Interlochen Center for the Arts

Financial Statements as of and for the Years Ended May 31, 2012 and 2011, Supplemental Schedules for the Year Ended May 31, 2012, and Independent Auditor's Report

INTERLOCHEN CENTER FOR THE ARTS

TABLE OF CONTENTS

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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, 2012 and 2011 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, 2012 and 2011 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 9, 2012

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF FINANCIAL POSITION

		May 31, 2012		May 31, 2011
ASSETS:				
Cash and cash equivalents	$	9,215,265	$	12,783,181
Investments (Note 2)		73,741,773		72,917,920
Accounts receivable, net of allowance of $917,000 in 2012 and $856,000 in 2011		246,556		54,500
Gifts receivable (Note 3)		1,843,551		1,997,611
Prepaid expenses and other receivables		691,329		655,902
Inventories		994,130		1,111,879
Land, buildings, and equipment, net (Note 4)		40,554,435		40,507,775
Other assets		1,418,625		1,409,334
TOTAL	$	128,705,664	$	131,438,102
LIABILITIES:				
Accounts payable - Trade	$	389,603	$	519,956
Accounts payable - Construction in progress				265,382
Accrued liabilities		3,023,486		2,594,596
Tuition deposits and other		9,695,505		9,354,610
Annuities payable (Note 9)		754,195		708,503
Bonds payable (Note 5)		26,300,000		26,300,000
Total liabilities		40,162,789		39,743,047
NET ASSETS:				
Unrestricted		62,618,588		65,259,617
Temporarily restricted		3,270,153		5,271,734
Permanently restricted		22,654,134		21,163,704
Total net assets		88,542,875		91,695,055
TOTAL	$	128,705,664	$	131,438,102

See Notes to Financial Statements.

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended							
	May 31, 2012				May 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS:								
Gross tuition and student fees	$ 34,262,014	$ -	$ -	$ 34,262,014	$ 32,034,841	$ -	$ -	$ 32,034,841
Assets released from restrictions - Operating item - financial aid	2,766,362	(2,766,362)			2,549,049	(2,549,049)		
Less financial aid grants	(10,909,095)			(10,909,095)	(9,422,496)			(9,422,496)
Net tuition and student fees	26,119,281	(2,766,362)	-	23,352,919	25,161,394	(2,549,049)	-	22,612,345
Ticket sales	2,031,834			2,031,834	1,937,830			1,937,830
Lodging	1,086,191			1,086,191	972,332			972,332
Retail sales	1,819,893			1,819,893	1,749,454			1,749,454
Contributions and grants	1,732,933	3,726,026	1,356,757	6,815,716	3,394,921	3,172,154	275,644	6,842,719
Net (loss) gain of investments, net of fees of $269,000 in 2012 and $246,000 in 2011	(2,964,810)	(730,326)		(3,695,136)	10,614,190	2,442,336		13,056,526
Assets released from restrictions - Operating item - cost of operations and general and administrative	926,098	(926,098)			530,219	(530,219)		
Other revenues	617,719	44,817		662,536	844,657	11,691		856,348
Total revenues and other additions	31,369,139	(651,943)	1,356,757	32,073,953	45,204,997	2,546,913	275,644	48,027,554
COST OF GOODS AND SERVICES:								
Artist fees	1,095,645			1,095,645	973,826			973,826
Cost of goods sold	961,335			961,335	844,038			844,038
Total cost of goods and services	2,056,980			2,056,980	1,817,864			1,817,864
COST OF OPERATIONS:								
Salaries, wages, and benefits	21,659,991			21,659,991	20,401,730			20,401,730
Food costs	1,287,063			1,287,063	1,082,644			1,082,644
Contracted services	799,850			799,850	727,828			727,828
Supplies	2,038,501			2,038,501	2,171,916			2,171,916
Repairs and maintenance	805,762			805,762	689,632			689,632
Lease and rental	314,027			314,027	199,251			199,251
Utilities	740,767			740,767	733,966			733,966
Insurance	251,526			251,526	225,610			225,610
Telephone and postage	390,730			390,730	383,560			383,560
Other operational	318,815			318,815	321,367			321,367
Total cost of operations	28,607,032			28,607,032	26,937,504			26,937,504
GENERAL AND ADMINISTRATIVE:								
Marketing	761,594			761,594	673,172			673,172
Travel and entertainment	1,233,031			1,233,031	717,633			717,633
Professional services	473,105			473,105	412,322			412,322
Interest	29,334			29,334	56,873			56,873
Other	254,977			254,977	246,944			246,944
Total general and administrative	2,752,041			2,752,041	2,106,944			2,106,944
Total expenses before depreciation	33,416,053			33,416,053	30,862,312			30,862,312

See Notes to Financial Statements.

(Continued)

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

	Year Ended							
	May 31, 2012				May 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
(DECREASE) INCREASE IN NET ASSETS BEFORE DEPRECIATION AND OTHER ADJUSTMENTS	$ (2,046,914)	$ (651,943)	$ 1,356,757	$ (1,342,100)	$ 14,342,685	$ 2,546,913	$ 275,644	$ 17,165,242
DEPRECIATION EXPENSE	1,810,080	-	-	1,810,080	1,857,642	-	-	1,857,642
ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS - Nonoperating items - Capital and other	1,215,965	(1,349,638)	133,673	-	1,109,946	(1,107,048)	(2,898)	-
NET (DECREASE) INCREASE IN NET ASSETS	(2,641,029)	(2,001,581)	1,490,430	(3,152,180)	13,594,989	1,439,865	272,746	15,307,600
NET ASSETS - Beginning of year	65,259,617	5,271,734	21,163,704	91,695,055	51,664,628	3,831,869	20,890,958	76,387,455
NET ASSETS - End of year	$ 62,618,588	$ 3,270,153	$ 22,654,134	$ 88,542,875	$ 65,259,617	$ 5,271,734	$ 21,163,704	$ 91,695,055

See Notes to Financial Statements.

(Concluded)

INTERLOCHEN CENTER FOR THE ARTS

STATEMENT OF CASH FLOWS

	Year Ended May 31, 2012	Year Ended May 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (decrease) increase in net assets	$ (3,152,180)	$ 15,307,600
Adjustments to reconcile net (decrease) increase in net assets to net cash from operating activities:		
Depreciation and amortization	1,820,795	1,868,357
Net change in realized and unrealized loss (gain) on investments	5,254,494	(11,843,554)
Bad debt expense	60,818	53,081
Increase in gifts and accounts receivable	(98,814)	(104,189)
Decrease in inventories	117,749	256,337
(Increase) decrease in prepaid expenses and other receivables	(35,427)	22,983
Increase in other assets	(20,006)	(53,906)
(Decrease) increase in accounts payable	(395,735)	216,299
Increase in accrued liabilities	428,890	28,971
Increase in tuition deposits and other	340,895	873,264
Contributions restricted for long-term investment	(4,944,811)	(2,752,414)
Net cash (used in) provided by operating activities	(623,332)	3,872,829
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(1,856,740)	(1,823,753)
Purchase of assets restricted to investment in property and equipment	(137,972)	(695,385)
Purchases of investments	(6,078,347)	(3,444,462)
Net cash used in investing activities	(8,073,059)	(5,963,600)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term investment	4,944,811	2,752,414
Contributions restricted for purchasing equipment	137,972	695,385
Proceeds from contributions of annuity agreements	161,777	175,636
Payments on annuity agreements	(116,085)	(87,363)
Net cash provided by financing activities	5,128,475	3,536,072
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,567,916)	1,445,301
CASH AND CASH EQUIVALENTS - Beginning of year	12,783,181	11,337,880
CASH AND CASH EQUIVALENTS - End of year	$ 9,215,265	$ 12,783,181
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - Interest paid during the year	$ 29,334	$ 56,873

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 475 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, comparative 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 years ended May 31, 2012 and 2011, CFI's activity was insignificant. CFI had total assets of C$8,485 and C$13,797 as of May 31, 2012 and 2011, respectively. CFI had total net assets of C$8,060 and C$13,317 as of May 31, 2012 and 2011, respectively. CFI has not been consolidated with the Center for the Center's financial statements as of and for the years ended May 31, 2012 and 2011.

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. 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. 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 $235,721 and $246,436 as of May 31, 2012 and 2011, 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, 2012 and 2011. Other assets also include broadcasting licenses for three FM stations as follows:

	2012	2011
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, 2012 and 2011.

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. Accounting principles generally accepted in the United States of America require management to evaluate certain tax positions taken by the Center and recognize a tax liability if the organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Center and has concluded that as of May 31, 2012 and 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods in progress. The Center believes it is no longer subject to examinations prior to June 1, 2008.

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 9, 2012, which is the date the financial statements were available to be issued.

Reclassifications—Certain reclassifications have been made to the 2011 comparative amounts to conform to the 2012 presentation. In particular, reclassifications relate to a change in basis for allocating expenditures among the functional classifications.

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, 2012 and 2011 is as follows:

	2012	2011
Mutual funds:		
Fixed income	$ 14,247,619	$ 14,702,523
Equity securities	49,311,881	48,601,417
Real estate	1,521,320	1,471,158
Commodities	2,831,918	2,019,824
Money market	3,024,177	4,078,852
Private equity	2,804,858	2,044,146
Total investments	$ 73,741,773	$ 72,917,920

Net loss of investments of $3,695,136 in 2012 represents $1,559,088 of interest and dividends, $1,587,218 of net realized gains on investments, and $6,841,442 of net unrealized losses on investments. Net gain of investments of $13,056,526 in 2011 represents $1,212,972 of interest and dividends, $339,188 of net realized gains on investments, and $11,504,366 of net unrealized gains 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, 2012 and 2011 are to be received as follows:

	2012	2011
Receivable in less than one year	$ 1,030,333	$ 832,814
Receivable in one to five years	239,013	663,832
Receivable in more than five years	609,591	565,046
Less present value discount	(35,386)	(64,081)
Net contribution receivable	$ 1,843,551	$ 1,997,611

The Center had no allowance for uncollectible promises receivable as of May 31, 2012 and 2011. The Center calculated the present value of future cash flows using the applicable rate at the time the gift receivable was recorded.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment as of May 31, 2012 and 2011 are summarized by major classification as follows:

	2012	2011
Land	$ 480,181	$ 480,181
Land improvements	2,982,835	2,978,346
Buildings	54,621,837	52,465,866
Furniture and equipment	20,614,371	20,126,627
Construction in progress	37,006	828,470
	78,736,230	76,879,490
Less accumulated depreciation	(38,181,795)	(36,371,715)
Net land, buildings, and equipment	$ 40,554,435	$ 40,507,775

5. BONDS PAYABLE

Bonds payable at May 31, 2012 and 2011 consist of the following:

	2012	2011
Tax-exempt, Economic Development Bonds issued through the Township of Green Lake, Michigan; interest at a variable rate (between 0.03% and 0.28% during fiscal 2012) 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 2014. 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, 2012. 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.

The Center secured a $3,000,000 line of credit in September 2011 that expires in September 2013. As of May 31, 2012 the Center had not drawn against the line of credit. The Center has two options for the interest rate on the line of credit. At the time the line is drawn upon the Center's management may select the London Interbank Offered Rate ("LIBOR") for a term of thirty, sixty, or ninety days plus one hundred basis points or the base rate plus one hundred basis points. The base rate is the greatest of the prime rate, federal funds rate plus fifty basis points and LIBOR plus one hundred basis points.

6. RETIREMENT PLAN

The Center has a defined contribution retirement plan for all eligible employees. Employer contributions are discretionary and are based upon a percentage of employee compensation for the year. Costs accrued under the plan are funded to a trust on a current basis. Expenses under the plan for the years ended May 31, 2012 and 2011 were $1,159,841 and $1,184,817, 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, 2012 and 2011 include allocations of certain common expenses and are as follows:

		2012		2011
Program Expenses:				
Education Programs and Services	$	12,835,611	$	11,478,555
Media, Presentation, and Regional Program		3,514,857		3,014,331
Human and Institutional Resources		9,553,871		10,026,843
Finance and Institutional Effectiveness		2,647,461		2,396,399
Supporting Services:				
Fundraising		1,471,932		1,059,672
Administration		5,202,401		4,744,154
Total	$	35,226,133	$	32,719,954

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 (1.6% at May 31, 2012). The Center records the proceeds received in excess of the annuity payable as a charitable contribution, and such amounts totaled $32,348 and $160,410 for the years ended May 31, 2012 and 2011, respectively. At May 31, 2012 and 2011, the Center recorded $754,195 and $708,503, 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 Center's management to function as endowments. Net assets associated with endowment funds, including funds designated by management to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

10. ENDOWMENT (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of May 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment	$ (1,238,821)	$ 1,179,967	$ 22,654,134	$ 22,595,280
Board Designated Quasi Endowment	40,315,038			40,315,038
Total Funds	$ 39,076,217	$ 1,179,967	$ 22,654,134	$ 62,910,318

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets,				
Beginning of the year	$ 42,438,891	$ 2,335,771	$ 21,163,704	$ 65,938,366
Investment return:				
Interest and dividends	957,756	273,294		1,231,050
Net depreciation of investments	(3,227,697)	(921,017)		(4,148,714)
Total investment return	(2,269,941)	(647,723)	-	(2,917,664)
Contributions			1,356,757	1,356,757
Appropriation of endowment assets for expenditures	(1,691,201)	(508,081)		(2,199,282)
Other changes:				
Transfers			133,673	133,673
Annuity changes	(78,383)			(78,383)
Transfers to create board designated endowment funds	676,851			676,851
	598,468	-	133,673	732,141
Endowment Net Assets,				
End of the year	$ 39,076,217	$ 1,179,967	$ 22,654,134	$ 62,910,318

10. ENDOWMENT (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of May 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment	$ (560,964)	$ 2,335,771	$ 21,163,704	$ 22,938,511
Board Designated Quasi Endowment	42,999,855			42,999,855
Total Funds	$ 42,438,891	$ 2,335,771	$ 21,163,704	$ 65,938,366

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets,				
Beginning of the year	$ 32,312,092	$ 696,886	$ 20,890,958	$ 53,899,936
Investment return:				
Interest and dividends	775,992	192,457		968,449
Net appreciation of investments	7,576,846	1,879,170		9,456,016
Total investment return	8,352,838	2,071,627	-	10,424,465
Contributions			275,644	275,644
Appropriation of endowment assets for expenditures	(1,548,477)	(432,742)		(1,981,219)
Other changes:				
Transfers for donor intent changes	2,898		(2,898)	
Annuity changes	88,632			88,632
Transfers to create board designated endowment funds	3,230,908	-	-	3,230,908
	3,322,438	-	(2,898)	3,319,540
Endowment Net Assets,				
End of the year	$ 42,438,891	$ 2,335,771	$ 21,163,704	$ 65,938,366

10. ENDOWMENT (CONTINUED)

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 $1,238,821 and $560,964 as of May 31, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations.

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 4.5 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. 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.

11. FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables present information about the Center's assets measured at fair value on a recurring basis at May 31, 2012 and 2011, 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.

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 or by percentage ownership 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.

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.

The Center's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no transfers between fair value classifications for the years ended May 31, 2012 and 2011.

11. FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Measured at Fair Value on a Recurring Basis at May 31, 2012

	Balance at May 31, 2012	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	$ 3,024,177	$ 3,024,177	$ -	$ -
U.S. Fixed Income, Core	7,026,415	7,026,415		
U.S. Fixed Income, High Yield	3,982,746	3,982,746		
Treasury Inflation Protected Securities	3,238,458	3,238,458		
U.S. Equity, Large Growth	12,402,821	12,402,821		
U.S. Equity, Large Value	10,461,580	10,461,580		
U.S. Equity, Small Capitalization	1,881,875	1,881,875		
International Equity, Developed	19,055,817	19,055,817		
International Equity, Emerging	5,509,788	5,509,788		
Real Estate Securities	1,521,320	1,521,320		
Commodities Securities	2,831,918	2,831,918		
Private Equity	2,804,858	-	-	2,804,858
	$ 73,741,773	$ 70,936,915	$ -	$ 2,804,858

Assets Measured at Fair Value on a Recurring Basis at May 31, 2011

	Balance at May 31, 2011	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	$ 4,078,852	$ 4,078,852	$ -	$ -
U.S. Fixed Income, Core	6,818,384	6,818,384		
U.S. Fixed Income, High Yield	3,338,256	3,338,256		
Treasury Inflation Protected Securities	4,545,883	4,545,883		
U.S. Equity, Large Growth	12,925,087	12,925,087		
U.S. Equity, Large Value	10,159,572	10,159,572		
U.S. Equity, Small Capitalization	2,119,454	2,119,454		
International Equity, Developed	18,716,671	18,716,671		
International Equity, Emerging	4,680,633	4,680,633		
Real Estate Securities	1,471,158	1,471,158		
Commodities Securities	2,019,824	2,019,824		
Private Equity	2,044,146	-	-	2,044,146
	$ 72,917,920	$ 70,873,774	$ -	$ 2,044,146

11. FAIR VALUE MEASUREMENTS (CONTINUED)

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Years Ended May 31, 2012 and 2011

	Private Equity
Balance at June 1, 2010	$ 1,961,684
Activity for fiscal year 2011:	
Total realized and unrealized losses, interest and dividends	(26,287)
Purchases, issuances, sales and settlements	
Purchases	584,967
Sales	(476,218)
Ending balance at May 31, 2011	2,044,146
Activity for fiscal year 2012:	
Total realized and unrealized gains, interest and dividends	125,920
Purchases, issuances, sales and settlements	
Purchases	742,424
Sales	(107,632)
Ending balance at May 31, 2012	$ 2,804,858

11. FAIR VALUE MEASUREMENTS (CONTINUED)

Investments in Entities that Calculate Net Asset Value per Share

The Center holds shares or interests in an investment company 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 this investment is as follows:

Investments Held at May 31, 2012

	Fair Value	Unfunded Commitments
Buyout (a)	$ 499,594	$ 163,226
Venture (b)	375,502	142,656
Real Estate (c)	292,013	85,356
Debt (d)	382,722	104,439
Total	$ 1,549,831	$ 495,677

Investments Held at May 31, 2011

	Fair Value	Unfunded Commitments
Buyout (a)	$ 448,441	$ 223,748
Venture (b)	283,126	195,551
Real Estate (c)	248,712	117,004
Debt (d)	404,688	143,164
Total	$ 1,384,967	$ 679,467

According to the agreements for the private equity fund 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, including those that are measured at net asset value and those that are not, is expected to be approximately 9 to 13 years.

11. FAIR VALUE MEASUREMENTS (CONTINUED)

The private equity investments measured at net asset value above consists of a fund of funds that have a variety of underlying investments and investment strategies.

(a) 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.

(b) 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).

(c) 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).

(d) 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.

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SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA

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Independent Auditor's Report on Supplemental Information

To the Board of Trustees
Interlochen Center for the Arts

We have audited the financial statements of Interlochen Center for the Arts as of and for the year ended May 31, 2012.

Our audits were conducted for the purpose of forming an opinion on the financial statements 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 rather than to present the financial position, results of operations, and cash flows of the individual funds and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

July 9, 2012

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	Eliminations	May 31, 2012 Total
ASSETS:											
Cash and cash equivalents	$ 738,563	$ 1,833,320	$ 3,607,552	$ 6,179,435	$ 248,212	$ 138,602	$ -	$ 8,754	$ 2,640,262	$ -	$ 9,215,265
Investments	2,563,410	13,889,716	34,066,907	50,520,033	2,091,472	1,050,074		66,322	20,013,872		73,741,773
Accounts receivable, net of allowance of $917,000 in 2012	246,556			246,556							246,556
Gifts receivable	700,000		483,551	1,183,551	14,700		645,300				1,843,551
Due from other funds			918,207	918,207						(918,207)	
Prepaid expenses and other receivables	691,329			691,329							691,329
Inventories	994,130			994,130							994,130
Land, buildings, and equipment, net	40,554,435			40,554,435							40,554,435
Other assets	1,418,625			1,418,625							1,418,625
TOTAL	$ 47,907,048	$ 15,723,036	$ 39,076,217	$ 102,706,301	$ 2,354,384	$ 1,188,676	$ 645,300	$ 75,076	$ 22,654,134	$ (918,207)	$ 128,705,664
LIABILITIES:											
Accounts payable - Trade	$ 389,603	$ -	$ -	$ 389,603	$ -	$ -	$ -	$ -	$ -	$ -	$ 389,603
Accounts payable - Construction in progress											
Accrued liabilities	2,948,410			2,948,410				75,076			3,023,486
Due to other funds							918,207			(918,207)	
Tuition deposits and other	9,695,505			9,695,505							9,695,505
Annuities payable	754,195			754,195							754,195
Bonds payable	26,300,000			26,300,000							26,300,000
Total liabilities	40,087,713	-	-	40,087,713	-	-	918,207	75,076	-	(918,207)	40,162,789
NET ASSETS:											
Unrestricted	7,819,335	15,723,036	39,076,217	62,618,588							62,618,588
Temporarily restricted					2,354,384	1,188,676	(272,907)				3,270,153
Permanently restricted									22,654,134		22,654,134
Total net assets	7,819,335	15,723,036	39,076,217	62,618,588	2,354,384	1,188,676	(272,907)	-	22,654,134	-	88,542,875
TOTAL	$ 47,907,048	$ 15,723,036	$ 39,076,217	$ 102,706,301	$ 2,354,384	$ 1,188,676	$ 645,300	$ 75,076	$ 22,654,134	$ (918,207)	$ 128,705,664

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, 2012 Total
REVENUES AND OTHER ADDITIONS:									
Gross tuition and student fees	$ 34,262,014	$ -	$ -	$ 34,262,014	$ -	$ -	$ -	$ -	$ 34,262,014
Assets released from restrictions -									
Operating item - financial aid	3,015,116		(248,753)	2,766,363	(2,760,949)	(5,414)			
Less financial aid grants	(10,909,095)			(10,909,095)					(10,909,095)
Net tuition and student fees	26,368,035	-	(248,753)	26,119,282	(2,760,949)	(5,414)	-	-	23,352,919
Ticket sales	2,031,834			2,031,834					2,031,834
Lodging	1,086,191			1,086,191					1,086,191
Retail sales	1,819,893			1,819,893					1,819,893
Contributions and grants	1,321,355	500,000	(88,422)	1,732,933	2,381,263	1,206,791	137,972	1,356,757	6,815,716
Net loss of investments		(694,869)	(2,269,941)	(2,964,810)	(647,723)	(50,997)	(31,606)		(3,695,136)
Endowment allocation	583,217			583,217	(583,217)				
Other revenues	680,372	15,730	(78,383)	617,719		31,547	13,270		662,536
Total revenues and other additions	33,890,897	(179,139)	(2,685,499)	31,026,259	(1,610,626)	1,181,927	119,636	1,356,757	32,073,953
COST OF GOODS AND SERVICES:									
Artist fees	1,087,660			1,087,660		7,985			1,095,645
Cost of goods sold	961,335			961,335					961,335
Total cost of goods and services	2,048,995	-	-	2,048,995	-	7,985	-	-	2,056,980
COST OF OPERATIONS:									
Salaries, wages, and benefits	21,514,075	6,233		21,520,308		139,683			21,659,991
Food costs	1,284,913			1,284,913		2,150			1,287,063
Contracted services	736,307	22,165		758,472		36,328	5,050		799,850
Supplies	1,215,571	743,547		1,959,118		67,160	12,223		2,038,501
Repairs and maintenance	752,142	53,620		805,762					805,762
Leases and rents	179,149	6,070		185,219		128,808			314,027
Utilities	740,767			740,767					740,767
Insurance	251,526			251,526					251,526
Telephone and postage	384,747	3,438		388,185		2,545			390,730
Other operational	35,732	282,983		318,715			100		318,815
Total cost of operations	27,094,929	1,118,056	-	28,212,985	-	376,674	17,373	-	28,607,032
GENERAL AND ADMINISTRATIVE:									
Marketing	742,168	13,533		755,701		5,893			761,594
Travel and entertainment	679,636	55,095		734,731		498,300			1,233,031
Professional services	409,572	63,383		472,955			150		473,105
Interest		29,334		29,334					29,334
Other	226,373	8,882		235,255		19,722			254,977
Total general and administrative	2,057,749	170,227	-	2,227,976	-	523,915	150	-	2,752,041
Total expenses before depreciation and board-designated expenditures	31,201,673	1,288,283	-	32,489,956	-	908,574	17,523	-	33,416,053

(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, 2012 Total
INCREASE (DECREASE) IN NET ASSETS BEFORE DEPRECIATION, ASSETS RELEASED FROM RESTRICTIONS, BOARD - DESIGNATED EXPENDITURES AND OTHER ADJUSTMENTS	$ 2,689,224	$ (1,467,422)	$ (2,685,499)	$ (1,463,697)	$ (1,610,626)	$ 273,353	$ 102,113	$ 1,356,757	$ (1,342,100)
BOARD-DESIGNATED EXPENDITURES	8,758	(8,758)							
INCREASE (DECREASE) IN NET ASSETS BEFORE DEPRECIATION, ASSETS RELEASED FROM RESTRICTIONS AND OTHER ADJUSTMENTS	2,680,466	(1,458,664)	(2,685,499)	(1,463,697)	(1,610,626)	273,353	102,113	1,356,757	(1,342,100)
DEPRECIATION EXPENSE	1,810,080			1,810,080					1,810,080
ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS - Nonoperating items - Capital and other	(823,724)	2,133,647	(677,175)	632,748	326,562	36,018	(1,129,001)	133,673	
NET INCREASE (DECREASE) IN NET ASSETS	46,662	674,983	(3,362,674)	(2,641,029)	(1,284,064)	309,371	(1,026,888)	1,490,430	(3,152,180)
NET ASSETS - Beginning of year	7,772,673	15,048,053	42,438,891	65,259,617	3,638,448	879,305	753,981	21,163,704	91,695,055
NET ASSETS - End of year	$ 7,819,335	$ 15,723,036	$ 39,076,217	$ 62,618,588	$ 2,354,384	$ 1,188,676	$ (272,907)	$ 22,654,134	$ 88,542,875

(Concluded)