

**NORTH HOUSE FOLK SCHOOL**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2013 AND 2012**



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## NORTH HOUSE FOLK SCHOOL

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Independent Auditor's Report

May 13, 2014

To the Board of Directors  
North House Folk School  
Grand Marais, Minnesota

We have audited the accompanying financial statements of North House Folk School (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 North House Folk School as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Licari, Larsen & Co. LTD*

NORTH HOUSE FOLK SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012

	<u>Assets</u>	<u>2013</u>	<u>2012</u>
<u>Current Assets:</u>			
Cash and cash equivalents		\$ 90,374	\$ 51,332
Cash-board designated		106,785	63,720
Cash-temporarily restricted		-	-
Total Cash and Cash Equivalents		<u>197,159</u>	<u>115,052</u>
Pledges receivable		254,000	274,300
Grant receivable		15,008	-
Inventory		41,428	42,167
Total Current Assets		<u>507,595</u>	<u>431,519</u>
<u>Property And Equipment:</u>			
Property and equipment		1,313,192	1,288,646
Less accumulated depreciation		<u>233,677</u>	<u>189,152</u>
Total Property and Equipment		<u>1,079,515</u>	<u>1,099,494</u>
Endowment fund		<u>132,641</u>	<u>107,719</u>
Total Assets		<u><u>\$ 1,719,751</u></u>	<u><u>\$ 1,638,732</u></u>
	<u>Liabilities And Net Assets</u>		
<u>Current Liabilities:</u>			
Current maturities of long-term debt		\$ 7,815	\$ 5,861
Accounts payable		26,673	29,302
Deferred revenue-pledges		254,000	274,300
Deferred revenue		<u>63,310</u>	<u>47,973</u>
Total Current Liabilities		<u>351,798</u>	<u>357,436</u>
Long-term debt, net of current maturities		<u>194,813</u>	<u>203,301</u>
<u>Net Assets:</u>			
Unrestricted		1,050,699	970,476
Temporarily restricted		-	-
Permanently restricted		<u>122,441</u>	<u>107,519</u>
Total Net Assets		<u>1,173,140</u>	<u>1,077,995</u>
Total Liabilities And Net Assets		<u><u>\$ 1,719,751</u></u>	<u><u>\$ 1,638,732</u></u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Public Support And Revenues:</u>				
<u>Public Support:</u>				
Grants	\$ 109,922	\$ -	\$ -	\$ 109,922
Contributions	-	17,799	10,000	27,799
Membership support	227,366	-	-	227,366
Net assets released from restrictions	21,297	(17,799)	(3,498)	-
Total Public Support	358,585	-	6,502	365,087
<u>Revenues:</u>				
Program service fees	433,015	-	-	433,015
Sale of goods	107,581	-	-	107,581
Special events	123,876	-	-	123,876
Investment/interest income	226	-	8,420	8,646
Total Revenues	664,698	-	8,420	673,118
Total Public Support/Revenues	1,023,283	-	14,922	1,038,205
<u>Expenses:</u>				
Program services	764,822	-	-	764,822
Fundraising	88,786	-	-	88,786
Management and general	89,452	-	-	89,452
Total Expenses	943,060	-	-	943,060
INCREASE (DECREASE) IN NET ASSETS	\$ 80,223	\$ -	\$ 14,922	\$ 95,145
<u>Net Assets:</u>				
Beginning of year	970,476	-	107,519	1,077,995
End of year	\$1,050,699	\$ -	\$ 122,441	\$1,173,140

See accompanying notes.

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NORTH HOUSE FOLK SCHOOL  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Public Support And Revenues:</u>				
<u>Public Support:</u>				
Grants	\$ 68,224	\$ 16,000	\$ -	\$ 84,224
Contributions	-	172,135	10,000	182,135
Membership support	157,505	-	-	157,505
Net assets released from restrictions	189,383	(189,383)	-	-
Total Public Support	415,112	(1,248)	10,000	423,864
<u>Revenues:</u>				
Program service fees	438,372	-	-	438,372
Sale of goods	97,818	-	-	97,818
Special events	143,908	-	-	143,908
Investment/interest income	179	-	-	179
Total Revenues	680,277	-	-	680,277
Total Public Support/Revenues	1,095,389	(1,248)	10,000	1,104,141
<u>Expenses:</u>				
Program services	647,334	-	-	647,334
Fundraising	137,379	-	-	137,379
Management and general	90,084	-	-	90,084
Total Expenses	874,797	-	-	874,797
INCREASE (DECREASE) IN NET ASSETS	\$ 220,592	\$ (1,248)	\$ 10,000	\$ 229,344
<u>Net Assets:</u>				
Beginning of year	749,884	1,248	97,519	848,651
End of year	\$ 970,476	\$ -	\$ 107,519	\$ 1,077,995

See accompanying notes.

NORTH HOUSE FOLK SCHOOL  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management And General</u>	<u>Total 2013</u>
Salaries	\$ 194,465	\$ 41,671	\$ 41,671	\$ 277,807
Payroll taxes	11,780	2,524	2,524	16,829
Employee benefits	13,980	2,996	2,996	19,972
Total Compensation	220,226	47,191	47,191	314,608
Accounting/legal	-	-	6,562	6,562
Advertising	37,831	-	-	37,831
Cost of good sold	86,493	-	-	86,493
Course materials	33,846	-	-	33,846
Depreciation	44,525	-	-	44,525
Events	55,676	28,681	-	84,357
Insurance	14,897	-	6,385	21,282
Interest	-	-	10,567	10,567
Miscellaneous	-	-	1,515	1,515
Occupancy	27,455	5,883	5,883	39,221
Postage	5,603	-	2,401	8,004
Professional services	194,817	-	-	194,817
Ship maintenance	10,642	-	-	10,642
Supplies	29,940	6,416	6,416	42,771
Telephone	2,871	615	615	4,102
Travel	-	-	1,917	1,917
Total Functional Expenses	<u>\$ 764,822</u>	<u>\$ 88,786</u>	<u>\$ 89,452</u>	<u>\$ 943,060</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management And General</u>	<u>Total 2012</u>
Salaries	\$ 169,554	\$ 36,333	\$ 36,333	\$ 242,220
Payroll taxes	12,654	2,711	2,711	18,076
Employee benefits	7,400	1,586	1,586	10,572
Total Compensation	189,608	40,630	40,630	270,868
Accounting/legal	-	-	6,256	6,256
Advertising	33,588	-	-	33,588
Cost of good sold	95,316	-	-	95,316
Course materials	27,133	-	-	27,133
Depreciation	37,620	-	-	37,620
Events	-	85,454	-	85,454
Insurance	10,251	-	4,393	14,644
Interest	-	-	11,801	11,801
Miscellaneous	-	-	11,399	11,399
Occupancy	28,339	6,072	6,072	40,483
Postage	5,253	-	2,251	7,504
Professional services	185,326	-	-	185,326
Ship maintenance	10,527	-	-	10,527
Supplies	21,218	4,547	4,547	30,312
Telephone	3,155	676	676	4,507
Travel	-	-	2,059	2,059
Total Functional Expenses	<u>\$ 647,334</u>	<u>\$ 137,379</u>	<u>\$ 90,084</u>	<u>\$ 874,797</u>

See accompanying notes.



NORTH HOUSE FOLK SCHOOL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>Cash Flows From Operating Activities:</u>		
Increase in net assets	\$ 95,145	\$ 229,344
<u>Adjustments to reconcile to net cash</u>		
<u>flows from operating activities:</u>		
Depreciation	44,525	37,620
Endowment changes	(24,922)	(10,000)
<u>Other:</u>		
<u>(Increase) decrease in:</u>		
Pledge receivable	5,292	139,674
Inventory	739	(10,189)
<u>Increase (decrease) in:</u>		
Accounts payable	(2,629)	11,388
Deferred revenue	(4,963)	(107,057)
Net Cash Flows From Operating Activities	<u>113,187</u>	<u>290,780</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	<u>(24,546)</u>	<u>(132,484)</u>
Net Cash Flows From Investing Activities	<u>(24,546)</u>	<u>(132,484)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds (payments) from line of credit	-	(150,729)
Payments of long-term debt	<u>(6,534)</u>	<u>(5,299)</u>
Net Cash Flows From Financing Activities	<u>(6,534)</u>	<u>(156,028)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIV.	82,107	2,268
Cash and cash equiv., beginning of year	<u>115,052</u>	<u>112,784</u>
Cash and cash equiv., end of year	<u><u>\$ 197,159</u></u>	<u><u>\$ 115,052</u></u>
<u>Supplementary Information:</u>		
Interest paid	<u><u>\$ 10,567</u></u>	<u><u>\$ 11,801</u></u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the North House Folk School's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

Nature of Activities

The North House Folk School is a nonprofit corporation whose purpose is to enrich lives and build community by teaching traditional northern crafts in a student -centered learning environment that inspires the hands, heart and mind.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification 958, Financial Statements of Not-For-Profit Organizations. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash in the operating bank account and savings accounts for purposes of the Statement of Cash Flows.

Inventory

Inventory is comprised of store retail items and white pine timber and is stated at average costs. All other purchases of materials and supplies are charged to expense at the time of purchase.

NORTH HOUSE FOLK SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are stated at unpaid balances. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Property and Equipment

Property and equipment are recorded at cost, with normal maintenance and repair items charged to operating expense when incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of seven to twenty-five years. Tools and equipment are charged to expenses in the period of purchase instead of being depreciated over their useful lives. This differs from generally accepted accounting principles which require property and equipment to be capitalized and depreciated over its useful life.

Contributions

North House Folk School accounts for contributions in accordance with the recommendations of Statement of Financial Accounting Standards, ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Allocated Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of North House Folk School.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash equivalents and accounts receivable. Accounts receivable, which have been adjusted for all known doubtful accounts, are due from various individuals for programs.

NORTH HOUSE FOLK SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

North House Folk School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and under similar provisions of the Minnesota Income Tax Act. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(ii).

NOTE B – PROPERTY AND EQUIPMENT

A summary of property and equipment and the related accumulated depreciation is as follows:

	Useful Life	2013	2012
Land		\$ 114,006	\$ 114,006
Buildings/improvements	25 yrs	1,114,534	1,103,224
Schooner	20 yrs	52,500	52,500
Equipment	7 yrs	32,152	18,916
		1,313,192	1,288,646
Accumulated depreciation		233,677	189,152
Net Property And Equipment		<u>\$1,079,515</u>	<u>\$ 1,099,494</u>

NOTE C – LINE OF CREDIT

The Organization has an operating line of credit in the amount of \$-0- and \$-0- at December 31, 2013 and 2012. Bank advances on the credit line are payable on demand and carry an interest rate of 2.0% below the Bank base rate. The line of credit is secured by the real estate mortgage of North House Folk School and matures on October 30, 2014.

NOTE D – CONTINGENCIES

North House Folk School participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment of the grantor agencies; therefore, to the extent that North House Folk School has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of North House Folk School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NORTH HOUSE FOLK SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE E – LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
Grand Marais State Bank due in monthly installments of \$1,580 including interest at 5.5% to February 10, 2019, secured by real estate mortgage	\$ 202,628	\$ 209,162
Less-current portion	<u>7,815</u>	<u>5,861</u>
Long-term Debt	<u>\$ 194,813</u>	<u>\$ 203,301</u>

Maturities of long-term debt over the next five years is as follows:

2014	7,815
2015	8,245
2016	8,698
2017	9,177
2018	9,682
Thereafter	<u>159,011</u>
	<u>\$ 202,628</u>

The Organization renewed the note in February 2014 with a modified the maturity date to February 2019, the new terms are reflected above.

NOTE F – BOARD DESIGNATED FUNDS

The Board has designated cash and has segregated these funds to be used at the discretion of the Board.

NOTE G – CAPITAL CAMPAIGN

The Organization has started a capital campaign for property improvements that will enhance the programs offered to the public. There have been pledges made as of December 31. Pledges receivable have been recorded as deferred revenues until the pledge is actually received. Cash balance in the capital campaign account is \$-0- and \$-0- at December 31, 2013 and 2012.

NORTH HOUSE FOLK SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE H – LEASE COMMITMENT

North House Folk School leases two buildings under a noncancelable operating lease. Total cost for the lease was \$3,948 and \$3,877 for the years ended December 31, 2013 and 2012. The amount of the lease will be recalculated based on a reappraisal by the county commissioner at the end of the fifth year, December 31, 2014.

NOTE I - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments, including cash and accounts payable approximate their fair market value due to the short term maturities of these instruments. The carrying value of notes payable approximates the fair value based on current market rates and conditions.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 13, 2014, the date on which the financial statements were available to be issued.

NOTE K - CAPITAL CAMPAIGN

The Organization is involved in a capital campaign to raise money for building additions and improvements. The additions will expand available programs. At December 31, 2013 and 2012, pledges for the capital campaign are \$254,000 and \$274,300 and are recorded as deferred pledges until received.

Contributions received for 2013 and 2012 were \$17,799 and \$173,413.

NOTE L - INCOME TAXES

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the plan and recognize a tax liability if the plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the organization, and has concluded that as of December 31, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.