

NORTH HOUSE FOLK SCHOOL

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010



**Licari,
Larsen & Co., Ltd.**
Certified Public Accountants & Consultants
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NORTH HOUSE FOLK SCHOOL

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Independent Auditor's Report

May 25, 2012

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

We have audited the accompanying statements of financial position of North House Folk School (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of North House Folk School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North House Folk School as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Licari, Larsen & Co. LTD

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

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	<u>Assets</u>	<u>2011</u>	<u>2010</u>
<u>Current Assets:</u>			
Cash and cash equivalents		\$ 48,919	\$ 23,074
Cash-board designated		62,617	50,149
Cash-temporarily restricted		1,248	88,346
Total Cash and Cash Equivalents		<u>112,784</u>	<u>161,569</u>
Accounts receivable		1,474	3,462
Grants receivable		21,000	-
Pledges receivable		391,500	412,000
Inventory		31,978	34,689
Total Current Assets		<u>558,736</u>	<u>611,720</u>
<u>Property And Equipment:</u>			
Property and equipment		1,156,162	864,293
Less accumulated depreciation		151,532	126,936
Total Property and Equipment		<u>1,004,630</u>	<u>737,357</u>
Endowment fund		<u>97,719</u>	<u>94,661</u>
Total Assets		<u>\$ 1,661,085</u>	<u>\$ 1,443,738</u>
<u>Liabilities And Net Assets</u>			
<u>Current Liabilities:</u>			
Note payable-line of credit		\$ 150,729	\$ -
Current maturities of long-term debt		5,529	5,241
Accounts payable		17,914	14,634
Deferred revenue-pledges		391,500	412,000
Deferred revenue		37,830	49,448
Total Current Liabilities		<u>603,502</u>	<u>481,323</u>
Long-term debt, net of current maturities		<u>208,932</u>	<u>214,338</u>
<u>Net Assets:</u>			
Unrestricted		749,884	567,668
Temporarily restricted		1,248	88,346
Permanently restricted		97,519	92,063
Total Net Assets		<u>848,651</u>	<u>748,077</u>
Total Liabilities And Net Assets		<u>\$ 1,661,085</u>	<u>\$ 1,443,738</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Public Support And Revenues:</u>				
<u>Public Support:</u>				
Grants	\$ 104,722	\$ 12,600	\$ -	\$ 117,322
Contributions	1,396	50,236	10,000	61,632
Membership support	122,953	-	-	122,953
Net assets released from restrictions	149,934	(149,934)	-	-
Total Public Support	<u>379,005</u>	<u>(87,098)</u>	<u>10,000</u>	<u>301,907</u>
<u>Revenues:</u>				
Program service fees	398,874	-	-	398,874
Sale of goods	90,902	-	-	90,902
Special events	140,364	-	-	140,364
Investment/interest income	269	-	(4,544)	(4,275)
Total Revenues	<u>630,409</u>	<u>-</u>	<u>(4,544)</u>	<u>625,865</u>
Total Public Support/Revenues	<u>1,009,414</u>	<u>(87,098)</u>	<u>5,456</u>	<u>927,772</u>
<u>Expenses:</u>				
Program services	590,745	-	-	590,745
Fundraising	161,370	-	-	161,370
Management And general	75,083	-	-	75,083
Total Expenses	<u>827,198</u>	<u>-</u>	<u>-</u>	<u>827,198</u>
INCREASE (DECREASE) IN NET ASSETS	\$ 182,216	\$ (87,098)	\$ 5,456	\$ 100,574
<u>Net Assets:</u>				
Beginning of year	<u>567,668</u>	<u>88,346</u>	<u>92,063</u>	<u>748,077</u>
End of year	<u>\$ 749,884</u>	<u>\$ 1,248</u>	<u>\$ 97,519</u>	<u>\$ 848,651</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Public Support And Revenues:</u>				
<u>Public Support:</u>				
Grants	\$ 114,474	\$ -	\$ -	\$ 114,474
Contributions	2,643	55,431	-	58,074
Membership support	91,755	-	-	91,755
Net assets released from restrictions	90,615	(90,615)	-	-
Total Public Support	299,487	(35,184)	-	264,303
<u>Revenues:</u>				
Program service fees	389,816	-	-	389,816
Sale of goods	86,898	-	-	86,898
Special events	76,375	-	-	76,375
Investment/interest income	326	-	10,415	10,741
Total Revenues	553,415	-	10,415	563,830
Total Public Support/Revenues	852,902	(35,184)	10,415	828,133
<u>Expenses:</u>				
Program services	575,810	-	-	575,810
Fundraising	75,834	-	-	75,834
Management And general	68,198	-	-	68,198
Total Expenses	719,842	-	-	719,842
INCREASE (DECREASE) IN NET ASSETS	\$ 133,060	\$ (35,184)	\$ 10,415	\$ 108,291
<u>Net Assets:</u>				
Beginning of year	434,608	123,530	81,648	639,786
End of year	\$ 567,668	\$ 88,346	\$ 92,063	\$ 748,077

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	Program Services	Fundraising	Management And General	Total 2011
Salaries	\$ 156,463	\$ 33,528	\$ 33,528	\$ 223,519
Payroll taxes	13,072	2,801	2,801	18,674
Employee benefits	8,074	1,730	1,730	11,534
Total Compensation	177,609	38,059	38,059	253,727
Accounting/legal	-	-	5,895	5,895
Advertising	32,776	-	-	32,776
Cost of good sold	87,804	-	-	87,804
Course materials	27,510	-	-	27,510
Depreciation	24,596	-	-	24,596
Events	-	113,935	-	113,935
Insurance	8,920	-	3,823	12,743
Interest	-	-	11,983	11,983
Miscellaneous	-	-	3,822	3,822
Occupancy	23,947	5,131	5,131	34,209
Postage	4,642	-	1,989	6,631
Professional services	173,760	-	-	173,760
Ship maintenance	9,373	-	-	9,373
Supplies	17,528	3,756	3,756	25,040
Telephone	2,280	489	489	3,258
Travel	-	-	136	136
Total Functional Expenses	<u>\$ 590,745</u>	<u>\$ 161,370</u>	<u>\$ 75,083</u>	<u>\$ 827,198</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management And General</u>	<u>Total 2010</u>
Salaries	\$ 144,179	\$ 30,895	\$ 30,895	\$ 205,969
Payroll taxes	11,847	2,539	2,539	16,925
Employee benefits	7,590	1,627	1,627	10,844
Total Compensation	<u>163,616</u>	<u>35,061</u>	<u>35,061</u>	<u>233,738</u>
Accounting/legal	-	-	5,800	5,800
Advertising	38,388	-	-	38,388
Cost of good sold	92,167	-	-	92,167
Course materials	17,671	-	-	17,671
Depreciation	26,935	-	-	26,935
Events	-	31,020	-	31,020
Insurance	8,707	-	3,732	12,439
Interest	-	-	12,367	12,367
Miscellaneous	-	-	(263)	(263)
Occupancy	24,828	5,321	5,321	35,470
Postage	3,814	-	1,634	5,448
Professional services	172,365	-	-	172,365
Ship maintenance	6,637	-	-	6,637
Supplies	18,106	3,880	3,880	25,866
Telephone	2,576	552	552	3,680
Travel	-	-	114	114
Total Functional Expenses	<u>\$ 575,810</u>	<u>\$ 75,834</u>	<u>\$ 68,198</u>	<u>\$ 719,842</u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Cash Flows From Operating Activities:</u>		
Increase in net assets	\$ 100,574	\$ 108,291
<u>Adjustments to reconcile to net cash flows from operating activities:</u>		
Depreciation	24,596	26,935
Endowment changes	(3,058)	(13,091)
<u>Other:</u>		
<u>(Increase) decrease in:</u>		
Accounts receivable	1,488	147,977
Inventory	2,711	(1,315)
<u>Increase (decrease) in:</u>		
Accounts payable	3,280	(5,547)
Deferred revenue	(32,118)	(135,785)
Net Cash Flows From Operating Activities	<u>97,473</u>	<u>127,465</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	<u>(291,869)</u>	<u>(97,566)</u>
Net Cash Flows From Investing Activities	<u>(291,869)</u>	<u>(97,566)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds(payments) from line of credit	150,729	(7,500)
Payments of long-term debt	<u>(5,118)</u>	<u>(4,750)</u>
Net Cash Flows From Financing Activities	<u>145,611</u>	<u>(12,250)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIV.	(48,785)	17,649
Cash and cash equiv., beginning of year	<u>161,569</u>	<u>143,920</u>
Cash and cash equiv., end of year	<u><u>\$ 112,784</u></u>	<u><u>\$ 161,569</u></u>
<u>Supplementary Information:</u>		
Interest paid	<u><u>\$ 11,983</u></u>	<u><u>\$ 12,367</u></u>

See accompanying notes.

NORTH HOUSE FOLK SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

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, 2011 AND 2010

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, 2011 AND 2010

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	2011	2010
Land		\$ 114,006	\$ 114,006
Buildings/improvements	25 yrs	970,740	678,871
Schooner	20 yrs	52,500	52,500
Equipment	7 yrs	18,916	18,916
		<u>1,156,162</u>	<u>864,293</u>
Accumulated depreciation		<u>151,532</u>	<u>126,936</u>
Net Property And Equipment		<u>\$ 1,004,630</u>	<u>\$ 737,357</u>

NOTE C – LINE OF CREDIT

The Organization has an operating line of credit in the amount of \$150,729 at December 31, 2011. 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, 2012.

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, 2011 AND 2010

NOTE E – LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
Grand Marais State Bank due in monthly installments of \$1,423 including interest at 5.5% to February 10, 2014, secured by real estate mortgage	\$ 214,461	\$ 219,579
Less-current portion	<u>5,529</u>	<u>5,241</u>
Long-term Debt	<u>\$ 208,932</u>	<u>\$ 214,338</u>

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

2012	5,529
2013	5,861
2014	202,948
2015	-
2016	-
	<u>\$ 214,338</u>

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 \$1,248 and \$88,345 at December 31, 2011 and 2010.

NOTE H – LEASE COMMITMENT

North House Folk School leases two buildings under a noncancelable operating lease. Total cost for the lease was \$3,795 and \$3,720 for the years ended December 31, 2011 and 2010. 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.

NORTH HOUSE FOLK SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

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 25, 2012, 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, 2011 and 2010, pledges for the capital campaign are \$391,500 and \$412,000 and are recorded as deferred pledges until received.

Contributions received for 2011 and 2010 were \$50,236 and \$55,431.

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, 2011, 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 2007.