

Interlochen Center for the Arts

*Financial Statements as of and for the
Years Ended May 31, 2006 and 2005,
Supplemental Schedules for the
Year Ended May 31, 2006, and
Independent Auditor's Report*

INTERLOCHEN CENTER FOR THE ARTS

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Plante & Moran, PLLC

Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Interlochen Center for the Arts

We have audited the accompanying statements of financial position of Interlochen Center for the Arts as of May 31, 2006 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Interlochen Center for the Arts as of May 31, 2005, before the restatement described in Note 1, were audited by other auditors, whose report dated September 9, 2005 expressed an unqualified opinion on those statements.

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

We have audited the adjustments described in Note 1 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Interlochen Center for the Arts at May 31, 2006 and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 27, 2006



A worldwide association of independent accounting firms

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF FINANCIAL POSITION

	<u>May 31, 2006</u>	<u>May 31, 2005</u>
ASSETS:		
Cash and cash equivalents	\$ 12,092,592	\$ 16,371,673
Restricted cash	1,554,123	2,973,580
Investments, at market value (Note 2)	47,545,917	36,551,309
Accounts receivable, net of allowance of \$405,000 in 2006 and \$312,000 in 2005	29,530	20,588
Gifts receivable (Note 3)	4,526,389	2,144,805
Due from other funds	960,516	
Prepaid expenses and other	437,439	510,325
Inventories	1,153,847	1,137,268
Land, buildings, and equipment, net (Note 4)	36,473,585	30,673,887
Other assets	803,286	368,726
TOTAL	<u>\$ 105,577,224</u>	<u>\$ 90,752,161</u>
LIABILITIES:		
Accounts payable—trade	\$ 502,727	\$ 488,666
Accounts payable—construction in progress	925,551	251,097
Accrued liabilities	2,310,396	2,534,875
Due to other funds	960,516	
Tuition deposits and other	7,261,126	5,912,884
Annuities payable	254,569	265,024
Bonds payable (Note 5)	26,300,000	26,300,000
Total liabilities	38,514,885	35,752,546
NET ASSETS:		
Unrestricted	41,209,151	32,387,345
Temporarily restricted	8,293,409	6,677,008
Permanently restricted	17,559,779	15,935,262
Total net assets	<u>67,062,339</u>	<u>54,999,615</u>
TOTAL	<u>\$ 105,577,224</u>	<u>\$ 90,752,161</u>

See Notes to Financial Statements.

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended							
	May 31, 2006				May 31, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS:								
Gross tuition and student fees	\$ 23,633,300	\$ -	\$ -	\$ 23,633,300	\$ 24,013,715	\$ -	\$ -	\$ 24,013,715
Assets released from restrictions—operating item— financial aid	2,452,425	(2,452,425)			2,314,662	(2,314,662)		
Less financial aid grants	<u>(5,700,979)</u>			<u>(5,700,979)</u>	<u>(6,003,630)</u>			<u>(6,003,630)</u>
Net tuition and student fees	20,384,746	(2,452,425)	-	17,932,321	20,324,747	(2,314,662)		18,010,085
Ticket sales	1,884,003			1,884,003	1,661,671			1,661,671
Lodging	860,010			860,010	925,123			925,123
Retail sales	1,681,415	3,222		1,684,637	1,740,626	4,628		1,745,254
Contributions and grants	3,083,131	6,410,048	1,690,809	11,183,988	3,464,535	4,915,179	1,255,193	9,634,907
Net appreciation of investments	2,707,578	2,323,951		5,031,529	1,957,298	1,509,678		3,466,976
Assets released from restrictions—operating item— cost of operations and general and administrative	547,257	(547,257)			241,231	(241,231)		
Other revenues	<u>2,164,626</u>	<u>136,505</u>		<u>2,301,131</u>	<u>551,477</u>			<u>551,477</u>
Total revenues and other additions	33,312,766	5,874,044	1,690,809	40,877,619	30,866,708	3,873,592	1,255,193	35,995,493
COST OF GOODS AND SERVICES:								
Artist fees	1,276,433			1,276,433	1,455,690			1,455,690
Cost of goods sold	<u>811,840</u>			<u>811,840</u>	<u>882,998</u>			<u>882,998</u>
Total cost of goods and services	2,088,273			2,088,273	2,338,688			2,338,688
COST OF OPERATIONS:								
Salaries, wages, and benefits	16,926,489			16,926,489	16,740,982			16,740,982
Food costs	802,799			802,799	925,540			925,540
Contracted services	607,976			607,976	967,306			967,306
Supplies	1,012,110			1,012,110	1,106,048			1,106,048
Repairs and maintenance	440,968			440,968	473,534			473,534
Lease and rental	142,994			142,994	116,195			116,195
Utilities	850,829			850,829	735,064			735,064
Insurance	374,374			374,374	346,343			346,343
Telephone and postage	379,057			379,057	395,260			395,260
Other operational	<u>320,554</u>			<u>320,554</u>	<u>193,422</u>			<u>193,422</u>
Total cost of operations	21,858,150			21,858,150	21,999,694			21,999,694
GENERAL AND ADMINISTRATIVE:								
Marketing	685,970			685,970	495,027			495,027
Travel and entertainment	571,499			571,499	493,758			493,758
Professional services	713,572			713,572	415,686			415,686
Interest	759,571			759,571	598,834			598,834
Other	341,261			341,261	131,884			131,884
Total general and administrative	<u>3,071,873</u>			<u>3,071,873</u>	<u>2,135,189</u>			<u>2,135,189</u>
Total expenses before depreciation	<u>27,018,296</u>			<u>27,018,296</u>	<u>26,473,571</u>			<u>26,473,571</u>

See Notes to Financial Statements.

(Continued)

	Year Ended							
	May 31, 2006				May 31, 2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
INCREASE IN NET ASSETS BEFORE DEPRECIATION	\$ 6,294,470	\$ 5,874,044	\$ 1,690,809	\$13,859,323	\$ 4,393,137	\$ 3,873,592	\$ 1,255,193	\$ 9,521,922
DEPRECIATION EXPENSE	<u>1,796,599</u>			<u>1,796,599</u>	<u>1,758,028</u>			<u>1,758,028</u>
NET INCREASE IN NET ASSETS	4,497,871	5,874,044	1,690,809	12,062,724	2,635,109	3,873,592	1,255,193	7,763,894
ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS— Nonoperating items—capital and other	<u>4,323,935</u>	<u>(4,257,643)</u>	<u>(66,292)</u>		<u>2,539,241</u>	<u>(2,539,241)</u>		
NET INCREASE IN NET ASSETS	8,821,806	1,616,401	1,624,517	12,062,724	5,174,350	1,334,351	1,255,193	7,763,894
NET ASSETS—Beginning of year, as restated	<u>32,387,345</u>	<u>6,677,008</u>	<u>15,935,262</u>	<u>54,999,615</u>	<u>27,212,995</u>	<u>5,342,657</u>	<u>14,680,069</u>	<u>47,235,721</u>
NET ASSETS—End of year	<u>\$41,209,151</u>	<u>\$ 8,293,409</u>	<u>\$ 17,559,779</u>	<u>\$67,062,339</u>	<u>\$ 32,387,345</u>	<u>\$ 6,677,008</u>	<u>\$15,935,262</u>	<u>\$54,999,615</u>

See Notes to Financial Statements.

(Concluded)

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF CASH FLOWS

	Year Ended	
	May 31, 2006	May 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets	\$ 12,062,724	\$ 7,763,894
Adjustments to reconcile net increase in net assets to net cash from operating activities:		
Loss on disposal of assets	27,859	1,094
Depreciation and amortization	1,807,314	1,775,886
Net change in realized and unrealized gain on investments	(4,090,117)	(2,560,296)
Increase in gifts and accounts receivables	(2,390,526)	(965,367)
Increase in inventories	(16,579)	(127,017)
Decrease in prepaid expenses and other	72,886	47,179
Increase in other assets	(445,275)	(66,929)
Increase in accounts payable	688,515	205,696
Decrease in accrued liabilities	(224,479)	(165,868)
Increase in tuition deposits and other	1,348,242	74,318
Restricted contributions	<u>(7,123,833)</u>	<u>(6,170,372)</u>
Net cash provided by (used in) operating activities	1,716,731	(187,782)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(7,624,156)	(3,807,393)
Decrease (increase) in restricted cash	1,419,457	(2,973,580)
Purchases of investments	<u>(6,904,491)</u>	<u>(667,432)</u>
Net cash used in investing activities	(13,109,190)	(7,448,405)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions	7,123,833	6,170,372
Payments on note payable		(2,850,000)
Proceeds from bond issuance		26,300,000
Payments on bond payable		(16,100,000)
Payments of bond issuance costs		(319,655)
Proceeds from contributions of annuity agreements	28,807	56,523
Payments on annuity agreements	<u>(39,262)</u>	<u>(39,262)</u>
Net cash provided by financing activities	<u>7,113,378</u>	<u>13,217,978</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,279,081)	5,581,791
CASH AND CASH EQUIVALENTS—Beginning of year	<u>16,371,673</u>	<u>10,789,882</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 12,092,592</u>	<u>\$ 16,371,673</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Interest paid during the year		
	<u>\$ 758,831</u>	<u>\$ 598,834</u>

NON-CASH ACTIVITIES—construction in progress includes \$925,551 and \$251,097 of assets which were included in accounts payable at May 31, 2006 and 2005, respectively.

See Notes to Financial Statements.

INTERLOCHEN CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED MAY 31, 2006 AND 2005

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose—Interlochen Center for the Arts (the “Center”) is a nonprofit organization which operates a summer arts education camp with enrollment of approximately 2,000 students, a co-educational boarding school with enrollment of approximately 450 students, and two 24-hour listener-supported public radio stations (classic music and news). Instruction is geared for the advancement of dance, music, visual arts, theatre, motion picture arts and creative writing. The Center also operates Interlochen Pathfinder School, a day school for pre-school through 8th grade, with enrollment of approximately 130 students, and a Pathfinder summer camp with enrollment of approximately 400 students.

Basis of Presentation—The Center prepares its financial statements in accordance with the accounting principles outlined in the American Institute of Certified Public Accountants’ *Audit and Accounting Guide for Not-for-Profit Organizations* and Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*.

Fund Classifications—The accounts of the Center are summarized for financial reporting purposes into the following fund groups:

Unrestricted Net Assets—Unrestricted net assets are used to account for transactions related to the fine arts and academic programs as determined by the board of trustees and carried out by the administration.

Temporarily Restricted Net Assets—Temporarily restricted net assets are used to account for transactions related to scholarships, donor restricted contributions related to fine arts and academic programs, endowment contributions whereby only the income thereon can be expended as stipulated by the donor, contributions and grants that are unexpended related to land, building, and equipment, and funds held on a custodial basis for parent organizations and alumni.

Endowment Funds—Endowment funds result from contributed assets which have donor-imposed restrictions which do not expire. Annually, the Center allocates as investment income an amount equal to 5.0% of the average market value of endowment fund assets for the three preceding years to unrestricted and temporarily restricted funds. The Center has lowered the rate to 4.9% for the fiscal year ending May 31, 2007.

- Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. 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. 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 between the applicable classes of net assets.
- Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

INTERLOCHEN CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2006 AND 2005

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, money market funds, and short-term investments with original maturities of three months or less.

Investments—Under SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the Center records all investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Gains or losses on investments are reported in the statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations, by law or Board designation.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts recorded.

Accounts Receivable—The Center records accounts receivable at net collectible value. Management reviews all the individual student accounts receivable as of May 31, and establishes an allowance for doubtful accounts based on specific assessment of each account as necessary. All amounts deemed uncollectible are charged against income for that school year. The allowance for doubtful accounts was \$405,000 and \$312,000 at May 31, 2006 and 2005, respectively.

Inventories—Inventories of maintenance and operating supplies and merchandise are stated on the basis of the lower of cost (first-in, first-out method) or market.

Land, Buildings, and Equipment—Land, buildings, and equipment are recorded at cost or, if donated, at market value at the date of donation and, excluding land, are depreciated over their estimated useful lives using the straight-line depreciation method. Estimated useful lives used for depreciation are 20 years for land improvements, 20–45 years for buildings, and 3–20 years for furniture and equipment. Costs of construction in progress are transferred to the applicable property and equipment category once the construction is complete.

Other Assets—Other assets include deferred financing costs of \$300,011 and \$310,726 as of May 31, 2006 and 2005, respectively, which are being straight-line amortized over the life of the Center's Variable Rate Demand Revenue and Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"). Amortization expense was \$10,715 and \$8,929 as of May 31, 2006 and 2005, respectively. Other assets include a \$58,000 deposit that was recorded related to the purchase of FM Station WDQV, 88.5 MHz, Mackinaw City, Michigan (the "Station") as of May 31, 2005 and a broadcasting license of \$496,900 as of May 31, 2006 related to the Center's purchase of the Station. In accordance with Financial Accounting Standards Board ("FASB") Statement No. 142, *Goodwill and Other Intangible Assets*, the broadcasting license has an indefinite useful life. The Center tests the broadcasting license for impairment annually or more frequently if events or changes in circumstances indicate a possibility of impairment.

Tuition Deposits and Other—All tuition deposits relating to the summer arts and education camp were deferred at May 31, 2006 and 2005.

INTERLOCHEN CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2006 AND 2005

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contribution and Grants and Gifts Receivable—Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in the net assets as net assets released from restrictions. Unrestricted contributions and donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Revenue Recognition—Tuition and student fees and other revenue are recognized ratably over the applicable enrollment period or as earned.

Income Tax Status—The Center is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Center is subject to unrelated business income tax.

Fair Value of Financial Instruments—Financial instruments, such as cash, restricted cash, investments, gifts receivable, accounts payable, accrued liabilities, tuition deposits, and bonds payable, are recorded at amounts that approximate the fair value of such instruments.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications—Certain reclassifications have been made to the 2005 comparative amounts to conform to the 2006 presentation.

Restricted Cash—Restricted cash represents funds held in trust under the terms of the Center's Series 2004 Bonds indenture. Such assets are principally invested in money market funds.

Recently Issued Accounting Standards—In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. The new pronouncement provides guidance in recognizing the cost to retire certain assets, including buildings containing asbestos.

The Center has asbestos-containing materials in a number of its buildings. At May 31, 2006, a liability has not been recognized because the fair value cannot be reasonably estimated due to insufficient information available related to when and at what cost the Center plans to remove the asbestos. The Center will recognize a liability in the period in which sufficient information is available to reasonably estimate the fair value of the removal cost.

INTERLOCHEN CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED MAY 31, 2006 AND 2005

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior Period Adjustment—The accompanying financial statements have been restated to correct earnings, net of program expenditures, reported in the Endowment Fund in prior years that should have been reported in the Temporarily Restricted Scholarship Fund. Assets released from restrictions were reduced by \$725,986, investment income was increased in the Unrestricted Designated Fund and decreased in the Endowment Fund by \$1,314,421, and an additional \$1,169,028 was reclassified related to prior year activity for the year ended May 31, 2005. The effect of the restatement was to decrease permanently restricted net assets and to increase temporarily restricted net assets as of June 1, 2004 by \$1,757,463. The accompanying supplemental schedule includes a restatement to correct assets released from restrictions supported in the Unrestricted Designated Fund and Unrestricted Operating Fund for the year ended May 31, 2005 due to a misclassification of an expense. Net assets as of June 1, 2005 were increased in the Unrestricted Designated Fund and reduced in the Unrestricted Operating Fund by \$351,346.

2. INVESTMENTS

A summary of investments at market value, based on quoted market prices, held by the Center as of May 31, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Mutual funds:		
Corporate bonds	\$ 9,967,832	\$ 9,263,498
Equity securities	34,502,753	26,923,392
Other	<u>3,075,332</u>	<u>364,419</u>
Total investments	<u>\$ 47,545,917</u>	<u>\$ 36,551,309</u>

Net appreciation of investments of \$5,031,529 in 2006 represents \$941,412 of interest and dividends, \$823,454 of net realized gains on investments, and \$3,266,663 of net unrealized gains on investments. Net appreciation of investments of \$3,466,976 in 2005 represents \$906,680 of interest and dividends, \$698,760 of net realized gains on investments, and \$1,861,536 of net unrealized gains on investments. No significant investments with unrealized losses have been in a continuous loss position for 12 months or longer.

INTERLOCHEN CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2006 AND 2005

3. GIFTS RECEIVABLE

The Center has received unconditional promises from donors to make contributions to the Center. The contributions as of May 31, 2006 and 2005 are to be received as follows:

	<u>2006</u>	<u>2005</u>
Receivable in less than one year	\$ 1,837,600	\$ 1,085,700
Receivable in one to five years	2,930,000	1,177,596
Receivable in more than five years	75,000	
Less present value discount	<u>(316,211)</u>	<u>(118,491)</u>
Net contribution receivable	<u>\$ 4,526,389</u>	<u>\$ 2,144,805</u>

The Center had no allowance for uncollectible promises receivable as of May 31, 2006 and 2005.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of May 31, 2006 and 2005 are summarized by major classification as follows:

	<u>2006</u>	<u>2005</u>
Land	\$ 2,486,693	\$ 2,487,914
Land improvements	2,921,995	2,919,896
Buildings	37,894,807	32,132,647
Furniture and equipment	16,607,667	15,231,940
Construction in progress	<u>3,043,749</u>	<u>2,655,122</u>
	62,954,911	55,427,519
Less accumulated depreciation	<u>(26,481,326)</u>	<u>(24,753,632)</u>
Net land, buildings, and equipment	<u>\$ 36,473,585</u>	<u>\$ 30,673,887</u>

Construction in progress at May 31, 2006 represents the construction of The Aaron and Helen L. DeRoy Center for Film Studies, a new visual arts building, and a pavilion. As of May 31, 2006, the estimated amount to complete all projects is approximately \$1,966,000.

INTERLOCHEN CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2006 AND 2005

5. BONDS PAYABLE

Bonds payable at May 31, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Tax-exempt, Economic Development Bonds issued through the Township of Green Lake, Michigan; interest at a variable rate (between 2.00% and 3.78% during 2006) with final maturity June 2034	\$ 26,300,000	\$ 26,300,000

Effective August 11, 2004, the Center repaid its outstanding \$16,100,000 Variable Rate Demand Revenue Bonds, Series 1997 and \$2,850,000 note payable with proceeds from the issuance of the \$26,300,000 Series 2004 Bonds.

In February 2002, an interest rate cap of 5% was purchased relating to \$8,000,000 of tax-exempt bonds with an expiration date of February 2005. This cap extends to February 2006 for \$4,000,000 of the tax-exempt bonds. In April 2005, a second interest rate cap of 4% was purchased relating to an additional \$11,000,000 of tax-exempt bonds which increases to \$15,000,000 of tax-exempt bonds in March 2006. This cap expires in May 2009. The fair value of the Center's interest rate cap contracts was an asset of approximately \$60,000 and \$62,000 at May 31, 2006 and 2005, respectively.

The Series 2004 Bonds agreement is backed by a letter of credit which expires in August 2009. The agreement contains certain financial covenants, a liquidity, and leverage ratio.

6. RETIREMENT PLAN

The Center has a defined contribution retirement plan for all eligible employees. Employer contributions are based upon a percentage of employee compensation for the year, and costs accrued under the plan are funded to a trust on a current basis. Expenses under the plan for the years ended May 31, 2006 and 2005 were \$941,045 and \$1,088,014, respectively, net of forfeitures.

INTERLOCHEN CENTER FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2006 AND 2005

7. FUNCTIONAL EXPENSES

The Center's department classification is the basis for allocating costs among the functional classifications. The method used is considered reasonable; however, other methods could produce different results.

Expenses incurred in functional areas for the years ended May 31, 2006 and 2005 include allocations of certain common expenses and are as follows:

	<u>2006</u>	<u>2005</u>
Program Expenses:		
Education Programs and Services	\$ 8,890,724	\$ 8,825,669
Media, Presentation, and Regional Program	2,705,540	2,927,870
Human and Institutional Resources	8,529,004	8,605,565
Finance and Institutional Effectiveness	2,318,748	2,365,118
Supporting Services:		
Fundraising - Office for Advancement	1,938,253	1,744,333
Administration	<u>2,636,027</u>	<u>2,005,016</u>
Total	<u>\$ 27,018,296</u>	<u>\$ 26,473,571</u>

8. COMMITMENTS AND CONTINGENCIES

From time to time, the Center is party to various lawsuits and claims arising out of the normal conduct of its business. In the opinion of management, the financial position of the Center will not be materially affected by the final outcome of these legal proceedings.

9. ANNUITIES PAYABLE

The Center sponsors a program in which donors may transfer assets to the Center for the right to receive a predetermined return during their lifetimes (an annuity). Based upon the terms of each annuity agreement, the Center determines its liability under the agreement using the estimated present value of future payments to the annuitant. Such future payments are determined utilizing the life expectancy of the annuitant (based on 90CM Table for Males & Females) and the interest rate (discount rate), the applicable federal mid-term rate for U.S. Treasury Bills, in effect (5.8% at May 31, 2006). The Center records the proceeds received in excess of the annuity payable as a charitable contribution, and such amounts totaled \$0 and \$22,922 for the years ended May 31, 2006 and 2005, respectively. At May 31, 2006 and 2005, the Center recorded \$254,569 and \$265,024, respectively, in annuities payable relating to such program.

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**SUPPLEMENTAL SCHEDULES OF
SELECTED FINANCIAL DATA**



Plante & Moran, PLLC

Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

To the Board of Trustees
Interlochen Center for the Arts

We have audited the financial statements of Interlochen Center for the Arts as of May 31, 2006. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Statement of Position Allocated by Fund and Schedule of Activities - Cost of Operations and General and Administrative Expenses Allocated by Fund are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

June 27, 2006



A worldwide association of independent accounting firms

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF FINANCIAL POSITION ALLOCATED BY FUND

	Unrestricted			Temporarily Restricted				Permanently Restricted	May 31, 2006
	Operating Funds	Designated Funds	Total Unrestricted	Scholarship Funds	General Funds	Plant Funds	Agency Funds	Endowment Funds	
ASSETS:									
Cash and cash equivalents	\$ 4,197,983	\$ 4,443,665	\$ 8,641,648	\$ 723,598	\$ 101,234	\$ -	\$ 19,862	\$ 2,606,250	\$ 12,092,592
Restricted cash	1,554,123		1,554,123						1,554,123
Investments, at market value	2,373,404	25,419,347	27,792,751	4,152,756	579,068		113,610	14,907,732	47,545,917
Accounts receivable, net of allowance of \$405,000 in 2006 and \$312,000 in 2005	29,530		29,530						29,530
Gifts receivable		783,323	783,323	83,906		3,613,363		45,797	4,526,389
Due from other funds		960,516	960,516						960,516
Prepaid expenses and other	437,439		437,439						437,439
Inventories	1,153,847		1,153,847						1,153,847
Land, buildings, and equipment, net	36,473,585		36,473,585						36,473,585
Other assets	803,286		803,286						803,286
TOTAL	\$ 47,023,197	\$ 31,606,851	\$ 78,630,048	\$ 4,960,260	\$ 680,302	\$ 3,613,363	\$ 133,472	\$ 17,559,779	\$ 105,577,224
LIABILITIES:									
Accounts payable—trade	\$ 502,727	\$ -	\$ 502,727	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 502,727
Accounts payable—construction in progress	925,551		925,551						925,551
Accrued liabilities	2,176,924		2,176,924				133,472		2,310,396
Due to other funds						960,516			960,516
Tuition deposits and other	7,261,126		7,261,126						7,261,126
Annuities payable	254,569		254,569						254,569
Bonds payable	26,300,000		26,300,000						26,300,000
Total liabilities	37,420,897	-	37,420,897	-	-	960,516	133,472	-	38,514,885
NET ASSETS:									
Unrestricted	9,602,300	31,606,851	41,209,151						41,209,151
Temporarily restricted				4,960,260	680,302	2,652,847			8,293,409
Permanently restricted								17,559,779	17,559,779
Total net assets	9,602,300	31,606,851	41,209,151	4,960,260	680,302	2,652,847	-	17,559,779	67,062,339
TOTAL	\$ 47,023,197	\$ 31,606,851	\$ 78,630,048	\$ 4,960,260	\$ 680,302	\$ 3,613,363	\$ 133,472	\$ 17,559,779	\$ 105,577,224

INTERLOCHEN CENTER FOR THE ARTS

SUPPLEMENTAL SCHEDULE OF ACTIVITIES—COST OF OPERATIONS AND GENERAL AND ADMINISTRATIVE EXPENSES ALLOCATED BY FUND

	Unrestricted		Total Unrestricted	Temporarily Restricted			Permanently Restricted	May 31, 2006 Total
	Operating Funds	Designated Funds		Scholarship Funds	General Funds	Plant Funds	Endowment Funds	
REVENUES AND OTHER ADDITIONS:								
Gross tuition and student fees	\$ 23,633,300	\$	\$ 23,633,300	\$ -	\$ -	\$ -	\$ -	\$ 23,633,300
Assets release from restrictions—operating item— financial aid	2,476,905	(24,480)	2,452,425	(2,443,159)	(9,266)			
Less financial aid grants	(5,700,979)		(5,700,979)					(5,700,979)
Net tuition and student fees	20,409,226	(24,480)	20,384,746	(2,443,159)	(9,266)	-	-	17,932,321
Ticket sales	1,884,003		1,884,003					1,884,003
Lodging	860,010		860,010					860,010
Retail sales	1,681,415		1,681,415		3,222			1,684,637
Contributions and grants	1,207,043	1,876,088	3,083,131	2,697,089	854,557	2,858,402	1,690,809	11,183,988
Net appreciation of investments		2,707,578	2,707,578	1,894,539	132,991	296,421		5,031,529
Endowment allocation	401,197		401,197	(401,197)				
Other revenues	790,103	1,374,523	2,164,626	136,505				2,301,131
Total revenues and other additions	27,232,997	5,933,709	33,166,706	1,883,777	981,504	3,154,823	1,690,809	40,877,619
COST OF GOODS AND SERVICES:								
Artist fees	1,240,975		1,240,975		35,458			1,276,433
Cost of goods sold	811,840		811,840					811,840
Total cost of goods and services	2,052,815		2,052,815		35,458			2,088,273
COST OF OPERATIONS:								
Salaries, wages and benefits	16,739,192	8,400	16,747,592		139,605	39,292		16,926,489
Food costs	802,183	116	802,299		500			802,799
Contracted services	586,709	9,885	596,594		11,382			607,976
Supplies	913,691	4,625	918,316		41,299	52,495		1,012,110
Repairs and maintenance	434,143	4,058	438,201		2,667	100		440,968
Leases and rents	124,575		124,575		18,110	309		142,994
Utilities	850,829		850,829					850,829
Insurance	374,374		374,374					374,374
Telephone and postage	379,147		379,147		(90)			379,057
Other operational	72,550	247,498	320,048		506			320,554
Total cost of operations	21,277,393	274,582	21,551,975		213,979	92,196		21,858,150
GENERAL AND ADMINISTRATIVE:								
Marketing	676,840		676,840		9,130			685,970
Travel and entertainment	457,190	2,796	459,986		111,513			571,499
Professional services	347,643	365,929	713,572					713,572
Interest	740	758,831	759,571					759,571
Other	227,602	28,679	256,281		84,427	553		341,261
Total general and administrative	1,710,015	1,156,235	2,866,250		205,070	553		3,071,873
Total expenses before depreciation and board-designated expenditures	25,040,223	1,430,817	26,471,040	454,507	92,749			27,018,296

INTERLOCHEN CENTER FOR THE ARTS

SUPPLEMENTAL SCHEDULE OF ACTIVITIES—COST OF OPERATIONS AND GENERAL AND ADMINISTRATIVE EXPENSES ALLOCATED BY FUND

	Unrestricted		Total Unrestricted	Temporarily Restricted			Permanently Restricted	May 31, 2006 Total
	Operating Funds	Designated Funds		Scholarship Funds	General Funds	Plant Funds	Endowment Funds	
INCREASE IN NET ASSETS BEFORE DEPRECIATION, DISPOSAL OF ASSETS AND BOARD-DESIGNATED EXPENDITURES	\$ 2,192,774	\$ 4,502,892	\$ 6,695,666	\$ 1,883,777	\$ 526,997	\$3,062,074	\$ 1,690,809	\$ 13,859,323
ASSETS RELEASED FROM RESTRICTIONS— Operating item—other	(150,252)		(150,252)	140,986		9,266		
BOARD-DESIGNATED EXPENDITURES	<u>362,008</u>	<u>(362,008)</u>						
INCREASE IN NET ASSETS BEFORE DEPRECIATION	1,680,514	4,864,900	6,545,414	2,024,763	526,997	3,071,340	1,690,809	13,859,323
DEPRECIATION EXPENSE	<u>1,796,599</u>		<u>1,796,599</u>					<u>1,796,599</u>
NET (DECREASE) INCREASE IN NET ASSETS	(116,085)	4,864,900	4,748,815	2,024,763	526,997	3,071,340	1,690,809	12,062,724
ASSETS RELEASED FROM RESTRICTIONS/ TRANSFERS— Nonoperating items—capital and other	<u>3,065,495</u>	<u>1,007,496</u>	<u>4,072,991</u>	<u>47,556</u>	<u>(905,989)</u>	<u>(3,148,266)</u>	<u>(66,292)</u>	
NET (DECREASE) INCREASE IN NET ASSETS	2,949,410	5,872,396	8,821,806	2,072,319	(378,992)	(76,926)	1,624,517	12,062,724
NET ASSETS—Beginning of year, as restated	<u>6,652,890</u>	<u>25,734,455</u>	<u>32,387,345</u>	<u>2,887,941</u>	<u>1,059,294</u>	<u>2,729,773</u>	<u>15,935,262</u>	<u>54,999,615</u>
NET ASSETS—End of year	<u>\$ 9,602,300</u>	<u>\$ 31,606,851</u>	<u>\$ 41,209,151</u>	<u>\$ 4,960,260</u>	<u>\$ 680,302</u>	<u>\$2,652,847</u>	<u>\$17,559,779</u>	<u>\$ 67,062,339</u>