		**19,461,699**		3,384,275
Net assets at beginning of year		**143,486,156**		140,101,881
Net assets at end of year	$	**162,947,855**	$	143,486,156

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

For the years ending June 30	2011	2010
Cash flows from operating activities:		
Change in net assets	**$ 19,461,699**	$ 3,384,275
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**21,069,651**	18,257,469
Amortization of debt issue costs	**377,884**	209,792
Accretion of asset retirement obligation	**8,223**	11,340
Contributions in-kind	**(540,493)**	(1,585,099)
(Gain) loss on sale of assets	**(18,235)**	62,778
Provision for uncollectible student accounts receivable	**259,004**	443,084
Realized and unrealized gains on investments	**(2,702,026)**	(1,322,148)
Decrease (increase) in beneficial interest in perpetual trust	**2,792,953**	(313,912)
Valuation (gain) loss on derivative instruments	**(1,434,496)**	3,776,558
Receipt of agency funds (Federal Direct Student Loans and Pell Grants)	**137,642,949**	127,636,746
Disbursement of agency funds	**(137,642,949)**	(127,636,746)
Contributions restricted for long-term investment	**(3,619,684)**	(176,166)
Change in assets and liabilities:		
Student accounts receivable	**(7,235,810)**	(2,252,157)
Receivable from Federal government	**(58,402)**	235,712
Contributions receivable	**(670,427)**	511,915
Inventories	**8,296**	(363,478)
Prepaid expenses and other current assets	**(3,353,355)**	(754,990)
Accounts payable, deposits, and accrued expenses	**(5,176,264)**	(1,130,099)
Deferred revenues and refundable advances	**6,587,412**	2,910,690
Accrued interest payable	**396,841**	(72,549)
Other liabilities	**3,398,903**	150,824
Refundable advances	**629,242**	-
Net cash provided by operating activities	**30,180,916**	21,983,839
Cash flows from investing activities:		
Changes in restricted cash	**(8,269,975)**	-
Purchases of land, buildings, and equipment	**(34,276,680)**	(40,586,138)
Proceeds from sale of property and equipment	**334,673**	34,474
Purchases of works of art	**(916,196)**	(601,232)
Purchases of investments	**(11,899,103)**	(5,050,015)
Proceeds from sale of investments	**6,780,568**	5,898,949
Net principal repayments on student loans receivable	**-**	4,511
Net cash used in investing activities	**(48,246,713)**	(40,299,451)
Cash flows from financing activities:		
Proceeds from issuance of notes payable and other bank loans	**73,000,000**	30,000,000
Principal repayments on notes payable	**(31,000,000)**	-
Principal repayments on bonds payable	**(4,400,000)**	(4,400,000)
Principal repayments on capital lease	**(660,892)**	(7,147,647)
Contributions restricted for long-term investment	**3,192,310**	176,166
Debt issuance costs	**(2,569,034)**	-
Net cash provided by financing activities	**37,562,384**	18,628,519
Net increase in cash and cash equivalents	**19,496,587**	312,907
Cash and cash equivalents at beginning of year	**8,170,669**	7,857,762
Cash and cash equivalents at end of year	**$ 27,667,256**	$ 8,170,669

Consolidated statements of cash flows (cont'd)

For the year ended June 30		2011		2010
Supplemental disclosure:				
Cash paid for interest	**$**	**4,301,118**	$	3,433,626
Cash paid for income taxes		**18,925**		-
Contributions in-kind:				
Buildings and equipment		**355,470**		150,000
Artwork and antiques		**30,343**		1,133,000
Fashion Collection		**151,485**		67,966
Jewelry		**3,195**		-
Amortization of deferred contribution related to buildings and equipment		**-**		234,133

Capital asset purchases in accounts payable at June 30, 2011 totaled $3,082,420.

Interest totaling $278,117 and $171,656 was capitalized during the years ending June 30, 2011 and 2010, respectively.

Notes to consolidated financial statements

1 Summary of Significant Accounting Policies

The Savannah College of Art and Design, Inc. (the College or SCAD) is a private, not-for-profit college which exists to prepare talented students for professional careers, emphasizing learning through individual attention in a positively oriented university environment. The College offers the Bachelor of Arts, Bachelor of Fine Arts, Master of Arts, Master of Arts in Teaching, Master of Fine Arts, Master of Architecture and Master of Urban Design degrees. The College is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The Master of Architecture program is additionally accredited by the National Architectural Accrediting Board. The College is approved by the Georgia Professional Standards Commission to offer the Master of Arts in Teaching program. The College is licensed by the South Carolina Commission on Higher Education to offer the Bachelor of Arts in Equestrian Studies. The College recruits students both nationally and internationally.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

SCAD Group, Inc.

On March 1, 2004, the College transferred its nonacademic functions into a wholly owned for-profit subsidiary, SCAD Group, Inc. (Group).

The College and Group entered into an operating agreement on March 1, 2004 (the Agreement). The Agreement documents the terms and conditions under which the College agrees to obtain, and Group agrees to provide, certain nonacademic services, which include recruitment and communication services, academic support services, financial management services, student services, information technology services, human resource management services, and physical resource services. Group also provides facilities and equipment to the College's academic programs to support expansion and to meet current professional standards.

The College pays Group for the services that Group provides on a cost plus basis, which are eliminated in consolidation. All education services and control of the academic programs remain with the College (see Note 20).

SCAD Foundation Hong Kong

In April 2008, the College formed a new company under Hong Kong law, SCAD Foundation (Hong Kong) Limited (SCAD Hong Kong), to be the local provider in Hong Kong of certain SCAD degree programs. On October 10, 2008, Hong Kong Inland Revenue recognized SCAD Hong Kong as exempt from taxes under Section 88 of the Inland Revenue Ordinance. In accordance with Hong Kong regulatory requirements, SCAD Hong Kong's net assets are restricted and not available for distribution to the College. As of June 30, 2011 and 2010, the accumulated deficit for SCAD Hong Kong was $14.19 million and $4.2 million, respectively. As of June 30, 2011 and 2010, the College has a receivable from SCAD Hong Kong for $27 million and $14.9 million, respectively.

In March 2010, the Hong Kong Development Bureau entered into an agreement with SCAD Hong Kong granting the right to renovate and then use the North Kowloon Magistracy Building as a campus at which SCAD degrees are offered. The Hong Kong Development Bureau has granted a ten year lease to SCAD Hong Kong with a five year renewal option. The SCAD Hong Kong campus opened in fiscal year 2011 with the first classes being held in September 2010.

Basis of Consolidation

The accompanying consolidated financial statements of the Savannah College of Art and Design, Inc. include the financial position and activity of SCAD Group, Inc., Savannah Media Support, LLC, the Lucas Theatre for the Arts, Inc., the Association of the Lacoste School of the Arts in France, SCAD Museum, LLC and SCAD Foundation (Hong Kong) Limited. All inter-organization transactions and balances have been eliminated in the accompanying consolidated financial statements.

Basis of Presentation

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

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

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

Permanently restricted net assets – Net assets subject to permanent donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless 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 and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions 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 to unrestricted net assets. Net assets restricted for acquisition of long-lived assets are released from restriction at the time such long-lived assets are placed into service.

The College has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the historical value (corpus) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated for expenditure. The College records the investment returns on the specific-purpose endowment funds in temporarily restricted net assets and makes those earnings available for expenditure for the donor-restricted purpose. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the donor-restricted endowment fund;
(3) General economic conditions;
(4) Effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the College; and
(7) The investment policies of the College.

The spending policy used for the endowment fund is up to 5% of the ending balance in the fund, measured on the last day of the preceding fiscal year. The spending policy attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing funds to underwrite the educational needs of current and future generations of the students and to enhance the College's financial well-being.

Fair Value Measurements

The College's financial instruments include cash and cash equivalents, investments, student accounts receivable, accounts payable, capital lease obligations, interest rate swap agreements, notes payable, other bank loans and bonds payable.

The carrying value, which is the fair value of investments except for cash held in endowment, money market accounts and certificates of deposit, and interest rate swaps is based upon quoted market values or values provided by external investment managers. The fair value of notes and bonds payable at June 30, 2011 and 2010 approximates carrying value due to variable interest rates in effect which approximate current fair value. The other bank loan consists of two notes, Note A and Note B (See Note 9). The fair value of Note A at June 30, 2011 approximates its carrying value due to variable interest rates in effect which approximate current fair value. The fair value of Note B approximates its carrying value given the provision that the note can be accelerated after December 29, 2017 at 1% of its outstanding balance. The carrying value of other financial instruments approximates their fair value determined as of June 30, 2011 and 2010 due to the short-term maturities of these financial instruments.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. There is a three-tier fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the College's assumptions (unobservable inputs).

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3: Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the College. The College considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term investments with original maturities of three months or less. Cash and cash equivalents consist primarily of demand deposits at financial institutions. The credit risk is the amount on deposit in excess of federally insured limits. The College mitigates this risk by depositing and investing cash with major financial institutions. The College has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

The College's receivables are due from students for tuition and other fees and from other agencies. Receivables are stated at amounts due net of an allowance for doubtful accounts. The College determines its allowance for doubtful accounts by considering the College's previous loss history and specific account circumstances.

Investments

The College accounts for its investments at fair value, except for cash held in endowment, money market accounts and certificates of deposit. Realized gains and losses on sales of securities represent the difference between net proceeds received and the cost of the investments. Realized and unrealized gains and losses are included in the statement of activities and gains and/or losses are allocated to net asset classes, dependent upon donor specifications. If the underlying restriction is met in the same period, realized gains and/or losses are reported under unrestricted net asset classes.

Investment expenses are reported as a reduction of net realized and unrealized gains (losses) on investments.

Investments in domestic equity securities, government bonds, corporate bonds, mutual funds and other investments are valued based on quoted market prices. In instances when market prices are obtained from active markets, the investments are classified as Level 1 inputs. The College does not adjust the quoted price for such investments. Investments in government bonds, corporate bonds, state and local government bonds and money market funds are valued using inactive markets and are classified as Level 2.

Unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant investment valuation estimates. Management continues to monitor the composition of its portfolio to assess the potential impact of these market conditions on the valuation and liquidity of its investments and various financial instruments. Due to the level of risk associated 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 College's consolidated financial statements. The changes in economic condition or model-based valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the period.

The College evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total endowments available for investments. The College's policy is to record transfers on the actual date of transaction. For the year ended June 30, 2011, there were no significant transfers in or out of Levels 1, 2 or 3 with the exception of the transfer noted in the following paragraph.

Upon further evaluation of authoritative guidance contained in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, the College considered that some of the state and local government bonds previously reported as Level 1 were invested in inactive markets, which are more representative of Level 2 measurements. The transfer had no impact on the statement of net assets or the statement of changes in net assets for any period presented.

Interest Rate Swap

As described in Note 10, the College entered into an interest rate swap agreement effectively converting a portion of the underlying debt to a fixed-rate, thereby hedging against the impact of potential interest rate changes on future interest expense. The fair value of the interest rate swap was based on quotes from independent sources and represents the estimated amounts that the College would expect to pay to terminate the swap. The methods and independent sources used to value the interest rate swap are considered Level 2 inputs.

Inventories

Inventories are valued at lower of cost or market, determined on a basis that approximates the first-in, first-out (FIFO) method. Inventories consist mainly of items held for resale at the College's various auxiliary enterprises.

Debt Issuance Costs

Issuance costs related to the issuance of bonds payable, notes payable and other bank loans are being amortized over the term of the instrument using the effective interest rate method. In connection with the execution of the credit facility and the other bank loans, the College incurred approximately $2.6 million in fees in the year ended June 30, 2011 which are being amortized over the term of the loans using the effective interest rate method. Amortization of approximately $378,000 and $209,700 is recognized as a component of interest expense during the years ended June 30, 2011 and June 30, 2010, respectively.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at the date of acquisition or at estimated fair value at the date of donation if acquired as gifts, less accumulated depreciation and amortization at a capitalization threshold of $1,000.

Depreciation of buildings and equipment and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the respective assets. Amortization of the leasehold improvements is computed over the shorter of the useful life of the improvement or the lease term. Expenditures for maintenance are expensed; expenditures for renewals and improvements are generally capitalized. A summary of depreciable lives follows:

	Years
Buildings and major building improvements	40 - 70
Other building renovations	10 - 20
Leasehold improvements	2 - 18
Furniture and fixtures	10
Equipment	5 - 10
Library books	20
Computer equipment	5 - 10
Computer software	3

Long-Lived Assets

The College reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of any impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. No loss for impairment of long-lived assets was recorded during the years ended June 30, 2011 and 2010.

Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support, as appropriate. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift as determined by independent appraisal or other valuation methods as deemed appropriate by management.

Works of Art

Works of Art is comprised of art work and antiques that are held for exhibition and various other program activities. Each of these items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from any sales to be used to acquire other items for collections.

The College has capitalized its collections since its inception. Purchased items are capitalized at cost; donated items are capitalized at fair value at the date of receipt from the donor. Fair value is determined by independent appraisals as of the date of receipt and is subject to a number of judgments and estimates. Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Items which by donor stipulation may never be deaccessioned are classified as permanently restricted net assets.

Deferred Revenues

Deferred revenues represent tuition and fees invoiced for programs and services to be conducted predominantly in the subsequent fiscal year.

Functional Expenses

Expenses are reported in the consolidated statements of activities in categories recommended by the National Association of College and University Business Officers. The College's primary program service is instruction. Expenses reported as academic support, student services, institutional support and auxiliary enterprises are incurred in support of these program services. Institutional support includes fund-raising expenses of $1,817,968 and $2,158,172 and advertising expenses of $1,353,502 and $2,025,829 for the years ended June 30, 2011 and 2010, respectively.

Conditional Asset Retirement Obligations

The College has identified asbestos and lead paint abatement as conditional asset retirement obligations in certain property. Asbestos abatement costs are estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. Lead paint removal costs are based on estimates received from environmental consultants. During the years ended June 30, 2011 and June 30, 2010 the College recorded no additional asset retirement obligations.

The following table presents the activity for the College's asset retirement obligations:

June 30	2011	2010
Balance at beginning of year	**$ 210,204**	$ 198,864
Accretion expense	**8,223**	11,340
Balance at end of year	**$ 218,427**	$ 210,204

Sabbatical Leave and Other Similar Benefits

The College awards sabbaticals to both its faculty and staff after working for a specific period of time without requiring any additional services to be performed. The College expenses future sabbaticals or similar paid absences over the same period in which the benefits are earned in instances where the compensated employee is not required to perform duties for the entity during the absence.

Derivative Financial Instruments

The College does not use derivative financial instruments for speculative or trading purposes. The College utilizes interest rate swaps to hedge interest rate market exposure of the underlying bonds payable. The College uses the accrual method to account for the interest rate swaps in connection with the underlying bonds. The difference between amounts paid and received under such agreements and the changes in fair value of the swap agreements are reported as interest expense on a functional basis in the accompanying statements of activities.

Income Taxes

The College has been recognized by the Internal Revenue Service as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax (see Note 11). The College has a wholly owned subsidiary, SCAD Group, Inc. that is subject to Federal and state income taxes.

The College provides for income taxes based on FASB ASC Topic 740 *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. The College provides an allowance for deferred tax assets when it is determined that it is more likely than not that the deferred tax assets will not be utilized. The College's policy is to record interest and penalties related to income tax matters in income tax expense.

The College is required to determine that the relevant tax authority would more likely than not sustain the tax position following an audit. The College has applied this criterion to all tax positions for which the statute of limitations remains open. Tax years open to examination by tax authorities under the statute of limitations include fiscal 2008-2011.

Translation of Foreign Currencies

Assets and liabilities related to functional currencies other than U.S. dollars are translated into U.S. dollars at the year-end rate of exchange. Revenues and expenses, if any, are translated at the weighted average exchange rates for the year. The resulting translation adjustments are reported as gains or losses from foreign currency transactions in the current period. The College held €14,017 valued at $20,169 and HK$2,118,035 valued at $273,295 at June 30, 2011. The College held €22,800 valued at $27,834 and HK$19,577,690 valued at $2,515,733 at June 30, 2010. The College recognized foreign currency translation gains (losses) of $96,650 and $(105,643) for the years ending June 30, 2011 and 2010, respectively as other income on the consolidated statements of activities.

Reclassification

Certain reclassifications have been made to the prior year amounts to conform to current year presentation. In that regard, 2010 expenses totaling $2,447,000 have been reclassified from Institutional Support to Student Services on the consolidated statement of activities.

Subsequent Events

The College has addressed the accounting for and disclosure of events that occur after the financial statement date but before financial statements are issued or are available to be issued. Management has evaluated all events or transactions that occurred after June 30, 2011 through October 14, 2011, the date the financial statements are available for issuance, for potential recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the College may undertake in the future, actual results may be different from the estimates. Significant items subject to such estimates and assumptions include but are not limited to, fair value of investments, fair value of interest rate swaps, carrying amounts of property and equipment, allowances for receivable balances, liability for post-retirement medical benefits and asset retirement obligations. Actual results could differ from those estimates.

2 Contributions Receivable

Unconditional promises to give are recorded as revenue upon receipt. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of this discount is recorded as additional contribution revenue. The College believes substantially all contributions receivable to be fully collectible at June 30, 2011 and 2010. Contributions receivable are summarized as follows:

June 30	2011	2010
Unconditional promises to give	**$ 4,309,407**	$ 3,252,253
Less unamortized discount	**(228,397)**	(269,044)
Net contributions receivable	**$ 4,081,010**	$ 2,983,209
Amounts due in:		
Less than one year	**$ 2,917,407**	$ 1,238,003
One to five years	**1,392,000**	2,014,250
Total	**$ 4,309,407**	$ 3,252,253

Estimated cash flows to be received after one year were discounted at rates ranging from 3.76% to 8.03%.

3 Student Loans Receivable

A reasonable estimate of the fair value of the loans receivable from students under government loan programs and advances from Federal government for student loans could not be made because the loans receivable are not salable and can only be assigned to the U.S. government or its designees; the fair value of notes receivable from students under College loan programs approximates carrying value. Student loans receivable also include institutional loans to qualified students.

4 Investments

Investments at carrying value consisted of the following:

June 30	2011	2010
Cash held in endowment	**$ 640,921**	$ -
Domestic equity securities	**6,509,125**	4,154,274
Government bonds	**1,572,599**	2,135,062
State and local government bonds	**315,000**	-
Corporate bonds	**1,566,662**	1,597,982
Certificate of Deposit	**-**	200,000
Money market funds	**1,289,898**	-
Mutual funds - bonds	**253,837**	-
Mutual funds - equity	**5,543,247**	2,928,221
Other	**481,919**	843,115
Money market accounts	**4,682,048**	3,176,041
Total	**$ 22,855,256**	$ 15,034,695

Net realized and unrealized gains (losses) consist of the following:

For the years ended June 30	2011	2010
Realized gains (losses)	**$ 393,777**	$ (64,346)
Unrealized gains	**2,400,231**	1,465,973
Investment fees	**(91,982)**	(79,479)
Total	**$ 2,702,026**	$ 1,322,148

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis:

June 30, 2011	Level 1	Level 2	Level 3	Total
Domestic equity securities	$ 6,509,125	$ -	$ -	$ 6,509,125
Government bonds	1,257,454	315,145	-	1,572,599
Corporate bonds	1,315,646	251,016	-	1,566,662
Mutual funds - bonds	253,837	-	-	253,837
Mutual funds - equity	5,543,247	-	-	5,543,247
Other	481,919	-	-	481,919
State and local government bonds	-	315,000	-	315,000
Money market funds	-	1,289,898	-	1,289,898
Total investments	$ 15,361,228	$ 2,171,059	$ -	$ 17,532,287
Interest rate swap agreement	$ -	$ (10,692,875)	$ -	$ (10,692,875)

June 30, 2010	Level 1	Level 2	Level 3	Total
Domestic equity securities	$ 4,154,274	$ -	$ -	$ 4,154,274
Government bonds	2,135,062	-	-	2,135,062
Corporate bonds	1,597,982	-	-	1,597,982
Mutual funds - equity	2,928,221	-	-	2,928,221
Other	843,115	-	-	843,115
Total investments	$ 11,658,654	$ -	$ -	$ 11,658,654
Interest rate swap agreement	$ -	$ (12,314,779)	$ -	$ (12,314,779)
Beneficial interest in perpetual trust	$ -	$ -	$ 2,792,953	$ 2,792,953

The College's investment of restricted funds in certificates of deposit, money market accounts as well as cash held in endowment are classified as Investments in the statement of financial position and are carried at amortized cost. The College had $5,322,963 and $3,376,041 in such investments as of June 30, 2011 and 2010, respectively. These investments do not qualify as securities as defined in ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, are not provided.

The following table summarizes the changes in fair values associated with ASC 320 Level 3 assets:

	Beneficial Interest in Perpetual Trust
Balance as of June 30, 2009	$ 2,629,041
Unrealized gains	313,912
Transfers in / (out)	(150,000)
Balance as of June 30, 2010	2,792,953
Transfers in / (out)	(2,792,953)
Balance as of June 30, 2011	$ -

5 Beneficial Interest in Perpetual Trust

In February 2007, the College and the Community Foundation of Greater Atlanta, Inc. (the Community Foundation), as it relates to endowment funds held by the Community Foundation for the support of the Atlanta College of Art (ACA), entered into an agreement whereby the Community Foundation has determined that, in accordance with the intent of the donor, the College is eligible to receive such funds pursuant to the June 5, 2006 agreement to integrate ACA into the College's Atlanta campus. As the Community Foundation has variance power on the underlying trust, the value associated with the beneficial interest has been eliminated from the statement of financial position. However, the income of the funds held in the trust continues to be advanced to the College for scholarships for students studying in the arts in Atlanta based on the Community Foundation's spending policy. Annual income payments received by the College are recorded as temporarily restricted contributions until restrictions are met.

6 Endowments

Effective July 1, 2008, administration of the College's endowment is subject to the general provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act). Under the provisions of this state law, the College may appropriate expenditures of underwater endowment funds as is deemed prudent for the uses and purposes for which an endowment fund is established. The College has applied accounting principles generally accepted in the United States of America when allocating investment gains to the net asset classes for financial statement purposes.

Endowment net asset composition by type of fund and changes in endowment net assets are summarized as follows:

Endowment Net Asset Composition by type of fund as of June 30, 2011	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (594,011)	$ 1,063,903	$ 11,294,829	$ 11,764,721
Board-designated endowment funds	2,070,012	-	-	2,070,012
Total funds	$ 1,476,001	$ 1,063,903	$ 11,294,829	$ 13,834,733

Changes in Endowment Net Assets Year ended June 30, 2011	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net assets, beginning of year	$ 809,879	$ 349,154	$ 7,899,773	$ 9,058,806
Investment return:				
Investment income	34,152	160,397	-	194,549
Net realized and unrealized return	630,261	1,063,289	-	1,693,550
Total investment return	664,413	1,223,686	-	1,888,099
Contributions received	-	-	3,395,056	3,395,056
Board designated endowments	168,000	-	-	168,000
Appropriation of endowment assets for expenditure	(166,291)	(508,937)	-	(675,228)
Endowment net assets, end of year	$ 1,476,001	$ 1,063,903	$ 11,294,829	$ 13,834,733

Endowment Net Asset Composition by type of fund as of June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (942,914)	$ 349,154	$ 7,899,773	$ 7,306,013
Board-designated endowment funds	1,752,793	-	-	1,752,793
Total funds	$ 809,879	$ 349,154	$ 7,899,773	$ 9,058,806

Changes in Endowment Net Assets Year ended June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ (177,979)	$ 207,745	$ 7,676,094	$ 7,705,860
Investment return:				
Investment income	31,856	146,780	-	178,636
Net realized and unrealized return	588,002	204,388	-	792,390
Total investment return	619,858	351,168	-	971,026
Contributions received	-	-	223,679	223,679
Board designated endowments	368,000	-	-	368,000
Appropriation of endowment assets for expenditure	-	(209,759)	-	(209,759)
Endowment net assets, end of year	$ 809,879	$ 349,154	$ 7,899,773	$ 9,058,806

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $594,011 and $942,914 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions.

7 Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

June 30	2011	2010
Land	$ **22,455,235**	22,310,119
Buildings	**66,684,421**	66,534,421
Building improvements	**150,201,150**	130,566,197
Equipment	**101,597,233**	88,273,194
Library books	**8,689,194**	8,203,183
Furniture and fixtures	**20,854,540**	18,403,483
Construction in progress	**28,222,530**	28,642,971
Total land, buildings, and equipment	**398,704,303**	362,933,568
Less - accumulated depreciation	**(139,271,147)**	(119,828,893)
Land, buildings, and equipment, net	$ **259,433,156**	$ 243,104,675

Construction in progress consists primarily of various building improvement projects. Depreciation expense totaled $21,069,651 and $18,257,469 during 2011 and 2010, respectively.

8 Notes Payable

On April 8, 2011, the College entered into $130,000,000 million credit facility (the "New Credit Facility"), which includes a $40,000,000 term loan and $90,000,000 of revolving line of credit to support letters of credit for the outstanding taxable bonds (see Bonds Payable Note) and to support operating cash needs. The New Credit Facility matures on April 8, 2016.

The New Credit Facility is secured by liens or a negative pledge on substantially all real property, a security interest in the property located on such real property and by the shares of capital stock in the College's present and future subsidiaries. The Credit Facility bears LIBOR based variable interest, payable quarterly, at rates that vary based upon the College's ratio of operating earnings (i.e. earnings before interest, depreciation, amortization and taxes) to the amount of outstanding long term debt. As of June 30, 2011, the interest rate was 2.18%. The unused amount available under the New Credit Facility as of June 30, 2011 was $20,942,521. The amounts available on the line of credit are reduced by the amount of the letter of credit supporting the bonds and other advances on the facility. As of June 30, 2011, the amount outstanding under the term loan is $39,000,000, and the amount outstanding on the revolving line of credit is $13,000,000.

Aside from amounts supporting letters of credit for the bonds, amounts borrowed on the line of credit are due within the next fiscal year. Amounts due within the next fiscal year were $13,000,000 and $0 as of June 30, 2011 and 2010, respectively. Amounts due on the term loans are as follows:

	Amount
For the year ended June 30:	
2012	4,000,000
2013	4,000,000
2014	4,000,000
2015	4,000,000
2016	23,000,000
Total	$ 39,000,000

As of June 30, 2010, Notes Payable consisted of borrowings under a $105,000,000 credit facility (the Credit Facility) including cash loans and a letter of credit to support certain taxable bonds. The facility was secured by a mortgage loan on all real property, a security interest in the property located on such real property, all present and future shares of capital stock of the College's present and future subsidiaries and all proceeds and products of the property. The Credit Facility bore interest at variable rates based upon the College's rate of funded debt to earnings before interest, taxes, depreciation, and amortization. $30 million was outstanding at June 30, 2010. The Credit Facility was replaced with the New Credit Facility on April 8, 2011, the terms of which are described above.

Prior to maturity, the College was not obligated to repay any principal outstanding under the Credit Facility. The unused amount available under the Credit Facility was $14,365,240 at June 30, 2010. The amounts available are limited by the amount outstanding on the revolver and amount of letter of credit to support the bonds and other items, as defined in the agreement.

The terms of the College's credit facility provides for certain financial and nonfinancial covenants. At June 30, 2011, management believes that the College is in compliance with these covenants.

Interest expense on the outstanding credit facilities was $666,218 and $136,527 for the years ended June 2011 and 2010, respectively.

9 Other Bank Loans

On December 29, 2010, $20,000,000 was financed for the construction of the SCAD Museum of Art. The financing is between SCAD Museum LLC, as Borrower, and Carver Development CDE I, LLC ("Carver CDE"), as Lender. SCAD Museum LLC is 100% owned by the College, owns the real property consisting of the SCAD Museum of Art and leases the SCAD Museum of Art to the College. Carver CDE is an affiliate of Carver State Bank and obtained all of the funds associated with the financing from Bank of America affiliates. The financing is subsidized in part through Bank of America affiliates qualifying for New Market Tax Credits available under the Internal Revenue Code (the "NMTC Program") with respect to the financing, and conditioned upon SCAD Museum LLC meeting certain requirements under the NMTC Program during a 7-year compliance period that ends in December, 2017.

The total financing of $20,000,000 consists of two separate loan components summarized as follows: Loan A has a principal balance of $14,150,000 and bears interest at a fluctuating rate based on the BBA LIBOR Daily Floating Rate plus 400 basis points per annum (approximately 4.19% as of June 30, 2011). Loan B has a principal balance of $5,850,000 and bears interest at a fixed rate of 2% per annum.

Monthly payments of interest-only are due under Loan B commencing on February 1, 2011 and continuing until December, 2040, with the entire principal balance of the Loan B due in a single balloon payment on December 29, 2040. Monthly payments of interest-only are due under Loan A commencing on February 1, 2011 and continuing thereafter until December 1, 2017. Commencing on January 1, 2018 and continuing until December 1, 2040, monthly payments of principal and interest are due with respect to Loan A in amounts sufficient to fully-amortize the principal balance of Loan A by December 1, 2040. The lender has the right, exercisable after November 29, 2017, to require payment of the entire principal balance of Loan A within 150 days of exercise. If the lender so elects to accelerate Loan A, the $5,850,000 principal balance of Loan B can be satisfied in full with a payment of $58,500. The College has the option, exercisable after the compliance period of 7 years, to allow the College to pay the entire principal balance of Loan A when the tax credits have been earned by the equity investor and when the continuation of the loan is not beneficial to either party,

The loans are secured by a pledge of the real property that comprises the SCAD Museum of Art. The College has guaranteed the payment of all amounts due under the loans and certain matters associated with the failure of SCAD Museum LLC to comply with NMTC Program requirements for an eligible NMTC program borrower.

Funds held by Bank of America on behalf of SCAD Museum LLC, as of June 30, 2011 were $8,269,975. These funds are being reported as restricted cash given the restriction on the use of such funds for construction.

The terms of the College's other bank loans provides for certain financial and nonfinancial covenants. At June 30, 2011, management believes that the College is in compliance with these covenants. Interest expense on the other bank loans was approximately $219,000 for the year ended June 2011.

10 Bonds Payable

Bonds payable include the following:

June 30	Date Issued	Interest %	Maturity Date	Original Issue	Outstanding 2011	Outstanding 2010
The Savannah College of Art and Design, Inc. Taxable Variable Rate Demand Revenue Bond Series 2004	3/11/2004	Variable	04/01/2024	$ 85,000,000	**$54,300,000**	$58,700,000

Principal reductions related to bonds payable for the next four years and thereafter are as follows:

	Amount
For the year ended June 30:	
2012	4,400,000
2013	4,400,000
2014	4,400,000
2015	4,400,000
2016	4,400,000
Thereafter	32,300,000
Total	$ 54,300,000

Under the terms of the indenture, the College is required to make monthly interest payments and quarterly payments for the retirement of bond principal. Interest expense on outstanding bonds was $1,211,083 and $1,220,954 for years ended June 30, 2011 and 2010, respectively. The Series 2004 bonds are secured by a letter of credit. The letter of credit was renewed in conjunction with the closing of the New Credit Facility as described in Note 8.

The College utilizes an interest rate swap to manage interest rate market exposure of the underlying debt. The College has entered into an interest rate swap agreement that effectively converts a portion of the variable rate revenue bonds to a fixed rate. Significant terms of the swap agreement for June 30, 2011 and 2010 are as follows:

Agreement Date	Notional Amount	College Pays	College Receives	Expiration Date	Effective Date	Fair Value at June 30, 2011	Fair Value at June 30, 2010
12/1/2004	$ 32,521,800	7.26% 76.314% of US-1 Month	US 1M- BBA 68.84% of USD-5YR	4/1/2024	10/1/2009	**$ (10,692,875)**	$ (12,127,371)

Fair value of the swap agreement is included in other liabilities in the accompanying consolidated statements of financial position. Net settlement transactions related to the swap agreement resulted in a net expense to the College totaling $2,278,719 and in a net gain totaling $1,707,698 for the years ended June 30, 2011 and 2010, respectively. Change in fair value of the swap is recorded as a component of interest expense and resulted in an approximately $1.434 million gain and $3.964 million loss for years ended June 30, 2011 and 2010, respectively.

11 Refundable Advances

On November 3, 2005, the College entered into a gift agreement under which a substantial collection of African-American art, including paintings, sculptures, and prints will be donated to the College over a ten-year period. The collection received in connection with this gift is subject to certain conditions related to the establishment of the Walter O. Evans Center for African-American Studies. The College has recorded the fair value of the collection acquired, totaling $5,708,000, as a refundable advance as of June 30, 2011 and 2010. The College will record most of the contribution received once the conditions set forth in the gift agreement are satisfied which is expected to occur in year ended June 30, 2012.

Refundable advances at June 30, 2011 and 2010 also include a refundable advances totaling $2,207,916 and $1,509,549, respectively, related to unamortized capital expenditures which were provided by certain vendors, under the terms of certain operating agreements. Should the College terminate the agreements with vendors prior to the term as defined as such agreements, the College would be required to remit the vendors an amount equal to the unamortized capital expenditures as of the termination date. The College records unrestricted in-kind contribution revenue related to these capital expenditures on a straight-line basis over the term of the agreements as conditions of the agreement are met.

Contribution revenue recorded under these operating agreements totaled $234,133 during the years ended June 30, 2011 and 2010. The unamortized portion is reflected in the accompanying consolidated statements of financial position as refundable advances.

12 Income Taxes

The provision for income taxes consists of the following:

For the years ended June 30	2011	2010
Federal:		
Deferred	**$ (1,084,189)**	$ (168,040)
State:		
Current	**21,593**	-
Deferred	**497,490**	(19,572)
Income tax provision before valuation allowance	**(565,106)**	(187,612)
Change in valuation allowance	**586,699**	187,612
Income tax provision	**$ 21,593**	$ -

Income tax expense (benefit) differs from the "expected" income tax expense for the periods (computed by applying the statutory Federal corporate tax rate of 34% to earnings (loss) before income taxes and cumulative effect of accounting principle for Group totaling $(2,307,129) and $58,197 in 2011 and 2010, respectively), as follows:

June 30	2011	2010
Computed "expected" tax expense (benefit)	**$ (784,424)**	$ 19,787
Increase in tax expense resulting from:		
Permanent items	**117,623**	180,201
State tax expense, net of Federal benefit	**342,595**	2,305
Change in valuation allowance	**586,699**	187,612
Prior year provision adjustment to actual	**(240,900)**	(389,905)
Actual tax expense (benefit)	**$ 21,593**	$ -

The tax effect of temporary differences give rise to significant portions of the deferred tax assets and deferred tax liabilities as of June 30, 2011 and 2010. The components of deferred income tax are as follows:

June 30	2011	2010
Deferred tax asset:		
Accounts receivable allowance	**$ 716,484**	$ 716,484
Accrued vacation	**661,182**	666,459
Miscellaneous accruals	**1,711,271**	1,394,497
Deferred rent	**714,427**	701,806
Alternative minimum tax credit	**486,525**	84,222
Historic preservation tax credit	**1,573,270**	2,029,673
Operating loss carryforward	**1,782,408**	1,361,380
Total deferred tax assets	**7,645,567**	6,954,521
Deferred tax liabilities:		
Depreciation	**(6,175,544)**	(6,148,293)
Prepaid expenses and other	**(163,414)**	(86,318)
Total deferred tax liabilities	**(6,338,958)**	(6,234,611)
Net deferred income tax asset before valuation allowance	**1,306,609**	719,910
Valuation allowance	**(1,306,609)**	(719,910)
Net deferred tax asset	**$ -**	$ -
Deferred income taxes are presented on the Statements of Financial Position as follows:		
Current deferred tax assets	**$ 1,715,662**	$ 2,045,593
Non-current deferred tax liabilities	**(1,715,662)**	(2,045,593)
Net deferred tax liabilities	**$ -**	$ -

As of June 30, 2011, SCAD Group has Federal net operating loss carryforwards (NOL's) of approximately $5,076,261 that will begin to expire in 2028. As of June 30, 2011, SCAD Group has state NOL's of approximately $1,426,229 that will begin to expire in 2031. In assessing the likelihood of realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The continued existence of the College's for-profit subsidiary, which generated the deferred tax assets, is subject to the College's Board making the determination that the current organizational structure meets applicable regulatory compliance requirements (see Note 20) and contributes to the strategic goals and objectives of the institution. The College's ongoing assessment of these matters may result in the subsidiary being dissolved in the future. As such, management views the realization of the deferred tax assets as uncertain. Consequently, a valuation allowance as of June 30, 2010 and June 30, 2011 has been established for the full amount of the related net deferred tax assets.

13 Leases

The College leases buildings and equipment under noncancelable operating leases that expire over the next twenty five years. Total rental expense under operating lease agreements for the years ended June 30, 2011 and 2010 was approximately $12,739,504 and $11,415,642, respectively. These leases generally require the College to pay all operating costs such as maintenance and insurance.

Future minimum lease payments under noncancelable operating leases as of June 30, 2011 are as follows:

	Amount
For the year ended June 30:	
2012	8,887,083
2013	6,923,124
2014	5,207,870
2015	4,485,829
2016	4,363,763
Thereafter	22,800,809
Total	$ 52,668,478

During fiscal year 2005, office furniture, video equipment, and computer equipment in the amount of $5,881,090 were acquired under a capital lease. The interest rate on the capitalized lease is 4.87%. Depreciation of assets under these capital leases is included in depreciation expense, and the related accumulated depreciation related to equipment acquired under the capital lease totaled $3,834,820 and $3,251,908 at June 30, 2011 and 2010, respectively.

Future minimum lease payments under capital leases as of June 30, 2011 are as follows:

	Amount
For the year ended June 30:	
2012	$ 744,061
2013	744,061
2014	744,061
2015	371,780
Total	2,603,963
Less amounts representing interest	(214,298)
Present value of minimum lease payments	2,389,665
Less current maturities	(641,873)
Capital lease obligation, excluding current maturities	$ 1,747,792

14 Other Liabilities

The College has an employment contract with the President of the College. This agreement provides for certain amounts of retirement compensation and postretirement medical and other benefits contingent upon the provision of service to the College in accordance with the terms of the contract. The liability related to these postretirement benefits totaled $6,071,021 and $5,216,145 at June 30, 2011 and 2010, respectively. Postretirement expense is recognized during the periods in which services are rendered to the College. The accrual for retirement compensation is recorded as other liabilities in the accompanying consolidated statements of financial position. The plan is unfunded and benefit payments began in fiscal year 2010.

The following assumptions were used in determining the retirement compensation liability under the terms of the plan: 2.75% discount rate and 5% compensation rate increase for year ended June 30, 2011 and 5.25% discount rate and 4% compensation rate increase for year ended June 30, 2010.

15 Net Assets

Temporarily restricted net assets consist of the following:

June 30	2011	2010
Contributions and other unexpended revenues available for:		
Academic support	**$ 109,989**	$ 212,858
Student scholarships and aid	**4,788,451**	3,130,499
Student support	**136,756**	21,729
Buildings and equipment	**2,415,605**	2,397,410
Works of art	**1,439,188**	1,514,549
Accumulated donor-restricted endowment fund investment earnings	**3,551,000**	1,616,453
Total	**$ 12,440,989**	$ 8,893,498

Permanently restricted net assets are invested in perpetuity, the income from which is expendable to support:

June 30	2011	2010
Student aid	**$ 12,011,129**	$ 8,391,445
Beneficial interest in perpetual trust	**-**	2,792,953
Total	**$ 12,011,129**	$ 11,184,398

16 Net Assets Released from Restrictions

Net assets were released from donor restrictions during 2011 and 2010 by satisfying the restricted purposes as follows:

June 30	2011	2010
Academic support	**$ 214,796**	$ 518,828
Student scholarships and aid	**456,393**	317,940
Student support	**602,140**	929,071
Buildings, plant operations and maintenance	**1,684,810**	1,933,295
Auxiliary services	**-**	9,200
Total	**$ 2,958,139**	$ 3,708,334

17 Contributions In-Kind and Conditional Promises to Give

The following noncash contributions were received and recorded as contribution revenue at their appraised values:

June 30	2011	2010
Buildings and equipment	**$ 355,470**	$ 384,133
Artwork and antiques	**30,343**	1,133,000
Fashion Collection	**151,485**	67,966
Jewelry	**3,195**	-
	$ 540,493	$ 1,585,099

The College is entitled to the benefit of certain W. Woodruff Arts Center, Inc. ("WAC") endowment funds that were restricted to the Atlanta College of Art's ("ACA") use. The amount of ACA's endowment funds held by WAC as of June 30, 2011 and 2010 was $1,800,813 and $2,607,502, respectively. During year ended June 30, 2011, the College satisfied the certain conditions placed by WAC. Thus, as of June 30, 2011, the College has recorded the fair value of the funds as permanently restricted and temporarily restricted contributions based on the donor's original intent.

18 Retirement Plans

The College has adopted a Tax Sheltered Annuity Program (the 403(b) Plan) in accordance with Section 403(b) of the Code for the benefit of all employees who have been employed with the College for at least 30 days. The 403(b) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $16,500 per participant at June 30, 2011 and 2010. The College makes matching contributions to the Plan of 50%, subject to a maximum of 4% of the employee's compensation. The College contributed $667,298 and $582,696 in matching contributions for the years ended June 30, 2011 and 2010, respectively.

Group has adopted a Tax Sheltered Annuity Program (the 401(k) Plan) in accordance with Section 401(k) of the Code for the benefit of all employees who have been employed with Group for at least 30 days. The 401(k) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $16,500 at June 30, 2011 and 2010. Group makes matching contributions to the 401(k) plan of 50%, to a maximum of 4% of the employee's compensation. Group contributed $358,650 and $305,448 in matching contributions for the years ended June 30, 2011 and 2010, respectively.

19 Profit Sharing Plan

The College and Group maintain separate defined contribution profit sharing plans (the Plan) covering all eligible employees. The College and Group, at their own discretion, may elect to make profit sharing contributions at the end of each plan year on behalf of each participant who is employed on the last day of the plan year, which is September 30. Total discretionary contributions accrued with respect to the Plan were $1,500,000 and $1,000,000 as of June 30, 2011 and 2010, respectively. The defined contribution obligation is included in Other Liabilities in the consolidated statement of financial position.

20 Commitments and Contingencies

Operating Structure

On March 1, 2004, the College implemented the current organizational structure. Certain nonacademic functions were provided by a wholly owned for-profit subsidiary, SCAD Group, Inc. The College did not obtain (nor was it required to obtain) advance approval from the Internal Revenue Service of the operating structure. The College was advised by Alston & Bird LLC, its outside legal counsel for this matter, that the organizational structure as implemented should not cause the College to fail to satisfy the tax-exemption requirements of Section 501(c)(3) of the Code. There is a risk that the Internal Revenue Service, upon examination, might assert that this new structure jeopardizes the College's Federal tax-exempt status under Section 501(c)(3). Loss of Federal tax-exempt status could have negative implications for the College beyond increased Federal income tax liabilities. For example, loss of Federal tax-exempt status could cause the College to be in default on its outstanding taxable bonds and bank loans due to a covenant requiring the College to comply with all operational, organizational, reporting, and other requirements necessary to maintain its exemption from Federal income tax.

Management believes that the operating structure described above will not cause the College to fail to satisfy the tax-exemption requirements of Section 501(c)(3) and will not have a material adverse effect on the financial condition of the College at June 30, 2011.

Legal Matters

The College is involved in various legal proceedings, claims and governmental inquiries that have arisen in the ordinary course of its business and have not been fully adjudicated. The College will incur legal costs to handle the pending legal matters but, when fully concluded and determined, the resolution will not, in the opinion of management, have a material adverse effect on the financial position of the College.

Federal Financial Assistance

Certain federally funded financial aid programs are routinely subject to special audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the College, are required to be submitted to both the College and the U.S. Department of Education. Such agency has the authority to determine liabilities as well as to limit, suspend, or terminate Federal student aid program.

Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Savannah College of Art and Design, Inc.

June 30, 2010 and 2009

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Grant Thornton

Audit • Tax • Advisory

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Report of Independent Certified Public Accountants

To the Board of Trustees of
The Savannah College of Art and Design, Inc.:

We have audited the accompanying consolidated statement of financial position of **The Savannah College of Art and Design, Inc. and Subsidiaries** (the College) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Savannah College of Art and Design, Inc. and Subsidiaries as of June 30, 2010 and 2009, and the consolidated changes in its net assets and its consolidated cash flows for the years 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 October 28, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's 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.

Grant Thornton LLP

Atlanta, Georgia
October 28, 2010

Consolidated statements of financial position

June 30	2010	2009
Assets		
Cash and cash equivalents	**$ 8,170,669**	$ 7,857,762
Student accounts receivable, net of allowance for uncollectible accounts of $1,269,333 and $1,712,417 at June 30, 2010 and 2009, respectively	**6,813,231**	5,004,158
Receivable from Federal government	**1,808,424**	2,044,136
Contributions receivable, net	**2,983,209**	3,495,125
Inventories	**1,405,884**	1,042,406
Current deferred tax asset	**2,045,593**	1,651,049
Prepaid expenses and other current assets	**4,825,397**	4,070,407
Student loans receivable	**145,256**	149,767
Investments	**15,034,695**	14,411,480
Bond issue costs	**209,793**	419,585
Land, buildings, and equipment, net	**243,104,675**	220,723,258
Beneficial interest in perpetual trust	**2,792,953**	2,629,041
Works of art	**30,448,395**	28,412,064
Total assets	**$ 319,788,174**	$ 291,910,238
Liabilities		
Accounts payable, deposits, and accrued expenses	**$ 34,022,987**	$ 35,153,086
Deferred revenues	**21,065,819**	17,828,098
Accrued interest payable	**216,433**	288,982
Notes payable	**30,000,000**	-
Bonds payable	**58,700,000**	63,100,000
Capital lease obligation	**3,050,557**	10,198,204
Refundable advances	**7,286,674**	7,613,705
Noncurrent deferred tax liability	**2,045,593**	1,651,049
Other liabilities	**19,913,955**	15,975,233
Total liabilities	**176,302,018**	151,808,357
Net assets		
Unrestricted	**123,408,260**	120,163,703
Temporarily restricted	**8,893,498**	9,243,858
Permanently restricted	**11,184,398**	10,694,320
Total net assets	**143,486,156**	140,101,881
Total liabilities and net assets	**$ 319,788,174**	$ 291,910,238

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of activities

For the years ending June 30	2010	2009
Revenues and other support:		
Tuition and fees	**$ 262,260,056**	$ 233,958,081
Less student aid	**(56,934,646)**	(47,625,858)
Net tuition and fees	**205,325,410**	186,332,223
Private contributions and grants	**2,281,991**	1,647,036
Sales and services of auxiliary enterprises	**37,715,723**	34,869,422
Net realized and unrealized gains (losses) on investments	**1,476,965**	(2,706,255)
Other	**3,802,095**	5,244,104
	250,602,184	225,386,530
Net asset reclassification:		
Satisfaction of program and gift restrictions	**3,708,334**	2,493,176
Total unrestricted revenues and other support	**254,310,518**	227,879,706
Operating expenses:		
Instruction	**87,925,427**	77,871,763
Academic support	**16,273,999**	13,374,895
Student services	**45,520,261**	35,931,605
Institutional support	**71,528,475**	56,402,486
Auxiliary enterprises	**29,817,799**	27,203,800
Total operating expenses	**251,065,961**	210,784,549
Change in unrestricted net assets before income taxes	**3,244,557**	17,095,157
Income tax (benefit) expense	**-**	(682,231)
Change in unrestricted net assets before cumulative effect of change in accounting principle	**3,244,557**	17,777,388
Cumulative effect of adoption of FASB Staff Position 117-1	**-**	(521,675)
Total change in unrestricted net assets	**3,244,557**	17,255,713
Changes in temporarily restricted net assets:		
Private contributions and grants	**3,512,791**	2,842,162
Investment income (loss)	**(154,817)**	(194,076)
Net assets released from restrictions	**(3,708,334)**	(2,493,176)
Change in temporarily restricted net assets before cumulative effect of change in accounting principle	**(350,360)**	154,910
Cumulative effect of adoption of FASB Staff Position 117-1	**-**	521,675
Total change in temporarily restricted net assets	**(350,360)**	676,585
Changes in permanently restricted net assets:		
Private contributions and grants	**176,166**	766,013
Change in value of beneficial interest in perpetual trust	**313,912**	(399,418)
Change in permanently restricted net assets	**490,078**	366,595
Total change in net assets	**3,384,275**	18,298,893
Net assets at beginning of year	**140,101,881**	121,802,988
Net assets at end of year	**$ 143,486,156**	$ 140,101,881

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

For the years ending June 30	2010	2009
Cash flows from operating activities:		
Change in net assets	**$ 3,384,275**	$ 18,298,893
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**18,257,469**	16,618,072
Amortization of bond issue costs	**209,792**	209,792
Accretion of asset retirement obligation	**11,340**	11,230
Contributions in-kind	**(1,585,099)**	(1,000,618)
Gain (loss) on sale of assets	**62,778**	(37,177)
Provision for uncollectible student accounts receivable	**443,084**	15,227
Realized and unrealized loss (gains) on investments	**(1,322,148)**	1,984,019
Decrease (increase) in beneficial interest in perpetual trust	**(313,912)**	399,418
Valuation loss on derivative instruments	**3,776,558**	2,117,541
Receipt of agency funds (Federal Direct Student Loans and Pell Grants)	**127,636,746**	104,834,559
Disbursement of agency funds	**(127,636,746)**	(104,834,559)
Contributions restricted for long-term investment	**(176,166)**	(766,013)
Deferred income taxes	**-**	(653,547)
Change in assets and liabilities:		
Student accounts receivable	**(2,252,157)**	(1,216,021)
Receivable from Federal government	**235,712**	(358,693)
Contributions receivable	**511,915**	(837,439)
Inventories	**(363,478)**	(225,161)
Prepaid expenses and other current assets	**(754,990)**	(540,622)
Accounts payable, deposits, and accrued expenses	**(1,130,099)**	8,188,878
Deferred revenues and refundable advances	**2,910,690**	1,569,792
Accrued interest payable	**(72,549)**	(86,131)
Other liabilities	**150,824**	(5,509,556)
Net cash provided by operating activities	**21,983,839**	38,181,884
Cash flows from investing activities:		
Purchases of land, buildings, and equipment	**(40,586,138)**	(27,478,986)
Proceeds from sale of property and equipment	**34,474**	195,682
Purchases of works of art	**(601,232)**	(721,736)
Purchases of investments	**(5,050,015)**	(9,429,656)
Proceeds from sale of investments	**5,898,949**	5,704,826
Net principal repayments on student loans receivable	**4,511**	44,381
Net cash used in investing activities	**(40,299,451)**	(31,685,489)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	**30,000,000**	31,000,000
Principal repayments on notes payable	**-**	(31,000,000)
Principal repayments on bonds payable	**(4,400,000)**	(4,400,000)
Proceeds from termination of interest rate swap	**-**	6,406,399
Principal repayments on capital lease	**(7,147,647)**	(4,647,724)
Contributions restricted for long-term investment	**176,166**	766,013
Net cash provided by (used in) financing activities	**18,628,519**	(1,875,312)
Net increase in cash and cash equivalents	**312,907**	4,621,083
Cash and cash equivalents at beginning of year	**7,857,762**	3,236,679
Cash and cash equivalents at end of year	**$ 8,170,669**	$ 7,857,762

Consolidated statements of cash flows (cont'd)

For the year ended June 30		2010		2009
Supplemental disclosure:				
Cash paid for interest	**$**	**3,433,626**	$	2,607,110
Cash paid for income taxes		**-**		142,074
Assets acquired under a capital lease		**-**		10,707,386
Contributions in-kind:				
Buildings and equipment		**150,000**		5,000
Artwork and antiques		**1,133,000**		761,485
Couture Collection		**67,966**		-
Amortization of deferred contribution related to buildings and equipment		**234,133**		234,133

Interest totaling $171,656 and $78,210 was capitalized during the years ending June 30, 2010 and 2009, respectively.

Notes to consolidated financial statements

1 Summary of Significant Accounting Policies

The Savannah College of Art and Design, Inc. (the College) is a private, not-for-profit college which exists to prepare talented students for professional careers, emphasizing learning through individual attention in a positively oriented university environment. The College offers the Bachelor of Arts, Bachelor of Fine Arts, Master of Arts, Master of Arts in Teaching, Master of Fine Arts, Master of Architecture and Master of Urban Design degrees. The College is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The Master of Architecture program is additionally accredited by the National Architectural Accrediting Board. The College is approved by the Georgia Professional Standards Commission to offer the Master of Arts in Teaching program. The College is licensed by the South Carolina Commission on Higher Education to offer the Bachelor of Arts in Equestrian Studies. The College recruits students both nationally and internationally.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

SCAD Group, Inc.

On March 1, 2004, the College transferred its nonacademic functions into a wholly owned for-profit subsidiary, SCAD Group, Inc. (Group).

The College and Group entered into an operating agreement on March 1, 2004 (the Agreement). The Agreement documents the terms and conditions under which the College agrees to obtain, and Group agrees to provide, certain nonacademic services, which include recruitment and communication services, academic support services, financial management services, student services, information technology services, human resource management services, and physical resource services. Group also provides facilities and equipment to the College's academic programs to support expansion and to meet current professional standards.

Under the terms of the Agreement, Group has the right and obligation to collect assigned revenues, as defined in the Agreement, on behalf of the College. Group was required to pay to the College an annual base payment established by the parties to the Agreement and fund its other charitable activities. In addition to the base payment as described above, Group was required under the terms of the Agreement to reimburse the College for academic costs incurred as set forth in the Agreement for each fiscal year as established by the parties to the Agreement. All education services and control of the academic programs remain with the College (see Note 19).

SCAD Foundation Hong Kong

In April 2008, the College formed a new company under Hong Kong law, SCAD Foundation (Hong Kong) Limited (SCAD Hong Kong), to be the local provider in Hong Kong of certain SCAD registered educational programs. On October 10, 2008, Hong Kong Inland Revenue recognized SCAD Hong Kong as exempt from taxes under Section 88 of the Inland Revenue Ordinance. In accordance with Hong Kong regulatory requirements, SCAD Hong Kong's net assets are restricted and not available for distribution to the College. As of June 30, 2010, the accumulated deficit for SCAD Hong Kong was $4.2 million. The College has a $3,900 investment in SCAD Hong Kong as of June 30, 2010 and 2009. As of June 30, 2010 and 2009, the College has a receivable for $14.9 million and $168,119, respectively.

In March 2010, the Hong Kong Development Bureau entered into an agreement with SCAD Hong Kong granting the right to renovate and then use the North Kowloon Magistracy Building as a branch campus with an initial focus on programs of study and digital media. The Hong Kong Development Bureau has granted a ten year access lease to SCAD Hong Kong with a five year renewal option. The building has undergone major renovations throughout fiscal year 2010. The College, together with SCAD Hong Kong, opened the Hong Kong campus in fiscal year 2011 with the first classes being held on September 13th, 2010.

Basis of Consolidation

The accompanying consolidated financial statements of the Savannah College of Art and Design, Inc. include the financial position and activity of SCAD Group, Inc., The Lucas Theatre for the Arts, Inc., the Association Lacoste School of the Arts in France and SCAD Foundation (Hong Kong) Limited. All inter-organization transactions and balances have been eliminated in the accompanying consolidated financial statements.

Adoption of the FASB Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (ASC). The ASC became the single source for all authoritative Generally Accepted Accounting Principles (GAAP) recognized by the FASB and is required to be applied to financial statements issued for interim and annual periods ending after September 15, 2009. The ASC does not change GAAP and did not impact the College's consolidated financial statements.

Basis of Presentation

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

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

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

Permanently restricted net assets – Net assets subject to permanent donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless 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 and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contribution is received. Expirations of temporary restrictions 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 to unrestricted net assets. Net assets restricted for acquisition of long-lived assets are released from restriction at the time such long-lived assets are placed into service.

The College has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the historical value (corpus) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the College classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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. If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is available for appropriation and, therefore, classified as temporarily restricted net assets until appropriated for expenditure. The College records the investment returns on the specific-purpose endowment funds in temporarily restricted net assets and makes those earnings available for expenditure for the donor-restricted purpose. In accordance with the Act, the College considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the donor-restricted endowment fund;
(3) General economic conditions;
(4) Effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the College; and
(7) The investment policies of the College

The spending policy used for the endowment fund is up to 5% of the ending balance in the fund, measured on the last day of the fiscal year. The spending policy attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing funds to underwrite the educational needs of current and future generations of the students and to enhance the College's financial well-being.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term investments with original maturities of three months or less. Cash and cash equivalents consist primarily of demand deposits at financial institutions. The credit risk is the amount on deposit in excess of federally insured limits. The College mitigates this risk by depositing and investing cash with major financial institutions. The College has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Account Receivables

The College's receivables are due from students for tuition and other fees. Receivables are stated at amounts due net of an allowance for doubtful accounts. The College determines its allowance for doubtful accounts by considering the College's previous loss history and specific account circumstances.

Fair Value Measurements

The College's financial instruments include cash and cash equivalents, investments, beneficial interest in perpetual trust, student accounts receivable, accounts payable, capital lease obligations, interest rate swap agreements, and bonds payable.

The carrying value, which is the fair value of investments, interest rate swaps and beneficial interest in perpetual trust, is based upon quoted market values or values provided by external investment managers. The fair value of bonds payable at June 30, 2010 and 2009 approximates carrying value due to variable interest rates in effect which approximate current fair value. The carrying value of other financial instruments approximates their fair value determined as of June 30, 2010 and 2009 due to the short-term maturities of these financial instruments.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. There is a three-tier fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the College's assumptions (unobservable inputs).

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3: Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the College. The College considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Investments

Investments values based on quoted market prices in active markets are classified as level 1 inputs. Such investments include active listed equities, certain U.S. government and sovereign obligations, corporate bonds, mutual funds, and certain money market securities. The College does not adjust the quoted price for such investments. Investments held in real estate are valued based on appraisals of properties held performed by third-party appraisers retained by investment managers, and are classified as level 2.

Interest Rate Swap

As described in Note 9, the College entered into an interest rate swap agreement effectively converting a portion of the underlying debt to a fixed-rate, thereby hedging against the impact of potential interest rate changes on future interest expense. The fair value of the interest rate swap was based on quotes from the issuer of the swap and represents the estimated amounts that the College would expect to pay to terminate the swap. The methods used to value the interest rate swap are considered level 2 inputs.

Beneficial Interest in Perpetual Trust

The beneficial interest in perpetual trust is classified as a level 3 input since the College's beneficial interest in the trust has significant unobservable inputs. The beneficial interest in a perpetual trust is a permanent irrevocable trust held by another trustee. When observable prices are not available for the assets of these trusts, the College uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach) for which sufficient and reliable data is available.

A reasonable estimate of the fair value of the loans receivable from students under government loan programs and advances from Federal government for student loans could not be made because the loans receivable are not salable and can only be assigned to the U.S. government or its designees; the fair value of notes receivable from students under College loan programs approximates carrying value.

Assets and liabilities measured at fair value on a recurring basis with disclosures by major category are as follows:

June 30, 2010	Level 1	Level 2	Level 3	Total
Domestic equity securities	$ 4,154,274	$ -	$ -	$ 4,154,274
Government bonds	2,135,062	-	-	2,135,062
Corporate bonds	1,597,982	-	-	1,597,982
Real estate	-	16,000	-	16,000
Mutual funds	2,928,221	-	-	2,928,221
Other	827,115	-	-	827,115
Total investments	$ 11,642,654	$ 16,000	$ -	$ 11,658,654
Interest rate swap agreement	$ -	$ 12,314,779	$ -	$ 12,314,779
Beneficial interest in perpetual trust	$ -	$ -	$ 2,792,953	$ 2,792,953

June 30, 2009	Level 1	Level 2	Level 3	Total
Domestic equity securities	$ 3,371,349	$ -	$ -	$ 3,371,349
Government bonds	2,351,389	-	-	2,351,389
Corporate bonds	1,829,499	-	-	1,829,499
Real estate	-	16,000	-	16,000
Mutual funds	3,237,846	-	-	3,237,846
Other	27,071	-	-	27,071
Total investments	$ 10,817,154	$ 16,000	$ -	$ 10,833,154
Interest rate swap agreement	$ -	$ (8,350,813)	$ -	$ (8,350,813)
Beneficial interest in perpetual trust	$ -	$ -	$ 2,629,041	$ 2,629,041

The College's investments in certificates of deposit and money market accounts classified as Investments in the statement of financial position and are carried at amortized cost. The College had $3,376,041 and $3,578,326 in such investments as of June 30, 2010 and 2009, respectively. These investments do not qualify as securities as defined in ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, are not provided.

The following table summarizes the changes in fair values associated with SFAS 157 level 3 assets:

	Beneficial Interest in Perpetual Trust
Balance as of June 30, 2008	$ 3,173,458
Unrealized losses	(399,418)
Transfers in / (out)	(144,999)
Balance as of June 30, 2009	2,629,041
Unrealized gains	313,912
Transfers in / (out)	(150,000)
Balance as of June 30, 2010	$ 2,792,953

Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support, as appropriate. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift as determined by independent appraisal or other valuation methods as deemed appropriate by management.

Inventories

Inventories are valued at lower of cost or market, determined on a basis that approximates the first-in, first-out (FIFO) method. Inventories consist mainly of items held for resale at the College's various auxiliary enterprises.

Investments

Investments in marketable securities are carried at fair value as determined by quoted market prices. Other investments are stated at cost whenever market values are not available. The net realized and unrealized gains/losses on investments are reflected in the consolidated statements of activities.

Unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant investment valuation estimates. Management continues to monitor the composition of its portfolio to assess the potential impact of these market conditions on the valuation and liquidity of its investments and various financial instruments. Due to the level of risk associated 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 College's consolidated financial statements.

Bond Issuance Costs

Bond issuance costs related to the issuance of taxable bonds are being amortized over the term of the bonds.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at date of acquisition or at estimated fair value at date of donation if acquired as gifts, less accumulated depreciation and amortization.

Depreciation of buildings and equipment and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the respective assets or the terms of the respective leases. Expenditures for maintenance are expensed; expenditures for renewals and improvements are generally capitalized. A summary of depreciable lives follows:

	Years
Buildings and major building improvements	40 - 70
Other building renovations	10 - 20
Leasehold improvements	2 - 18
Furniture and fixtures	10
Equipment	5 - 10
Library books	20
Computer equipment	5 - 10
Computer software	3

Long-Lived Assets

The College reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Measurement of any impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. No loss for impairment of long-lived assets was recorded during 2010 and 2009.

Beneficial Interest in Perpetual Trust

The College is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the College. The College has legally enforceable rights or claims to such assets, including the sole right to income therefrom.

Works of Art

Works of Art is comprised of art work and antiques that are held for exhibition and various other program activities. Each of these items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from any sales to be used to acquire other items for collections.

Purchased items are capitalized at cost; donated items are capitalized at fair value at the date of receipt from the donor. Fair value is determined by independent appraisals as of the date of receipt and is subject to a number of judgments and estimates. Items which by donor stipulation may never be deaccessioned are classified as permanently restricted net assets.

Deferred Revenues

Deferred revenues represent tuition and fees received for programs and services to be conducted predominantly in the subsequent fiscal year.

Functional Expenses

Expenses are reported in the consolidated statements of activities in categories recommended by the National Association of College and University Business Officers. The College's primary program service is instruction. Expenses reported as academic support, student services, institutional support and auxiliary enterprises are incurred in support of these program services. Institutional support includes fund-raising expenses of $2,158,172 and $2,117,825 for the years ended June 30, 2010 and 2009, respectively.

Conditional Asset Retirement Obligations

The College has identified asbestos and lead paint abatement as conditional asset retirement obligations in certain property. Asbestos abatement was estimated using site-specific surveys where available and a per/square foot estimate where surveys were unavailable. Lead paint removal costs are based on estimates received from environmental consultants.

During the year ended June 30, 2010 and June 30, 2009 the College recorded no additional asset retirement obligations.

The following table presents the activity for the College's asset retirement obligations:

June 30	2010	2009
Balance at beginning of year	**$ 198,864**	$ 187,634
Accretion expense	**11,340**	11,230
Balance at end of year	**$ 210,204**	$ 198,864

Sabbatical Leave and Other Similar Benefits

The College awards sabbaticals to both its faculty and staff after working for a specific period of time without requiring any additional services to be performed. The College expenses future sabbaticals or similar paid absences over the same period in which the benefits are earned in instances where the compensated employee is not required to perform duties for the entity during the absence.

Derivative Financial Instruments

The College does not use derivative financial instruments for speculative or trading purposes. The College utilizes interest rate swaps to hedge interest rate market exposure of the underlying bonds payable. The College uses the accrual method to account for the interest rate swaps in connection with the underlying bonds. The difference between amounts paid and received under such agreements and the changes in fair value of the swap agreements are reported as interest expense on a functional basis in the accompanying statements of activities.

Income Taxes

The College has been recognized by the Internal Revenue Service as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax (see Note 11). The College has a wholly owned subsidiary, SCAD Group, Inc. that is subject to Federal and state income taxes.

The College provides for income taxes based on FASB ASC Topic 740 *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. The College provides an allowance for deferred tax assets when it is determined that it is more likely than not that the deferred tax assets will not be utilized. The College's policy is to record interest and penalties related to income tax matters in income tax expense.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the College may undertake in the future, actual results may be different from the estimates. Significant items subject to such estimates and assumptions include but are not limited to, fair value of investments, fair value of interest rate swaps, carrying amounts of property and equipment, allowances for receivable balances, discount rates used for beneficial interests, liability for post-retirement medical benefits and asset retirement obligations. Actual results could differ from those estimates.

Translation of Foreign Currencies

Assets and liabilities related to functional currencies other than U.S. dollars are translated into U.S. dollars at the year-end rate of exchange. Revenues and expenses, if any, are translated at the weighted average exchange rates for the year. The resulting translation adjustments are reported as gains or losses from foreign currency transactions in the current period. The College held €22,800 valued at $27,834 and HK$19,577,690 valued at $2,515,733 at June 30, 2010. The College held €20,947 valued at $29,426 and HK$780,939 valued at $100,765 at June 30, 2009. The College recognized foreign currency translation losses of $105,643 and $81,451 for the years ending June 30, 2010 and 2009, respectively as other income on the consolidated statements of activities.

Subsequent Events

The College has addressed the accounting for and disclosure of events that occur after the financial statement date but before financial statements are issued or are available to be issued. Management has evaluated all events or transactions that occurred after June 30, 2010 through October 28, 2010, the date the financial statements are available for issuance, for potential recognition or disclosure in the financial statements.

Fair Value Measurements

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures About Measurements* (ASU 2010-06). ASU 2010-06 requires additional disclosures and clarifies existing disclosure requirements about fair value measurement as set forth in ASC Topic 820 *Fair Value Measurements and Disclosures*. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except certain disclosures requirements regarding activity in level 3 fair value measurements which is effective for fiscal years beginning after December 15, 2010. Implementation of ASU 2010-06 is expected to have no impact on the College's results of operations or financial condition, but will require additional disclosure.

2 Contributions Receivable

Unconditional promises to give are recorded as revenue upon receipt. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of this discount is recorded as additional contribution revenue. The College believes substantially all contributions receivable to be fully collectible at June 30, 2010 and 2009. Contributions receivable are summarized as follows:

June 30	2010	2009
Unconditional promises to give	**$ 3,252,253**	$ 3,806,456
Less unamortized discount	**269,044**	311,331
Net contributions receivable	**2,983,209**	3,495,125
Amounts due in:		
Less than one year	**1,238,003**	1,131,456
One to five years	**2,014,250**	2,575,000
After five years	**-**	100,000
Total	**$ 3,252,253**	$ 3,806,456

Estimated cash flows to be received after one year were discounted at rates ranging from 3.76% to 8.03%.

3 Student Loans Receivable

Advances from the Federal government under the Federal Perkins Loan program are loaned to students on a revolving basis. These advances are distributable to the Federal government upon liquidation of the program and thus are reflected as a liability in the accompanying consolidated statements of financial position. In 2008, the College ceased its participations in the Federal Perkins Loan Program and distributed all funds previously advanced under this program back to the Federal government. Student loans receivable also include institutional loans to qualified students.

4 Investments

Investments consisted of the following:

	Fair value	Cost	Fair value	Cost
June 30	2010		2009	
Domestic equity securities	**$ 4,154,274**	**$ 4,073,834**	$ 3,371,349	$ 3,489,319
Government bonds	**2,135,062**	**2,521,302**	2,351,389	2,706,571
Corporate bonds	**1,597,982**	**1,514,394**	1,829,499	1,825,051
Real estate	**16,000**	**16,000**	16,000	16,000
Certificate of Deposit	**200,000**	**200,000**	-	-
Money market funds/cash	**3,176,041**	**3,176,041**	3,578,326	3,578,326
Mutual funds	**2,928,221**	**3,010,588**	3,237,846	3,917,850
Other	**827,115**	**786,161**	27,071	26,314
Total	**$ 15,034,695**	**$ 15,298,320**	$ 14,411,480	$ 15,559,431

Net realized and unrealized gains (losses) consist of the following:

For the years ended June 30	2010	2009
Realized gains (losses)	**$ (64,346)**	$ (1,275,778)
Unrealized gains (losses)	**1,465,973**	(1,554,347)
Investment fees	**(79,479)**	(70,206)
Total	**$ 1,322,148**	$ (2,900,331)

5 Beneficial Interest in Perpetual Trust

In February 2007, the College and the Community Foundation of Greater Atlanta, Inc. (the Community Foundation), as it relates to endowment funds held by the Community Foundation for the support of the Atlanta College of Art (ACA), entered into an agreement whereby the Community Foundation has determined that, in accordance with the intent of the donor, the College is eligible to receive such funds pursuant to the June 5, 2006 agreement to integrate ACA into the College's Atlanta campus. Consistent with the terms of the endowment, the income of the endowment is advanced to the College for scholarships for students studying in the arts in Atlanta. The amount of such endowment funds held by the Community Foundation totaled $2,792,953 and $2,629,041 at June 30, 2010 and 2009, respectively.

6 Endowments

Effective July 1, 2008, Administration of the College's endowment is subject to the general provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act). Under the provisions of this state law, the College may appropriate expenditures of underwater endowment funds as is deemed prudent for the uses and purposes for which an endowment fund is established. The College has applied accounting principles generally accepted in the United States of America when allocating investment gains to the net asset classes for financial statement purposes.

Endowment net asset composition by type of fund and changes in endowment net assets are summarized as follows:

Endowment Net Asset Composition by type of fund as of June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (942,914)	$ 349,154	$ 7,899,773	$ 7,306,013
Board-designated endowment funds	1,752,793	-	-	1,752,793
Total funds	$ 809,879	$ 349,154	$ 7,899,773	$ 9,058,806

Changes in Endowment Net Assets Year ended June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ (177,979)	$ 207,745	$ 7,676,094	$ 7,705,860
Investment return:				
Investment income	31,856	146,780	-	178,636
Net realized and unrealized return	77,332	715,058	-	792,390
Total investment return	109,188	861,838	-	971,026
Contributions received	368,000	-	223,679	591,679
Appropriation of endowment assets for expenditure	-	(209,759)	-	(209,759)
Restoration of donor-restricted endowment assets	510,670	(510,670)	-	-
Endowment net assets, end of year	$ 809,879	$ 349,154	$ 7,899,773	$ 9,058,806

Endowment Net Asset Composition by type of fund as of June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,453,584)	$ 207,745	$ 7,676,094	$ 6,430,255
Board-designated endowment funds	1,275,605	-	-	1,275,605
Total funds	$ (177,979)	$ 207,745	$ 7,676,094	$ 7,705,860

Changes in Endowment Net Assets Year ended June 30, 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, end of prior year	$ 1,692,890	$ 256,535	$ 6,760,719	$ 8,710,144
Net asset reclassification based on change in law and adoption of FSP 117-1	(521,675)	521,675	-	-
Net assets, beginning of year	1,171,215	778,210	6,760,719	8,710,144
Investment return:				
Investment income	42,481	261,370	-	303,851
Net depreciation (realized and unrealized)	(236,911)	(1,650,480)	-	(1,887,391)
Total investment return (loss)	(194,430)	(1,389,110)	-	(1,583,540)
Contributions received	50,000	-	915,375	965,375
Appropriation of endowment assets for expenditure	(7,716)	(378,403)	-	(386,119)
Restoration of donor-restricted endowment assets	(1,197,048)	1,197,048	-	-
Endowment net assets, end of year	$ (177,979)	$ 207,745	$ 7,676,094	$ 7,705,860

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the College to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $942,914 and $1,453,584 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions.

7 Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows:

June 30	2010	2009
Land	**$ 22,310,119**	$ 18,068,301
Buildings	**66,534,421**	56,204,314
Building improvements	**130,566,197**	110,338,299
Equipment	**88,273,194**	88,462,110
Library books	**8,203,183**	7,575,917
Furniture and fixtures	**18,403,483**	17,621,002
Construction in progress	**28,642,971**	30,837,148
	362,933,568	329,107,091
Less accumulated depreciation	**119,828,893**	108,383,833
Land, buildings, and equipment, net	**$ 243,104,675**	$ 220,723,258

Construction in progress consists primarily of various building improvement projects. Depreciation expense totaled $18,257,469 and $16,618,072 during 2010 and 2009, respectively.

8 Notes Payable

Notes payable consists of borrowings under a $105,000,000 credit facility (the Credit Facility) including cash loans and a letter of credit to support certain taxable bonds. The facility is secured by a mortgage loan on all real property, a security interest in the property located on such real property, all present and future shares of capital stock of the College's present and future subsidiaries and all proceeds and products of the property. The facility matures on July 12, 2011 and bears interest at variable rates based upon the College's rate of funded debt to earnings before interest, taxes, depreciation, and amortization. Notes payable in the amount of $30,000,000 million and $0 million were outstanding at June 30, 2010 and 2009, respectively.

All amounts borrowed under the Credit Facility bear interest, payable quarterly, at a rate equal to either the alternative base rate established by the bank from time to time or LIBOR for an applicable period of not less than 30 days nor more than 180 days, plus a margin based on the College's ratio of funded debt to earnings before interest, taxes, depreciation, and amortization. Prior to maturity, the College is not obligated to repay any principal outstanding under the Credit Facility. The unused amount available under the Credit Facility was $14,365,240 and $40,061,260 at June 30, 2010 and 2009, respectively. The amounts available are limited by the amount outstanding on the revolver and amount of letter of credit to support the bonds and other items, as defined in the agreement.

The terms of the College's credit facility provides for certain financial and nonfinancial covenants. At June 30, 2010, management believes that the College is in compliance with these covenants.

9 Bonds Payable

Bonds payable include the following:

June 30	Date Issued	Interest %	Maturity Date	Original Issue	Outstanding 2010	Outstanding 2009
The Savannah College of Art and Design, Inc. Taxable Variable Rate Demand Revenue Bond Series 2004	3/11/2004	Variable	04/01/2024	$ 85,000,000	**$ 58,700,000**	$ 63,100,000

Principal reductions related to bonds payable for the next five years and thereafter are as follows:

	Amount
For the year ended June 30:	
2011	$ 4,400,000
2012	4,400,000
2013	4,400,000
2014	4,400,000
2015	4,400,000
Thereafter	36,700,000
Total	$ 58,700,000

The Series 2004 bonds are secured by a mortgage lien on all of the College's real property, and a security interest in personal property located on such real property, all capital stock of present and future subsidiaries, and all proceeds of the pledged property. Under the terms of the indenture, the College is required to make monthly interest payments and quarterly payments for the retirement of bond principal. The Series 2004 bonds are secured by a letter of credit. The letter of credit will expire on July 12, 2011, unless otherwise terminated or extended.

The College utilizes interest rate swaps to manage interest rate market exposure of the underlying debt. The College has entered into interest rate swap agreements that effectively convert the variable rate revenue bond to a fixed rate. Significant terms of each of the swap agreements for June 30, 2010 and 2009 are as follows:

Agreement Date	Notional Amount	College Pays	College Receives	Expiration Date	Effective Date	Fair Value at June 30, 2010	Fair Value at June 30, 2009
12/1/2004	$ 32,521,800	7.26% 76.314% of US-1 Month	US 1M- BBA 68.84% of USD-5YR	4/1/2024	10/1/2009	**$ (12,127,371)**	$ (8,350,813)

Net settlement transactions commence upon the effective date of each of the swap agreements and resulted in a net expense to the College totaling $1,707,698 and in a net gain totaling $6,406,399 for the years ended June 30, 2010 and 2009, respectively. Decreases in fair values of the swap agreements are recorded as interest expense and totaled $3,963,966 and $2,117,451 during the year ended June 30, 2010 and 2009, respectively. Fair values of the swap agreements are included in other liabilities in the accompanying consolidated statements of financial position.

Interest expense was $7,148,975 and interest income $1,206,390 during 2010 and 2009, respectively. Interest expense included proceeds from the settlement of interest rate swap of $5,000,000 during 2009 and a non-cash SWAP valuation decrease of $3, 963,966 and $1,339,611 during 2010 and 2009, respectively.

10 Refundable Advances

On November 3, 2005, the College entered into a gift agreement under which a substantial collection of African-American art, including paintings, sculptures, and prints will be donated to the College over a ten-year period. The collection received in connection with this gift is subject to certain conditions related to the establishment of the Walter O. Evans Center for African-American Studies. The College has recorded the fair value of the collection acquired, totaling $5,708,000, as a refundable advance. The College will record the donation as a contribution received once the conditions set forth in the gift agreement are satisfied.

Refundable advances at June 30, 2010 and 2009 also include a refundable advance totaling $1,509,549 and $1,743,681, respectively, related to unamortized capital expenditures which were provided by certain vendors, under the terms of certain operating agreements. Under the terms of an operating agreement entered into during 2003, capital expenditures made by the vendor are to be amortized over a 15-year period from the date placed in service. Should the College terminate the operating agreement prior to September 1, 2017, the College would be required to remit to the vendor an amount equal to the unamortized capital expenditures as of the termination date. The College records unrestricted contribution revenue related to these capital expenditures on a straight-line basis over the 15-year amortization period as the conditions of the agreement are met.

Another operating agreement entered into during 2004 provides that the capital expenditures provided by the vendor are to be amortized over an eight-year period from the date placed in service. Should the College terminate the operating agreement prior to June 1, 2012, the College would be required to remit to the vendor an amount equal to the unamortized capital expenditures as of the termination date. The College records unrestricted contribution revenue related to these capital expenditures on a straight-line basis over the eight-year amortization period as the conditions of the agreement are met.

Contribution revenue recorded under these operating agreements totaled $234,133 and $234,133 during the year ended June 30, 2010 and 2009, respectively. The unamortized portion is reflected in the accompanying consolidated statements of financial position as refundable advances.

11 Income Taxes

The provision for income taxes consists of the following:

For the years ended June 30	2010	2009
Federal:		
Current	$ -	$ -
Deferred	**(168,040)**	(912,180)
State:		
Current	**-**	(1,299)
Deferred	**(19,572)**	(273,666)
Foreign:		
Current	**-**	(27,385)
Deferred	**-**	-
Income tax provision before valuation allowance	**(187,612)**	(1,214,530)
Change in valuation allowance	**187,612**	532,299
Income tax provision	**$ -**	$ (682,231)

Income tax expense (benefit) differs from the "expected" income tax expense for the periods (computed by applying the statutory Federal corporate tax rate of 34% to earnings (loss) before income taxes and cumulative effect of accounting principle for Group totaling $58,197 and $2,496,194 in 2010 and 2009, respectively), as follows:

June 30	2010	2009
Computed "expected" tax expense (benefit)	**$ 19,787**	$ 848,706
Increase in tax expense resulting from:		
Permanent items	**180,201**	143,159
State tax expense, net of Federal benefit	**2,305**	99,848
Credits	**-**	(2,102,778)
Change in valuation allowance	**187,612**	532,298
Prior year provision adjustment to actual	**(389,905)**	(203,464)
Actual tax expense (benefit)	**$ -**	$ (682,231)

The tax effect of temporary differences give rise to significant portions of the deferred tax assets and deferred tax liabilities as of June 30, 2010 and 2009. The components of deferred income tax are as follows:

June 30	2010	2009
Deferred tax asset:		
Accounts receivable allowance	$ **716,484**	$ 9,870
Accrued vacation	**666,459**	670,479
Accrued medical claims	**-**	76,717
Miscellaneous accruals	**1,394,497**	1,500,083
Deferred rent	**701,806**	659,577
Alternative minimum tax	**84,222**	84,222
Historic preservation tax credit	**2,029,673**	2,102,778
Operating loss carryforward	**1,361,380**	1,425,654
Total deferred tax assets	**6,954,521**	6,529,380
Deferred tax liabilities:		
Depreciation	**(6,148,293)**	(5,924,083)
Prepaid expenses and other	**(86,318)**	(72,999)
Total deferred tax liabilities	**(6,234,611)**	(5,997,082)
Net deferred income tax asset before valuation allowance	**719,910**	532,298
Valuation allowance	**(719,910)**	(532,298)
Net deferred tax asset	$ **-**	$ -
Deferred income taxes are presented on the Statements of Financial Position as follows:		
Current deferred tax assets	$ **2,045,593**	$ 1,651,049
Non-current deferred tax liabilities	**(2,045,593)**	(1,651,049)
Net deferred tax liabilities	$ **-**	$ -

As of June 30, 2010, the College has Federal operating loss carryforwards (NOL's) of approximately $4,004,506 that will expire in 2028. In assessing the likelihood of realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The continued existence of the College's for-profit subsidiary, which generated the deferred tax assets, is subject to the College's Board making the determination that the current organizational structure meets applicable regulatory compliance requirements (see Note 19) and contributes to the strategic goals and objectives of the institution. The College's ongoing assessment of these matters may result in the subsidiary being dissolved in the future. As such, management views the realization of the deferred tax assets as uncertain. Consequently, a valuation allowance as of June 30, 2010 has been established for the full amount of the related net deferred tax assets.

12 Leases

The College leases buildings and equipment under noncancelable operating leases that expire over the next twenty five years. Total rental expense under operating lease agreements for the years ended June 30, 2010 and 2009 was approximately $11,415,642 and $10,880,000, respectively. These leases generally require the College to pay all executory costs such as maintenance and insurance.

Future minimum lease payments under noncancelable operating leases as of June 30, 2010 are as follows:

	Amount
For the year ended June 30:	
2011	$ 8,000,274
2012	7,636,204
2013	6,175,821
2014	4,191,335
2015	3,505,008
Thereafter	25,615,597
Total	$ 55,124,239

During fiscal year 2005, office furniture, video equipment, and computer equipment in the amount of $5,881,090 were acquired under a capital lease. The interest rate on the capitalized lease is 4.87%. Accumulated depreciation related to equipment acquired under the capital lease totaled $3,251,908 and $2,713,747 at June 30, 2010 and 2009, respectively.

During fiscal year 2009, real property in the amount of $10,707,386 was acquired under a capital lease. The interest rate on the capitalized lease is 6.26%. There was no accumulated depreciation related to real property acquired under the capital lease at June 30, 2010 and 2009.

Future minimum lease payments under capital leases as of June 30, 2010 are as follows:

	Amount
For the year ended June 30:	
2011	$ 793,279
2012	744,061
2013	744,061
2014	744,061
2015	371,780
Total	3,397,242
Less amounts representing interest	346,685
Present value of minimum lease payments	3,050,557
Less current maturities	660,643
Capital lease obligation, excluding current maturities	$ 2,389,914

13 Other Liabilities

The College has an employment contract with the President of the College. This agreement provides for certain amounts of retirement compensation and postretirement medical and other benefits contingent upon the provision of service to the College in accordance with the terms of the contract. The liability related to these postretirement benefits totaled $5,216,145 and $4,623,566 at June 30, 2010 and 2009, respectively. Postretirement expense is recognized during the periods in which services are rendered to the College. The accrual for retirement compensation is recorded as other liabilities in the accompanying consolidated statements of financial position. The accrued retirement compensation is funded by the College and the related assets are classified as investments in the consolidated statements of financial position.

The following assumptions were used in determining the retirement compensation liability under the terms of the plan: 5.25% discount rate and 4% compensation rate increase for year ended June 30, 2010 and 6.25% discount rate and 5% compensation rate increase for year ended June 30, 2009.

14 Net Assets

Temporarily restricted net assets consist of the following:

June 30	2010	2009
Contributions and other unexpended revenues available for:		
Academic support	**$ 212,858**	$ 20,500
Student aid	**3,130,499**	2,914,682
Student support	**21,729**	125,299
Plant operations and maintenance	**-**	18,049
Buildings and equipment	**2,397,410**	2,742,082
Works of art	**1,514,549**	1,969,662
Accumulated donor-restricted endowment fund investment earnings	**1,616,453**	1,453,584
Total	**$ 8,893,498**	$ 9,243,858

Permanently restricted net assets consist of the following:

June 30	2010	2009
Endowments	**$ 8,391,445**	$ 8,065,279
Beneficial interest in perpetual trust	**2,792,953**	2,629,041
Total	**$ 11,184,398**	$ 10,694,320

15 Net Assets Released from Restrictions

Net assets were released from donor restrictions during 2010 and 2009 by satisfying the restricted purposes as follows

June 30	2010	2009
Student aid	**$ 317,940**	$ 528,727
Academic support	**518,828**	373,415
Student support	**929,071**	546,834
Buildings, plant operations and maintenance	**1,933,295**	852,655
Works of art	**-**	179,400
Auxiliary services	**9,200**	12,145
Total	**$ 3,708,334**	$ 2,493,176

16 Contributions In-Kind and Conditional Promises to Give

The following noncash contributions were received and recorded as contribution revenue at their appraised values:

June 30	2010	2009
Buildings and equipment	**$ 384,133**	$ 239,133
Works of art	**1,133,000**	761,485
Couture Collection	**67,966**	-
	$ 1,585,099	$ 1,000,618

The College is entitled to the benefit of certain WAC endowment funds that were restricted to ACA's use. These funds will be transferred to the College over time as certain conditions are satisfied by the College and will be recorded as a contribution received by the College at that time. The amount of ACA's endowment funds held by WAC as of June 30, 2010 and 2009 was $2,607,502 and $2,383,738, respectively.

17 Retirement Plans

The College has adopted a Tax Sheltered Annuity Program (the 403(b) Plan) in accordance with Section 403(b) of the Code for the benefit of all employees who have been employed with the College for at least 30 days. The 403(b) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $16,500 per participant at June 30, 2010. The College makes matching contributions to the Plan of 50%, subject to a maximum of 4% of the employee's compensation. The College contributed $582,696 and $527,450 in matching contributions for the years ended June 30, 2010 and 2009, respectively.

Group has adopted a Tax Sheltered Annuity Program (the 401(k) Plan) in accordance with Section 401(k) of the Code for the benefit of all employees who have been employed with Group for at least 30 days. The 401(k) Plan permits employees to make contributions up to the amount of their compensation or the maximum allowed under the Code, which totaled $16,500 at June 30, 2010. Group makes matching contributions to the 401(k) plan of 50%, to a maximum of 4% of the employee's compensation. Group contributed $305,448 and $287,813 in matching contributions for the years ended June 30, 2010 and 2009, respectively.

18 Profit Sharing Plan

The College and Group maintain separate defined contribution profit sharing plans (the Plan) covering all eligible employees. The College and Group, at their own discretion, may elect to make profit sharing contributions at the end of each plan year on behalf of each participant who is employed on the last day of the plan year, which is September 30. Total discretionary contributions to the Plan totaled $1,000,000 and $500,021 for the years ended June 30, 2010 and 2009, respectively.

19 Commitments and Contingencies

Operating Structure

On March 1, 2004, the College implemented the current organizational structure. Certain nonacademic functions were provided by a wholly owned for-profit subsidiary, SCAD Group, Inc. The College did not obtain (nor was it required to obtain) advance approval from the Internal Revenue Service of the operating structure. The College was advised by Alston & Bird LLC, its outside legal counsel, that the organizational structure as implemented and in effect through June 30, 2009 should not cause the College to fail to satisfy the tax-exemption requirements of Section 501(c)(3) of the Code. There is a risk that the Internal Revenue Service, upon examination, might assert that this new structure jeopardizes the College's Federal tax-exempt status under Section 501(c)(3). Loss of Federal tax-exempt status could have negative implications for the College beyond increased Federal income tax liabilities. For example, loss of Federal tax-exempt status could cause the College to be in default on its outstanding taxable bonds due to a covenant requiring the College to comply with all operational, organizational, reporting, and other requirements necessary to maintain its exemption from Federal income tax.

Management believes that the operating structure described above will not cause the College to fail to satisfy the tax-exemption requirements of Section 501(c)(3) and will not have a material adverse effect on the financial condition of the College at June 30, 2010.

Legal Matters

The College is involved in various legal proceedings, claims and governmental inquiries, which matters relate, in part, to certain activities of current and former employees of the College that have arisen in the ordinary course of its business and have not been fully adjudicated. The College will incur legal costs to handle the pending legal matters but, when fully concluded and determined, the resolution will not, in the opinion of management, have a material adverse effect on the financial position of the College.

Federal Financial Assistance

Certain federally funded financial aid programs are routinely subject to special audit. The reports on the examinations, which are conducted pursuant to specific regulatory requirements by the auditors for the College, are required to be submitted to both the College and the U.S. Department of Education. Such agency has the authority to determine liabilities as well as to limit, suspend, or terminate Federal student aid program.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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October 1, 2014

Private Colleges and Universities Authority
Atlanta, Georgia

U.S. Bank National Association
Atlanta, Georgia

The Savannah College of Art and Design, Inc.
Savannah, Georgia

$180,970,000
Private Colleges and Universities Authority
Revenue Bonds
(The Savannah College of Art and Design Projects)
Series 2014

To the Addressees:

We have acted as Bond Counsel in connection with the issuance of the above-referenced bonds (the "Bonds") by the Private Colleges and Universities Authority (the "Authority"). The Bonds are being issued pursuant to a Trust Indenture, dated as of October 1, 2014, as supplemented by a First Supplemental Trust Indenture, dated as of October 1, 2014 (collectively, the "Indenture"), each between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds bear interest, mature and are subject to exchange, transfer and redemption at the times, in the manner and on the terms, and contain such other terms and provisions, as are specified in the Indenture. Capitalized, undefined terms used herein will have the meanings given them in the Indenture.

The proceeds of the Bonds will be loaned by the Authority to The Savannah College of Art and Design, Inc., a Georgia nonprofit corporation ("SCAD"), pursuant to the terms of a Loan Agreement dated as of October 1, 2014 as supplemented by a First Supplemental Loan Agreement dated as of October 1, 2014 (collectively, the "Loan Agreement") each between the Authority and SCAD for the purpose of (1) financing and refinancing the acquisition, construction, renovation and equipping of SCAD's main campus building located in Atlanta, Georgia, certain student housing facilities located or to be located in Savannah, Georgia and related amenities and (2) paying certain costs of issuance of the Bonds.

We have examined the law, such certified proceedings and other documents and matters as deemed necessary to render this opinion. In all examinations, we have assumed the genuineness of signatures on original documents and the conformity to original documents of all copies submitted to us as certified, conformed or photostatic copies, and as to certificates of public officials, we have assumed the same to have been properly given and to be accurate. As to questions of fact material to our opinion, we have relied upon (a) representations of the Authority and SCAD, (b) certified proceedings and other certifications of public officials furnished to us, and (c) certifications by officials of the Authority and

SCAD, without undertaking to verify the same and without independent investigation. Based upon the examinations, opinions, certificates and premises referred to above, we are of the opinion that as of this date:

1. The Authority is a public body corporate and politic, created, activated and validly existing under the Constitution and laws of the State of Georgia, and has all requisite power and authority (a) to issue, sell and deliver the Bonds, (b) to enter into the Indenture and the Loan Agreement, and (c) to carry out the transactions contemplated by the Indenture and the Loan Agreement.

2. Under the Constitution and laws of the State of Georgia, including particularly the Private College and Universities Authority Act, O.C.G.A. Section 20-3-200 *et seq.*, as amended, the Indenture and the Loan Agreement have been authorized by all necessary action on the part of the Authority, have been executed and delivered by the Authority, and, assuming that they are the respective legal, valid, binding and enforceable obligations of the other parties thereto, constitute legal, valid, binding and enforceable obligations of the Authority, except that the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and principles of equity applicable to the availability of specific performance or other equitable relief.

3. The Bonds have been duly authorized and executed by the Authority and delivered to the Trustee for authentication, and, assuming that the Bonds have been duly authenticated by the Trustee, are valid and binding limited obligations of the Authority, except that the rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally and principles of equity applicable to the availability of specific performance or other equitable relief.

4. The Bonds and the interest thereon are limited obligations of the Authority, payable solely from and secured by the revenues, receipts and security pledged therefor in the Indenture. Neither the State of Georgia nor any political subdivision thereof will in any event be liable for the payment of the principal of or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever of the Authority, and none of the Bonds or any of the Authority's agreements or obligations may be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever.

5. All of the rights, title and interest of the Authority in and to the Trust Estate (except for certain rights reserved by the Authority under the Indenture) have been validly assigned and pledged to the Trustee under the Indenture.

6. Under existing laws, regulations, rulings and judicial decisions and other authorities, interest on the Bonds (a) is excluded from the gross income of recipients thereof for federal income tax (including the tax imposed by Chapter 2A of Subtitle A of the Internal Revenue Code of 1986, as amended (the "Tax Code")) purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that interest on the Bonds is included in the adjusted current earnings for purposes of the alternative minimum tax on certain corporations (including entities treated as corporations under the Tax Code). No opinion is expressed regarding any other federal tax consequences arising with respect to the Bonds.

7. The interest payable on the Bonds is exempt from State of Georgia income taxation.

The opinions set forth in paragraph 6 above assume and are given in reliance upon full and continuing compliance by the Authority and SCAD with the covenants regarding federal tax law in the Indenture and the Loan Agreement and the tax regulatory documents executed by the Authority and SCAD at the time of issuance of the Bonds. Failure to comply continuously with such covenants could cause interest on the Bonds to be included in gross income of the recipients retroactive to the date of issue of the Bonds.

Although interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security or Railroad Retirement benefits, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Bonds. We express no opinion regarding such consequences.

In rendering this opinion, we have relied, with your permission, upon (A) the opinion of Alston & Bird LLP, Atlanta, Georgia, counsel to the Authority, dated the date hereof with respect to (a) the creation, activation and existence of the Authority and (b) the due authorization, execution and delivery by the Authority of the Bonds, the Indenture and the Loan Agreement and (B) the opinion of Chapman and Cutler LLP, Chicago, Illinois, counsel to SCAD, dated the date hereof with respect to the matters contained therein.

Very truly yours,

MCKENNA LONG & ALDRIDGE LLP

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of September 18, 2014 (this "**Disclosure Certificate**") is executed and delivered by The Savannah College of Art and Design, Inc. ("**SCAD**") in connection with the issuance by the Private Colleges and Universities Authority (the "**Authority**") of Revenue Bonds (The Savannah College of Art and Design Projects) Series 2014 (the "**Series 2014 Bonds**") pursuant to the Trust Indenture, dated as of October 1, 2014, as supplemented by the First Supplemental Trust Indenture, dated as of October 1, 2014 (as supplemented, the "**Indenture**"), each between the Authority and U.S. Bank National Association, as trustee.

The proceeds of the Series 2014 Bonds are being loaned to SCAD pursuant to a Loan Agreement, dated as of October 1, 2014, as supplemented by the First Supplemental Loan Agreement, dated as of October 1, 2014 (as supplemented, the "**Loan Agreement**"), each between the Authority and SCAD. SCAD covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by SCAD for the benefit of the Beneficial Owners of the Series 2014 Bonds and in order to assist the Underwriter (defined below) in complying with the Rule (defined below). SCAD acknowledges that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Certificate, and has no liability to any person, including any Beneficial Owner, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Disclosure Certificate, the following capitalized terms shall have the following meanings:

"**Annual Report**" means any Annual Report provided by SCAD pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" means any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2014 Bonds (including persons holding Series 2014 Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Series 2014 Bonds for federal income tax purposes.

"**Dissemination Agent**" means initially Digital Assurance Certification, LLC ("**DAC**"), or any successor Dissemination Agent designated in writing by SCAD and that has filed with SCAD a written acceptance of such designation.

"**EMMA**" means the Electronic Municipal Market Access system maintained by the MSRB for the purposes of the Rule as further described herein or such other electronic format prescribed by the MSRB.

"**Fiscal Year**" means any period of twelve consecutive months adopted by SCAD as the fiscal year for financial reporting purposes and shall initially mean the period beginning on July 1 of each calendar year and ending on July 30 of the next calendar year.

"**Listed Events**" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"**MSRB**" means the Municipal Securities Rulemaking Board or any successor thereto.

"**Rule**" means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**SEC**" means the United States Securities and Exchange Commission.

"**Underwriter**" shall mean the original underwriter of the Series 2014 Bonds required to comply with the Rule in connection with the offering of the Series 2014 Bonds.

SECTION 3. Provision of Annual Reports.

(a) SCAD shall, (i) not later than 180 days after the end of each Fiscal Year, commencing with Fiscal Year 2014, provide or cause the Dissemination Agent to submit to the MSRB in an electronic format to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of SCAD specified in clause (1) of Section 4 hereof may be submitted separately from the balance of the Annual Report when such audited financial statements are available and (ii) not later than October 31 of each calendar year, commencing October 31, 2014, provide or cause the Dissemination Agent to submit to the MSRB an enrollment report that contains the student enrollment as of the Fall Quarter measurement date for the same calendar year as set forth under the heading "STUDENTS – Enrollment" as originally set forth in Appendix A to the Official Statement dated September 18, 2014.

(b) SCAD shall promptly file with EMMA a notice of any change in the Fiscal Year of SCAD.

(c) If the audited financial statements specified in clause (1) of Section 4 hereof are not submitted as part of the Annual Report, SCAD shall submit to EMMA such audited financial statements, together with the related audit report, when they are available to SCAD.

(d) SCAD, or if there is a Dissemination Agent, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the appropriate electronic format prescribed by the MSRB for filing with the MSRB and the proper form of such filing;

(ii) if the Annual Report is not submitted (or the audited financial statements which were to be separately submitted) by the date required in subsection (a), send a notice to EMMA in substantially the form attached as Exhibit A; and

(iii) within ten (10) days after the Annual Report is filed with EMMA, file a report with SCAD and the Authority certifying that the Annual Report has been provided pursuant to the Disclosure Certificate and the date provided.

SECTION 4. Content of Annual Reports. SCAD's Annual Report shall contain or incorporate by reference the following:

(1) the audited financial statements of SCAD for the preceding Fiscal Year, which shall be prepared in accordance with generally accepted accounting principles in the United States of America, as in effect from time to time, and which shall be accompanied by an audit report, resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants in conformity with generally accepted auditing standards in the United States of America;

(2) to the extent not included in the audited financial statements (including the notes thereto) of SCAD, if generally accepted accounting principles in the United States of America have changed since the last Annual Report submitted pursuant to Section 3(a) hereof and if such changes are material to SCAD, a narrative explanation describing the impact of such changes on SCAD; and

(3) information for the preceding Fiscal Year regarding the following categories of financial information and operating data of SCAD, as originally set forth under such headings in Appendix A to the Official Statement dated September 18, 2014 with respect to the Series 2014 Bonds, to the extent not included in the audited financial statements (including the notes thereto) of SCAD furnished pursuant to paragraph (1) above: (i) student enrollment as set forth under the heading "STUDENTS – Enrollment"; (ii) fall applicant information as set forth under the heading "STUDENTS – Admissions"; (iii) fall retention data as set forth under the heading "STUDENTS – Retention"; (iv) tuition, room, meal costs and fees as set forth under the heading "TUITION AND FEES – Tuition, Room, Meal Plan and Fees"; (v) selected operating data as set forth under the heading "FINANCIAL INFORMATION – Funds Available for Debt Service"; (vi) summary financial statement information as set forth under the heading "FINANCIAL INFORMATION – Summary Financial Statement Information"; and (vii) classification of the fair value of endowment funds by types as set forth in the table under the heading "OTHER FINANCIAL MATTERS – Investments."

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which SCAD is an "obligated person" (as defined by the Rule), which have been submitted to the MSRB or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB through EMMA. SCAD shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) In a timely manner not in excess of ten (10) business days of the occurrence of any of the following Listed Events, SCAD shall file a notice of such occurrence with EMMA:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults, if material.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or a Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2014 Bonds, or other events affecting the tax status of the Series 2014 Bonds.

(vii) Modification to rights of the holders of the Series 2014 Bonds, if material.

(viii) Bond calls, if material, and tender offers.

(ix) Defeasances.

(x) Release, substitution or sale of property securing repayment of the Series 2014 Bonds, if material.

(xi) Rating changes.

(xii) Bankruptcy, insolvency, receivership or similar event of SCAD, including any of the following: the appointment of a receiver, fiscal agent or similar officer for SCAD in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of SCAD, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of SCAD.

(xiii) Consummation of a merger, consolidation, acquisition involving SCAD, or sale of all or substantially all of the assets of SCAD, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) Appointment of a successor or additional trustee or the change in name of a trustee, if material.

(b) The content of any notice of the occurrence of a Listed Event shall be determined by SCAD and shall be in substantially the form attached as Exhibit B.

SECTION 6. Termination of Reporting Obligation. SCAD's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Series 2014 Bonds. SCAD shall notify the MSRB in an electronic format submitted to EMMA that SCAD's obligations under this Disclosure Certificate have terminated. If SCAD's obligations are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were SCAD.

SECTION 7. Dissemination Agent. SCAD may, from time to time, appoint a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and SCAD may, from time to time, discharge the Dissemination Agent, with or without appointing a successor Dissemination Agent. SCAD has engaged DAC as the initial Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, SCAD may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if:

(a) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the obligor on the Series 2014 Bonds, or type of business conducted by such obligor;

(b) the amendment or waiver either (i) is approved by the Beneficial Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Beneficial Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Beneficial Owners; and

(c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, as well as any change in circumstances.

If any provision of Section 4 hereof is amended or waived, the first Annual Report containing any amended, or omitting any waived, operating data or financial information shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided.

If the provisions of Section 4 hereof specifying the accounting principles to be followed in preparing SCAD's financial statements are amended or waived, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to the Beneficial Owners to enable them to evaluate the ability of SCAD to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. SCAD shall file a notice of the change in the accounting principles with EMMA on or before the effective date of any such amendment or waiver.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent SCAD from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If SCAD chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, SCAD shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of SCAD to comply with any provision of this Disclosure Certificate, the Underwriter or any Beneficial Owner may take such actions, to the extent and in such manner as may be allowed by applicable law, as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause SCAD to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate will not be deemed an "Event of Default" under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of SCAD to comply with this Disclosure Certificate will be an action to compel performance. A court may in its discretion decide not to order the specific performance of the covenants contained in this Disclosure Certificate.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of SCAD, the Authority, the Underwriter, and the Beneficial Owners and shall create no rights in any other person or entity.

SECTION 12. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 13. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of Georgia.

SECTION 14. Severability. In case any one or more of the provisions of this Disclosure Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Certificate, but this Disclosure Certificate shall be considered and enforced as if such illegal or invalid provision had not been contained herein.

THE SAVANNAH COLLEGE OF ART AND DESIGN, INC.

By:__________________________________
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE [AUDITED FINANCIAL STATEMENTS] [ANNUAL REPORT]

Name of Issuer:	Private Colleges and Universities Authority
Name of Bond Issue:	$180,970,000 Private Colleges and Universities Authority Revenue Bonds (The Savannah College of Art and Design Projects) Series 2014
Name of Borrower:	The Savannah College of Art and Design, Inc.
Date of Issuance:	October 1, 2014

NOTICE IS HEREBY GIVEN that The Savannah College of Art and Design, Inc. ("**SCAD**") has not provided [audited financial statements] [an Annual Report] with respect to the above-named Series 2014 Bonds as required by Section 3(a) of the Continuing Disclosure Certificate dated as of September 18, 2014 by SCAD. SCAD anticipates that the [audited financial statements] [Annual Report] will be filed by ______________.

Dated:__________________

THE SAVANNAH COLLEGE OF ART AND DESIGN, INC.

By:________________________________
Title:______________________________

EXHIBIT B

NOTICE OF THE OCCURRENCE
OF [INSERT THE LISTED EVENT]

Relating to

$180,970,000
PRIVATE COLLEGES AND UNIVERSITIES AUTHORITY REVENUE BONDS
(THE SAVANNAH COLLEGE OF ART AND DESIGN PROJECTS)
SERIES 2014

CUSIP NUMBER __________

NOTICE IS HEREBY GIVEN that [insert the Listed Event] has occurred. [Describe circumstances leading up to the event, action being taken and anticipated impact.]

This notice is based on the best information available at the time of dissemination and is not guaranteed as to accuracy or completeness. Any questions regarding this notice should be directed to [insert instructions for presenting securities, if applicable].

[Notice of the Listed Events described in Section 5(a)(ix) shall include the following:

> The Series 2014 Bonds have been defeased to [maturity/the first call date, which is __________]. This notice does not constitute a notice of redemption and no bonds should be delivered to The Savannah College of Art and Design, Inc. or the Trustee as a result of this mailing. A Notice of Redemption instructing you where to submit your bonds for payment will be mailed _______ to _______ days prior to the redemption date.]

Dated:_____________________

THE SAVANNAH COLLEGE OF ART AND DESIGN, INC.

(SEAL)

By:_________________________________
Title:________________________________

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APPENDIX E

CERTAIN ADDITIONAL INFORMATION WITH RESPECT TO THE SAVANNAH COLLEGE OF ART AND DESIGN, INC.

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- **What is the succession plan for Ms. Wallace and other members of the executive management team?**

  President Wallace signed a five year contract in July 2014. The board noted in the contract that the president is responsible for leading the process of identifying an appropriate successor to lead the institution. The board is actively engaged with the president in identifying the right person to lead the institution moving forward.

  SCAD continually draws talent from multiple sources, replenishing executive positions on an ongoing basis when needed. SCAD continually reassesses the need for positions relative to the needs of the institution at the time. Administration of SCAD is led by the president, who has been in the role since 2000, and previously served as the college's Provost and Dean of Academics. Most of the senior leadership team has been with the institution in varying roles for several years including the Senior VP for University Resources (17 years), Chief Academic Officer (12 years), VP for Strategy and Innovation (10 years), VP for Student Success (8 years), and the VP for Financial Growth (5 years). The most recent additions are the Senior VP for Public Relations and Marketing and Associate VP for University Resources, both of whom have been with the college for a two-year period.

- **Any plans to expand the board of trustees?**

  As detailed in the Official Statement, SCAD has nine Trustees with diverse, but relevant backgrounds. The institution recognizes the value a board brings in terms of development, external relations, and accomplished this objective using both a Board of Visitors and an Atlanta Advisory Council. As outlined in the Appendix A to the Official Statement, the Board of Visitors has approximately 40 members and the Atlanta Advisory council has approximately 28 individuals. These additional 68 individuals broaden the reach of the University in the community.

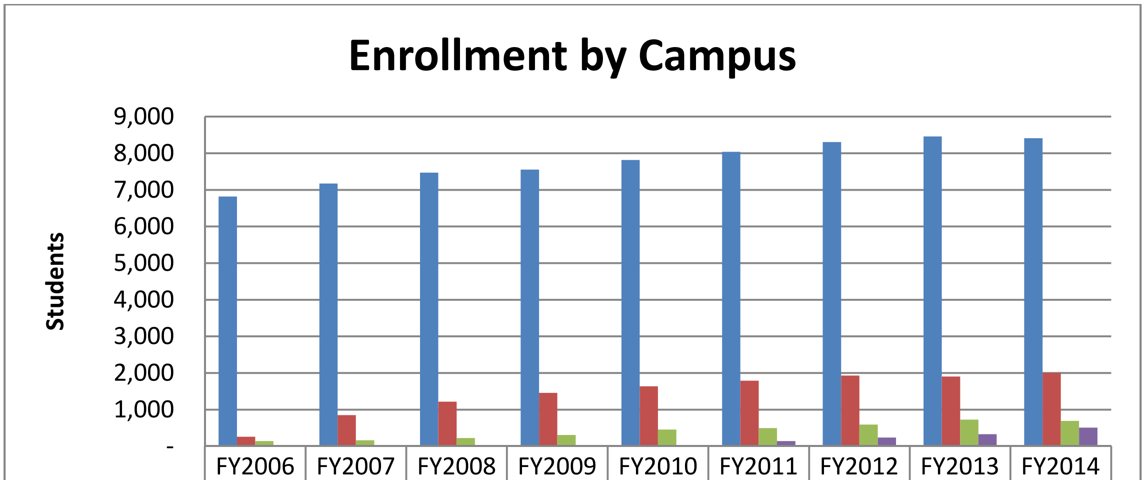
- **Fall 2014 headcount**

  The fall quarter commenced on September 15 and enrollment is again strong. As of September 16, 2014, fall enrollment is 12,034 compared to budgeted enrollment for the fall quarter is 11,786. Further, the strong enrollment is well above fall 2013 official enrollment of 11,618. The growth in student population is not a result of increased student aid; with the discount rate (financial aid as a percentage of gross tuition) anticipated to be approximately the same percentage as fall 2013.

  It will be three days before the official enrollment statistics are published, commonly referred to as the "drop / add" date, which is September 19, 2014. For context, SCAD lost 45 students from this date last year to the official drop / add date, and it is possible that the present enrollment level could be lower by the time of the drop / add date.

- **Enrollment by campus for the last five years**

  SCAD has experienced significant enrollment growth over the past nine years. The growth is attributable to new campuses and the expansion of the main Savannah campus.



	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Savannah	6,818	7,173	7,471	7,555	7,814	8,039	8,304	8,457	8,411
Atlanta	257	850	1,218	1,457	1,637	1,788	1,929	1,902	2,003
eLearning	139	162	226	307	455	493	593	726	694
Hong Kong	-	-	-	-	-	141	237	330	510

While not part of the chart above, the current fall 2014 (FY2015) enrollment compared to the previous year, fall 2013 (FY2014) by campus is outlined below. Please note that the number will not be official until the end of drop / add which will occur on September 19, 2014 as described above. Fiscal year 2014 data above may not be exactly comparable to Fall 2013 numbers below.

Location	Incoming/Returning	Fall 2014
Atlanta	Incoming Student	530
	Returning Student	1,552
Atlanta		**2,082**
eLearning	Incoming Student	194
	Returning Student	523
eLearning		**717**
Hong Kong	Incoming Student	149
	Returning Student	454
Hong Kong		**603**
Lacoste	Incoming Student	0
	Returning Student	58
Lacoste		**58**
Savannah	Incoming Student	2,494
	Returning Student	6,080
Savannah		**8,574**
Incoming Total:		**3,367**
Returning Total:		**8,667**
Summary		**12034**

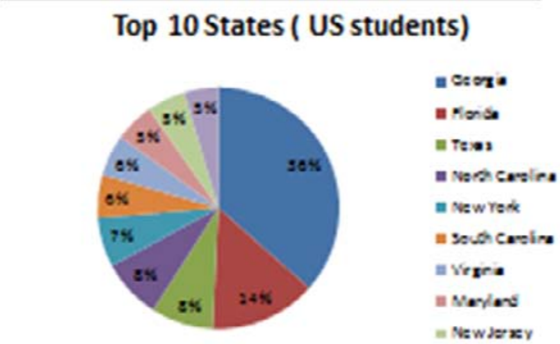
- **What has driven the positive enrollment trend, especially in fall 2010?**

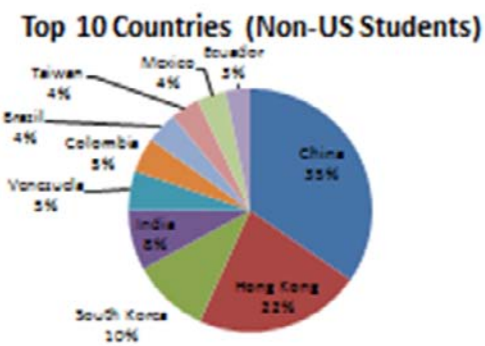
  As outlined in the Official Statement, SCAD's enrollment has consistently been increasing and growing. This growth is the result of a differentiated and unique student experience, the addition of new market-relevant degree offerings, and geographic expansion.

  The above average growth in the fall of 2010 reflects the fact that SCAD opened a new Asia campus that year in Hong Kong. This resulted in an associated first time incoming new class at that campus. The ongoing growth of the Hong Kong student body is noted in the footnote on page A-16 of the Official Statement

- **Geographically, where do the students come from?**

  SCAD is a national and international institution. As such it draws its students from a wide range of states and countries. The below tables provide information on where both US and International Students come from. Additional detail is provided in the)demographic table below.





- **Discuss online enrollment**

  SCAD has a footprint in the distance learning market, including for online only students. Online courses also support campuses students by providing supplemental courses. SCAD offers 18 Degree Programs on-line. Full time eLearning is a modest portion of SCADs enrollment, currently about 6%.

- **Who are key competitors? What is SCADs competitive advantage over its competitors?**

  The Official Statement lists five representative peer institutions. Differentiating factors between SCAD and its competitors include a high level of flexibility to add additional new and innovative fields of study, strong focus on job placement, ability for students to study at alternative and distinctive locations and course offerings aligned with market demands.

- **How much flexibility does SCAD have with tuition increases?**

  As noted in the comparative Tuition Data in the Official Statement, SCAD's Gross Tuition, Fees & Room & Board has been below that of many of its peers. In addition, recent increases in tuition, Fees & Room & Board have been below the rate of increase of many of its peers. While SCAD believes it has the market stature to substantially increase student charges, the institution has a culture of working to maintain affordability.

- **Moody's reported 93% acceptance rate vs 65% in Official Statement**

  As an art and design school, SCAD believes that there is a high degree of self-selection among its applicants. SCAD's focuses more closely on its matriculation rate and recent admission efforts targeted increasing the matriculation rate of its applicants. SCAD has been successful in these efforts as the matriculation rate has continued to grow from 21% in fiscal year 2010 to 32% in fiscal year 2014.

  Relating to acceptance rates, SCAD Reports its applicant, acceptance, and matriculation data to US Department of Education ("DOE") in accordance with DOE definitions which include all first-time degree-seeking freshman applicants who filled out an application form and paid the application fee. These applicants may not have completed all required additional documentation by the start of their intended quarter of study and so they are, by default, not admitted. SCAD Hong Kong numbers are excluded.

  Moody's reported acceptance rate of 93.8% includes only those applicants that fully completed the application process

- **Are unaudited FY14 financials available? If not, is SCAD's performance expected to be similar to FY13?**

  Complete unaudited consolidated financial statements as of June 30, 2014 are unavailable; however, as noted in the Official Statement, unaudited consolidated financial statements as of June 30, 2014 show similar strong operating results for SCAD to the prior year, with total assets of approximately $518.9 million, liabilities of approximately $209.2 million and total net assets of approximately $309.7 million, with an overall increase in net assets of approximately $58.2 million from positive operating activities, investment returns and donor contributions. Total unaudited unrestricted revenues and other support at June 30, 2014 were approximately $321.2 million and operating expenditures are approximately $263.7 million, resulting in a change in unrestricted net assets of approximately $57.5 million (all unaudited). As of June 30, 2014, cash and cash equivalents totaled $135.8 million and Investments totaled $36.5 million.

- **Any plans for a fundraising campaign?**

  SCAD remains operationally nimble to implement effective fundraising strategies such as capital campaigns. SCAD is rolling out naming opportunities for a recent acquisition, SCAD Show, where the development team will solicit seven figure donations for naming the non-bond financed building where *the show will be held. With the acquisition and redevelopment of the new non-bond financed facilities in the capital plan, there are several opportunities to roll out capital campaigns. While not a formal capital campaign, SCAD is actively soliciting for contributions for capital expenditures in the FY 2015 budget and received some interest from individuals and organizations to contribute towards the capital needs of the institution. SCAD's primary goal is building a robust fundraising team to maximize cash contributions and diversify revenue.*

In addition to potential capital campaigns, SCAD intends on connecting with donors on matching contributions towards the endowment. As noted in the capital plan, SCAD anticipates contributing $30 million annually towards the endowment so there will be several opportunities for prospective donors to contribute.

As identified in Appendix A to the Official Statement SCAD has not relied on its endowment or contributions to fund its operations and growth as only 2,000 of its 29,000 alumni across the world are 50 years or older. However, as SCAD matures, it is focused on growing its endowment and to diversify revenue through increased philanthropic support. To this end, the University has taken several steps to strengthen fundraising through its institutional advancement department. These include the recent hiring of a new, seasoned executive director of institutional advancement, Jonathan Frappier, as well as the hiring of four additional frontline fundraising and two grant writing positions to accomplish the goal of increasing contributed revenue. To more effectively take advantage of SCAD's multiple locations, the University relocated its core fundraising function to Atlanta where it can better capitalize on the myriad of corporations and foundations that operate in the area.

- **What are the estimated capital expenditures over the next five years and how are they likely to be funded? Cash or debt?**

  On August 29, 2014, SCAD acquired four previously leased student housing facilities from Urban Campus Environments, LLC ("UCE") for approximately $46.1 million. The UCE acquisition included three student residences in Savannah, GA and one in Atlanta, GA. SCAD funded the acquisition with cash. As noted in the Official Statement, bond proceeds will be used to refund approximately $32 million of the purchase price associated with two of these facilities – Barnard Village and Boundary Village.

  Further noted in the Official Statement, SCAD plans to use bond proceeds to acquire its main Atlanta Campus facility located at 1600 Peachtree Street for approximately $42.5 million. SCAD plans to execute an existing purchase option in March 2015. Additionally, Bond proceeds will be used to fund the redevelopment of SCAD's Weston and Dyson Residence Halls. The redevelopment plans are for 2,032 new student beds that will replace the existing 766 beds. The renovation of these facilities will be phased so that there will be no loss of bed count during redevelopment. The first phase is expected to be completed for fall, 2015 occupancy. All phases are anticipated to be completed prior to fall, 2018.

  SCAD also plans to redevelop its Spring House Atlanta Student Residence facility. The preliminary project budget is $32.5 million and will be funded with cash.

  SCAD estimates that ongoing annual maintenance capital expenditures will between $17 - $20 million and will be funded with operating cash flow consistent with prior years.

  SCAD does not have any additional material capital projects presently planned for the next five years, but management routinely assesses and reviews capital plans for potential institutional enhancing projects.

- **Tax issue in FY13 audit related to merger between SCAD and SCAD group – what is the tax liability? (Is the gain being offset by the net operating loss carry forward?)**

  Approximately 10 years ago, SCAD created a wholly owned for profit subsidiary, the SCAD Group LLC. The logic at the time was to create a vehicle by which SCAD might at a future time leverage the entity to participate in the for profit education market. This strategy was never pursued and the SCAD Group LLC was merged into SCAD and ceased to exist on June 30, 2013. There are no known residual liabilities or tax issues associated with the Group and this is reflected in the notes to the consolidated financial statements for the period.

- **Do the New Market Tax Credit investors have a right to payment before the Series 2014 bondholders?**

  The New Market Tax Credit Notes ("NMTCN") of SCAD Museum, LLC, in the total outstanding principal amount of $20 million, and which are guaranteed by SCAD, are secured by a deed of trust (the "Deed of Trust") granting a lien on and security interest in the real estate, building and fixtures consisting solely of the SCAD Museum of Art. No other assets or revenues or funds of SCAD are pledged to secure the NMTCN or SCAD's guarantee with respect to such notes.

  In the event of a bankruptcy of SCAD, a court in bankruptcy could subordinate the claims of the Series 2014 Bonds, the Loan Agreement and the Indenture to the claims of the NMTCN secured by the Deed of Trust. See the discussion under "CERTAIN BONDHOLDERS' RISKS - Bankruptcy" in the Official Statement for a further description of certain risks associated with a bankruptcy of SCAD."

PRIVATE COLLEGES AND UNIVERSITIES AUTHORITY • REVENUE BONDS (THE SAVANNAH COLLEGE OF ART AND DESIGN PROJECTS) SERIES 2014

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