

**NORTHERN WATERS LAND TRUST  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2021 AND 2020**

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CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Northern Waters Land Trust

### **Opinion**

We have audited the accompanying financial statements of Northern Waters Land Trust (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, cash flows, and functional expenses for the years 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 Northern Waters Land Trust as of December 31, 2021 and 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.

### **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 Northern Waters Land Trust 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.

### **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.

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 Northern Waters Land Trust'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 Northern Waters Land Trust’s internal control. Accordingly, no 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northern Waters Land Trust’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.

*KBA Peterson Associates, Inc.*

Bemidji, MN  
November 7, 2022

NORTHERN WATERS LAND TRUST  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 59,357	\$ 54,165
Grants Receivable	20,371	24,754
Prepaid Expenses	2,249	2,262
Investments	317,940	321,852
Property and Equipment, Net	43,474	42,038
Conservation Land	<u>636,600</u>	<u>838,400</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,079,991</u></u>	<u><u>\$ 1,283,471</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<u>Liabilities</u>		
Accounts Payable	\$ 2,786	\$ 4,222
Accrued Payroll Taxes	1,608	1,332
Accrued Wages	4,913	2,631
Accrued Vacation	2,400	462
Refundable Advances	-	15,300
Contributions Payable	<u>507,600</u>	<u>709,400</u>
Total Liabilities	519,307	733,347
<u>Net Assets</u>		
With Donor Restrictions	66,128	43,663
Without Donor Restrictions	<u>494,556</u>	<u>506,461</u>
Total Net Assets	<u><u>560,684</u></u>	<u><u>550,124</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,079,991</u></u>	<u><u>\$ 1,283,471</u></u>

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

NORTHERN WATERS LAND TRUST  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<u>Revenues, Support and Net Assets Released from Restrictions</u>		
Contributions	\$ 41,460	\$ 165,072
Grants	673,697	1,197,502
Other Income	6,115	800
Investment Income	71,052	5,166
Unrealized Gains (Losses)	(56,992)	17,878
Interest Income	52	47
Total Revenues and Support	735,384	1,386,465
<u>Expenses</u>		
Program Services	650,021	1,410,116
General and Administrative	64,513	14,622
Fundraising	32,755	3,055
Total Expenses	747,289	1,427,793
 <b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	 (11,905)	 (41,328)
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	-	25
Investment Income	22,465	4,131
<b>CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>22,465</b>	<b>4,156</b>
 <b>CHANGE IN NET ASSETS</b>	 10,560	 (37,172)
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 550,124	 587,296
 <b>NET ASSETS, END OF YEAR</b>	 \$ 560,684	 \$ 550,124

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

NORTHERN WATERS LAND TRUST  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>Cash Flows From Operating Activities</u>		
Change in Net Assets	\$ 10,560	\$ (37,172)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,422	1,278
Unrealized and Realized (Gain) Loss on Investments	56,992	(17,878)
(Increase) Decrease in Current Assets:		
Grants Receivable	4,383	(9,516)
Prepaid Expenses	13	571
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(1,436)	2,143
Accrued Payroll Taxes	276	785
Accrued Wages	2,282	1,764
Accrued Vacation	1,938	462
Refundable Advances	(15,300)	10,000
Contributions Payable	(201,800)	709,400
Net Cash From Operating Activities	(140,670)	661,837
<u>Cash Flows From Investing Activities</u>		
Proceeds from the Sale of Investments	40,000	76,496
Purchase of Fixed Assets	(2,858)	-
Purchase of Investments	(93,080)	(9,297)
Conveyance of Conservation Land	745,100	-
Purchase of Conservation Land	(543,300)	(709,400)
Net Cash From Investing Activities	145,862	(642,201)
 CHANGE IN CASH AND CASH EQUIVALENTS	 5,192	 19,636
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 54,165	 34,529
 CASH AND CASH EQUIVALENTS, END OF YEAR	 \$ 59,357	 \$ 54,165

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

NORTHERN WATERS LAND TRUST  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021				2020			
	Program Services	General and Admin	Fundraising	Total	Program Services	General and Admin	Fundraising	Total
Land Transfers	\$ 543,300	\$ -	\$ -	\$ 543,300	\$ 1,247,300	\$ -	\$ -	\$ 1,247,300
Land Acquisition Cost	-	-	-	-	20,000	-	-	20,000
Wages and Benefits	60,673	35,878	7,724	104,275	41,386	4,606	2,303	48,295
Outreach	40,944	-	22,000	62,944	76,452	-	-	76,452
Depreciation Expense	-	1,422	-	1,422	-	1,278	-	1,278.00
Dues and Subscription	-	2,821	-	2,821	2,465	-	-	2,465
Insurance	-	2,795	-	2,795	-	2,499	-	2,499.00
Office Expenses	-	4,614	-	4,614	3,664	-	-	3,664
Property Tax Expense	5,104	813	-	5,917	846	-	-	846
Rent and Utilities	-	8,634	-	8,634	10,739	857	-	11,596
Marketing	-	1,525	3,031	4,556	7,264	-	752	8,016
Accounting	-	6,011	-	6,011	-	5,382	-	5,382
Total Expenses	\$ 650,021	\$ 64,513	\$ 32,755	\$ 747,289	\$ 1,410,116	\$ 14,622	\$ 3,055	\$ 1,427,793

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



NORTHERN WATERS LAND TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 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, 2021 AND 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 consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 38,000	\$ 38,000
Equipment	11,139	8,281
Less Accumulated Depreciation	<u>( 5,665)</u>	<u>( 4,243)</u>
Net Property and Equipment	<u>\$ 43,474</u>	<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 when expenses are incurred.

NORTHERN WATERS LAND TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 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 statements 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 statements of financial position date are as follows:

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 59,357	\$ 54,165
Grants Receivable	<u>20,371</u>	<u>24,754</u>
Total	<u>\$ 79,728</u>	<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, 2021 and 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 leased office space on a month to month basis. Current monthly rent is \$500. The organization incurred rental expenses of \$6,000 and \$8,300 for the years ended December 31, 2021 and 2020, respectively.

NORTHERN WATERS LAND TRUST  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

NOTE 5 – NET ASSETS

Net Assets as of December 31 consist of the following:	<u>2021</u>	<u>2020</u>
Net Assets without donor restrictions:		
Undesignated	\$ 242,744	\$ 228,272
Board Designated – Operational Reserve	34,422	50,213
Board Designated – Conservancy	147,289	147,289
Board Designated – Stewardship	19,751	17,743
Board Designated – Legal Defense	<u>50,350</u>	<u>62,944</u>
Total Net Assets without donor restrictions	494,556	506,461
Net Assets with donor restriction		
Restricted by purpose – Conservancy	35,103	12,663
Perpetual in nature – Conservancy	<u>31,025</u>	<u>31,000</u>
Total Net Assets with donor restrictions	<u>66,128</u>	<u>43,663</u>
Total Net Assets	<u>\$ 560,684</u>	<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 years ended December 31, 2021 and 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, 2021 AND 2020

NOTE 5 – NET ASSETS (CONTINUED)

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

	<u>2021</u>	<u>2020</u>
Endowment Net Assets, January 1	\$ 43,663	\$ 39,507
Investment Return, Net	22,465	4,131
Contributions	-	25
Amounts Appropriated for Expenditure	-	-
Endowment Net Assets, December 31	<u>\$ 66,128</u>	<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 were as follows:

	<u>2021</u>	<u>2020</u>
Mutual Funds	\$ 317,940	\$ 321,852
Total	<u>\$ 317,940</u>	<u>\$ 321,852</u>

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

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
2021 Mutual Funds	\$ 317,940	\$ 317,940	-	-
2020 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 89% and 86% of the revenues for the years ended December 31, 2021 and 2020, respectively.

NOTE 8 – EVALUATION OF SUBSEQUENT EVENTS

The organization has evaluated subsequent events through November 7, 2022, the date which the statements were available to issue.