

# *Interlochen Center for the Arts*

*Financial Statements as of and for the  
Years Ended May 31, 2008 and 2007,  
Supplemental Schedules for the  
Year Ended May 31, 2008, and  
Independent Auditor's Report*

# INTERLOCHEN CENTER FOR THE ARTS

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2008 AND 2007:	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3-4
Statement of Cash Flows	5
Notes to Financial Statements	6-12
SUPPLEMENTAL SCHEDULES FOR THE YEAR ENDED MAY 31, 2008	13
REPORT LETTER	14
Statement of Financial Position Allocated by Fund	15
Schedule of Activities - Cost of Operations and General and Administrative Expenses Allocated by Fund	16-17



**Plante & Moran, PLLC**

Suite 300

600 E. Front St.

Traverse City, MI 49686

Tel: 231.947.7800

Fax: 231.947.0348

plantemoran.com

## Independent Auditor's Report

To the Board of Trustees  
Interlochen Center for the Arts

We have audited the accompanying statement of financial position of Interlochen Center for the Arts as of May 31, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years 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 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interlochen Center for the Arts at May 31, 2008 and 2007 and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

June 30, 2008

# INTERLOCHEN CENTER FOR THE ARTS

## STATEMENT OF FINANCIAL POSITION

---

	<u>May 31, 2008</u>	<u>May 31, 2007</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 11,417,280	\$ 11,579,986
Investments, at market value (Note 2)	64,246,956	59,428,269
Accounts receivable, net of allowance of \$556,000 in 2008 and \$493,000 in 2007	147,380	39,793
Gifts receivable (Note 3)	2,546,847	2,384,384
Prepaid expenses and other receivables	467,503	338,515
Inventories	1,216,068	1,242,955
Land, buildings, and equipment, net (Note 4)	39,687,435	38,421,329
Other assets	<u>1,338,897</u>	<u>825,083</u>
<b>TOTAL</b>	<u>\$ 121,068,366</u>	<u>\$ 114,260,314</u>
<b>LIABILITIES:</b>		
Accounts payable—trade	\$ 448,240	\$ 369,257
Accounts payable—construction in progress	675,784	140,597
Accrued liabilities	2,302,153	2,732,816
Tuition deposits and other	8,243,649	8,037,280
Annuities payable (Note 9)	621,494	329,309
Bonds payable (Note 5)	<u>26,300,000</u>	<u>26,300,000</u>
Total liabilities	38,591,320	37,909,259
<b>NET ASSETS:</b>		
Unrestricted	52,716,757	48,594,106
Temporarily restricted	9,215,396	8,753,632
Permanently restricted	<u>20,544,893</u>	<u>19,003,317</u>
Total net assets	<u>82,477,046</u>	<u>76,351,055</u>
<b>TOTAL</b>	<u>\$ 121,068,366</u>	<u>\$ 114,260,314</u>

See Notes to Financial Statements.

# INTERLOCHEN CENTER FOR THE ARTS

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended							
	May 31, 2008				May 31, 2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER ADDITIONS:</b>								
Gross tuition and student fees	\$ 26,299,405	\$ -	\$ -	\$ 26,299,405	\$ 25,274,535	\$ -	\$ -	\$ 25,274,535
Assets released from restrictions—operating item— financial aid	3,340,157	(3,340,157)			2,598,901	(2,598,901)		
Less financial aid grants	(6,557,480)			(6,557,480)	(6,528,953)			(6,528,953)
Net tuition and student fees	23,082,082	(3,340,157)	-	19,741,925	21,344,483	(2,598,901)	-	18,745,582
Ticket sales	1,905,679			1,905,679	1,676,631			1,676,631
Lodging	927,970			927,970	894,309			894,309
Retail sales	1,788,752			1,788,752	1,560,610	92		1,560,702
Contributions and grants	5,861,861	5,154,461	1,564,692	12,581,014	1,908,483	3,123,722	1,352,541	6,384,746
Net (loss) appreciation of investments	(449,520)	(409,413)		(858,933)	5,111,419	3,587,722		8,699,141
Assets released from restrictions—operating item— cost of operations and general and administrative	440,837	(418,219)	(22,618)		510,255	(510,255)		
Other revenues	1,369,447	204,907		1,574,354	1,313,372	64,995		1,378,367
Total revenues and other additions	34,927,108	1,191,579	1,542,074	37,660,761	34,319,562	3,667,375	1,352,541	39,339,478
<b>COST OF GOODS AND SERVICES:</b>								
Artist fees	1,280,967			1,280,967	1,129,661			1,129,661
Cost of goods sold	1,082,091			1,082,091	815,872			815,872
Total cost of goods and services	2,363,058			2,363,058	1,945,533			1,945,533
<b>COST OF OPERATIONS:</b>								
Salaries, wages, and benefits	18,271,541			18,271,541	17,629,796			17,629,796
Food costs	903,045			903,045	843,350			843,350
Contracted services	1,031,069			1,031,069	758,128			758,128
Supplies	1,489,759			1,489,759	1,278,382			1,278,382
Repairs and maintenance	639,272			639,272	572,248			572,248
Lease and rental	172,376			172,376	190,341			190,341
Utilities	854,933			854,933	828,891			828,891
Insurance	239,301			239,301	298,673			298,673
Telephone and postage	377,692			377,692	442,863			442,863
Other operational	219,845			219,845	239,260			239,260
Total cost of operations	24,198,833			24,198,833	23,081,932			23,081,932
<b>GENERAL AND ADMINISTRATIVE:</b>								
Marketing	594,730			594,730	750,987			750,987
Travel and entertainment	699,260			699,260	645,320			645,320
Professional services	465,150			465,150	431,755			431,755
Interest	813,055			813,055	958,184			958,184
Other	311,219			311,219	238,037			238,037
Total general and administrative	2,883,414			2,883,414	3,024,283			3,024,283
Total expenses before depreciation (Note 7)	29,445,305			29,445,305	28,051,748			28,051,748

See Notes to Financial Statements.

(Continued)

# INTERLOCHEN CENTER FOR THE ARTS

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

	Year Ended							
	May 31, 2008				May 31, 2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
INCREASE IN NET ASSETS BEFORE DEPRECIATION	\$ 5,481,803	\$ 1,191,579	\$ 1,542,074	\$ 8,215,456	\$ 6,267,814	\$ 3,667,375	\$ 1,352,541	\$ 11,287,730
DEPRECIATION EXPENSE (Note 7)	2,089,465			2,089,465	1,999,014			1,999,014
NET INCREASE IN NET ASSETS	3,392,338	1,191,579	1,542,074	6,125,991	4,268,800	3,667,375	1,352,541	9,288,716
ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS— Nonoperating items—capital and other	<u>730,313</u>	<u>(729,815)</u>	<u>(498)</u>		<u>3,116,155</u>	<u>(3,207,152)</u>	<u>90,997</u>	
NET INCREASE IN NET ASSETS	4,122,651	461,764	1,541,576	6,125,991	7,384,955	460,223	1,443,538	9,288,716
NET ASSETS—Beginning of year	<u>48,594,106</u>	<u>8,753,632</u>	<u>19,003,317</u>	<u>76,351,055</u>	<u>41,209,151</u>	<u>8,293,409</u>	<u>17,559,779</u>	<u>67,062,339</u>
NET ASSETS—End of year	\$ 52,716,757	\$ 9,215,396	\$ 20,544,893	\$ 82,477,046	\$ 48,594,106	\$ 8,753,632	\$ 19,003,317	\$ 76,351,055

See Notes to Financial Statements.

(Concluded)

# INTERLOCHEN CENTER FOR THE ARTS

## STATEMENT OF CASH FLOWS

	Year Ended	
	May 31, 2008	May 31, 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net increase in net assets	\$ 6,125,991	\$ 9,288,716
Adjustments to reconcile net increase in net assets to net cash from operating activities:		
Disposal of assets	2,385,499	6,308
Depreciation and amortization	2,100,180	2,009,729
In-kind broadcast licenses	(497,578)	
Net change in realized and unrealized loss (gain) on investments	2,214,871	(7,715,184)
Bad debt expense	62,982	87,814
(Increase) decrease in gifts and accounts receivables	(333,032)	2,043,928
Decrease (increase) in inventories	26,887	(89,108)
(Increase) decrease in prepaid expenses and other receivables	(128,988)	98,924
Increase in other assets	(26,951)	(32,512)
Increase (decrease) in accounts payable	614,170	(918,424)
(Decrease) increase in accrued liabilities	(430,663)	422,420
Increase in tuition deposits and other	206,369	776,154
Restricted contributions	<u>(6,719,154)</u>	<u>(4,476,263)</u>
Net cash provided by operating activities	5,600,583	1,502,502
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property additions	(5,741,070)	(3,953,066)
Decrease in restricted cash		1,554,123
Purchases of investments	<u>(7,033,558)</u>	<u>(4,167,168)</u>
Net cash used in investing activities	(12,774,628)	(6,566,111)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from restricted contributions	6,719,154	4,476,263
Proceeds from contributions of annuity agreements	346,502	118,308
Payments on annuity agreements	<u>(54,317)</u>	<u>(43,568)</u>
Net cash provided by financing activities	<u>7,011,339</u>	<u>4,551,003</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(162,706)	(512,606)
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>11,579,986</u>	<u>12,092,592</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$ 11,417,280</u>	<u>\$ 11,579,986</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Interest paid during the year</b>		
	<u>\$ 812,315</u>	<u>\$ 957,444</u>

NON-CASH ACTIVITIES—Construction in progress includes \$675,784 and \$140,597 of assets which were included in accounts payable or accrued liabilities at May 31, 2008 and 2007, respectively. Other assets includes \$497,578 and \$0 for broadcast licenses at May 31, 2008 and 2007, respectively.

See Notes to Financial Statements.

# INTERLOCHEN CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED MAY 31, 2008 AND 2007

---

### 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 2,500 students, a co-educational boarding school with enrollment of approximately 500 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. During the fiscal year ended May 31, 2007, the Center also operated Interlochen Pathfinder School, a day school for pre-school through 8th grade, with enrollment of approximately 130 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, income from endowment contributions which can only be expended as stipulated by the donor, and contributions and grants that are unexpended related to land, building, and equipment.

**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 4.8% 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 4.7% for the fiscal year ending May 31, 2009.

- 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, 2008 AND 2007

---

### 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 or by law.

Hedge funds that do not have readily determinable market values as of May 31 are valued based on current estimated fair value. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, hedge funds' estimated values may differ materially from the values that would have been used if a ready market for the securities existed.

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 \$556,000 and \$493,000 at May 31, 2008 and 2007, 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 \$278,581 and \$289,296 as of May 31, 2008 and 2007, 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 as of May 31, 2008 and 2007. Other assets also include broadcasting licenses for three FM stations as follows:

# INTERLOCHEN CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED MAY 31, 2008 AND 2007

---

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

	<u>2008</u>	<u>2007</u>
Broadcasting licenses:		
88.5 MHz, Mackinaw City, Michigan	\$ 496,900	\$ 496,900
89.7 MHz, Manistee, Michigan	215,065	
90.1 MHz, Harbor Springs, Michigan	<u>282,513</u>	<u>                    </u>
Total broadcasting licenses	<u>\$ 994,478</u>	<u>\$ 496,900</u>

In accordance with Financial Accounting Standards Board (“FASB”) Statement No. 142, *Goodwill and Other Intangible Assets*, the broadcasting licenses have an indefinite useful life. The Center tests the broadcasting licenses 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, 2008 and 2007.

***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, 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.

# INTERLOCHEN CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED MAY 31, 2008 AND 2007

---

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

**Reclassifications**—Certain reclassifications have been made to the 2007 comparative amounts to conform to the 2008 presentation.

**New Accounting Pronouncement**—In September 2006, FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 are effective for the Center's May 31, 2009 fiscal year. The Center is currently evaluating the impact, if any, of the provisions of SFAS 157 on its financial statements.

### 2. INVESTMENTS

A summary of investments at market value, based on quoted market prices or current estimated fair value if considered a non-marketable security, held by the Center as of May 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Mutual funds:		
Corporate bonds	\$ 9,135,999	\$ 8,245,462
Equity securities	51,017,895	46,063,575
Other	1,167,187	2,314,432
Hedge funds	<u>2,925,875</u>	<u>2,804,800</u>
Total investments	<u>\$ 64,246,956</u>	<u>\$ 59,428,269</u>

Net loss on investments of \$858,933 in 2008 represents \$1,355,938 of interest and dividends, \$3,071,889 of net realized gains on investments, and \$5,286,760 of net unrealized losses on investments. Net appreciation of investments of \$8,699,141 in 2007 represents \$983,957 of interest and dividends, \$1,516,210 of net realized gains on investments, and \$6,198,974 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, 2008 AND 2007

---

### 3. GIFTS RECEIVABLE

The Center has received unconditional promises from donors to make contributions to the Center. The contributions as of May 31, 2008 and 2007 are to be received as follows:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 1,809,434	\$ 694,900
Receivable in one to five years	815,530	1,905,053
Receivable in more than five years	142,857	
Less present value discount	<u>(220,974)</u>	<u>(215,569)</u>
Net contribution receivable	<u>\$ 2,546,847</u>	<u>\$ 2,384,384</u>

The Center had no allowance for uncollectible promises receivable as of May 31, 2008 and 2007.

### 4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of May 31, 2008 and 2007 are summarized by major classification as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 480,181	\$ 2,480,385
Land improvements	2,917,451	2,921,995
Buildings	44,104,372	43,536,001
Furniture and equipment	18,409,586	17,486,136
Construction in progress	<u>4,220,649</u>	<u>477,152</u>
	70,132,239	66,901,669
Less accumulated depreciation	<u>(30,444,804)</u>	<u>(28,480,340)</u>
Net land, buildings, and equipment	<u>\$ 39,687,435</u>	<u>\$ 38,421,329</u>

Construction in progress at May 31, 2008 represents the construction of the Herbert H. and Barbara C. Dow Center for Visual Arts, a pavilion, and faculty/staff housing. In March 2008, the Center signed a contract with Hallmark Construction, Inc. for the construction of the Herbert H. and Barbara C. Dow Center for Visual Arts, which will be completed in fall 2008. As of May 31, 2008, the estimated amount to complete all projects is approximately \$3,563,000.

# INTERLOCHEN CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2008 AND 2007

---

### 5. BONDS PAYABLE

Bonds payable at May 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Tax-exempt, Economic Development Bonds issued through the Township of Green Lake, Michigan; interest at a variable rate (between 1.23% and 4.00% during 2008) with final maturity June 2034	\$ 26,300,000	\$ 26,300,000

In April 2005, an interest rate cap of 4% was purchased relating to \$11,000,000 of tax-exempt bonds which increased 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 \$157 and \$7,622 at May 31, 2008 and 2007, 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, 2008 and 2007 were \$1,054,370 and \$971,208, respectively, net of forfeitures.

### 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, 2008 and 2007 include allocations of certain common expenses and are as follows:

	<u>2008</u>	<u>2007</u>
Program Expenses:		
Education Programs and Services	\$ 10,640,437	\$ 11,208,652
Media, Presentation, and Regional Program	2,802,265	2,684,027
Human and Institutional Resources	10,027,689	8,998,337
Finance and Institutional Effectiveness	2,350,990	2,191,883
Supporting Services:		
Fundraising	1,371,126	1,063,827
Administration	4,342,263	3,904,036
Total	<u>\$ 31,534,770</u>	<u>\$ 30,050,762</u>

# INTERLOCHEN CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2008 AND 2007

---

### 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 (3.2% at May 31, 2008). The Center records the proceeds received in excess of the annuity payable as a charitable contribution, and such amounts totaled \$282,893 and \$68,000 for the years ended May 31, 2008 and 2007, respectively. At May 31, 2008 and 2007, the Center recorded \$621,494 and \$329,309, respectively, in annuities payable relating to such program.

\* \* \* \* \*

**SUPPLEMENTAL SCHEDULES OF  
SELECTED FINANCIAL DATA**



**Plante & Moran, PLLC**

Suite 300  
600 E. Front St.  
Traverse City, MI 49686  
Tel: 231.947.7800  
Fax: 231.947.0348  
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, 2008. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The statement of financial 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 30, 2008

**INTERLOCHEN CENTER FOR THE ARTS**

**STATEMENT OF FINANCIAL POSITION ALLOCATED BY FUND**

	Unrestricted			Temporarily Restricted				Permanently Restricted	May 31, 2008
	Operating Funds	Designated Funds	Total Unrestricted	Scholarship Funds	General Funds	Plant Funds	Agency Funds	Endowment Funds	
<b>ASSETS:</b>									
Cash and cash equivalents	\$ 1,235,585	\$ 5,928,024	\$ 7,163,609	\$ 924,279	\$ 186,215	\$ 21,894	\$ 14,638	\$ 3,106,645	\$ 11,417,280
Investments, at market value	8,327,270	32,557,771	40,885,041	5,076,303	1,022,730	120,241	80,394	17,062,247	64,246,956
Accounts receivable, net of allowance of \$556,000 in 2008	147,380		147,380						147,380
Gifts receivable		307,112	307,112	78,820		1,784,914		376,001	2,546,847
Prepaid expenses and other receivables	467,503		467,503						467,503
Inventories	1,216,068		1,216,068						1,216,068
Land, buildings, and equipment, net	39,687,435		39,687,435						39,687,435
Other assets	1,338,897		1,338,897						1,338,897
<b>TOTAL</b>	<b>\$ 52,420,138</b>	<b>\$ 38,792,907</b>	<b>\$ 91,213,045</b>	<b>\$ 6,079,402</b>	<b>\$ 1,208,945</b>	<b>\$ 1,927,049</b>	<b>\$ 95,032</b>	<b>\$ 20,544,893</b>	<b>\$ 121,068,366</b>
<b>LIABILITIES:</b>									
Accounts payable—trade	\$ 448,240	\$ -	\$ 448,240	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 448,240
Accounts payable—construction in progress	675,784		675,784						675,784
Accrued liabilities	2,207,121		2,207,121				95,032		2,302,153
Tuition deposits and other	8,243,649		8,243,649						8,243,649
Annuities payable	621,494		621,494						621,494
Bonds payable	26,300,000		26,300,000						26,300,000
Total liabilities	38,496,288	-	38,496,288	-	-	-	95,032	-	38,591,320
<b>NET ASSETS:</b>									
Unrestricted	13,923,850	38,792,907	52,716,757						52,716,757
Temporarily restricted				6,079,402	1,208,945	1,927,049			9,215,396
Permanently restricted								20,544,893	20,544,893
Total net assets	13,923,850	38,792,907	52,716,757	6,079,402	1,208,945	1,927,049	-	20,544,893	82,477,046
<b>TOTAL</b>	<b>\$ 52,420,138</b>	<b>\$ 38,792,907</b>	<b>\$ 91,213,045</b>	<b>\$ 6,079,402</b>	<b>\$ 1,208,945</b>	<b>\$ 1,927,049</b>	<b>\$ 95,032</b>	<b>\$ 20,544,893</b>	<b>\$ 121,068,366</b>

# 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, 2008 Total
	Operating Funds	Designated Funds		Scholarship Funds	General Funds	Plant Funds	Endowment Funds	
<b>REVENUES AND OTHER ADDITIONS:</b>								
Gross tuition and student fees	\$ 26,299,405	\$ -	\$ 26,299,405	\$ -	\$ -	\$ -	\$ -	\$ 26,299,405
Assets release from restrictions—operating item— financial aid	3,365,999	(25,842)	3,340,157	(3,331,847)	(8,310)			
Less financial aid grants	(6,557,480)		(6,557,480)					(6,557,480)
Net tuition and student fees	23,107,924	(25,842)	23,082,082	(3,331,847)	(8,310)	-	-	19,741,925
Ticket sales	1,905,679		1,905,679					1,905,679
Lodging	927,970		927,970					927,970
Retail sales	1,788,752		1,788,752					1,788,752
Contributions and grants	1,165,248	4,696,613	5,861,861	2,613,508	568,471	1,972,482	1,564,692	12,581,014
Net loss of investments	(27,024)	(422,496)	(449,520)	(314,495)	(35,315)	(59,603)		(858,933)
Endowment allocation	452,187		452,187	(452,187)				
Other revenues	657,631	711,816	1,369,447	126,518	65,664	12,725		1,574,354
Total revenues and other additions	29,978,367	4,960,091	34,938,458	(1,358,503)	590,510	1,925,604	1,564,692	37,660,761
<b>COST OF GOODS AND SERVICES:</b>								
Artist fees	1,276,717		1,276,717		4,250			1,280,967
Cost of goods sold	1,082,091		1,082,091					1,082,091
Total cost of goods and services	2,358,808		2,358,808		4,250			2,363,058
<b>COST OF OPERATIONS:</b>								
Salaries, wages, and benefits	18,174,784	3,130	18,177,914		93,627			18,271,541
Food costs	903,045		903,045					903,045
Contracted services	971,958	43,897	1,015,855		14,259	955		1,031,069
Supplies	988,019	332,321	1,320,340		85,698	83,721		1,489,759
Repairs and maintenance	529,120	109,786	638,906			366		639,272
Leases and rents	169,176	2,100	171,276		1,100			172,376
Utilities	854,933		854,933					854,933
Insurance	234,291		234,291		1,160	3,850		239,301
Telephone and postage	376,404		376,404		1,288			377,692
Other operational	27,491	191,430	218,921		950	(26)		219,845
Total cost of operations	23,229,221	682,664	23,911,885		198,082	88,866		24,198,833
<b>GENERAL AND ADMINISTRATIVE:</b>								
Marketing	594,640		594,640		90			594,730
Travel and entertainment	576,284	12,344	588,628		110,632			699,260
Professional services	266,002	199,148	465,150					465,150
Interest	740	812,315	813,055					813,055
Other	244,117	28,184	272,301		16,233	67	22,618	311,219
Total general and administrative	1,681,783	1,051,991	2,733,774		126,955	67	22,618	2,883,414
Total expenses before depreciation and board-designated expenditures	27,269,812	1,734,655	29,004,467		329,287	88,933	22,618	29,445,305

## INTERLOCHEN CENTER FOR THE ARTS

### SUPPLEMENTAL SCHEDULE OF ACTIVITIES—COST OF OPERATIONS AND GENERAL AND ADMINISTRATIVE EXPENSES ALLOCATED BY FUND (CONTINUED)

	Unrestricted		Total Unrestricted	Temporarily Restricted			Permanently Restricted	May 31, 2008 Total
	Operating Funds	Designated Funds		Scholarship Funds	General Funds	Plant Funds	Endowment Funds	
INCREASE IN NET ASSETS BEFORE DEPRECIATION, ASSETS RELEASED FROM RESTRICTIONS, AND BOARD-DESIGNATED EXPENDITURES	\$ 2,708,555	\$ 3,225,436	\$ 5,933,991	\$ (1,358,503)	\$ 261,223	\$ 1,836,671	\$ 1,542,074	\$ 8,215,456
BOARD-DESIGNATED EXPENDITURES	186,234	(186,234)						
INCREASE (DECREASE) IN NET ASSETS BEFORE DEPRECIATION	2,522,321	3,411,670	5,933,991	(1,358,503)	261,223	1,836,671	1,542,074	8,215,456
DEPRECIATION EXPENSE	2,089,465		2,089,465					2,089,465
NET INCREASE (DECREASE) IN NET ASSETS	432,856	3,411,670	3,844,526	(1,358,503)	261,223	1,836,671	1,542,074	6,125,991
ASSETS RELEASED FROM RESTRICTIONS/ TRANSFERS—								
Nonoperating items—capital and other	3,205,838	(2,927,713)	278,125	185,084	69,095	(531,806)	(498)	
NET INCREASE (DECREASE) IN NET ASSETS	3,638,694	483,957	4,122,651	(1,173,419)	330,318	1,304,865	1,541,576	6,125,991
NET ASSETS—Beginning of year	10,285,155	38,308,951	48,594,106	7,252,823	878,626	622,183	19,003,317	76,351,055
NET ASSETS—End of year	\$ 13,923,849	\$ 38,792,908	\$ 52,716,757	\$ 6,079,404	\$ 1,208,944	\$ 1,927,048	\$ 20,544,893	\$ 82,477,046

(Concluded)