

Interlochen Center for the Arts

Financial Statements (and supplementary information)
Years Ended May 31, 2020 and 2019

Interlochen Center for the Arts

Contents

Independent Auditor's Report	3-4
Financial Statements	
Statement of Financial Position as of May 31, 2020 and 2019	6
Statement of Activities and Changes in Net Assets for the Years Ended May 31, 2020 and 2019	7
Statement of Functional Expenses for the Years Ended May 31, 2020	8
Statement of Functional Expenses for the Years Ended May 31, 2019	9
Statement of Cash Flows for the Years Ended May 31, 2020 and 2019	10
Notes to Financial Statements	11-31
Supplementary Information	
Independent Auditor's Report on Supplementary Information	33
Statements of Financial Position Allocated by Fund as of May 31, 2020	34
Schedule of Activities - Cost of Operations and General and Administrative Expenses Allocated by Fund for the Year Ended May 31, 2020	35-36

Independent Auditor's Report

To the Board of Trustees
Interlochen Center for the Arts

We have audited the accompanying financial statements of Interlochen Center for the Arts (the "Center"), which comprise the statement of financial position as of May 31, 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interlochen Center for the Arts as of May 31, 2020 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the COVID-19 pandemic has impacted business operations. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the Center adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of June 1, 2019, with a retrospective application for ASU No. 2014-09 and a prospective application for ASU No. 2018-08, as allowed by the ASUs. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Interlochen Center for the Arts

Report on Prior Year Financial Statements

The financial statements of Interlochen Center for the Arts as of May 31, 2019 were audited by other auditors, whose report dated July 17, 2019 expressed an unmodified opinion on those statements.

Plante & Moran, PLLC

July 13, 2020

Financial Statements

Interlochen Center for the Arts

Statements of Financial Position

May 31,	2020	2019
Assets		
Cash and cash equivalents	\$ 5,717,782	\$ 10,711,578
Investments (Notes 2 and 11)	142,555,766	135,986,567
Accounts receivable, net of allowance of approximately \$3,227,000 in 2020 and \$3,000,000 in 2019	-	32,262
Gifts receivable (Note 3)	9,910,998	7,159,495
Prepaid expenses and other receivables	574,839	539,635
Inventories	354,342	878,177
Land, buildings and equipment, net (Note 4)	74,144,277	68,868,330
Other assets	1,012,308	1,003,264
Total Assets	\$ 234,270,312	\$ 225,179,308
Liabilities and Net Assets		
Liabilities		
Accounts payable - trade	\$ 377,488	\$ 974,137
Accrued liabilities	5,309,355	7,960,154
Tuition deposits and other	5,776,679	13,024,281
Annuities payable (Note 8)	470,523	494,009
Line of credit payable (Note 5)	2,200,000	-
Paycheck protection program payable (Note 5)	5,990,150	-
Bonds payable, net of debt issuance costs of \$150,001 in 2020 and \$160,716 in 2019 (Note 5)	25,249,999	25,239,284
Total Liabilities	45,374,194	47,691,865
Net Assets		
Without Donor Restrictions (Note 11)	131,923,941	124,826,616
With Donor Restrictions (Note 12)	56,972,177	52,660,827
Total Net Assets	188,896,118	177,487,443
Total Liabilities and Net Assets	\$ 234,270,312	\$ 225,179,308

See accompanying independent auditor's report and notes to financial statements.

Interlochen Center for the Arts

Statements Activities and Changes in Net Assets

Year ended May 31,	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Additions						
Gross tuition and student fees	\$ 50,789,602	\$ -	\$ 50,789,602	\$ 46,651,258	\$ -	\$ 46,651,258
Assets released from restrictions:						
Operating item:						
Financial aid	5,162,370	(5,162,370)	-	5,100,474	(5,100,474)	-
Less financial aid grants	(18,622,090)	-	(18,622,090)	(15,698,787)	-	(15,698,787)
Net tuition and student fees	37,329,882	(5,162,370)	32,167,512	36,052,945	(5,100,474)	30,952,471
Ticket sales	3,225,278	-	3,225,278	3,090,929	-	3,090,929
Lodging	1,262,232	-	1,262,232	1,383,362	-	1,383,362
Retail sales	1,862,941	-	1,862,941	2,053,715	-	2,053,715
Contributions and grants	2,000,057	13,659,194	15,659,251	1,659,800	12,188,713	13,848,513
Net gain on investments, net (Note 2)	4,734,436	2,786,861	7,521,297	2,820,561	1,803,331	4,623,892
Assets released from restrictions:						
Operating item:						
Cost of operations and general and administrative	872,008	(872,008)	-	1,060,214	(1,060,214)	-
Other revenues	923,136	6,599	929,735	1,106,837	9,012	1,115,849
Total Revenues and Other Additions	52,209,970	10,418,276	62,628,246	49,228,363	7,840,368	57,068,731
Expenses						
Program services:						
Education program and services	18,705,947	-	18,705,947	17,307,362	-	17,307,362
Media, presentation and regional programs	5,148,422	-	5,148,422	5,107,253	-	5,107,253
Human and institutional resources	12,756,485	-	12,756,485	12,958,454	-	12,958,454
Finance and institutional effectiveness	3,969,520	-	3,969,520	3,615,619	-	3,615,619
Total program services	40,580,374	-	40,580,374	38,988,688	-	38,988,688
Support services:						
Administrative	\$ 7,987,181	\$ -	\$ 7,987,181	\$ 8,563,630	\$ -	\$ 8,563,630
Fundraising	2,652,016	-	2,652,016	2,432,479	-	2,432,479
Total support services	10,639,197	-	10,639,197	10,996,109	-	10,996,109
Total Expenses	51,219,571	-	51,219,571	49,984,797	-	49,984,797
Increase (decrease) in net assets before non-operating items	990,399	10,418,276	11,408,675	(756,434)	7,840,368	7,083,934
Assets Released From Restrictions/Transfers						
Non-operating items:						
Capital and other	6,106,926	(6,106,926)	-	14,463,229	(14,463,229)	-
Net Increase (Decrease) in Net Assets	7,097,325	4,311,350	11,408,675	13,706,795	(6,622,861)	7,083,934
Net Assets, beginning of year	124,826,616	52,660,827	177,487,443	111,119,821	59,283,688	170,403,509
Net Assets, end of year	\$ 131,923,941	\$ 56,972,177	\$ 188,896,118	\$ 124,826,616	\$ 52,660,827	\$ 177,487,443

See accompanying independent auditor's report and notes to financial statements.

Interlochen Center for the Arts

Statement of Functional Expenses

<i>Year ended May 31, 2020</i>	Salaries, Employee Benefits and Taxes	Artist Fees and Cost of Goods Sold	Professional Fees, Contract Services, and Other Expenses	Conference, Travel and Staff Development	Occupancy, Telephone, Postage and Supplies	Depreciation	Total Expenses
Program Services							
Education program and services	\$ 14,637,686	\$ 1,800	\$ 448,744	\$ 676,939	\$ 704,827	\$ 2,235,951	\$ 18,705,947
Media, presentation and regional programs	1,946,655	2,143,827	740,424	98,966	157,837	60,713	5,148,422
Human and institutional resources	7,740,555	177,713	2,503,588	254,731	2,072,877	7,021	12,756,485
Finance and institutional effectiveness	1,813,875	1,001,457	807,241	239,349	100,577	7,021	3,969,520
Total Program Services	26,138,771	3,324,797	4,499,997	1,269,985	3,036,118	2,310,707	40,580,374
Support Services							
Administrative	4,494,210	51,637	1,920,533	709,358	804,421	7,022	7,987,181
Fundraising	2,104,421	-	161,029	214,244	165,300	7,022	2,652,016
Total Support Services	6,598,631	51,637	2,081,562	923,602	969,721	14,044	10,639,197
Total Expenses	\$ 32,737,402	\$ 3,376,434	\$ 6,581,559	\$ 2,193,587	\$ 4,005,839	\$ 2,324,751	\$ 51,219,571

See accompanying independent auditor's report and notes to financial statements.

Interlochen Center for the Arts

Statement of Functional Expenses

<i>Year ended May 31, 2019</i>	Salaries, Employee Benefits and Taxes	Artist Fees and Cost of Goods Sold	Professional Fees, Contract Services, and Other Expenses	Conference, Travel and Staff Development	Occupancy, Telephone, Postage and Supplies	Depreciation	Total Expenses
Program Services							
Education program and services	\$ 13,258,241	\$ 10,267	\$ 575,173	\$ 861,839	\$ 744,868	\$ 1,856,974	\$ 17,307,362
Media, presentation and regional programs	1,994,837	1,848,777	696,729	174,877	335,466	56,567	5,107,253
Human and institutional resources	7,634,523	174,909	2,498,908	565,722	2,077,850	6,542	12,958,454
Finance and institutional effectiveness	1,631,277	839,069	885,036	74,752	178,943	6,542	3,615,619
Total Program Services	24,518,878	2,873,022	4,655,846	1,677,190	3,337,127	1,926,625	38,988,688
Support Services							
Administrative	4,119,427	17,459	1,949,416	849,621	1,621,165	6,542	8,563,630
Fundraising	1,789,746	1	117,125	212,892	306,173	6,542	2,432,479
Total Support Services	5,909,173	17,460	2,066,541	1,062,513	1,927,338	13,084	10,996,109
Total Expenses	\$ 30,428,051	\$ 2,890,482	\$ 6,722,387	\$ 2,739,703	\$ 5,264,465	\$ 1,939,709	\$ 49,984,797

See accompanying independent auditor's report and notes to financial statements.

Interlochen Center for the Arts

Statements of Cash Flows

Year ended May 31,	2020	2019
Cash Flows From (For) Operating Activities		
Net increase in net assets	\$ 11,408,675	\$ 7,083,934
Adjustments to reconcile net increase in net assets to net cash from operating activities:		
Depreciation and amortization	2,335,466	1,950,424
Loss (gain) on disposal of assets	84,580	(9,880)
Net change in realized and unrealized gain on investments	(3,959,878)	(769,187)
Bad debt expense	227,093	223,384
Change in value of charitable gift annuities	79,991	42,422
(Increase) decrease in gifts and accounts receivable	(2,946,334)	112,201
Increase in prepaid expenses and other receivables	(35,204)	(367,493)
Decrease in inventories	523,835	104,320
Increase in other assets	(9,044)	(8,578)
(Decrease) increase in accounts payable - trade	(596,649)	282,346
(Decrease) increase in accrued liabilities	(2,650,799)	1,542,189
(Decrease) increase in tuition deposits and other	(7,247,602)	393,118
Restricted contributions	(2,364,026)	(2,579,438)
Net Cash (For) From Operating Activities	(5,149,896)	7,999,762
Cash Flows From (For) Investing Activities		
Purchases of property and equipment	(7,685,279)	(14,985,294)
Purchases of investments	(100,290,137)	(41,177,366)
Proceeds from sale of investments	97,680,816	44,775,042
Proceeds from sale of assets	-	307,058
Net Cash For Investing Activities	(10,294,600)	(11,080,560)
Cash Flows From (For) Financing Activities		
Proceeds from restricted contributions	2,364,026	2,579,438
Proceeds from borrowing under revolving credit	3,200,000	-
Payments on borrowing under revolving credit	(1,000,000)	-
Proceeds from borrowing Paycheck Protection Program	5,990,150	-
Payments on annuity agreements	(103,477)	(103,477)
Net Cash From Financing Activities	10,450,699	2,475,961
Net Decrease in Cash and Cash Equivalents	(4,993,797)	(604,837)
Cash and Cash Equivalents, beginning of year	10,711,578	11,316,415
Cash and Cash Equivalents, end of year	\$ 5,717,782	\$ 10,711,578
Supplemental Disclosure of Cash Flow Information		
Interest paid during the year	\$ 306,932	\$ 376,574

See accompanying independent auditor's report and notes to financial statements

Interlochen Center for the Arts

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, 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, 2020 and 2019, CFI's activity was insignificant. CFI had total assets of C\$368,559 and C\$380,346 as of May 31, 2020 and 2019, respectively. CFI had total net assets of C\$272,731 and (C\$23,487) as of May 31, 2020 and 2019, respectively. CFI has not been consolidated with the Center for the Center's financial statements as of and for the years ended May 31, 2020 and 2019.

Basis of Presentation

The Center prepares its financial statements on the accrual basis of accounting and in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP).

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. During fiscal year May 31, 2020, the Interlochen Arts Academy closed in person classes and became 100% virtual. The students were sent home and provided refunds for housing prior to fiscal year end. As of May 31, 2020, the Center had accrued \$247,526 for housing refunds that had not yet been processed. There were certain employee groups that were placed on furlough. In addition, the Center canceled the in person Interlochen Arts Camp and the Interlochen Presents summer concert series, which typically begin in June. These cancellations had a net impact of approximately \$9.2M and \$1.0M, respectively for the Center's fiscal year ending May 31, 2021. The Interlochen Arts Camp became 100% virtual. In response to the outbreak, the Center also obtained the Paycheck Protection Program (PPP) loan and drew down on a line of credit (see Note 5 for additional information). No impairments were recorded as of the balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. At this time, the Center will be offering in person Academy beginning August 2020. In addition, while the Center's results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

The Center's investment portfolio has experienced significant fluctuations due to volatile market conditions. However, because the values of individual investments fluctuate with market conditions, the amount of potential losses that could be recognized in subsequent periods, if any, cannot be determined.

Interlochen Center for the Arts

Notes to Financial Statements

Net Asset Classifications

Net Assets Without Donor Restrictions: Net assets without donor restrictions 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.

Net Assets With Donor Restrictions: Net assets with donor restrictions 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, contributions and grants that are unexpended related to land, building and equipment, and endowment funds from contributed assets which have donor-imposed restrictions which do not expire. The principal of these funds is permanently maintained.

Revenues are reported as increases in net assets without donor restrictions 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.

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. 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 statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is donor restricted by explicit donor stipulations or by law.

Alternative investments, such as private equity investments, that do not have readily determinable market values as of May 31 are valued by the fund managers at net asset value. 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 estimated collectible value. Management reviews all the individual student accounts receivable as of May 31, and establishes an allowance for doubtful

Interlochen Center for the Arts

Notes to Financial Statements

accounts based on specific assessments 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 net realizable value.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in statement of activities and changes in net assets. The Center's department classification is the basis for allocating costs among the functional classifications. Depreciation is allocated based upon square footage. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Land, Buildings and Equipment

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

Other Assets

Other assets include broadcasting licenses for three FM stations as follows:

<i>May 31,</i>	2020	2019
Broadcasting License		
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 that will occur after year-end were deferred at May 31, 2020 and 2019.

Interlochen Center for the Arts

Notes to Financial Statements

Contributions, and Grants and Gifts Receivable

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.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities and changes in the net assets as net assets released from restrictions. Contributions without donor restrictions and donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying financial statements.

Revenue Recognition

During 2020 and 2019, the Center recognized net revenue from students of \$32,167,512 and \$30,952,471, respectively. The Center recognized impairment losses on student accounts receivable of \$1,114,579 and \$1,374,465, respectively.

The Center is an educational facility that operates a campus in Interlochen, Michigan. During 2020 and 2019, the Center recognized revenue from tuition of \$50,789,602 and \$46,651,258, respectively. Revenue for tuition is generally recognized ratably over the applicable semester or the service period, respectively. The nature, amount, timing and uncertainty of the Center's tuition revenue vary depending on the following factors:

- Student's boarding or day status
- Student's enrollment status (e.g., first year senior or post graduate)
- Summer camp sessions attended (e.g., junior, intermediate, high school)
- Semester attended (i.e., fall and spring or only spring)
- Financial aid discounts

For the year ended 2020, the closing balances of the Center's student accounts receivable and unearned revenue were \$0, and \$5,644,015, respectively.

For the year ended 2019, the beginning balances of the Center's student accounts receivable and unearned revenue were \$253,935, and \$12,323,502, respectively. The closing balances were \$32,262, and \$12,691,063, respectively.

During the year ended 2020, approximately \$12,243,914 of revenue was recognized from the closing balance of unearned revenue.

Interlochen Center for the Arts

Notes to Financial Statements

Changes in unearned revenue are as follows:

Balance at June 1, 2018	\$ 12,323,502
Activity for fiscal year 2019:	
Invoices	12,393,550
Revenue Recognized	<u>(12,025,989)</u>
Ending balance at May 31, 2019	12,691,063
Activity for fiscal year 2020:	
Invoices	5,196,866
Revenue Recognized	<u>(12,243,914)</u>
Ending balance at May 31, 2020	<u>\$ 5,644,015</u>

The Center typically satisfies its performance obligations over time, as services are rendered, because students typically obtain the benefits of such services as the services are performed. The Center typically uses days elapsed during the semester to measure progress toward completion of performance obligations satisfied over time. Days elapsed during the semester most faithfully depicts the Center's transfer of services because control of the services is transferred to the student during each day of the applicable semester.

Changes in estimates or student enrollment status during the current reporting period may result in changes to the revenue recognized for performance obligations that were previously fully or partially satisfied.

Payment for tuition and fees is typically due August 15 for the Interlochen Arts Academy and June 1 for the Interlochen Arts Camp. Invoices for tuition and fees are sent to parents once the enrollment agreement is signed. The Center does not offer discounts if the parent pays some or all of an invoiced amount prior to the due date. Payment early in the applicable semester or service period is reflected as unearned revenue, while payment late in the applicable semester or service period is reflected as contract assets, which may include student accounts receivable.

The transaction price of a contract with a student's parent is the amount of consideration to which the Center expects to be entitled in exchange for transferring promised services to the student.

To determine the transaction price of a contract, the Center considers its customary business practices as well as the terms of the contract. For the purpose of determining transaction prices, the Center assumes that the services will be transferred to the student as promised in accordance with existing contracts and that the contracts will not be cancelled, renewed, or modified.

For tuition and fees, the amount of consideration to which the Center will be entitled is variable as long as a student can withdraw from the school year or summer camp session and receive a refund. The Center excludes estimated refunds from the transaction price (and from the disclosure of the amounts of transaction prices allocated to remaining performance obligations). The Center also maintains appropriate accounts to reflect the effects of expected refunds on the Center's financial position and periodically adjusts those accounts to reflect its actual refund experience. The Center estimates refunds using historical and projected refund and enrollment trends. None of the Center's exchange revenues have a significant financing component.

Interlochen Center for the Arts

Notes to Financial Statements

At the end of each fiscal year, the Center updates the estimated transaction prices of contracts having unsatisfied performance obligations. At those times, revenue and related account balances are adjusted to reflect any changes in transaction prices.

Each contract with the parent typically contains only one performance obligation. Accordingly, the Center need not allocate the transaction price.

Services that the Center transfers to students are performed by the Center. In no case does the Center act as an agent; i.e., the Center does not provide a service of arranging for another party to transfer services to students.

During the fiscal year ended May 31, 2020, the Center recognized revenue from ticket sales, lodging, and retail sales of \$3,225,278, \$1,262,232 and \$1,862,941, respectively. During the fiscal year ended May 31, 2019, the Center recognized revenue from ticket sales, lodging, and retail sales of \$3,090,929, \$1,383,362 and \$2,053,715, respectively. These streams of revenue are recognized at a point in time upon the occurrence of the concert, lodging stay, or point-of-sale transaction. Payment is typically due upon entering into the sale. In certain instances, customers may prepay for a concert, which results in a contract liability that is recorded within accrued liabilities on the statement of financial position.

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.

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.

Self-Insurance

The Center is self-insured for medical benefits up to certain limits, as provided in the agreements with its insurance carrier. Operations are charged with the cost of claims reported. A provision has been made for estimated claims incurred but not reported and is included within accrued liabilities in the statement of financial position.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including July 13, 2020, the date the financial statements were available to be issued.

Interlochen Center for the Arts

Notes to Financial Statements

New Accounting Pronouncements

As of June 1, 2019, the Center adopted Financial Accounting Standards Board Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Center adopted the new standard using the retrospective method to all open contracts effective June 1, 2018 and is using a portfolio approach to group contracts with similar characteristics. No cumulative-effect adjustment in net assets was recorded as the adoption of ASU did not significantly impact the Center's reported historical revenue. There was not a significant impact on the amount of revenue recognized from contracts with customers for the year ended May 31, 2020 as a result of adopting the new guidance.

As of June 1, 2019, the Center adopted Financial Accounting Standards Board Accounting Standards Update No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The Center adopted the new standard on a modified prospective basis, and it impacted the recognition of certain contribution and grant agreements. The standard did not require a restatement of prior year amounts.

2. Investments

A summary of investments at fair value (net asset value for private equity investments), based on quoted market prices or current estimated fair value if considered a non-marketable security, held by the Center as of May 31, 2020 and 2019 is as follows:

	2020	2019
Mutual funds		
Fixed income	\$ 37,677,549	\$ 35,132,797
Equity securities	74,380,608	69,215,752
Real estate	2,612,714	2,975,940
Commodities	21,222	25,618
Money market	3,987,381	783,717
Asset allocation	5,395,351	11,437,810
Hedge fund	6,851,625	7,048,877
Private credit	937,391	0
Private equity	10,691,925	9,366,056
Total Investments	\$ 142,555,766	\$ 135,986,567

Net gain on investments of \$7,521,297 in 2020 represents \$3,561,419 of interest and dividends, \$1,587,473 of net realized gain on investments, and \$2,372,405 of net unrealized gains on investments.

Interlochen Center for the Arts

Notes to Financial Statements

Net gain on investments of \$4,623,892 in 2019 represents \$3,854,703 of interest and dividends, \$4,653,562 of net realized gain on investments, and \$3,884,373 of net unrealized loss on investments.

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 statement of financial position.

3. Gifts Receivable

The Center has received unconditional gifts from donors to make contributions to the Center. The contributions as of May 31, 2020 and 2019 is to be received as follows:

	2020	2019
Receivable in less than one year	\$ 4,037,172	\$ 2,488,785
Receivable in one to five years	5,350,276	3,210,159
Receivable in more than five years	523,550	1,460,551
Total Gifts Receivable	\$ 9,910,998	\$ 7,159,495

The Center had no allowance for uncollectible gifts receivable as of May 31, 2020 and 2019. The Center has received revocable gifts from donors to make contributions to the Center, primarily bequests, totaling approximately \$72,300,000.

4. Land, Buildings and Equipment

Land, buildings and equipment as of May 31, 2020 and 2019 are summarized by major classification as follows:

May 31,	2020	2019
Land	\$ 506,951	\$ 506,951
Land improvements	4,965,531	4,901,163
Buildings	93,444,499	68,033,753
Furniture and equipment	25,938,114	23,878,212
Construction in progress (estimated cost to complete of approximately \$23,900,000)	\$ 2,309,848	\$ 22,292,447
	\$ 127,164,943	\$ 119,612,526
Less accumulated depreciation	\$ (53,020,666)	\$ (50,744,196)
Land, Buildings and Equipment, net	\$ 74,144,277	\$ 68,868,330

Interlochen Center for the Arts

Notes to Financial Statements

5. Debt

Bonds payable at May 31, 2020 and 2019 consist of the following:

<i>May 31,</i>	2020	2019
Tax-exempt, Economic Development Bonds issued through the Township of Green Lake, Michigan; interest at a variable rate (between 0.03% and 5.45% during fiscal 2020 and between 0.50% and 2.30% during fiscal 2019) with final maturity June 2034	\$ 25,400,000	\$ 25,400,000

Under the terms of the Center's Variable Rate Demand Revenue and Revenue Refunding Bonds, Series 2004 (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 \$25,643,562 (outstanding principal plus 35 days' interest at 10%), expires in August 2023. The agreement contains certain financial covenants, an asset maintenance ratio and debt service coverage ratio, with which the Center was in compliance at May 31, 2020 and 2019.

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% and 5.50% at May 31, 2020 and 2019, respectively. 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 has a line of credit in the amount of \$8,000,000 that expires in September 2021. As of May 31, 2020 and 2019, the Center had an outstanding balance of \$2,200,000 and \$0 on the line of credit, respectively. At the time the line of credit is drawn upon the Center's interest rate is the London Interbank Offered Rate for a term of thirty days plus one hundred twenty five basis points, effectively 1.43% and 3.44% as of May 31, 2020 and 2019, respectively. Subsequent to the fiscal year-end, an additional \$5,800,000 was drawn on the line of credit in June 2020.

Bonds payable includes deferred financing costs of \$150,001 and \$160,716 as of May 31, 2020 and 2019, respectively, which are being straight-line amortized over the life of the Series 2004 Bonds. Amortization expense was \$10,715 for the years ended May 31, 2020 and 2019.

On April 28, 2020, the Center received a term loan from a bank totaling \$5,990,150. The loan was issued pursuant to the Coronavirus Aid, Relief, and Economic Security (CARES) Act's Paycheck Protection Program administered by the Small Business Administration ("SBA"). The loan structure required Center officials to certify certain statements that permitted the Center to qualify for the loan. These certifications are subject to future audit by the SBA.

The program provides forgiveness for some or all of the borrowed amount if the Center uses the loan proceeds for certain covered costs and meets certain salary and employee count thresholds. Any amounts not forgiven by the SBA must be paid back to the lender in eighteen equal monthly

Interlochen Center for the Arts

Notes to Financial Statements

installments, beginning on November 20, 2020. The final payment is due by April 20, 2022. The loan accrues interest at 1 percent. The Center has a right to prepay the unpaid principal balance at any time without penalty.

6. Retirement Plan

The Center has a defined contribution retirement plan for all eligible employees. Employer contributions are based upon a percentage of employee compensation for the year, and costs accrued under the plan are funded to a trust on a current basis. Expenses under the plan for the years ended May 31, 2020 and 2019 were \$1,977,812 and \$1,693,658, respectively, net of forfeitures.

7. 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.

8. 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 (0.70% and 2.85% at May 31, 2020 and 2019, respectively). The Center records the proceeds received in excess of the annuity payable as a charitable contribution, and such amount totaled \$0 for both the years ended May 31, 2020 and 2019, respectively. At May 31, 2020 and 2019, the Center recorded \$470,523 and \$494,009, respectively, in annuities payable relating to such program.

9. 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 net assets with donor restrictions (a) the original value of gifts donated to the endowments held in perpetuity, (b) the original value of subsequent gifts to the endowments held in perpetuity, and (c) accumulations to the endowments held in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

Interlochen Center for the Arts

Notes to Financial Statements

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.

The composition of endowment net assets by type of fund as of May 31, 2020 is as follows:

Endowment Net Asset Composition by Type of Fund as of May 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 39,644,150	\$ 39,644,150
Accumulated investment gains	-	10,044,306	10,044,306
Board-designated quasi endowment	42,838,209	-	42,838,209
Total Funds	\$ 42,838,209	\$ 49,688,456	\$ 92,526,665

Interlochen Center for the Arts

Notes to Financial Statements

The changes in endowment net assets for the fiscal year ended May 31, 2020 is as follows:

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of the year	\$ 42,197,457	\$ 46,274,554	\$ 88,472,011
Investment return:			
Interest and dividends	988,408	1,182,220	2,170,628
Net appreciation of investments	1,397,393	1,472,608	2,870,001
Total investment return	2,385,801	2,654,828	5,040,629
Contributions	444	2,364,026	2,364,470
Appropriation of endowment assets for expenditures	(1,586,534)	(1,629,952)	(3,216,486)
Other changes:			
Transfers to release Board designated endowment funds	(101,762)	-	(101,762)
Transfers to create endowment funds	-	25,000	25,000
Annuity changes	(59,976)	-	(59,976)
Transfers to create Board designated endowment funds	2,779	-	2,779
	(158,959)	25,000	(133,959)
Endowment Net Assets, End of the year	\$ 42,838,209	\$ 49,688,456	\$ 92,526,665

Interlochen Center for the Arts

Notes to Financial Statements

The composition of endowment net assets by type of fund as of May 31, 2019 is as follows:

Endowment Net Asset Composition by Type of Fund as of May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 37,255,124	\$ 37,255,124
Accumulated investment gains	-	9,019,430	9,019,430
Board-designated quasi endowment	42,197,457	-	42,197,457
Total Funds	\$ 42,197,457	\$ 46,274,554	\$ 88,472,011

Interlochen Center for the Arts

Notes to Financial Statements

The changes in endowment net assets for the fiscal year ended May 31, 2019 is as follows:

Changes in Endowment Net Assets for the Fiscal Year Ended May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of the year	\$ 44,493,105	\$ 43,676,646	\$ 88,169,751
Investment return:			
Interest and dividends	1,160,266	1,152,556	2,312,822
Net appreciation of investments	301,633	369,894	671,527
Total investment return	1,461,899	1,522,450	2,984,349
Contributions	60,952	2,579,438	2,640,390
Appropriation of endowment assets for expenditures	(1,556,611)	(1,504,075)	(3,060,686)
Other changes:			
Transfers to release Board designated endowment funds	(4,436,472)	95	(4,436,377)
Annuity changes	(78,862)	-	(78,862)
Transfers to create Board designated endowment funds	2,253,446	-	2,253,446
	(2,261,888)	95	(2,261,793)
Endowment Net Assets, End of the year	\$ 42,197,457	\$ 46,274,554	\$ 88,472,011

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 SPMIFA requires the Center to retain as a fund of perpetual duration. Deficiencies of this nature exist in 13 donor-restricted endowment funds, which together have an original gift value of \$429,854, a current fair value of \$218,297, and a deficiency of \$211,557 as of May 31, 2020. Deficiencies of this nature exist in 15 donor-restricted endowment funds, which together have an original gift value of \$1,296,777, a current fair value of \$1,081,157, and a deficiency of \$215,620 as of May 31, 2019. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

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

Interlochen Center for the Arts

Notes to Financial Statements

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 4.4% of its endowment fund's average fair value over the prior five years. In the fiscal year ended May 31, 2019, the Center had a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior five years. The spending policy calculation is performed as of the end of August 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.

10. 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 tables below present information about the Center's assets measured at fair value on a recurring basis at May 31, 2020 and 2019, 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. The fair value of the annuities payable was determined using Level 2 inputs.

Interlochen Center for the Arts

Notes to Financial Statements

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 consist of private equity and hedge fund 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 (NAV) 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. The adoption of ASU 2015-07 removed the requirement to categorize within the fair value hierarchy all investments where the fair value is measured using the NAV practical expedient.

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.

	Balance, May 31, 2020	Level 1	Level 2	Level 3
Investments:				
Money Market Mutual Funds	\$ 3,987,381	\$ 3,987,381	\$ -	\$ -
U.S. Fixed Income, Core	26,371,660	26,371,660		
U.S. Fixed Income, High Yield	11,287,195	11,287,195		
Treasury Inflation Protected Securities	18,694	18,694		
U.S. Equity, Blend	41,240,967	41,240,967		
U.S. Equity, Large Value	390,751	390,751		
U.S. Equity, Small Capitalization	7,343,273	7,343,273		
International Equity, Large Blend	21,478,149	10,832,301	10,645,848	
International Equity, Emerging	3,927,468	3,927,468		
Asset Allocation	5,395,351	5,395,351		
Real Estate Securities	2,612,714	2,612,714		
Commodities Securities	21,222	21,222		
Total investments	124,074,825	113,428,977	10,645,848	-
Investments measured at net asset value as a practical expedient	18,480,941			
Total Investments at Fair Value	\$ 142,555,766	\$ 113,428,977	\$ 10,645,848	\$ -

Interlochen Center for the Arts

Notes to Financial Statements

	Balance, May 31, 2019	Level 1	Level 2	Level 3
Investments:				
Money Market Mutual Funds	\$ 783,717	\$ 783,717	\$ -	\$ -
U.S. Fixed Income, Core	18,522,647	18,522,647		
U.S. Fixed Income, High Yield	11,119,458	11,119,458		
Treasury Inflation Protected Securities	5,490,692	5,490,692		
U.S. Equity, Blend	38,558,848	38,558,848		
U.S. Equity, Large Value	412,958	412,958		
U.S. Equity, Small Capitalization	6,616,137	6,616,137		
International Equity, Large Blend	19,515,385	9,901,594	9,613,791	
International Equity, Emerging	4,112,424	4,112,424		
Asset Allocation	11,437,810	11,437,810		
Real Estate Securities	2,975,940	2,975,940		
Commodities Securities	25,618	25,618		
Total investments	119,571,634	109,957,843	9,613,791	-
Investments measured at net asset value as a practical expedient				
	16,414,933			
Total Investments at Fair Value	\$ 135,986,567	\$ 109,957,843	\$ 9,613,791	\$ -

Investments in Entities That Calculate Net Asset Value Per Share

The following tables present a summary of private equity and hedge fund investments that calculates NAV as of May 31, 2020 and 2019:

Private Equity Funds	Fair Value	Unfunded Commitments	Redemption Restrictions
Portfolio Advisors VI	\$ 1,115,384	\$ 628,665	(1)
Portfolio Advisors VII	1,537,321	912,687	(1)
Portfolio Advisors VIII	2,034,696	830,495	(1)
Portfolio Advisors IX	2,294,917	1,887,085	(1)
Portfolio Advisors Secondary Fund III	1,309,396	551,397	(1)
Goldman Sachs Vintage VII	1,467,773	897,009	(1)
Goldman Sachs Vintage VIII	171,172	2,457,000	(1)
Goldman Sachs Private Credit Managers II	937,391	1,134,192	(1)
Goldman Private Equity Managers (2019)	134,536	1,562,470	(1)
Hirtle Callaghan Private Equity VI	626,730	239,041	(1)
Hedge Fund	6,851,625	-	(2)
	<u>\$ 18,480,941</u>	<u>\$ 11,100,041</u>	

Interlochen Center for the Arts

Notes to Financial Statements

Private Equity Funds	Fair Value	Unfunded Commitments	Redemption Restrictions
Portfolio Advisors VI	\$ 1,407,353	\$ 1,096,790	(1)
Portfolio Advisors VII	1,565,204	912,687	(1)
Portfolio Advisors VIII	1,920,943	945,116	(1)
Portfolio Advisors IX	1,245,178	2,748,203	(1)
Portfolio Advisors Secondary Fund III	958,201	1,000,955	(1)
Goldman Sachs Vintage VII	1,330,258	889,721	(1)
Goldman Sachs Private Credit Managers II	260,187	1,835,242	(1)
Hirtle Callaghan Private Equity VI	678,732	239,041	(1)
Hedge Fund	7,048,877	-	(2)
	<u>\$ 16,414,933</u>	<u>\$ 9,667,755</u>	

(1) The fair values of the investments in the private equity funds have been estimated using the net asset value of the underlying investments. According to the agreements for the private equity funds above, the Center is invested in closed-end, illiquid private equity vehicles, and as such there is no redemption frequency. The duration of the private equity investments, including those that are measured at net asset value is expected to be approximately 6-10 years.

(2) The fair values of the investments in the fund have been estimated using the net asset value of the underlying investments. According to the agreement for the fund, the Center's investment is illiquid for a period of one year after the initial investment is made. After this one-year period ended on October 1, 2019, the fund had quarterly liquidity with a 91-day notice period.

11. Net Assets Without Donor Restrictions

The Center's net assets without donor restrictions is comprised of undesignated and Board designated amounts for the following purposes at:

<u>May 31,</u>	<u>2020</u>	<u>2019</u>
Undesignated	\$ 41,477,565	\$ 36,130,997
Board designated for Quasi-Endowment	42,838,209	42,197,457
Board designated for Debt Service	26,860,925	25,820,874
Board designated for Capital and Programmatic Needs	20,747,242	20,677,288
	<u>131,923,941</u>	<u>124,826,616</u>

Board Designated for Quasi-Endowment

The Center's Board has designated funds to be set aside to establish and maintain a quasi-endowment for the purpose of securing the Center's long-term financial viability and continuing to meet the needs of the Center.

Interlochen Center for the Arts

Notes to Financial Statements

Board Designated for Debt Service

The Center's Board has designated funds to be set aside to pay off the Center's \$25,400,000 in tax-exempt Economic Development Bonds with a balloon payment at final maturity on June 1, 2034.

Board Designated for Capital and Programmatic Needs

The Center's Board has designated funds to be set aside to partially fund larger capital projects, to cover annual deferred maintenance costs, and to fund strategic projects.

12. Net Assets With Donor Restrictions

The Center's net assets with donor restrictions are restricted for the following purposes as follow:

May 31,	2020	2019
Subject to Expenditure for Specific Purposes		
Buildings and Equipment	\$ 5,861,477	\$ 5,348,022
Scholarships	84,658	(130,087)
Guest Instructors, Professional Development, and Programmatic Needs	1,337,586	1,168,338
	7,283,721	6,386,273
Endowments		
Subject to the Center's spending policy and appropriation:		
Investment in perpetuity (original amount of \$49,688,456 and \$46,274,554 in 2020 and 2019, respectively), which once appropriated, is expendable to support:		
Scholarship Support	39,704,780	36,825,546
Guest Instructor and Faculty Support	4,874,074	4,440,788
Facility Operations	1,546,282	1,514,766
Any Activities of the Center	3,563,320	3,493,454
Total endowments subject to the Center's spending policy and appropriation	49,688,456	46,274,554
Total Net Assets With Donor Restrictions	56,972,177	52,660,827

The various purposes of the above donor restricted amounts are as follows:

Buildings and Equipment - Various capital projects on the Center's campus.

Scholarships - Scholarship support for Interlochen Art's Academy or Interlochen Art's Camp students.

Guest Instructors, Professional Development, and Programmatic Needs - Artist-in-Residence or guest instructors and funds restricted to artistic areas or specific programming.

Interlochen Center for the Arts

Notes to Financial Statements

13. Net Assets Released From Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors. The net assets released from restrictions are as follow:

<i>Year ended May 31,</i>	2020	2019
Purpose or period restrictions accomplished:		
Buildings and Equipment	\$ 6,212,300	\$ 14,412,631
Scholarships	5,474,156	5,623,350
Guest Instructors, Professional Development, and Programmatic Needs	454,848	587,936
Net Assets Released from Restriction	12,141,304	20,623,917

14. Liquidity and Availability of Resources

The Center's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date of May 31, 2020 and 2019, are as follows:

<i>May 31,</i>	2020	2019
Cash and cash equivalents	\$ 5,717,782	\$ 10,711,578
Investments	142,555,766	135,986,567
Accounts receivable, net	0	32,262
Gifts receivable	4,037,172	2,488,785
Total financial assets available within one year	152,310,720	149,219,192
Less:		
Amounts unavailable for general expenditures within one year due to:		
Restricted by donors in perpetuity	(48,818,788)	(45,850,886)
Restricted by donors with purpose restrictions	(4,755,232)	(3,206,219)
Total amounts unavailable for general expenditures within one year	(53,574,020)	(49,057,105)
Amounts unavailable to management without Boards's approval:		
Board Designated for Quasi-Endowment	(40,436,879)	(41,221,410)
Board Designated for Debt Service	(26,860,924)	(25,820,874)
Board Designated for Capital and Programmatic Needs	(20,747,242)	(20,677,288)
Total amounts unavailable to management without Board's approval	(88,045,045)	(87,719,572)
Total financial assets available to management for general expenditure within one year	\$ 10,691,655	\$ 12,442,515

Interlochen Center for the Arts

Notes to Financial Statements

Liquidity Management

The Center maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Center invests cash in excess of daily requirements in short-term investments.

To help manage unanticipated liquidity needs the Center has a committed line of credit of \$8,000,000, which it could draw upon. Additionally, the Center has Board Designated net assets without donor restrictions that, while the Center does not intend to spend these for purposes other than those identified, the amounts could be made available for current operations, if necessary.

Supplementary Information

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, 2020 and have issued our report thereon dated July 13, 2020, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2020 financial statements as a whole. The supplementary statements 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 required parts 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 2020 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 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 2020 financial statements as a whole.

Plante & Moran, PLLC

July 13, 2020

Interlochen Center for the Arts

Statement of Financial Position Allocated by Fund

May 31,	2020													Total	Intercompany Elimination	Total
	Without Donor Restrictions				With Donor Restrictions											
	Operating Funds	Designated Funds	Designated Endowment Funds	Total Without Donor Restrictions	Scholarship Funds	General Funds	Temporary Endowment Funds	Plant Funds	Agency Funds	Permanent Endowment Funds	Total With Donor Restrictions					
Assets																
Cash and cash equivalents	\$ 2,902,202	\$ 670,646	\$ 873,095	\$ 4,445,943	\$ -	\$ 117,878	\$ 133,529	\$ -	\$ 74,338	\$ 946,094	\$ 1,271,839	\$ 5,717,782		\$ 5,717,782		
Investments	7,513,089	46,937,521	39,563,784	94,014,394	-	1,219,707	12,092,429	-	-	35,229,236	48,541,372	142,555,766		142,555,766		
Accounts receivable, net of allowance of approximately \$3,227,000 in 2020	-	-	-	-	-	-	-	-	-	-	-	-		-		
Gifts receivable	276,364	-	483,551	759,915	150,000	-	-	7,713,915	-	1,287,168	9,151,083	9,910,998		9,910,998		
Prepaid expenses and other receivables	574,839	-	1,917,779	2,492,618	-	-	-	-	-	-	-	2,492,618	(1,917,779)	574,839		
Inventories	354,342	-	-	354,342	-	-	-	-	-	-	-	354,342		354,342		
Land, buildings and equipment, net	74,144,277	-	-	74,144,277	-	-	-	-	-	-	-	74,144,277		74,144,277		
Other assets	1,012,308	-	-	1,012,308	-	-	-	-	-	-	-	1,012,308		1,012,308		
Total Assets	\$ 86,777,421	\$ 47,608,167	\$ 42,838,209	\$ 177,223,797	\$ 150,000	\$ 1,337,585	\$ 12,225,958	\$ 7,713,915	\$ 74,338	\$ 37,462,498	\$ 58,964,294	\$ 236,188,091	\$ (1,917,779)	\$ 234,270,312		
Liabilities and Net Assets																
Liabilities																
Accounts payable - trade	\$ 377,488	\$ -	\$ -	\$ 377,488	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 377,488		\$ 377,488		
Accrued liabilities	5,235,017	-	-	5,235,017	65,342	-	-	1,852,437	74,338	-	1,992,117	7,227,134	(1,917,779)	5,309,355		
Tuition deposits and other	5,776,679	-	-	5,776,679	-	-	-	-	-	-	-	5,776,679		5,776,679		
Annuities payable	470,523	-	-	470,523	-	-	-	-	-	-	-	470,523		470,523		
Line of credit payable	2,200,000	-	-	2,200,000	-	-	-	-	-	-	-	2,200,000		2,200,000		
Paycheck protection program payable	5,990,150	-	-	5,990,150	-	-	-	-	-	-	-	5,990,150		5,990,150		
Bonds payable, net	25,249,999	-	-	25,249,999	-	-	-	-	-	-	-	25,249,999		25,249,999		
Total Liabilities	45,299,856	-	-	45,299,856	65,342	-	-	1,852,437	74,338	-	1,992,117	47,291,973	(1,917,779)	45,374,194		
Net Assets																
Without Donor Restrictions	41,477,565	47,608,167	42,838,209	131,923,941	-	-	-	-	-	-	-	131,923,941		131,923,941		
With Donor Restrictions	-	-	-	-	84,658	1,337,585	12,225,958	5,861,478	-	37,462,498	56,972,177	56,972,177		56,972,177		
Total Net Assets	41,477,565	47,608,167	42,838,209	131,923,941	84,658	1,337,585	12,225,958	5,861,478	-	37,462,498	56,972,177	188,896,118		188,896,118		
Total Liabilities and Net Assets	\$ 86,777,421	\$ 47,608,167	\$ 42,838,209	\$ 177,223,797	\$ 150,000	\$ 1,337,585	\$ 12,225,958	\$ 7,713,915	\$ 74,338	\$ 37,462,498	\$ 58,964,294	\$ 236,188,091	\$ (1,917,779)	\$ 234,270,312		

See accompanying independent auditor's report on supplementary information.

Interlochen Center for the Arts

Schedule of Activities - Cost of Operations and General and Administrative Expenses Allocated by Fund

Year ended May 31,	2020										
	Without Donor Restrictions				With Donor Restrictions						
	Operating Funds	Designated Funds	Designated Endowment Funds	Total Without Donor Restrictions	Scholarship Funds	General Funds	Temporary Endowment Funds	Plant Funds	Permanent Endowment Funds	Total With Donor Restrictions	Total
Revenues and Other Additions											
Gross tuition and student fees	\$ 50,789,602	\$ -	\$ -	\$ 50,789,602	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,789,602
Assets released from restrictions:											
Operating item:											
Financial aid	5,216,750		(54,380)	5,162,370	(3,862,046)	(10,208)	(1,290,116)	-	-	(5,162,370)	-
Less financial aid grants	(18,622,090)	-	-	(18,622,090)	-	-	-	-	-	-	(18,622,090)
Net tuition and student fees	37,384,262	-	(54,380)	37,329,882	(3,862,046)	(10,208)	(1,290,116)	-	-	(5,162,370)	32,167,512
Ticket sales	3,225,278	-		3,225,278	-	-	-	-	-	-	3,225,278
Lodging	1,262,232	-		1,262,232	-	-	-	-	-	-	1,262,232
Retail sales	1,862,611	330		1,862,941	-	-	-	-	-	-	1,862,941
Contributions and grants	1,680,276	319,337	444	2,000,057	4,072,726	549,367	-	6,673,075	2,364,026	13,659,194	15,659,251
Net gain on investments	-	2,348,635	2,385,801	4,734,436	-	79,930	2,654,828	52,103	-	2,786,861	7,521,297
Endowment allocation	1,644,361	-	-	1,644,361	(1,644,361)	-	-	-	-	(1,644,361)	-
Other revenues	950,788	32,325	(59,977)	923,136	1,016	5,006	-	577	-	6,599	929,735
Total revenues and other additions	48,009,808	2,700,627	2,271,888	52,982,323	(1,432,665)	624,095	1,364,712	6,725,755	2,364,026	9,645,923	62,628,246
Cost of Goods and Services											
Artist fees	2,143,965	51,639	-	2,195,604	-	2,834	-	-	-	2,834	2,198,438
Cost of goods sold	1,177,996	-	-	1,177,996	-	-	-	-	-	-	1,177,996
Total cost of goods and services	3,321,961	51,639	-	3,373,600	-	2,834	-	-	-	2,834	3,376,434
Cost of Operations											
Salaries, wages and benefits	32,316,123	200,405	-	32,516,528	-	220,874	-	-	-	220,874	32,737,402
Food costs	1,389,844	19,229	-	1,409,073	-	1,136	-	-	-	1,136	1,410,209
Contracted services	808,211	549,623	-	1,357,834	-	36,019	-	101,453	-	137,472	1,495,306
Supplies	1,538,572	738,647	-	2,277,219	-	148,918	-	171,182	-	320,100	2,597,319
Repairs and maintenance	977,467	77,225	-	1,054,692	-	404	-	18,756	-	19,160	1,073,852
Leases and rentals	344,390	52,002	-	396,392	-	2,431	-	-	-	2,431	398,823
Utilities	1,014,563	-	-	1,014,563	-	-	-	-	-	-	1,014,563
Insurance	357,552	-	-	357,552	-	-	-	8,904	-	8,904	366,456
Telephone and postage	393,324	431	-	393,755	-	205	-	-	-	205	393,960
Other operational	54,681	166,194	-	220,875	-	750	-	-	-	750	221,625
Total cost of operations	39,194,727	1,803,756	-	40,998,483	-	410,737	-	300,295	-	711,032	41,709,515

Interlochen Center for the Arts

Schedule of Activities - Cost of Operations and General and Administrative Expenses Allocated by Fund

Year ended May 31,	2020											Total
	Without Donor Restrictions				With Donor Restrictions							
	Operating Funds	Designated Funds	Designated Endowment Funds	Total Without Donor Restrictions	Scholarship Funds	General Funds	Temporary Endowment Funds	Plant Funds	Permanent Endowment Funds	Total With Donor Restrictions		
General and Administrative												
Marketing	\$ 536,977	\$ 16,286	\$ -	\$ 553,263	\$ -	\$ -	\$ -	\$ 12,696	\$ -	\$ 12,696	\$ 565,959	
Travel and entertainment	813,110	226,020	-	1,039,130	-	129,538	-	-	-	129,538	1,168,668	
Professional services	629,140	420,189	-	1,049,329	-	-	-	-	-	-	1,049,329	
Other	683,724	325,283	-	1,009,007	-	15,908	-	-	-	15,908	1,024,915	
Total general and administrative	2,662,951	987,778	-	3,650,729	-	145,446	-	12,696	-	158,142	3,808,871	
Total expenses before depreciation	45,179,639	2,843,173	-	48,022,812	-	559,017	-	312,991	-	872,008	48,894,820	
Increase (decrease) in net assets before depreciation and non-operating items	2,830,169	(142,546)	2,271,888	4,959,511	(1,432,665)	65,078	1,364,712	6,412,764	2,364,026	8,773,915	16,097,452	
Depreciation Expense	2,324,751	-	-	2,324,751	-	-	-	-	-	-	2,324,751	
Assets Released From Restrictions/Transfers												
Non-operating items - capital and other	4,841,150	1,252,551	(1,631,136)	4,462,565	1,647,410	104,169	(339,837)	(5,899,308)	25,001	(4,462,565)	-	
Net Increase (Decrease) in Net Assets	5,346,568	1,110,005	640,752	7,097,325	214,745	169,247	1,024,875	513,456	2,389,027	4,311,350	11,408,675	
Net Assets, beginning of year	36,130,997	46,498,162	42,197,457	124,826,616	(130,087)	1,168,338	11,201,083	5,348,022	35,073,471	52,660,827	177,487,443	
Net Assets, end of year	\$ 41,477,565	\$ 47,608,167	\$ 42,838,209	\$ 131,923,941	\$ 84,658	\$ 1,337,585	\$ 12,225,958	\$ 5,861,478	\$ 37,462,498	\$ 56,972,177	\$ 188,896,118	

See accompanying independent auditor's report on supplementary information.