

**NORTHERN WATERS LAND TRUST
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northern Waters Land Trust:

We have audited the accompanying financial statements of the Northern Waters Land Trust (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Northern Waters Land Trust as of December 31, 2020, 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.

KBA Peterson Associates, Inc.

KBA Peterson Associates, Inc.
February 21, 2022

NORTHERN WATERS LAND TRUST
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

| ASSETS | |
|---|---------------------|
| Cash and Cash Equivalents | \$ 54,165 |
| Grants Receivable | 24,754 |
| Prepaid Expenses | 2,262 |
| Investments | 321,852 |
| Property and Equipment, Net | 42,038 |
| Conservation Land | 838,400 |
| | 838,400 |
| TOTAL ASSETS | \$ 1,283,471 |
| | 1,283,471 |
| LIABILITIES AND NET ASSETS | |
| <u>Liabilities</u> | |
| Accounts Payable | \$ 4,222 |
| Accrued Payroll Taxes | 1,332 |
| Accrued Wages | 2,631 |
| Accrued Vacation | 462 |
| Refundable Advances | 15,300 |
| Contributions Payable | 709,400 |
| Total Liabilities | 733,347 |
| | 733,347 |
| <u>Net Assets</u> | |
| With Donor Restrictions | 43,663 |
| Without Donor Restrictions | 506,461 |
| Total Net Assets | 550,124 |
| | 550,124 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,283,471 |
| | 1,283,471 |

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

NORTHERN WATERS LAND TRUST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

NET ASSETS WITHOUT DONOR RESTRICTIONS

Revenues, Support and Net Assets Released from Restrictions

| | |
|----------------------------|------------|
| Contributions | \$ 165,072 |
| Grants | 1,197,502 |
| Other Income | 800 |
| Investment Income | 5,166 |
| Unrealized Gains | 17,878 |
| Interest Income | 47 |
| Total Revenues and Support | 1,386,465 |

Expenses

| | |
|----------------------------|-----------|
| Program Services | 1,410,116 |
| General and Administrative | 14,622 |
| Fundraising | 3,055 |
| Total Expenses | 1,427,793 |

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS (41,328)

NET ASSETS WITH DONOR RESTRICTIONS

| | |
|--|-------|
| Contributions | 25 |
| Investment Income | 4,131 |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS | 4,156 |

CHANGE IN NET ASSETS (37,172)

NET ASSETS, BEGINNING OF YEAR 587,296

NET ASSETS, END OF YEAR \$ 550,124

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

NORTHERN WATERS LAND TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash Flows From Operating Activities

| | |
|--|----------------|
| Change in Net Assets | \$ (37,172) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | |
| Depreciation | 1,278 |
| Unrealized and Realized (Gain) on Investments | (17,878) |
| (Increase) Decrease in Current Assets: | |
| Grants Receivable | (9,516) |
| Prepaid Expenses | 571 |
| Increase (Decrease) in Current Liabilities: | |
| Accounts Payable | 2,143 |
| Accrued Payroll Taxes | 785 |
| Accrued Wages | 1,764 |
| Accrued Vacation | 462 |
| Refundable Advances | 10,000 |
| Contributions Payable | 709,400 |
| Net Cash From Operating Activities | <u>661,837</u> |

Cash Flows From Investing Activities

| | |
|---------------------------------------|------------------|
| Proceeds from the Sale of Investments | 76,496 |
| Purchase of Investments | (9,297) |
| Purchase of Conservation Land | (709,400) |
| Net Cash From Investing Activities | <u>(642,201)</u> |

| | |
|--|-------------------------|
| CHANGE IN CASH AND CASH EQUIVALENTS | 19,636 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>34,529</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 54,165</u></u> |

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

NORTHERN WATERS LAND TRUST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

| | Program <u>Services</u> | General and <u>Admin</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------|----------------------------|--------------------------------|--------------------|---------------------|
| Land Transfers | \$ 1,247,300 | \$ - | \$ - | \$ 1,247,300 |
| Land Acquisition Costs | 20,000 | - | - | 20,000 |
| Wages and Taxes | 41,386 | 4,606 | 2,303 | 48,295 |
| Outreach | 76,452 | - | - | 76,452 |
| Depreciation Expense | - | 1,278 | - | 1,278 |
| Dues and Subscriptions | 2,465 | - | - | 2,465 |
| Insurance | - | 2,499 | - | 2,499 |
| Office Expenses | 3,664 | - | - | 3,664 |
| Property Tax Expense | 846 | - | - | 846 |
| Rent and Utilities | 10,739 | 857 | - | 11,596 |
| Marketing | 7,264 | - | 752 | 8,016 |
| Accounting | - | 5,382 | - | 5,382 |
| Total Expenses | <u>\$ 1,410,116</u> | <u>\$ 14,622</u> | <u>\$ 3,055</u> | <u>\$ 1,427,793</u> |

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

NORTHERN WATERS LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Northern Waters Land Trust is a nonprofit corporation established to fund, promote and enable activities that will protect the natural environment of the area for the use and enjoyment of current and future generations. The organization maintains a location in Walker, Minnesota. The organization's main funding sources are government grants and contributions from non-profits and the public.

Income Tax Status

Northern Waters Land Trust qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code and therefore, has no provision for income taxes. It is not a private foundation.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The organization follows the reporting requirements of accounting principles generally accepted in the United States of America, which require that resources be classified for reporting purposes based on the existence or absences of donor-imposed restrictions. Descriptions of the two net asset categories follow:

Net Assets Without Donor Restrictions- Net assets available for general use and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets whose use is limited by donor-imposed, time and/or purpose restrictions.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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

For the purposes of the statements of financial position and cash flows, the organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Advertising Costs

The cost of advertising is expensed in the period the advertising occurred.

NORTHERN WATERS LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are recorded at cost. Donated items are recorded at estimated fair value. Such donations are recorded as contributions 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 organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis. Useful lives range from 5 to 7 years for equipment.

Property and equipment as of December 31, 2020 consisted of the following:

| | |
|-------------------------------|------------------|
| Land | \$ 38,000 |
| Equipment | 8,281 |
| Less Accumulated Depreciation | <u>(4,243)</u> |
| Net Property and Equipment | <u>\$ 42,038</u> |

Contributed Services

Donated services are recorded when there is an objective basis to measure the value of such services and the services involve specialized skills that would be purchased if not provided by donation. The organization received donated services from individuals who volunteered as board members. The donated services do not meet the criteria for recognition and therefore have not been recorded as revenues and expenses.

Revenue Recognition

Contributions are recorded as revenue upon receipt of cash or unconditional promise to give in which there is no right of return of assets contributed and no indication of any donor-imposed barriers or performance obligations as a condition of the contribution based upon the donor agreement. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Grant funding is recorded on a reimbursement basis, that is, when qualifying expenses are incurred by the organization, both a receivable from the grantor and revenue are recorded. Cash received in advance is recorded as a refundable advance and recognized as revenue as expenses are incurred.

NORTHERN WATERS LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conservation Land and Contributions Payable

Conservation land consists primarily of real estate with ecological values which the organization works with partners to conserve. Conservation land includes purchased and donated properties which are held for eventual resale or donation to government agencies or other organizations or individuals who will become permanent conservation owners. Purchased conservation land is recorded at acquisition cost. Conservation land received by donation is recorded at its estimated fair value. Costs incurred in carrying parcels of real estate are expensed as incurred. Conservation land parcels determined to have no ecological value may be sold to support land conservation efforts.

Contributions payable consists of conservation land acquired, which was promised to be given to a government agency or other organization or individual who will become permanent conservation owners, and the transfer was not completed by year-end.

Functional Allocation of Expenses

The statement of functional expenses present expenses by function and natural category. Expenses directly attributable to a specific functional expense category are reported as expenses of those categories. Expenses attributed to more than one functional expense category are allocated on the basis of estimates of space, time and effort.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

| | |
|---------------------------|------------------|
| Cash and Cash Equivalents | \$ 54,165 |
| Grants Receivable | <u>24,754</u> |
| Total | <u>\$ 78,919</u> |

The organization structures its financial assets to be available as general expenditures, liabilities, and other obligations come due.

NOTE 3 – GRANTS RECEIVABLE

Grants receivable as of December 31, 2020 consist of amounts from government grants. Management believes all amounts are collectible, therefore, no allowance for doubtful accounts is considered necessary. All amounts are collectible within one year.

NOTE 4 – OPERATING LEASES

The organization entered into a lease for office space effective May 1, 2020, for a term of one year. Monthly rent is \$500 per month. The organization incurred rental expenses of \$8,300 for the year ended December 31, 2020. Future minimum rent payments are as follows:

| | |
|------|----------|
| 2021 | \$ 2,000 |
|------|----------|

NORTHERN WATERS LAND TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5 – NET ASSETS

Net Assets as of December 31, 2020 consist of the following:

| | |
|---|-------------------|
| Net Assets without donor restrictions: | |
| Undesignated | \$ 228,272 |
| Board Designated – Operational Reserve | 50,213 |
| Board Designated – Conservancy | 147,289 |
| Board Designated – Stewardship | 17,743 |
| Board Designated – Legal Defense | <u>62,944</u> |
| Total Net Assets without donor restrictions | 506,461 |
| Net Assets with donor restriction | |
| Restricted by purpose – Conservancy | 12,663 |
| Perpetual in nature – Conservancy | <u>31,000</u> |
| Total Net Assets with donor restrictions | <u>43,663</u> |
| Total Net Assets | <u>\$ 550,124</u> |

The Board of Directors approved the designation of net assets without donor restrictions for the purposes of operational reserve, conservancy, stewardship and legal defense. Since these funds resulted from internal designation and not donor restrictions, they are classified as net assets without donor restrictions.

Endowment net assets comprise the total of net assets with donor restrictions. The organization has interpreted the Uniform Prudent Management of Institutional Funds Act adopted by the 2008 Minnesota legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the organization classifies as net assets with donor restrictions the original value of gifts donated to the perpetual endowment, the original value of subsequent gifts to the perpetual endowment, and accumulations of earnings or losses to the perpetual endowment. The fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction in net assets with donor restrictions. The organization recorded no deficits for the year ended December 31, 2020.

The organization understands that its spending policy will have a significant impact on its return objectives, risk objectives, the asset’s allocation and the long-term growth of the account. The spending policy for the endowment is up to 5% of the assets in the fund annually, based upon a three-year trailing quarter market value average from September 30 of each year. This amount is available for distribution during the following fiscal year. The organization’s policy is to not spend from deficit funds unless directed otherwise by the donor. This is consistent with the organization’s philosophy to manage risk within policy guidelines, maintain reasonable liquidity, and maintain appropriate controls, governance and accountability. To achieve this philosophy, the endowment assets are invested in funds that are intended to result in a preservation of capital with annual access and an investment return of at least inflation plus fees. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

NORTHERN WATERS LAND TRUST
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

NOTE 5 – NET ASSETS (CONTINUED)

Composition of and changes in endowment fund net assets for the year ended December 31, 2020 were as follows:

| | |
|--------------------------------------|------------------|
| Endowment Net Assets, January 1 | \$ 39,507 |
| Investment Return, Net | 4,131 |
| Contributions | 25 |
| Amounts Appropriated for Expenditure | <u>-</u> |
| Endowment Net Assets, December 31 | <u>\$ 43,663</u> |

NOTE 6 – INVESTMENTS

Net assets with donor restrictions and board designated net assets comprise the balance of the organization’s long-term investments. The fair market values of accounts comprising these investments as of December 31, 2020 were as follows:

| | |
|--------------|-------------------|
| Mutual Funds | <u>\$ 321,852</u> |
| Total | <u>\$ 321,852</u> |

The fair value measures of these funds as of December 31, 2020 were as follows:

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------|------------|---|--|--|
| Mutual Funds | \$ 321,852 | \$ 321,852 | - | - |

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. There have been no changes in valuation techniques and related inputs.

NOTE 7 – CONCENTRATIONS

The organization receives a large portion of its revenue from the State of Minnesota. These funds made up 86% of the revenues for the years ended December 31, 2020.

NOTE 8 – RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. Due to the pandemic, the organization modified operations and was able to continue its programs. Given the uncertainty of the spread of the coronavirus, the organization is unable to estimate the total impact the pandemic will have.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS

The organization has evaluated subsequent events through February 21, 2022, the date which the statements were available to issue.