



John C. Campbell Folk School, Incorporated
Financial Statements
December 31, 2023 and 2022

John C. Campbell Folk School, Incorporated
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December 31, 2023 and 2022

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Independent Auditor's Report

To Management and the Board of Directors
of John C. Campbell Folk School, Incorporated

Prager Metis CPAs, PLLC

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Opinion

We have audited the accompanying financial statements of John C. Campbell Folk School, Incorporated (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of John C. Campbell Folk School, Incorporated as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of John C. Campbell Folk School, Incorporated, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of John C. Campbell Folk School, Incorporated as of December 31, 2022, were audited by Turner & Company CPAs P.A., whose report dated August 24, 2023, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about John C. Campbell Folk School, Incorporated's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 John C. Campbell Folk School, Incorporated's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about John C. Campbell Folk School, Incorporated's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Prager Metis CPAs, PLLC

Prager Metis CPAs, PLLC
Ashville, North Carolina
May 15, 2024

John C. Campbell Folk School, Incorporated
Statements of Financial Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,923,376	\$ 3,102,772
Sales tax receivable	11,078	14,605
Refundable employee retention credit	27,298	307,411
Inventory	385,905	236,360
Prepaid expenses	127,052	46,526
Total current assets	<u>3,474,709</u>	<u>3,707,674</u>
Other assets		
Property and equipment, net	4,402,441	4,590,562
Operating lease right-of-use asset	27,942	56,224
Deposits	14,202	-
Investments	<u>10,817,199</u>	<u>9,520,952</u>
Total assets	<u><u>\$ 18,736,493</u></u>	<u><u>\$ 17,875,412</u></u>
Liabilities and net assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 78,275	\$ 101,257
Accrued expenses	244,028	397,040
Current portion of operating lease liability	27,942	31,632
Deferred revenue	1,897,362	1,979,241
Total current liabilities	<u>2,247,607</u>	<u>2,509,170</u>
Operating lease liability, less current portion	<u>-</u>	<u>24,592</u>
Total liabilities	<u>2,247,607</u>	<u>2,533,762</u>
Net assets		
Without donor restrictions	15,107,905	13,468,639
With donor restrictions	<u>1,380,981</u>	<u>1,873,011</u>
Total net assets	<u>16,488,886</u>	<u>15,341,650</u>
Total liabilities and net assets	<u><u>\$ 18,736,493</u></u>	<u><u>\$ 17,875,412</u></u>

The accompanying notes are an integral part of these financial statements.

John C. Campbell Folk School, Incorporated
Statements of Activities
Years Ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue						
Contributions	\$ 373,661	\$ 308,452	\$ 682,113	\$ 340,487	\$ 150,820	\$ 491,307
Noncash contributions	20,701	-	20,701	23,453	-	23,453
Grants	52,500	821,452	873,952	688,127	742,058	1,430,185
Tuition, housing, meals and fees	5,870,167	-	5,870,167	4,287,400	-	4,287,400
Sales and production	-	-	-	665,060	-	665,060
Net investment income	276,199	-	276,199	178,978	3,406	182,384
Net gain (loss) on investments	1,181,809	-	1,181,809	(1,927,596)	(28,259)	(1,955,855)
Gain (loss) on disposal of property and equipment	1,800	-	1,800	(9,566)	-	(9,566)
Gain on forgiveness of PPP loan	-	-	-	-	515,500	515,500
Other support	351,372	-	351,372	177,399	-	177,399
Net assets released from restrictions	1,621,934	(1,621,934)	-	929,212	(929,212)	-
Total public support and revenue	9,750,143	(492,030)	9,258,113	5,352,954	454,313	5,807,267
Expenses						
Program services	5,780,911	-	5,780,911	5,681,115	-	5,681,115
Supporting services						
General & administration	2,153,174	-	2,153,174	2,076,743	-	2,076,743
Fundraising	176,792	-	176,792	308,458	-	308,458
Total supporting services	2,329,966	-	2,329,966	2,385,201	-	2,385,201
Total expenses	8,110,877	-	8,110,877	8,066,316	-	8,066,316
Change in net assets	1,639,266	(492,030)	1,147,236	(2,713,362)	454,313	(2,259,049)
Net assets, beginning of year	13,468,639	1,873,011	15,341,650	16,182,001	1,418,698	17,600,699
Net assets, end of year	\$ 15,107,905	\$ 1,380,981	\$ 16,488,886	\$ 13,468,639	\$ 1,873,011	\$ 15,341,650

The accompanying notes are an integral part of these financial statements.

John C. Campbell Folk School, Incorporated
Statements of Functional Expenses
Years Ended December 31, 2023 and 2022

	2023				2022			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
		General & Administration	Fund- Raising			General & Administration	Fund- Raising	
Payroll	\$ 1,922,493	\$ 934,396	\$ 26,600	\$ 2,883,489	\$ 2,092,168	\$ 787,761	\$ 114,414	\$ 2,994,343
Instructor payments	602,760	-	-	602,760	608,300	-	-	608,300
Employee benefits	359,464	109,947	12,083	481,494	437,528	133,823	14,707	586,058
Craft shop purchases	454,468	-	-	454,468	355,820	-	-	355,820
Food purchases	447,407	-	-	447,407	409,165	-	-	409,165
Travel and training	307,231	53,336	-	360,567	321,340	32,560	-	353,900
Depreciation	342,021	10,000	1,500	353,521	327,033	9,589	1,438	338,060
Advertising	337,669	6,206	-	343,875	342,774	6,494	47,485	396,753
Contract labor	148,593	170,331	9,844	328,768	7,436	222,722	-	230,158
Payroll taxes	113,830	107,600	15,914	237,344	106,862	101,014	14,940	222,816
Utilities	160,930	25,976	1,577	188,483	180,445	29,126	1,768	211,339
Retirement	104,051	68,105	3,688	175,844	80,475	52,673	2,852	136,000
Repairs and maintenance	108,311	46,685	-	154,996	115,847	75,249	-	191,096
Bank fees	-	149,243	-	149,243	-	119,945	-	119,945
Supplies	124,867	9,022	138	134,027	57,998	88,903	146	147,047
Special events and programming	57,880	-	64,143	122,023	30,183	-	66,697	96,880
Office supplies	20,348	97,104	-	117,452	15,961	87,019	36	103,016
Miscellaneous	-	111,614	-	111,614	4,632	38,100	-	42,732
Insurance	-	97,607	-	97,607	-	87,485	-	87,485
Postage and shipping	9,213	81,545	-	90,758	3,189	95,686	6,596	105,471
Classroom expenses	82,247	-	-	82,247	80,664	-	-	80,664
Dues and subscriptions	1,079	8,118	40,970	50,167	15,157	954	36,466	52,577
Telephone	-	35,617	-	35,617	-	35,189	-	35,189
Lease expense	33,890	-	-	33,890	31,632	-	-	31,632
Special projects	25,068	-	335	25,403	36,146	-	913	37,059
Professional fees	-	17,280	-	17,280	-	55,869	-	55,869
Automobile	17,091	-	-	17,091	20,360	-	-	20,360
Employee appreciation	-	13,442	-	13,442	-	16,582	-	16,582
Total expenses	\$ 5,780,911	\$ 2,153,174	\$ 176,792	\$ 8,110,877	\$ 5,681,115	\$ 2,076,743	\$ 308,458	\$ 8,066,316

The accompanying notes are an integral part of these financial statements.

John C. Campbell Folk School, Incorporated
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 1,147,236	\$ (2,259,049)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	353,521	338,060
Amortization of operating lease right-of-use asset	28,282	(56,224)
(Gain) loss on disposal of property and equipment	(1,800)	9,566
Gain on forgiveness of PPP loan	-	(515,500)
Interest and dividends on long-term investments	(306,199)	(208,978)
Contributions released from investment restrictions	-	30,000
Noncash contributions	(20,701)	(23,453)
Net unrealized and realized (gain) loss on investments	(1,121,074)	2,468,409
Change in operating assets and liabilities		
Sales tax receivable	3,527	8,555
Refundable employee retention credit	280,113	(72,231)
Inventory	(149,545)	(17,435)
Prepaid expenses	(80,526)	1,249
Deposits	(14,202)	8,225
Accounts payable	(22,982)	4,789
Accrued expenses	(153,012)	47,165
Deferred revenue	(81,879)	53,655
Operating lease liability	(28,282)	56,224
Net cash used in by operating activities	<u>(167,523)</u>	<u>(126,973)</u>
Cash flows from investing activities		
Proceeds from sale of investments	1,175,216	410,141
Purchase of investments	(992,754)	(1,400,000)
Proceeds from sale of property and equipment	1,800	3,090
Purchase of property and equipment	(196,135)	(234,683)
Net cash provided by (used in) investing activities	<u>(11,873)</u>	<u>(1,221,452)</u>
Cash flows from financing activities		
Restricted interest and dividends on long-term investments	-	(3,406)
Proceeds from PPP loan	-	(515,500)
Net cash provided by (used in) financing activities	<u>-</u>	<u>(518,906)</u>
Net change in cash and cash equivalents	(179,396)	(1,867,331)
Cash and cash equivalents at beginning of year	3,102,772	4,970,103
Cash and cash equivalents at end of year	<u><u>\$ 2,923,376</u></u>	<u><u>\$ 3,102,772</u></u>
Supplemental disclosure		
Cash paid during the year for operating lease	<u><u>\$ 33,890</u></u>	<u><u>\$ 31,632</u></u>
Noncash investing and financing transactions		
Right of use asset obtained in exchange for an operating lease liability	<u><u>\$ -</u></u>	<u><u>\$ 56,224</u></u>
Contribution of investments	<u><u>\$ 20,701</u></u>	<u><u>\$ 23,453</u></u>

The accompanying notes are an integral part of these financial statements.

Note 1 Nature of Operations

Description of Activities

The John C. Campbell Folk School, Incorporated (the "Folk School") is a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. It was founded in 1925 and seeks to bring people toward two kinds of development: inner growth as creative, thoughtful individuals, and social development as tolerant, caring members of a community.

The Folk School strives to encourage individual talent and community life through the development of creative expression and learning by doing. Rooted as it is in the history and culture of the region, the Folk School fosters knowledge and appreciation of nature, music, dance, folklore, traditional and contemporary crafts, through education, marketing, research, archiving, community service and public programming.

Note 2 Summary of Significant Accounting Policies

Financial Statement Presentation

The financial statements of the Folk School have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), which require the Folk School to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Folk School. These net assets may be used at the discretion of the Folk School's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Folk School or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Folk School's ongoing services and interest and dividends earned on investments. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Note 2 Summary of Significant Accounting Policies (continued)

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

In-kind Donations

Donated Property

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Folk School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Folk School generally pays for services requiring specific expertise. However, individuals volunteer their time to the Folk School and its programs. These donated services are not reflected in the financial statements since they do not meet the criteria for recognition as contributed services.

Revenue Recognition

Contributions, Bequests, Grants and Contracts

The Folk School receives contributions, including unconditional promises to give, as well as grants from various entities. Contributions, bequests, grants, and contracts are recognized in the appropriate category of net assets in the period received. The Folk School performs an analysis of the individual contribution, bequest, grant, or contract to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transaction is deemed reciprocal or nonreciprocal.

Note 2 Summary of Significant Accounting Policies (continued)

For contributions, bequests, grants, and contracts qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions, bequests, grants, and contracts qualifying as contributions that are unconditional that have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Contributions, bequests, grants, and contracts qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. Most grants are for direct and indirect program costs. These transactions are nonreciprocal and recognized as contributions when the revenue becomes unconditional.

Funds received in advance of the incurrence of qualifying expenditures are recorded as deferred revenue.

Program Service Fees

Revenue received for program service fees is recorded as revenue at the point in time when the performance obligations are satisfied and/or related event has occurred. Transaction price is determined based on cost and/or sales price. Any amounts received in advance are recorded as deferred revenue on the statement of financial position.

Tuition, Housing, Meals, and Fees

Revenue from tuition, housing, and meals is derived from services provided to students. These fees are paid upfront and are recorded in contract liabilities as deferred revenue in advance of the date when services are provided to the student. The nature of tuition and fees give rise to variable consideration in the form of institutional scholarships awarded to students to defray the costs of the academic programs, which reduce the transaction price (tuition and fees). Rates vary based on the length of class and category of student (discounts are offered for local residents, teachers, and young adults ages 18-25).

Payments for tuition are due prior to the start of the academic term. Tuition, housing, and meals revenue is recognized ratably over the academic terms. The Folk School generally uses the time elapsed method, an input measure, as it best depicts the simultaneous consumption and delivery of services. Classes will be conducted for which a minimum number of students are registered. Full payment is due 30 days prior to class or at the time of initial registration. Cancellation or transfer more than 60 days prior to the first day of class results in a cancellation fee of 50% of the deposit. Cancellation or transfer within 60 days of the first day of class results in a cancellation fee of 100% of the deposit. If the Folk School must cancel a class, registered students will be given the opportunity to enroll in another class, with no transfer penalty. A full

Note 2 Summary of Significant Accounting Policies (continued)

refund will be given to students who do not wish to transfer, which generally results in a reduction of deferred revenue during the period that the student drops or withdraws from a class.

Sales and Production

Sales revenue is generated substantially from the sale of goods to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer, no matter when payment is received. The Folk School recognizes revenue from product sales, net of sales tax, when it satisfies all performance obligations, and the customer takes possession of the product. Discounts provided to customers at the point of sale are recognized as a reduction in sales as the products are sold. Payment terms generally vary at the point of purchase. The transaction price is based on the terms of the underlying agreements.

Other Support

Revenue from other support is recognized as the related services are provided and/or amounts are otherwise earned upon satisfaction of the performance obligation in accordance with the terms of the underlying agreements. The transaction price is allocated to each performance obligation identified in the arrangement based on the relative standalone selling price of each distinct good or service and recognized as revenue when, or as, the performance obligation is satisfied. The Folk School typically satisfies its performance obligation once the services are rendered, or the goods are delivered. Also, there were no significant changes in the judgments affecting the determination of the amount and timing of other revenue.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates have been made by management with regard to useful lives of assets, fair value of financial instruments, leases and the allocation of expenses by function. These estimates are subject to significant fluctuation due to changes in payment trends and changes that occur in the valuation of associated assets. Actual results could differ materially from these estimates, making it reasonably possible that a material change in these estimates could occur in the near term.

Fair Value of Financial Instruments

The Folk School discloses for each class of financial instruments the methods, and when a valuation technique is used, the significant assumptions applied in determining the fair values of financial assets and liabilities. If there is a change in the valuation technique, the Folk School discloses both the change and the reasons for the change.

Note 2 Summary of Significant Accounting Policies (continued)

The Folk School estimates that the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position. The estimated fair value amounts have been determined by the Folk School using available market information and appropriate valuation methodologies. The Folk School's financial instruments consist primarily of cash and cash equivalents, receivables, inventory, prepaid expenses, deposits, investments, accounts payable, accrued expenses, and deferred revenue.

Cash and Cash Equivalents

For purposes of reporting on the statements of cash flows, the Folk School includes all cash investments which are not subject to withdrawal restrictions or penalties and certificates of deposit with maturity of three months or less as cash and cash equivalents.

The Folk School maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). Deposit accounts, at times, may exceed federally insured limits of \$250,000, but the Folk School has not experienced any such losses.

Inventories

Inventories are stated at the lower of cost (average method) or net realizable value.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. The cost of other maintenance and repairs is charged to expense as incurred. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	5 - 40 years
Buildings and improvements	5 - 50 years
Machinery and equipment	3 - 15 years
Furniture and fixtures	7 - 20 years
Vehicles	5 years

Note 2 Summary of Significant Accounting Policies (continued)

Investments

The Folk School records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment gain (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Functional Allocation of Expenses

Expenses that are inherently program, general and administrative, or fundraising, are charged directly to those functions. All other expenses are allocated to program services, general and administrative, and fundraising based on management's estimates of time spent.

Income Taxes

The Folk School is established as a not-for-profit entity and has been recognized as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting for the recognition and measurement of uncertainties in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax positions taken or expected to be taken in a tax return. The Folk School's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions and other evidence.

As of December 31, 2023, the Folk School had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Folk School records interest and penalties related to uncertain tax positions as a component of the provision for income tax.

The Folk School's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2023, the years subject to examination include 2020, 2021, and 2022.

Advertising

The Folk School uses advertising to promote its programs and encourage enrollment. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2023 and 2022 was \$343,875 and \$396,753, respectively.

Note 2 Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses.

We adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified to conform to the current year presentation.

Note 3 Availability and Liquidity

The following represents the Folk School's financial assets at December 31, 2023:

Cash and cash equivalents	\$ 2,923,376
Sales tax receivable	11,078
Refundable employee retention credit	27,298
Investments	<u>10,817,199</u>
Total financial assets	<u>13,778,951</u>

Less amounts unavailable for general expenditures
within one year, due to contractual or donor-imposed restrictions:

Net assets with donor restrictions	(1,380,981)
Board designated endowment	<u>(4,201,467)</u>
Total not available to be used within one year	<u>(5,582,448)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 8,196,503</u></u>

Note 3 Availability and Liquidity

The following represents the Folk School's financial assets at December 31, 2022:

Cash and cash equivalents	\$ 3,102,772
Sales tax receivable	14,605
Refundable employee retention credit	307,411
Investments	<u>9,520,952</u>
Total financial assets	<u>12,945,740</u>

Less amounts unavailable for general expenditures
within one year, due to contractual or donor-imposed restrictions:

Net assets with donor restrictions	(1,873,011)
Board designated endowment	<u>(4,019,548)</u>
Total not available to be used within one year	<u>(5,892,559)</u>

Financial assets available to meet general expenditures within one year	<u><u>\$ 7,053,181</u></u>
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The Folk School has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. The policy ensures that the Folk School maintains an adequate level of cash to meet its on-going operational requirements. In addition, the policy sets forth the structure for investment of excess cash based on the financial needs of the Folk School, the time horizon of those needs and the Board of Directors' investment philosophy. A line of credit has been established to help manage unanticipated liquidity needs.

Note 4 Fair Value Measurement

The FASB issued a statement that defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Folk School has the ability to access.

Note 4 Fair Value Measurement (continued)

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs that are derived principally from or corroborated by observable market data.

If the asset or liabilities has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Stocks, Bonds, and Mutual Funds

These investments are public investment vehicles valued using actual quoted market prices. The quoted price is in an active market and classified within Level 1 of the valuation hierarchy. Level 1 stocks, bonds and mutual funds totaled \$10,817,199 and \$9,520,952 for the years ended December 31, 2023 and 2022, respectively.

Note 5 Refundable Employee Retention Credit

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Organization is eligible for the Refundable Employee Retention Credit. The Folk School recognized \$706,058 as grant revenue during the fiscal year ended December 31, 2022, which consisted of \$398,647 for amounts received and a refundable credit of \$307,411 for the remainder.

Note 6 Inventory

Inventory is presented in the financial statements in the aggregate at the cost averaging method. Inventory is composed of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Craft shop	\$ 341,125	\$ 200,795
Craft shop – consignment	(11,600)	(10,949)
Dining hall	19,064	10,200
Olive's Porch	37,316	36,314
	<u>\$ 385,905</u>	<u>\$ 236,360</u>

Note 7 Investments

Investments are composed of the following at December 31, 2023:

	<u>Cost</u>	<u>Fair Market Value</u>
Inter Term Invest Gr Adm	\$ 452,604	\$ 410,368
Long Term Invest Gr Adm	438,267	343,138
Short Term Invest Gr Adm	613,579	593,296
Tot Intl Bond Ix Admiral	1,265,774	1,164,813
Totl Intl Stock Ix Admiral	2,007,713	2,325,202
Total Bond Mket Index Adm	1,470,026	1,343,617
Total Stock Mkt Idx Adm	1,866,532	3,609,232
LifeStrategy Mod Growth	1,058,241	1,021,513
Stocks	-	6,020
	<u>\$ 9,172,736</u>	<u>\$ 10,817,199</u>

Note 7 Investments (continued)

Investments are composed of the following at December 31, 2022:

	Cost	Fair Market Value
Inter Term Inveset Gr Adm	\$ 447,217	\$ 381,598
Long Term Invest Gr Adm	419,448	302,063
Short Term Invest Gr Adm	605,953	564,795
Tot Intl Bond Ix Admiral	1,219,455	1,061,501
Totl Intl Stock Ix Admiral	2,045,115	2,150,515
Total Bond Mket Index Adm	1,429,381	1,255,880
Total Stock Mkt Idx Adm	1,851,558	3,642,029
Stocks and bonds	-	162,571
	<u>\$ 8,018,127</u>	<u>\$ 9,520,952</u>

The following schedule summarizes the composition of investment return for the years ended December 31, 2023 and 2022:

	2023	2022
Income earned	\$ 306,199	\$ 212,384
Fees	(30,000)	(30,000)
Net unrealized and realized gain (loss)	1,181,809	(1,955,855)
Total return on investments	<u>\$ 1,458,008</u>	<u>\$ (1,773,471)</u>

Included in investments are board designated funds to meet future programming needs. Board designated funds for the years ended December 31, 2023 and 2022 were \$4,201,467 and \$4,019,548, respectively.

Note 8 Property and Equipment

Property and equipment at December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Construction in progress	\$ 29,437	\$ 42,982
Land	187,359	187,359
Land improvements	626,213	626,213
Buildings and improvements	7,183,444	7,111,746
Machinery and equipment	1,592,901	1,511,830
Furniture and fixtures	232,950	232,950
Vehicles	179,627	170,027
Subtotal	<u>10,031,931</u>	<u>9,883,107</u>
Less accumulated depreciation	<u>(5,629,490)</u>	<u>(5,292,545)</u>
Total	<u>\$ 4,402,441</u>	<u>\$ 4,590,562</u>

Depreciation expense for the years ended December 31, 2023 and 2022 was \$353,521 and \$338,060, respectively.

Note 9 Paycheck Protection Program

In response to the COVID-19 pandemic, the Paycheck Protection Program (PPP) was established under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the Small Business Administration (SBA). Organizations who met the eligibility requirement set forth by the PPP could qualify for PPP loans. If the loan proceeds are fully utilized to pay qualified expenses, the full principal amount of the PPP loan, along with the accrued interest, may qualify for loan forgiveness, subject to potential reduction based on the level of fulltime employees maintained by the organization. On January 27, 2021, the Folk School was granted a second PPP loan in the amount of \$515,500. This loan was forgiven on April 13, 2022 and included in revenue in the statement of activities.

Note 10 Leases

The Folk School leases classroom space and space for a retail shop under an operating lease agreement with monthly payments of \$2,797 through October 2024. The Folk School used the risk-free rate (0.22%) at lease inception in determining the present value of lease payments. Total lease expense for the years ended December 31, 2023 and 2022 was \$33,890 and \$31,632, respectively.

Note 10 Leases (continued)

Maturities of operating lease liabilities are as follows:

2024	\$ 27,965
Less: imputed interest	(23)
Present value of operating lease liability	<u>\$ 27,942</u>

Leases with terms of less than twelve months, if any, are recognized as operating expenses on the straight-line basis. During the years ended December 31, 2023 and 2022 there was no lease expense associated with short-term arrangements.

Note 11 Deferred Revenue

Deferred revenue consists of the following amounts at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Gift certificates	\$ 308,002	\$ 378,632
Tuition	921,506	786,803
Margaret A. Cargill Foundation Project	667,854	813,806
	<u>\$ 1,897,362</u>	<u>\$ 1,979,241</u>

As of December 31, 2023, 2022, and 2021, deferred revenue totaled \$1,897,362, \$1,979,241 and \$1,925,586, respectively. During the years ended December 31, 2023 and 2022, the Folk School recognized \$1,979,241 and \$1,925,586, respectively, in revenue from gift certificates, tuition and grants as a component of tuition, housing, meals and fees and other support on the statement of activities. The Folk School expects to recognize \$1,897,362 in 2024.

Note 12 Net Assets

Net assets without donor restrictions at December 31, 2023 and 2022 were \$15,107,905 and \$13,468,639, respectively. Included in net assets without donor restrictions at December 31, 2023 and 2022, are board designated funds totaling \$4,201,467 and \$4,019,548, respectively (Note 13).

Net assets with donor restrictions for program activities totaled \$1,380,981 and \$1,873,011 at December 31, 2023 and 2022, respectively.

Net assets released from net assets with donor restrictions arising from the satisfaction of purpose restrictions for program activities totaled \$1,621,934 and \$929,212 for the years ended December 31, 2023 and 2022, respectively.

Note 13 Board Designated Endowment Fund

During 2013, the Board of Directors authorized the transfer of \$150,000 from existing investment accounts to create a general endowment fund with the purpose to help sustain and improve the Folk School for current and future generations. Contributions and transfers from other accounts as well as income from the investments, expenses related to the maintenance of the account, and realized and unrealized gains and losses on the investments have been reflected in this endowment fund. Since this fund resulted from an internal designation and is not donor-restricted, it is classified and reported as part of net assets without donor restrictions.

The Folk School's spending policy of appropriating a distribution each year of 60% of the average increase in the value of the endowment over the previous twelve quarters, which will not be less than 3% or greater than 6% of the current market value of the endowment fund. These funds are to be transferred to the Folk School's operating account in quarterly installments on the first day of each quarter in the fiscal year. These funds may be utilized for any purpose recommended by the administration pursuant to an approved budget.

After the creation of the endowment fund, it was decided by the board to allow this fund to grow for four quarters. The first disbursement would be calculated utilizing the rolling average from those four quarters. Each subsequent quarter was to be factored into this rolling average equation until the fund reached the mandated twelve quarters.

As of December 31, 2023 and 2022, the endowment account totaled \$4,201,467 and \$4,019,548, respectively. As of December 31, 2023 and 2022, \$410,534 and \$353,192, respectively, was withdrawn and used for operations from the endowment fund.

The Folk School's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return. To achieve that objective, the Folk School has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk.

Note 14 Line of Credit

The Folk School maintains a secured line of credit with Truist Bank in the amount of \$500,000. The line of credit is secured by investment accounts. Advances bear interest at the bank's index rate plus 2.30%. The line of credit matures in August 2025. At December 31, 2023 and 2022, there was no balance outstanding on this line of credit.

Note 15 Retirement Plan

The Folk School maintains a retirement plan that covers all eligible employees. Any employee may participate in the plan on the first month following the date of hire. The Folk School matches employee contributions up to 3% of the employee's regular salary. Additionally, the Folk School makes a nondiscretionary contribution of 3% of the employee's regular salary for all eligible employees. To be eligible for the Employer Base and Employer Matching Contributions, you must be 21 years of age, have completed 1000 hours of service within a 12 month period and completed twelve months of service.

The employees are vested with employer contributions as follows:

1st year of eligibility, day 1 of the 2nd year of employment	25% vested
2nd year of eligibility, day 1 of the 3rd year of employment	50% vested
3rd year of eligibility, day 1 of the 4th year of employment	75% vested
4th year of eligibility, day 1 of the 5th year of employment	100% vested

The Folk School also maintains an annuity plan that covers all eligible employees. Employees can contribute an amount to the plan not to exceed 25% of their salary, when combined with the above-mentioned plan. The annuity plan is voluntary, and the Folk School does not contribute to this plan.

Retirement plan contributions for the years ended December 31, 2023 and 2022 were \$175,844 and \$136,000, respectively.

Note 16 Concentrations

Grants included approximately \$822,000 or 94% received from two granting agencies during the year ended December 31, 2023. Grants included approximately \$687,000 or 93% from two granting agencies during the year ended December 31, 2022.

Note 17 Subsequent Events

The Folk School evaluated the effect that all subsequent events would have on the financial statements through May 15, 2024, which is the date the financial statements were available to be issued.