

NORTH HOUSE FOLK SCHOOL

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

NORTH HOUSE FOLK SCHOOL

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3 – 4
Statements of Functional expenses	5 – 6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 12



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Independent Auditor's Report

Steven S. Licari, CPA
Terry J. Larsen, CPA

May 20, 2015

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 113,663	\$ 90,374
Cash-board designated	205,494	106,785
Total Cash and Cash Equivalents	319,157	197,159
Pledges receivable	-	254,000
Grant receivable	14,980	15,008
Inventory	36,123	41,428
Total Current Assets	370,260	507,595
 <u>Property And Equipment:</u>		
Land	114,006	114,006
Building & improvements	1,117,608	1,114,533
Furniture & fixtures	94,081	84,653
Less accumulated depreciation	(280,784)	(233,677)
Total Property and Equipment	1,044,911	1,079,515
 Endowment fund	143,312	132,641
 Total Assets	<u>\$ 1,558,483</u>	<u>\$ 1,719,751</u>
<u>Liabilities And Net Assets</u>		
<u>Current Liabilities:</u>		
Current maturities of long-term debt	\$ 8,547	\$ 7,815
Accounts payable	35,655	26,673
Deferred revenue-pledges	-	254,000
Deferred revenue	72,607	63,310
Total Current Liabilities	116,809	351,798
 Long-term debt, net of current maturities	184,651	194,813
 <u>Net Assets:</u>		
Unrestricted	922,059	943,914
Unrestricted - Board Designated	205,494	106,785
Temporarily restricted	-	-
Permanently restricted	129,470	122,441
Total Net Assets	1,257,023	1,173,140
 Total Liabilities And Net Assets	<u>\$ 1,558,483</u>	<u>\$ 1,719,751</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Public Support And Revenues:</u>				
<u>Public Support:</u>				
Grants - foundation	\$ 73,500	\$ -	\$ -	\$ 73,500
Grants - state	45,386	-	-	45,386
Contributions	-	24,883	10,000	34,883
Anderson charitable trust	20,000	-	-	20,000
Membership support	242,038	-	-	242,038
Net assets released from restrictions	27,854	(24,883)	(2,971)	-
Total Public Support	408,778	-	7,029	415,807
<u>Revenues:</u>				
Program service fees	502,792	-	-	502,792
Sale of goods	98,771	-	-	98,771
Special events - fundraising	34,261	-	-	34,261
Special events - non-fundraising	95,481	-	-	95,481
Rental Income	3,350	-	-	3,350
Investment/interest income	628	-	-	628
Total Revenues	735,283	-	-	735,283
Total Public Support/Revenues	1,144,061	-	7,029	1,151,090
<u>Expenses:</u>				
Program services	867,659	-	-	867,659
Fundraising	80,147	-	-	80,147
Management and general	119,401	-	-	119,401
Total Expenses	1,067,207	-	-	1,067,207
INCREASE IN NET ASSETS	\$ 76,854	\$ -	\$ 7,029	\$ 83,883
<u>Net Assets:</u>				
Beginning of year	1,050,699	-	122,441	1,173,140
End of year	\$1,127,553	\$ -	\$ 129,470	\$ 1,257,023

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Public Support And Revenues:</u>				
<u>Public Support:</u>				
Grants - foundation	\$ 55,000	\$ -	\$ -	\$ 55,000
Grants - state	54,922			54,922
Contributions	-	17,799	10,000	27,799
Anderson charitable trust	-	-	-	-
Membership support	227,366	-	-	227,366
Net assets released from restrictions	21,297	(17,799)	(3,498)	-
Total Public Support	<u>358,585</u>	<u>-</u>	<u>6,502</u>	<u>365,087</u>
<u>Revenues:</u>				
Program service fees	433,015	-	-	433,015
Sale of goods	107,581	-	-	107,581
Special events - fundraising	35,694	-	-	35,694
Special events - non-fundraising	80,348	-	-	80,348
Rental Income	7,835	-	-	7,835
Investment/interest income	226	-	8,420	8,646
Total Revenues	<u>664,698</u>	<u>-</u>	<u>8,420</u>	<u>673,118</u>
Total Public Support/Revenues	<u>1,023,283</u>	<u>-</u>	<u>14,922</u>	<u>1,038,205</u>
<u>Expenses:</u>				
Program services	762,596	-	-	764,822
Fundraising	88,786	-	-	88,786
Management and general	91,678	-	-	89,452
Total Expenses	<u>943,060</u>	<u>-</u>	<u>-</u>	<u>943,060</u>
INCREASE 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	<u>\$1,050,699</u>	<u>\$ -</u>	<u>\$ 122,441</u>	<u>\$ 1,173,140</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management And General</u>	<u>Total 2014</u>
Salaries	\$ 224,147	\$ 48,032	\$ 48,031	\$ 320,210
Payroll taxes	16,253	3,483	3,483	23,219
Employee benefits	12,004	2,572	2,572	17,148
Total Compensation	252,404	54,087	54,086	360,577
Accounting - audit	-	-	5,184	5,184
Advertising	42,904	-	-	42,904
Cost of good sold	93,858	-	-	93,858
Course materials	34,296	-	-	34,296
Depreciation	44,752	-	2,355	47,107
Events	80,366	9,413	-	89,779
Insurance	12,920	-	5,537	18,457
Interest	-	-	9,643	9,643
Miscellaneous	-	-	19,367	19,367
Occupancy - rent	2,819	604	604	4,027
Occupancy - utilities	17,325	3,713	3,712	24,750
Occupancy - other	21,250	4,554	4,553	30,357
Postage	6,040	-	2,588	8,628
Professional services-instructors	212,592	-	-	212,592
Ship maintenance	9,844	-	-	9,844
Supplies	33,385	7,154	7,154	47,693
Telephone	2,904	622	622	4,148
Travel	-	-	3,996	3,996
Total Functional Expenses	<u>\$ 867,659</u>	<u>\$ 80,147</u>	<u>\$ 119,401</u>	<u>\$ 1,067,207</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<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 - audit	-	-	6,562	6,562
Advertising	37,831	-	-	37,831
Cost of good sold	86,493	-	-	86,493
Course materials	33,846	-	-	33,846
Depreciation	42,299	-	2,226	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 - rent	2,764	592	592	3,948
Occupancy - utilities	10,025	2,148	2,148	14,321
Occupancy - other	14,666	3,143	3,143	20,952
Postage	5,603	-	2,401	8,004
Professional services-instructors	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>\$ 762,596</u>	<u>\$ 88,786</u>	<u>\$ 91,678</u>	<u>\$ 943,060</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Cash Flows From Operating Activities:</u>		
Increase in net assets	\$ 83,883	\$ 95,145
<u>Adjustments to reconcile to net cash</u>		
<u>flows from operating activities:</u>		
Depreciation	47,107	44,525
Endowment changes	(10,671)	(24,922)
<u>Other:</u>		
<u>(Increase) decrease in:</u>		
Pledges/grant receivable	254,028	5,292
Inventory	5,305	739
<u>Increase (decrease) in:</u>		
Accounts payable	8,982	(2,629)
Deferred revenue	(244,703)	(4,963)
Net Cash Flows From Operating Activities	<u>143,931</u>	<u>113,187</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	<u>(12,503)</u>	<u>(24,546)</u>
Net Cash Flows From Investing Activities	<u>(12,503)</u>	<u>(24,546)</u>
<u>Cash Flows From Financing Activities:</u>		
Payments of long-term debt	<u>(9,430)</u>	<u>(6,534)</u>
Net Cash Flows From Financing Activities	<u>(9,430)</u>	<u>(6,534)</u>
NET INCREASE IN CASH AND CASH EQUIV.	121,998	82,107
Cash and cash equiv., beginning of year	<u>197,159</u>	<u>115,052</u>
Cash and cash equiv., end of year	<u><u>\$ 319,157</u></u>	<u><u>\$ 197,159</u></u>
<u>Supplementary Information:</u>		
Interest paid	<u><u>\$ 9,643</u></u>	<u><u>\$ 10,567</u></u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 AND 2013

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.

Subsequent Events

Management has evaluated subsequent events through May 20, 2015, the date on which the financial statements were available to be issued.

NORTH HOUSE FOLK SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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	2014	2013
Land		\$ 114,006	\$ 114,006
Buildings/improvements	25 yrs	1,117,608	1,114,534
Schooner	20 yrs	52,500	52,500
Equipment	7 yrs	41,581	32,152
		<u>1,325,695</u>	<u>1,313,192</u>
Accumulated depreciation		<u>280,784</u>	<u>233,677</u>
Net Property And Equipment		<u>\$1,044,911</u>	<u>\$ 1,079,515</u>

NOTE C – LINE OF CREDIT

The Organization has an operating line of credit in the amount of \$-0- and \$-0- at December 31, 2014 and 2013. 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, 2015.

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, 2014 AND 2013

NOTE E – LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2014</u>	<u>2013</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	\$ 193,198	\$ 202,628
Less-current portion	<u>8,547</u>	<u>7,815</u>
Long-term Debt	<u>\$ 184,651</u>	<u>\$ 194,813</u>

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

2015	8,547
2016	9,109
2017	9,770
2018	10,469
2019	<u>155,302</u>
	<u>\$ 193,198</u>

NOTE F – BOARD DESIGNATED FUNDS

The Board has designated cash for various purposes and has segregated these funds to be used at the discretion of the Board. Included in the designated funds at December 31, 2014 are \$95,000 designated as cash reserves and \$110,494 designated to be spent on specific program purposes.

NOTE G – CAPITAL CAMPAIGN

The Organization pursued a capital campaign for property improvements that will enhance the programs offered to the public. There have been pledges made from 2006 to 2013. 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, 2014 and 2013.

At December 31, 2014 and 2013, pledges for the capital campaign are \$-0- and \$254,000 and are recorded as deferred pledges until received. Contributions received for 2014 and 2013 were \$24,883 and \$17,799.

NORTH HOUSE FOLK SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE H – LEASE COMMITMENT

North House Folk School leases two buildings under an operating lease. Total cost for the lease was \$4,027 and \$3,948 for the years ended December 31, 2014 and 2013. 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 - 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, 2014, 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 2011.

NOTE K – ANDERSON CHARITABLE TRUST

The Organization has been named as a beneficiary of the Anderson Charitable Trust. Under the terms of the Trust, North House will receive 50% of the income distributions from the Trust as determined by the Trust agreement. For 2014, the amount received was \$20,000.