Interlochen Center for the Arts

Financial Statements as of and for the Years Ended May 31, 2010 and 2009, Supplemental Schedules for the Year Ended May 31, 2010, and Independent Auditor's Report

INTERLOCHEN CENTER FOR THE ARTS

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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 (the "Center") as of May 31, 2010 and 2009 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, 2010 and 2009 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

July 7, 2010

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF FINANCIAL POSITION

	May 31, 2010	May 31, 2009
ASSETS:		
Cash and cash equivalents	$ 11,337,880	$ 8,819,385
Investments (Note 2)	57,629,904	49,682,276
Accounts receivable, net of allowance of $803,000 in 2010 and $772,000 in 2009	28,658	70,311
Gifts receivable (Note 3)	1,972,345	2,411,153
Prepaid expenses and other receivables	678,885	479,880
Inventories	1,368,216	1,349,092
Land, buildings, and equipment, net (Note 4)	40,541,664	41,320,129
Other assets	1,366,143	1,338,499
TOTAL	$ 114,923,695	$ 105,470,725
LIABILITIES:		
Accounts payable - Trade	$ 569,039	$ 347,782
Accrued liabilities	2,565,625	2,886,656
Tuition deposits and other	8,481,346	8,381,863
Annuities payable (Note 9)	620,230	644,054
Bonds payable (Note 5)	26,300,000	26,300,000
Total liabilities	38,536,240	38,560,355
NET ASSETS:		
Unrestricted	51,664,628	43,142,359
Temporarily restricted	3,831,869	2,668,310
Permanently restricted	20,890,958	21,099,701
Total net assets	76,387,455	66,910,370
TOTAL	$ 114,923,695	$ 105,470,725

See Notes to Financial Statements.

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended							
	May 31, 2010				May 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS:								
Gross tuition and student fees	$ 30,941,084	$ -	$ -	$ 30,941,084	$ 28,118,931	$ -	$ -	$ 28,118,931
Assets released from restrictions - Operating item - financial aid	2,297,603	(2,297,603)			2,928,536	(2,928,536)		
Less financial aid grants	(8,896,624)			(8,896,624)	(7,388,035)			(7,388,035)
Net tuition and student fees	24,342,063	(2,297,603)	-	22,044,460	23,659,432	(2,928,536)	-	20,730,896
Ticket sales	1,545,470			1,545,470	1,551,638			1,551,638
Lodging	1,002,727			1,002,727	923,564			923,564
Retail sales	1,844,549			1,844,549	1,775,846			1,775,846
Contributions and grants	1,448,106	2,663,981	537,312	4,649,399	2,240,247	3,918,546	629,282	6,788,075
Net gain (loss) of investments	6,089,809	1,019,730		7,109,539	(13,160,823)	(4,387,318)		(17,548,141)
Assets released from restrictions - Operating item - cost of operations and general and administrative	442,013	(442,013)			417,248	(417,248)		
Other revenues	723,004	42,011		765,015	465,920	32,605		498,525
Total revenues and other additions	37,437,741	986,106	537,312	38,961,159	17,873,072	(3,781,951)	629,282	14,720,403
COST OF GOODS AND SERVICES:								
Artist fees	670,371			670,371	946,460			946,460
Cost of goods sold	1,016,934			1,016,934	847,409			847,409
Total cost of goods and services	1,687,305			1,687,305	1,793,869			1,793,869
COST OF OPERATIONS:								
Salaries, wages, and benefits	17,990,428			17,990,428	18,482,758			18,482,758
Food costs	986,937			986,937	975,760			975,760
Contracted services	860,698			860,698	1,083,871			1,083,871
Supplies	1,468,502			1,468,502	1,052,610			1,052,610
Repairs and maintenance	546,305			546,305	686,380			686,380
Lease and rental	197,009			197,009	175,954			175,954
Utilities	733,039			733,039	844,232			844,232
Insurance	277,414			277,414	246,051			246,051
Telephone and postage	419,876			419,876	430,993			430,993
Other operational	354,703			354,703	240,213			240,213
Total cost of operations	23,834,911			23,834,911	24,218,822			24,218,822
GENERAL AND ADMINISTRATIVE:								
Marketing	633,935			633,935	631,211			631,211
Travel and entertainment	659,246			659,246	613,927			613,927
Professional services	358,960			358,960	370,022			370,022
Interest	72,586			72,586	322,625			322,625
Other	251,322			251,322	253,144			253,144
Total general and administrative	1,976,049			1,976,049	2,190,929			2,190,929
Total expenses before depreciation (Note 7)	27,498,265			27,498,265	28,203,620			28,203,620

See Notes to Financial Statements.

(Continued)

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

	Year Ended							
	May 31, 2010				May 31, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
INCREASE (DECREASE) IN NET ASSETS BEFORE DEPRECIATION AND OTHER ADJUSTMENTS	$ 9,939,476	$ 986,106	$ 537,312	$ 11,462,894	$ (10,330,548)	$ (3,781,951)	$ 629,282	$ (13,483,217)
DEPRECIATION EXPENSE (Note 7)	1,985,809			1,985,809	2,083,459			2,083,459
ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS - Nonoperating items - Capital and other	748,129	(2,074)	(746,055)		2,839,609	(2,765,135)	(74,474)	
INCREASE (DECREASE) IN NET ASSETS BEFORE CHANGE IN ACCOUNTING	8,701,796	984,032	(208,743)	9,477,085	(9,574,398)	(6,547,086)	554,808	(15,566,676)
CHANGE IN ACCOUNTING (Note 10)	(179,527)	179,527						
NET INCREASE (DECREASE) IN NET ASSETS	8,522,269	1,163,559	(208,743)	9,477,085	(9,574,398)	(6,547,086)	554,808	(15,566,676)
NET ASSETS - Beginning of year	43,142,359	2,668,310	21,099,701	66,910,370	52,716,757	9,215,396	20,544,893	82,477,046
NET ASSETS - End of year	$ 51,664,628	$ 3,831,869	$ 20,890,958	$ 76,387,455	$ 43,142,359	$ 2,668,310	$ 21,099,701	$ 66,910,370

See Notes to Financial Statements.

(Concluded)

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF CASH FLOWS

	Year Ended May 31, 2010	Year Ended May 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase (decrease) in net assets	$ 9,477,085	$ (15,566,676)
Adjustments to reconcile net increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	1,996,524	2,094,174
Net change in realized and unrealized loss on investments	(5,985,758)	18,748,937
Bad debt expense	31,647	215,984
Decrease (increase) in gifts and accounts receivable	448,814	(3,221)
Increase in inventories	(19,124)	(133,024)
Increase in prepaid expenses and other receivables	(199,005)	(12,377)
Increase in other assets	(38,359)	(10,317)
Increase (decrease) in accounts payable	221,257	(776,242)
(Decrease) increase in accrued liabilities	(321,031)	584,503
Increase in tuition deposits and other	99,483	138,214
Restricted contributions	(3,201,293)	(4,547,828)
Net cash provided by operating activities	2,510,240	732,127
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,207,344)	(3,716,153)
Purchases of investments	(1,961,870)	(4,184,257)
Net cash used in investing activities	(3,169,214)	(7,900,410)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions	3,201,293	4,547,828
Proceeds from contributions of annuity agreements	61,300	108,769
Payments on annuity agreements	(85,124)	(86,209)
Net cash provided by financing activities	3,177,469	4,570,388
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,518,495	(2,597,895)
CASH AND CASH EQUIVALENTS - Beginning of year	8,819,385	11,417,280
CASH AND CASH EQUIVALENTS - End of year	$ 11,337,880	$ 8,819,385
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - Interest paid during the year	$ 57,478	$ 321,885

See Notes to Financial Statements.

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.

On January 23, 2009, the Canada Revenue Agency approved the registration of Canadian Friends of Interlochen ("CFI") as a tax-exempt, registered charity under paragraph 149(1)(f) of the Canadian Income Tax Act. The purpose of CFI is to advance education by enhancing the learning experience of the students attending the Center by providing scholarships and awards. CFI's fiscal year end is May 31. During the fiscal year ended May 31, 2010, CFI's activity was insignificant. As of May 31, 2009, CFI had no activity. CFI had total assets of C$145,598 and net assets of C$145,383 as of May 31, 2010. CFI has not been consolidated with the Center for the Center's financial statements as of and for the years ended May 31, 2010 and 2009.

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 accounting standards for 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.

Permanently Restricted Net Assets—Endowment funds result from contributed assets which have donor-imposed restrictions which do not expire.

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 temporarily restricted 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.

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.

Concentration of Credit Risk Arising from Deposit Accounts—The Center maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 and non-interest bearing accounts are fully insured by the FDIC. The full insurance on non-interest bearing accounts expires on June 30, 2010. Additionally, the Center maintains a money market mutual fund account that is insured by the Securities Investors Protection Corporation ("SIPC") up to $500,000. In addition to the SIPC limit, the money market mutual fund account is insured by other insurers. The Center evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

Investments—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.

Alternative investments that do not have readily determinable market values as of May 31 are valued by the fund managers. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, alternative investments' estimated values may differ materially from the values that would have been used if a ready market for the securities existed.

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.

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.

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

Other Assets—Other assets include deferred financing costs of $257,151 and $267,866 as of May 31, 2010 and 2009, 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, 2010 and 2009. Other assets also include broadcasting licenses for three FM stations as follows:

	2010	2009
Broadcasting licenses:		
88.5 MHz, Mackinaw City, Michigan	$ 496,600	$ 496,600
89.7 MHz, Manistee, Michigan	215,065	215,065
90.1 MHz, Harbor Springs, Michigan	282,513	282,513
Total broadcasting licenses	$ 994,178	$ 994,178

In accordance with accounting standards for 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, 2010 and 2009.

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 ("UBIT"). Annually, the Center pays an insignificant amount of UBIT.

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

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.

Subsequent Events—The financial statements and related disclosures include evaluation of events up through and including July 7, 2010, which is the date the financial statements were available to be issued.

Reclassifications—Certain reclassifications have been made to the 2009 comparative amounts to conform to the 2010 presentation.

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, 2010 and 2009 is as follows:

	2010	2009
Mutual funds:		
Fixed income	$ 14,043,803	$ 8,404,105
Equity securities	37,580,928	35,900,807
Real estate	2,471,771	
Money market	1,571,718	4,515,668
Private equity	1,961,684	861,696
Total investments	$ 57,629,904	$ 49,682,276

Net gain of investments of $7,109,539 in 2010 represents $1,123,781 of interest and dividends, $298,890 of net realized losses on investments, and $6,284,648 of net unrealized gains on investments. Net loss of investments of $17,548,141 in 2009 represents $1,200,796 of interest and dividends, $2,952,772 of net realized gains on investments, and $21,701,709 of net unrealized losses on investments. No significant investments with unrealized losses have been in a continuous loss position for 12 months or longer.

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

3. GIFTS RECEIVABLE

The Center has received unconditional promises from donors to make contributions to the Center. The contributions as of May 31, 2010 and 2009 are to be received as follows:

	2010	2009
Receivable in less than one year	$ 543,500	$ 590,859
Receivable in one to five years	961,637	1,336,244
Receivable in more than five years	554,979	620,692
Less present value discount	(87,771)	(136,642)
Net contribution receivable	$ 1,972,345	$ 2,411,153

The Center had no allowance for uncollectible promises receivable as of May 31, 2010 and 2009. The Center calculated the present value of future cash flows using the applicable U.S. Treasury Rate at the time the gift receivable was recorded.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of May 31, 2010 and 2009 are summarized by major classification as follows:

	2010	2009
Land	$ 480,181	$ 480,181
Land improvements	2,964,413	2,937,093
Buildings	51,915,989	51,250,578
Furniture and equipment	19,550,010	19,139,796
Construction in progress	145,143	40,744
	75,055,736	73,848,392
Less accumulated depreciation	(34,514,072)	(32,528,263)
Net land, buildings, and equipment	$ 40,541,664	$ 41,320,129

Construction in progress at May 31, 2010 represents the construction of the Upton-Morley Pavilion and 89.7 FM Manistee, Michigan. As of May 31, 2010 the estimated amount to complete all projects is approximately $682,000.

5. BONDS PAYABLE

Bonds payable at May 31, 2010 and 2009 consist of the following:

	2010	2009
Tax-exempt, Economic Development Bonds issued through the Township of Green Lake, Michigan; interest at a variable rate (between 0.10% and 0.38% during fiscal 2010) with final maturity June 2034	$ 26,300,000	$ 26,300,000

Under the terms of the Series 2004 Bonds agreement, the Center must maintain an irrevocable letter of credit to secure the payment of the principal amount of the bonds plus 35 days' accrued interest thereon. The existing letter of credit, in the amount of $26,552,192 (outstanding principal plus 35 days' interest at 10 percent), expires in September 2012. The agreement contains certain financial covenants, an asset maintenance ratio, and debt service coverage ratio.

Under the terms of the indenture and related agreements, bondholders have the option to redeem or put the bonds when the interest rate is reset daily. If the remarketing agent cannot remarket the bonds, the trustee would draw on the letter of credit to pay those bondholders exercising their option. The Center is required to repay the interest on the amount drawn under the letter of credit monthly at the agent's prime rate, an effective rate of 3.25 percent at May 31, 2010. The principal amount drawn on the letter of credit is due within 180 days.

Due to the remarketing agreement, it is possible, but not expected, that all of the outstanding debt would be current if these bonds are not able to be remarketed.

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. As of October 1, 2009, the plan was amended and restated. Among the amendments was a change to the timing and approval of the Center’s contribution to the plan. In addition, the plan was amended from a fixed 11% annual contribution to a discretionary annual contribution. Prior to October 1, 2009, contributions were made during the plan year. Expenses under the plan for the years ended May 31, 2010 and 2009 were $4,185 and $1,115,155, 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, 2010 and 2009 include allocations of certain common expenses and are as follows:

	2010	2009
Program Expenses:		
Education Programs and Services	$ 10,845,069	$ 10,793,576
Media, Presentation, and Regional Program	2,499,826	2,497,257
Human and Institutional Resources	8,755,990	9,891,189
Finance and Institutional Effectiveness	2,458,427	2,142,360
Supporting Services:		
Fundraising	1,114,935	1,233,673
Administration	3,809,827	3,729,024
Total	$ 29,484,074	$ 30,287,079

8. 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 (3.4% at May 31, 2010). The Center records the proceeds received in excess of the annuity payable as a charitable contribution, and such amounts totaled $24,800 and $53,540 for the years ended May 31, 2010 and 2009, respectively. At May 31, 2010 and 2009, the Center recorded $620,230 and $644,054, respectively, in annuities payable relating to such program.

10. ENDOWMENT

The Center's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

10. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law

The Board of Trustees of the Center has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Center 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 Center and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Center
(7) The investment policies of the Center

UPMIFA was signed into law in Michigan on September 15, 2009 and therefore, a reclassification between net assets is reflected as a change in accounting to properly account for earnings on the endowment funds.

Endowment Net Asset Composition by Type of Fund as of May 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment	$ (1,904,763)	$ 696,886	$ 20,890,958	$ 19,683,081
Board Designated Quasi Endowment	34,216,855			34,216,855
Total Funds	$ 32,312,092	$ 696,886	$ 20,890,958	$ 53,899,936

10. ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets,				
Beginning of the year	$ 21,632,321	$ -	$ 21,099,701	$ 42,732,022
Change in accounting reclassification due to change in law	(179,527)	179,527		
Investment return:				
Interest and dividends	804,143	126,917		931,060
Net appreciation of investments	4,283,226	676,021		4,959,247
Total investment return	5,087,369	802,938	-	5,890,307
Contributions	211,190		537,312	748,502
Other revenue	38,908			38,908
Appropriation of endowment assets for expenditures	(1,654,361)	(285,579)		(1,939,940)
Other changes:				
Transfers for donor intent changes	(10,972)		(746,055)	(757,027)
Annuity changes	28,084			28,084
Transfers to create board designated endowment funds	7,159,080			7,159,080
	7,176,192	-	(746,055)	6,430,137
Endowment Net Assets,				
End of the year	$ 32,312,092	$ 696,886	$ 20,890,958	$ 53,899,936

Endowment Net Asset Composition by Type of Fund as of May 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment	$ (2,800,207)		$ 21,099,701	$ 18,299,494
Board Designated Quasi Endowment	24,432,528			24,432,528
Total Funds	$ 21,632,321	$ -	$ 21,099,701	$ 42,732,022

10. ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets,				
Beginning of the year	$ 31,143,637	$ 4,795,952	$ 20,544,893	$ 56,484,482
Investment return:				
Interest and dividends	727,950	258,494		986,444
Net depreciation of investments	(11,366,042)	(4,036,059)		(15,402,101)
Total investment return	(10,638,092)	(3,777,565)	-	(14,415,657)
Contributions	998,673		629,282	1,627,955
Other revenue	103,557	27,114		130,671
Appropriation of endowment assets for expenditures	(1,105,081)	(1,045,501)		(2,150,582)
Other changes:				
Transfers for donor intent changes	(6,066)		(74,474)	(80,540)
Annuity changes	(196,285)			(196,285)
Transfers to create board designated endowment funds	1,331,978			1,331,978
	1,129,627	-	(74,474)	1,055,153
Endowment Net Assets,				
End of the year	$ 21,632,321	$ -	$ 21,099,701	$ 42,732,022

Funds with Deficiencies

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 Center to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $1,904,763 and $2,800,207 as of May 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations.

10. ENDOWMENT (CONTINUED)

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking returns that are large enough to preserve and enhance its real, inflation-adjusted purchasing power. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to achieve total returns that, over time, are better than the relevant market benchmarks.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Center has a policy of appropriating for distribution each year 4.6 percent of its endowment fund's average fair value over the prior three years. The spending policy calculation is performed as of the end of February proceeding the fiscal year in which the distribution is planned. The Center has lowered the percent to 4.5 for the fiscal year ending May 31, 2011. In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long term, the Center expects the current spending policy to allow its endowment to grow at a rate equivalent to or greater than inflation. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

11. FAIR VALUE MEASUREMENTS

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Center's assets measured at fair value on a recurring basis at May 31, 2010 and 2009, and the valuation techniques used by the Center to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Center has the ability to access. The Center has investments that are valued using Level 1 inputs, which are obtained directly from investment statements prepared by the institution holding the investments.

11. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

Alternative investments characterized as Level 3 investments consist of private equity investments that are not publicly traded and do not have a readily determined market. As a result, the Center values the alternative investments at net asset value which is based on the most recent valuation statement from the fund, annual audit reports from the fund, and subsequent purchases and liquidations of the fund.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Center's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at May 31, 2010

	Balance at May 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Investments:				
Money Market Mutual Funds	$ 1,571,718	$ 1,571,718	$ -	$ -
U.S. Fixed Income, Core	7,096,101	7,096,101		
U.S. Fixed Income, High Yield	2,744,393	2,744,393		
Treasury Inflation Protected Securities	4,203,309	4,203,309		
U.S. Equity, Large Growth	10,162,548	10,162,548		
U.S. Equity, Large Value	8,215,306	8,215,306		
U.S. Equity, Small Capitalization	1,663,128	1,663,128		
International Equity, Developed	13,932,955	13,932,955		
International Equity, Emerging	3,606,991	3,606,991		
Real Estate Securities	2,471,771	2,471,771		
Private Equity	1,961,684	-	-	1,961,684
	$ 57,629,904	$ 55,668,220	$ -	$ 1,961,684

11. FAIR VALUE MEASUREMENTS (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at May 31, 2009

	Balance at May 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Investments:				
Money Market Mutual Funds	$ 4,515,668	$ 4,515,668	$ -	$ -
U.S. Fixed Income, Core	6,945,023	6,945,023		
U.S. Fixed Income, High Yield	1,459,082	1,459,082		
U.S. Equity, Large Growth	12,748,426	12,748,426		
U.S. Equity, Large Value	8,786,712	8,786,712		
U.S. Equity, Small Capitalization	3,284,909	3,284,909		
International Equity, Developed	9,054,285	9,054,285		
International Equity, Emerging	2,026,475	2,026,475		
Private Equity	861,696	-	-	861,696
	$ 49,682,276	$ 48,820,580	$ -	$ 861,696

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

11. FAIR VALUE MEASUREMENTS (CONTINUED)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Years Ended May 31, 2010 and 2009

	Hedge Funds	Private Equity
Balance at June 1, 2008	$ 2,387,679	$ 538,195
Activity for fiscal year 2009:		
Total realized and unrealized losses, interest and dividends	(444,523)	(48,564)
Net purchases, sales, and maturities	(1,943,156)	372,065
Ending balance at May 31, 2009	0	861,696
Activity for fiscal year 2010:		
Total realized and unrealized losses, interest and dividends		(78,431)
Net purchases, sales, and maturities	-	1,178,419
Ending balance at May 31, 2010	$ 0	$ 1,961,684

The Center liquidated its investment in the hedge fund in May 2009. The net sales amount of $1,943,156 in the table above is inclusive of the hedge fund's 10% holdback at the time of liquidation. The holdback, or $194,316, was invested in a money market fund within the hedge fund as of May 31, 2009. The Center received a final, full distribution of the holdback in June 2010.

11. FAIR VALUE MEASUREMENTS (CONTINUED)

Investments in Entities that Calculate Net Asset Value per Share

The Center holds shares or interests in investment companies at fiscal year end where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

At fiscal year end, the fair value and unfunded commitments of those investments are as follows:

Investments Held at May 31, 2010

	Fair Value	Unfunded Commitments
Buyout - US Middle Market (a)	$ 483,324	$ 784,567
Buyout - International (a)	73,293	397,205
Venture Sector (b)	56,811	255,540
Special Situations - Diversified (c)	194,805	919,334
Buyout (d)	341,091	296,818
Venture (e)	260,361	259,412
Real Estate (f)	162,169	155,214
Debt (g)	389,830	189,917
Total	$ 1,961,684	$ 3,258,007

Investments Held at May 31, 2009

	Fair Value	Unfunded Commitments
Buyout (d)	$ 302,546	$ 419,339
Venture (e)	205,545	366,492
Real Estate (f)	116,863	219,284
Debt (g)	236,742	268,311
Total	$ 861,696	$ 1,273,426

According to the agreements for the private equity funds above, the Center is invested in a closed-end, illiquid private equity vehicle, and as such there is no redemption frequency. The duration of the private equity investments is expected to be approximately 10 to 14 years.

Private equity investments consist of two funds of funds that have a variety of underlying investments and investment strategies.

11. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Buyout: Private equity funds that typically take control of or have significant influence on the management and direction of a portfolio company. Buyout funds usually invest in more mature companies with established business plans and help finance recapitalizations, turnarounds, consolidations, buildups and spinouts. They typically utilize leverage at their portfolio companies.

(b) Venture: Private equity funds that typically invest in the launch, early development or expansion of a business. Venture capital funds often focus on high-growth industries such as technology, healthcare, consumer products and business services.

(c) Special Situations: Private equity and private debt funds that focus on niche investment strategies such as distressed securities, mezzanine debt, structured debt, restructuring, multi-strategy and other specialty strategies.

(d) Buyout: Invest in more established companies that are in need of some repair or growth in order to boost returns. Generally, interests are purchased through some combination of preferred shares and debt. There are various investment opportunities in buyout, such as: “buy and build” (purchasing a foundation platform company and building a larger company through acquisitions), “spin-offs” (non-core divisions that split from a parent company), “ownership transitions” (families or sole proprietors selling businesses), and “recapitalizations” (public companies being taken private through the repurchase of all outstanding common shares of stock). In addition to needing an equity infusion, some companies need to change their capital structure to facilitate growth.

(e) Venture: Invest in young companies with varying degrees of infrastructure, revenues, and profits. Investments are typically made in cash through the purchase of preferred shares in the company. If the investment is in a concept alone, it is called “seed stage”. Depending on the degree to which the product line is complete, management positions are fully staffed, revenues are being generated, and/or profits are being made, the investments are referred to as “early stage” (very new companies, largely underdeveloped), “mid stage” (more infrastructure, but no profits), and “late stage” (sufficiently developed to possibly issue public stock or attract interest from a strategic buyer soon).

(f) Real Estate: Provide capital to meet a number of different needs including new construction, renovation, or a change in property ownership or management. These investments may involve equity or debt. The major sub-sectors that comprise equity investments include the purchase of land (including timberland and farmland), the purchase of fully- or partially-leased commercial properties, and the purchase of renovation properties (buying existing properties and upgrading them), as well as investments in new construction (called “development”). There are also investments that can be made on the debt side, including first mortgage lending, mezzanine lending, distressed lending (senior lending to troubled assets), and the purchase of real estate bank loans (pools of loans sold off by banks that want to lower the level of reserve capital that must be held against such loans).

11. FAIR VALUE MEASUREMENTS (CONTINUED)

(g) Debt: Provide lending to companies that are being restructured or re-capitalized. Among debt funds, there are two major sub-sectors: mezzanine debt and distressed debt. Mezzanine funds initiate lending to companies of all sizes, both private and public. Mezzanine lenders have a subordinated claim on the underlying assets relative to senior lenders (banks, bondholders, etc.) and, in return, can charge a higher interest rate on the debt. Distressed debt funds can buy existing public and/or private debt of distressed companies. Distressed debt funds can be further broken down into two groups: 1) those where general partners take control of the distressed companies and work through the bankruptcy process to pick new managers and strategies for restructuring, and 2) those where general partners do not take control of these companies and instead focus on trading the distressed securities.

12. SUBSEQUENT EVENTS

Subsequent to year-end, the Center’s investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

* * * * * *

SUPPLEMENTAL SCHEDULES OF
SELECTED FINANCIAL DATA

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Independent Auditor's Report

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, 2010. 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 audits 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

July 7, 2010

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF FINANCIAL POSITION ALLOCATED BY FUND

	Unrestricted				Temporarily Restricted				Permanently Restricted	
	Operating Funds	Designated Restricted Funds	Designated Endowment Funds	Total Unrestricted	Scholarship Funds	General Funds	Plant Funds	Agency Funds	Endowment Funds	May 31, 2010 Total
ASSETS:										
Cash and cash equivalents	$ 467,551	$ 1,890,569	$ 5,162,701	$ 7,520,821	$ 321,797	$ 105,353	$ 20,412	$ 11,331	$ 3,358,166	$ 11,337,880
Investments	1,760,752	9,716,766	26,534,221	38,011,739	1,653,904	541,477	104,904	58,241	17,259,639	57,629,904
Accounts receivable, net of allowance of $803,000 in 2010	28,658			28,658						28,658
Gifts receivable			615,170	615,170	20,000		1,064,022		273,153	1,972,345
Prepaid expenses and other receivables	678,885			678,885						678,885
Inventories	1,368,216			1,368,216						1,368,216
Land, buildings, and equipment, net	40,541,664			40,541,664						40,541,664
Other assets	1,366,143			1,366,143						1,366,143
TOTAL	$ 46,211,869	$ 11,607,335	$ 32,312,092	$ 90,131,296	$ 1,995,701	$ 646,830	$ 1,189,338	$ 69,572	$ 20,890,958	$ 114,923,695
LIABILITIES:										
Accounts payable - Trade	$ 569,039	$ -	$ -	$ 569,039	$ -	$ -	$ -	$ -	$ -	$ 569,039
Accrued liabilities	2,496,053			2,496,053				69,572		2,565,625
Tuition deposits and other	8,481,346			8,481,346						8,481,346
Annuities payable	620,230			620,230						620,230
Bonds payable	26,300,000			26,300,000						26,300,000
Total liabilities	38,466,668	-	-	38,466,668	-	-	-	69,572	-	38,536,240
NET ASSETS:										
Unrestricted	7,745,201	11,607,335	32,312,092	51,664,628						51,664,628
Temporarily restricted					1,995,701	646,830	1,189,338			3,831,869
Permanently restricted									20,890,958	20,890,958
Total net assets	7,745,201	11,607,335	32,312,092	51,664,628	1,995,701	646,830	1,189,338	-	20,890,958	76,387,455
TOTAL	$ 46,211,869	$ 11,607,335	$ 32,312,092	$ 90,131,296	$ 1,995,701	$ 646,830	$ 1,189,338	$ 69,572	$ 20,890,958	$ 114,923,695

INTERLOCHEN CENTER FOR THE ARTS

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

	Unrestricted				Temporarily Restricted			Permanently Restricted	
	Operating Funds	Designated Restricted Funds	Designated Endowment Funds	Total Unrestricted	Scholarship Funds	General Funds	Plant Funds	Endowment Funds	May 31, 2010 Total
REVENUES AND OTHER ADDITIONS:									
Gross tuition and student fees	$ 30,941,084	$ -	$ -	$ 30,941,084	$ -	$ -	$ -	$ -	$ 30,941,084
Assets released from restrictions -									
Operating item - financial aid	2,747,178		(449,575)	2,297,603	(2,292,257)	(5,346)			
Less financial aid grants	(8,896,624)			(8,896,624)					(8,896,624)
Net tuition and student fees	24,791,638		(449,575)	24,342,063	(2,292,257)	(5,346)	-	-	22,044,460
Ticket sales	1,545,470			1,545,470					1,545,470
Lodging	1,002,727			1,002,727					1,002,727
Retail sales	1,844,549			1,844,549					1,844,549
Contributions and grants	1,222,064	14,852	211,190	1,448,106	2,090,924	193,093	379,964	537,312	4,649,399
Net gain of investments	91,831	910,609	5,087,369	6,089,809	802,939	96,303	120,488		7,109,539
Endowment allocation	359,543			359,543	(359,543)				
Other revenues	639,954	16,058	66,992	723,004	(25)	25,183	16,853		765,015
Total revenues and other additions	31,497,776	941,519	4,915,976	37,355,271	242,038	309,233	517,305	537,312	38,961,159
COST OF GOODS AND SERVICES:									
Artist fees	660,371			660,371		10,000			670,371
Cost of goods sold	1,016,934			1,016,934					1,016,934
Total cost of goods and services	1,677,305	-	-	1,677,305	-	10,000	-	-	1,687,305
COST OF OPERATIONS:									
Salaries, wages, and benefits	17,868,977			17,868,977		121,451			17,990,428
Food costs	986,937			986,937					986,937
Contracted services	857,036	600		857,636		2,762	300		860,698
Supplies	1,045,285	255,196		1,300,481		35,711	132,310		1,468,502
Repairs and maintenance	518,480	25,525		544,005		800	1,500		546,305
Leases and rents	196,084			196,084		500	425		197,009
Utilities	733,039			733,039					733,039
Insurance	275,217	1,051		276,268			1,146		277,414
Telephone and postage	419,643	14		419,657		219			419,876
Other operational	20,159	328,979	2,500	351,638		778	2,287		354,703
Total cost of operations	22,920,857	611,365	2,500	23,534,722	-	162,221	137,968	-	23,834,911
GENERAL AND ADMINISTRATIVE:									
Marketing	600,846			600,846		33,089			633,935
Travel and entertainment	566,441	8,859		575,300		79,769	4,177		659,246
Professional services	313,102	45,027		358,129			831		358,960
Interest	740	71,846		72,586					72,586
Other	224,258	13,106		237,364		13,958			251,322
Total general and administrative	1,705,387	138,838	-	1,844,225	-	126,816	5,008	-	1,976,049
Total expenses before depreciation and board-designated expenditures	26,303,549	750,203	2,500	27,056,252	-	299,037	142,976	-	27,498,265

(Continued)

INTERLOCHEN CENTER FOR THE ARTS

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

	Unrestricted				Temporarily Restricted			Permanently Restricted	
	Operating Funds	Designated Restricted Funds	Designated Endowment Funds	Total Unrestricted	Scholarship Funds	General Funds	Plant Funds	Endowment Funds	May 31, 2010 Total
INCREASE IN NET ASSETS BEFORE DEPRECIATION, ASSETS RELEASED FROM RESTRICTIONS, BOARD - DESIGNATED EXPENDITURES AND OTHER ADJUSTMENTS	$ 5,194,227	$ 191,316	$ 4,913,476	$ 10,299,019	$ 242,038	$ 10,196	$ 374,329	$ 537,312	$ 11,462,894
BOARD-DESIGNATED EXPENDITURE									
INCREASE IN NET ASSETS BEFORE DEPRECIATION, ASSETS RELEASED FROM RESTRICTIONS AND OTHER ADJUSTMENTS	5,194,227	191,316	4,913,476	10,299,019	242,038	10,196	374,329	537,312	11,462,894
DEPRECIATION EXPENSE	1,985,809			1,985,809					1,985,809
ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS - Nonoperating items - Capital and other	(10,862,853)	5,305,617	5,945,822	388,586	274,875	13,547	69,047	(746,055)	
NET (DECREASE) INCREASE IN NET ASSETS BEFORE CHANGE IN ACCOUNTING	(7,654,435)	5,496,933	10,859,298	8,701,796	516,913	23,743	443,376	(208,743)	9,477,085
CHANGE IN ACCOUNTING			(179,527)	(179,527)	179,527				
NET (DECREASE) INCREASE IN NET ASSETS	(7,654,435)	5,496,933	10,679,771	8,522,269	696,440	23,743	443,376	(208,743)	9,477,085
NET ASSETS - Beginning of year	15,399,636	6,110,402	21,632,321	43,142,359	1,299,261	623,087	745,962	21,099,701	66,910,370
NET ASSETS - End of year	$ 7,745,201	$ 11,607,335	$ 32,312,092	$ 51,664,628	$ 1,995,701	$ 646,830	$ 1,189,338	$ 20,890,958	$ 76,387,455

(Concluded)