

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

Independent Auditor's Report

May 13, 2013

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, 2012 and 2011, 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, 2012 and 2011, 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.

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
<u>Assets</u>		
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 51,332	\$ 48,919
Cash-board designated	63,720	62,617
Cash-temporarily restricted	-	1,248
Total Cash and Cash Equivalents	115,052	112,784
Accounts receivable	-	1,474
Grants receivable	-	21,000
Pledges receivable	274,300	391,500
Inventory	42,167	31,978
Total Current Assets	<u>431,519</u>	<u>558,736</u>
<u>Property And Equipment:</u>		
Property and equipment	1,288,646	1,156,162
Less accumulated depreciation	189,152	151,532
Total Property and Equipment	<u>1,099,494</u>	<u>1,004,630</u>
Endowment fund	<u>107,719</u>	<u>97,719</u>
Total Assets	<u>\$ 1,638,732</u>	<u>\$ 1,661,085</u>
<u>Liabilities And Net Assets</u>		
<u>Current Liabilities:</u>		
Note payable-line of credit	\$ -	\$ 150,729
Current maturities of long-term debt	5,861	5,529
Accounts payable	29,302	17,914
Deferred revenue-pledges	274,300	391,500
Deferred revenue	47,973	37,830
Total Current Liabilities	<u>357,436</u>	<u>603,502</u>
Long-term debt, net of current maturities	<u>203,301</u>	<u>208,932</u>
<u>Net Assets:</u>		
Unrestricted	970,476	749,884
Temporarily restricted	-	1,248
Permanently restricted	107,519	97,519
Total Net Assets	<u>1,077,995</u>	<u>848,651</u>
Total Liabilities And Net Assets	<u>\$ 1,638,732</u>	<u>\$ 1,661,085</u>

See accompanying notes.

(2)

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	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	<u>415,112</u>	<u>(1,248)</u>	<u>10,000</u>	<u>423,864</u>
<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	<u>680,277</u>	<u>-</u>	<u>-</u>	<u>680,277</u>
Total Public Support/Revenues	<u>1,095,389</u>	<u>(1,248)</u>	<u>10,000</u>	<u>1,104,141</u>
<u>Expenses:</u>				
Program services	647,334	-	-	647,334
Fundraising	137,379	-	-	137,379
Management and general	90,084	-	-	90,084
Total Expenses	<u>874,797</u>	<u>-</u>	<u>-</u>	<u>874,797</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 220,592</u>	<u>\$ (1,248)</u>	<u>\$ 10,000</u>	<u>\$ 229,344</u>
<u>Net Assets:</u>				
Beginning of year	<u>749,884</u>	<u>1,248</u>	<u>97,519</u>	<u>848,651</u>
End of year	<u>\$ 970,476</u>	<u>\$ -</u>	<u>\$ 107,519</u>	<u>\$ 1,077,995</u>

See accompanying notes.

(3)

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support And Revenues:				
Public Support:				
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>
Revenues:				
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>
Expenses:				
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
Net Assets:				
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.

(4)

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Program Services	Fundraising	Management And General	Total 2012
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	\$ 647,334	\$ 137,379	\$ 90,084	\$ 874,797

See accompanying notes.

(5)

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	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	\$ 590,745	\$ 161,370	\$ 75,083	\$ 827,198

See accompanying notes.

(6)

NORTH HOUSE FOLK SCHOOL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>Cash Flows From Operating Activities:</u>		
Increase in net assets	\$ 229,344	\$ 100,574
<u>Adjustments to reconcile to net cash flows from operating activities:</u>		
Depreciation	37,620	24,596
Endowment changes	(10,000)	(3,058)
<u>Other:</u>		
<u>(Increase) decrease in:</u>		
Accounts receivable	139,674	1,488
Inventory	(10,189)	2,711
<u>Increase (decrease) in:</u>		
Accounts payable	11,388	3,280
Deferred revenue	(107,057)	(32,118)
Net Cash Flows From Operating Activities	<u>290,780</u>	<u>97,473</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(132,484)	(291,869)
Net Cash Flows From Investing Activities	<u>(132,484)</u>	<u>(291,869)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds (payments) from line of credit	(150,729)	150,729
Payments of long-term debt	(5,299)	(5,118)
Net Cash Flows From Financing Activities	<u>(156,028)</u>	<u>145,611</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIV.	2,268	(48,785)
Cash and cash equiv., beginning of year	112,784	161,569
Cash and cash equiv., end of year	<u>\$ 115,052</u>	<u>\$ 112,784</u>
<u>Supplementary Information:</u>		
Interest paid	<u>\$ 11,801</u>	<u>\$ 11,983</u>

See accompanying notes.

(7)

NORTH HOUSE FOLK SCHOOL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

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, 2012 AND 2011

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, 2012 AND 2011

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	2012	2011
Land		\$ 114,006	\$ 114,006
Buildings/improvements	25 yrs	1,103,224	970,740
Schooner	20 yrs	52,500	52,500
Equipment	7 yrs	18,916	18,916
		1,288,646	1,156,162
Accumulated depreciation		189,152	151,532
		<u>\$ 1,099,494</u>	<u>\$ 1,004,630</u>
Net Property And Equipment			

NOTE C – LINE OF CREDIT

The Organization has an operating line of credit in the amount of \$-0- and \$150,729 at December 31, 2012 and 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, 2013.

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, 2012 AND 2011

NOTE E – LONG-TERM DEBT

Long-term debt consists of the following:

	2012	2011
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	\$ 209,162	\$ 214,461
Less-current portion	<u>5,861</u>	<u>5,529</u>
Long-term Debt	<u>\$ 203,301</u>	<u>\$ 208,932</u>

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

2013	5,861
2014	203,301
2015	-
2016	-
2017	-
	<u>\$ 209,162</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 \$0 and \$1,248 at December 31, 2012 and 2011.

NOTE H – LEASE COMMITMENT

North House Folk School leases two buildings under a noncancelable operating lease. Total cost for the lease was \$3,877 and \$3,795 for the years ended December 31, 2012 and 2011. 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, 2012 AND 2011

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, 2013, 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, 2012 and 2011, pledges for the capital campaign are \$274,300 and \$391,500 and are recorded as deferred pledges until received.

Contributions received for 2012 and 2011 were \$173,413 and \$50,236.

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, 2012, 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 2008.