

MINNESOTA LAND TRUST

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For The Years Ended
June 30, 2017 and 2016

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MINNESOTA LAND TRUST
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota Land Trust
Saint Paul, Minnesota

We have audited the accompanying financial statements of Minnesota Land Trust (a not-for-profit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 from 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 Minnesota Land Trust as of June 30, 2017 and 2016, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Redpath and Company, Ltd.
REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 12, 2017

FINANCIAL STATEMENTS

MINNESOTA LAND TRUST
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

Statement 1

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$342,077	\$324,295
Capital campaign - promises to give, net	149,457	-
Contributions, grants and other receivables	780,298	681,068
Deposits and other	17,952	19,664
Furniture and equipment, net	20,906	5,149
Investments	4,256,182	3,700,150
Land held for resale - conservation	128,540	128,540
Land held for conservation	182,119	182,119
	<u> </u>	<u> </u>
Total assets	<u><u>\$5,877,531</u></u>	<u><u>\$5,040,985</u></u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$61,536	\$45,603
Accrued expenses	77,553	74,287
Total liabilities	<u>139,089</u>	<u>119,890</u>
Net assets:		
Unrestricted	3,088	2,224
Unrestricted - board designated	808,967	796,079
Temporarily restricted	4,657,180	3,906,585
Permanently restricted	269,207	216,207
Total net assets	<u>5,738,442</u>	<u>4,921,095</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u><u>\$5,877,531</u></u>	<u><u>\$5,040,985</u></u>

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

MINNESOTA LAND TRUST
STATEMENTS OF ACTIVITIES
 For The Years Ended June 30, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions and grants:								
Capital campaign	\$ -	\$342,329	\$ -	\$342,329	\$ -	\$ -	\$ -	\$ -
All other	609,554	299,347	53,000	961,901	592,446	270,347	-	862,793
Government grant and contract revenue:								
ENRTF	31,451	-	-	31,451	559,637	30,000	-	589,637
OHF	2,950,623	380,000	-	3,330,623	1,818,271	180,000	-	1,998,271
All other	216,016	-	-	216,016	596,482	-	-	596,482
Special events:								
Contribution	123,698	-	-	123,698	131,044	-	-	131,044
Other	35,995	-	-	35,995	35,145	-	-	35,145
Less: direct expenses	(22,584)	-	-	(22,584)	(12,389)	-	-	(12,389)
Fees for service	6,605	-	-	6,605	3,639	-	-	3,639
Other revenue	9,410	-	-	9,410	5,067	-	-	5,067
Interest and dividends	95,271	8,740	-	104,011	121,692	11,465	-	133,157
Change in fair value of investments	236,978	31,721	-	268,699	(101,278)	(11,041)	-	(112,319)
Net assets released from restrictions:								
Satisfaction of program restrictions	311,542	(311,542)	-	-	221,537	(221,537)	-	-
Total support and revenue	4,604,559	750,595	53,000	5,408,154	3,971,293	259,234	0	4,230,527
Expenses:								
Program services	4,060,681	-	-	4,060,681	3,796,101	-	-	3,796,101
Management and general	246,637	-	-	246,637	235,195	-	-	235,195
Fund development	283,489	-	-	283,489	234,157	-	-	234,157
Total expenses	4,590,807	0	0	4,590,807	4,265,453	0	0	4,265,453
Change in net assets	13,752	750,595	53,000	817,347	(294,160)	259,234	0	(34,926)
Net assets - beginning of period	798,303	3,906,585	216,207	4,921,095	1,092,463	3,647,351	216,207	4,956,021
Net assets - end of period	\$812,055	\$4,657,180	\$269,207	\$5,738,442	\$798,303	\$3,906,585	\$216,207	\$4,921,095

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

	2017				Total
	Program Services	Management and General	Fund Development	Supporting Services	
Expenses:					
Salaries	\$881,901	\$122,521	\$124,022	\$246,543	\$1,128,444
Payroll taxes and benefits	187,045	24,576	24,317	48,893	235,938
Other staff expenses	1,642	6,960	406	7,366	9,008
Total personnel costs	1,070,588	154,057	148,745	302,802	1,373,390
Travel	53,324	1,426	3,765	5,191	58,515
Memberships, dues, licenses	3,339	356	2,247	2,603	5,942
Meeting expense	4,630	6,856	1,192	8,048	12,678
Board expense	-	1,947	-	1,947	1,947
Rent and building maintenance	74,106	7,905	16,797	24,702	98,808
Office expense	56,754	4,675	13,161	17,836	74,590
Depreciation	2,139	228	485	713	2,852
Postage and delivery	8,869	860	28,580	29,440	38,309
Printing and photocopying	20,737	1,739	4,918	6,657	27,394
Insurance	-	30,883	-	30,883	30,883
Project expenses	563,674	-	-	-	563,674
Project expenses - conservation easement and land acquisition	2,127,850	-	-	-	2,127,850
Contracted services	12,698	3,034	62,698	65,732	78,430
Audit and accounting	-	16,482	-	16,482	16,482
External grants	55,970	-	-	-	55,970
Miscellaneous expense	6,003	16,189	901	17,090	23,093
Total expenses	\$4,060,681	\$246,637	\$283,489	\$530,126	\$4,590,807
Percentage	88%	6%	6%	12%	100%

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

	2016				Total
	Program Services	Management and General	Fund Development	Supporting Services	
Expenses:					
Salaries	\$799,909	\$113,531	\$143,197	\$256,728	\$1,056,637
Payroll taxes and benefits	168,223	21,373	25,987	47,360	215,583
Other staff expenses	4,549	546	219	765	5,314
Total personnel costs	972,681	135,450	169,403	304,853	1,277,534
Travel	54,565	1,912	4,629	6,541	61,106
Memberships, dues, licenses	3,522	300	1,236	1,536	5,058
Meeting expense	4,066	4,311	1,484	5,795	9,861
Board expense	-	410	-	410	410
Rent and building maintenance	73,611	7,852	16,685	24,537	98,148
Office expense	58,297	5,742	12,428	18,170	76,467
Depreciation	1,410	150	320	470	1,880
Postage and delivery	8,797	912	21,580	22,492	31,289
Printing and photocopying	5,241	12,159	3,564	15,723	20,964
Insurance	-	31,673	-	31,673	31,673
Project expenses	1,329,920	-	-	-	1,329,920
Project expenses - conservation easement and land acquisition	1,216,250	-	-	-	1,216,250
Contracted services	9,241	922	1,959	2,881	12,122
Audit and accounting	-	16,720	-	16,720	16,720
External grants	54,292	-	-	-	54,292
Miscellaneous expense	4,208	16,682	869	17,551	21,759
Total expenses	\$3,796,101	\$235,195	\$234,157	\$469,352	\$4,265,453
Percentage	89%	6%	5%	11%	100%

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

MINNESOTA LAND TRUST
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2017 and 2016

Statement 4

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$817,347	(\$34,926)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,852	1,880
Contributions to permanently restricted net assets	(53,000)	-
Realized and unrealized (gain) loss on investments	(268,699)	112,319
(Increase) decrease in assets:		
Capital campaign - promises to give, net	(149,457)	-
Contributions, grants and other receivables	(99,230)	(199,437)
Land held for resale - conservation	-	(15,630)
Land held for conservation	-	(125,000)
Deposits and other	1,712	(497)
Increase (decrease) in liabilities:		
Accounts payable	15,933	12,220
Accrued expenses	3,266	15,605
Net cash provided (used) by operating activities	<u>270,724</u>	<u>(233,466)</u>
Cash flows from investing activities:		
Purchase of equipment	(18,609)	(5,108)
Purchase of investments, including re-invested income	(580,017)	(410,684)
Proceeds from sale of investments	292,684	343,270
Net cash provided (used) by investing activities	<u>(305,942)</u>	<u>(72,522)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for investment in endowment	<u>53,000</u>	-
Net increase (decrease) in cash and cash equivalents	17,782	(305,988)
Cash and cash equivalents - beginning of year	<u>324,295</u>	<u>630,283</u>
Cash and cash equivalents - end of year	<u><u>\$342,077</u></u>	<u><u>\$324,295</u></u>

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

Note 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION

Minnesota Land Trust (Land Trust) is a Minnesota nonprofit corporation and a 501(c)(3) public charity with a mission to protect and restore Minnesota's most vital natural lands in order to provide wildlife habitat, clean water, outdoor experiences and scenic beauty for generations to come. Since 1991, the Land Trust has been working with landowners and local communities to protect Minnesota's cherished but increasingly threatened lands and waters primarily through establishing, creating, and monitoring perpetual conservation easements – recorded legal agreements that protect the land's natural and scenic features by restricting its use and development. Although the landowner retains ownership of the land and is responsible for its ongoing maintenance, the Land Trust holds the conservation easement and accepts responsibility for monitoring compliance with the terms of the easement and for defending the easement should the terms be threatened or violated.

As of June 30, 2017, the Land Trust has completed 527 land protection projects, permanently protecting 51,286 acres and 1,213,425 feet of shoreline.

Another restoration project in the St. Louis River Estuary (Chamber's Grove) was completed in fiscal year 2017. A new phase of wild rice restoration, this one in partnership with the Wisconsin DNR, began. The engagement work with the City of Duluth on the City's Outdoor Adventure Experience continues; a new phase of that contract was negotiated and commences on July 1, 2017.

M.L. 2011, First Special Session, Chapter 2, Article 3, Subdivision 19 and M.L. 2011, First Special Session, Chapter 6, Article 1, Section 2, Subdivision 15, and subsequent appropriations funded by the Environment and Natural Resources Trust Fund (ENRTF) and the Outdoor Heritage Fund (OHF) contain language governing conservation easement stewardship and reporting requirements. This language mandates that money appropriated under these sections for easement monitoring and enforcement may be spent only on activities included in an easement monitoring and enforcement plan contained within the work program (for ENRTF) or accomplishment plan (for OHF). Money received for monitoring and enforcement, including earnings on the money received, shall be kept in a monitoring and enforcement fund held by the organization and dedicated to monitoring and enforcing conservation easements within Minnesota. Within 120 days after the close of the entity's fiscal year, an entity receiving appropriations for easement monitoring and enforcement must provide annual financial reports to the Legislative-Citizens Commission on Minnesota Resources and to the Lessard-Sams Outdoor Heritage Council on the easement monitoring and enforcement fund. Money appropriated under these sections for monitoring and enforcement of easements and earnings on the money appropriated shall revert to the state if: (1) the easement transfers to the state; (2) the holder of the easement fails to file an annual report and then fails to cure that default within 30 days of notification of the default by the state; or (3) the holder of the easement fails to comply with the terms of the monitoring and enforcement plan contained within the accomplishment plan and fails to cure that default within 90 days of notification of the default by the state.

B. BASIS OF PRESENTATION

The Land Trust's assets, liabilities, net assets and revenues are segregated into classes according to the uses of related resources. These classes of net assets are summarized as follows:

Unrestricted net assets – accounts for resources that the Board of Directors has discretion and intention to use in carrying on the Land Trust's activities.

Temporarily restricted net assets – accounts for resources restricted by the donors or grantors for specific activities or specific future periods.

Permanently restricted net assets – accounts for endowment resources whose use by the Land Trust is limited by donor restrictions for investment in perpetuity.

C. PROMISES TO GIVE AND CONTRIBUTIONS

Contributions, including unconditional promises to give, are recorded at net realizable value. Verbal promises to give are not recorded unless confirmed in writing. The Land Trust uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on 5% of the pledged amount. Promises to give are presented net of allowance for doubtful accounts of \$11,110 and \$0 for the years ended June 30, 2017 and 2016, respectively.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in subsequent years are reported at the present value of estimated future cash flows, determined using approximate interest rates applicable to long-term government securities as of June 30 of the year in which the promises are received. At June 30, 2017 and 2016 the present value discount on long-term pledges was considered immaterial and therefore was not recorded.

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions, if any. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met in the same reporting period in which the support is received.

D. GOVERNMENT CONTRACTS

Revenue from government contracts is recognized when earned. Revenue is earned when eligible expenditures, as defined in each contract, are incurred. Expenditures under government contracts are subject to review by the granting authority.

E. CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Land Trust considers cash on hand and on deposit in banks, money market mutual funds and investments purchased with maturity of three months or less to be cash equivalents.

F. INVESTMENTS

Investments are presented at their fair values based on quoted values in published sources. As it is the Land Trust's policy to sell all donated securities upon receipt, donated securities are reported in the statements of activities at the gross proceeds resulting from sales, which approximates the fair value at the date of contribution. Realized and unrealized gains and losses from investments are reflected in the statements of activities.

G. RECEIVABLES

Receivables are stated at the amount management expects to collect from balances outstanding at year end. Accounts receivable are evaluated on a case-by-case basis to determine if they are delinquent. Based on management's assessment of the outstanding balances, it has concluded that losses on balances outstanding at year end, if any, will not be material. No allowance for uncollectible amounts is provided since all amounts were deemed collectible.

H. FURNITURE AND EQUIPMENT

Furniture and equipment is stated at cost or, if donated, at the estimated fair value at the date of the gift. The Land Trust uses a capitalization threshold of \$1,500. Depreciation is computed using the straight-line method over the estimated useful life of the furniture and equipment – three to seven years. Depreciation expense was \$2,852 and \$1,880 for the years ended June 30, 2017 and 2016, respectively.

I. REFUNDABLE ADVANCES

Cash received related to conditional contributions before the related conditions are met is reflected as refundable advances in the statements of financial position. The Land Trust allows the related donors the option of receiving refunds, or the opportunity to apply the contributions to other initiatives, if the conditions are not met. Refundable advances are recognized as contribution revenue when the donors no longer have the right to receive a refund. No refundable advances were recorded as of June 30, 2017 and 2016.

J. CONSERVATION EASEMENTS

Conservation easements accepted or purchased by the Land Trust are not recognized as assets or revenues in the accompanying financial statements because the Land Trust does not have fee title to the properties and there are no expected future economic benefits. If purchased, the costs of conservation easements are expensed when the easements are acquired.

K. DONATED SERVICES, MATERIAL, FACILITIES AND EQUIPMENT

The value of contributed services is recognized in the financial statements if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Land Trust receives donated services from a large number of volunteers assisting it in providing management and programmatic services, including approximately 2,619 and 2,084 hours of time contributed for easement monitoring and land protection work for the years ended June 30, 2017 and 2016, respectively. Since the

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

value of the services did not meet the criteria for financial statement recognition, no amounts have been recognized in the accompanying statement of activities for these services for either 2017 or 2016.

Contributions of materials and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the use of 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 temporarily restricted support.

L. INCOME TAXES

The Land Trust has received notification that it qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation. The Land Trust has not had any material unrelated business income.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the Land Trust has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

M. ALLOCATION OF FUNCTIONAL EXPENSES

Costs of providing programs and supporting service activities have been summarized on a functional basis in the statements of functional expenses. Salaries and related costs are allocated between the program and supporting service categories based upon the estimated time expended by the employees in those categories. Other costs are allocated according to management's estimates or on a direct basis.

N. LAND

The Land Trust categorizes land that it owns in fee title in one of three categories:

- Land held for resale: Land without conservation value that has been given to the Land Trust to sell with proceeds going to support Land Trust conservation programs.
- Land held for resale - conservation: Land with conservation value that the Land Trust holds with the intent of selling or conveying the land to another conservation entity or with appropriate conservation restrictions.
- Land held for conservation: Land with conservation value, also known as nature preserves, which the Land Trust has no current plans to sell or transfer.

Donated land is recorded at estimated fair value at the time of donation using property tax assessments or appraisals and other information.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

O. USE OF ESTIMATES

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 INVESTMENTS

Investment detail at June 30 is as follows:

	2017				
	Stewardship and Enforcement			Endowment	Total
	Acquisition	Enforcement	Endowment	Total	
Fixed income mutual funds	\$84,284	\$1,484,500	\$ -	\$1,568,784	
Equity mutual funds	-	1,901,484	272,406	2,173,890	
Balanced mutual funds	-	451,510	61,998	513,508	
Total	<u>\$84,284</u>	<u>\$3,837,494</u>	<u>\$334,404</u>	<u>\$4,256,182</u>	
	2016				
	Stewardship and Enforcement			Endowment	Total
	Acquisition	Enforcement	Endowment	Total	
Fixed income mutual funds	\$82,488	\$1,133,015	\$ -	\$1,215,503	
Equity mutual funds	-	1,786,667	228,547	2,015,214	
Balanced mutual funds	-	412,371	57,062	469,433	
Total	<u>\$82,488</u>	<u>\$3,332,053</u>	<u>\$285,609</u>	<u>\$3,700,150</u>	

Note 3 CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

Contributions, grants and other receivables consisted of the following at June 30:

	2017	2016
Contributions receivables - stewardship and enforcement	\$203,963	\$212,100
Grants receivables	138,500	10,000
Other receivables	437,835	458,968
Total	<u>\$780,298</u>	<u>\$681,068</u>

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 4 PROMISES TO GIVE RECEIVABLE

A. UNCONDITIONAL

Unconditional promises to give are expected to be collected as follows at June 30:

	<u>2017</u>	<u>2016</u>
Due in one year	\$63,233	\$ -
Due in two to five years	97,334	-
Total	<u>160,567</u>	<u>0</u>
Less allowance	<u>(11,110)</u>	<u>-</u>
Total	<u><u>\$149,457</u></u>	<u><u>\$0</u></u>

B. CONDITIONAL

When the pledge correspondence clearly indicates the pledge is conditional, it is not reflected as contribution revenue in the statement of activities until the related contribution is collected. Upon acquisition of conservation easements, the Land Trust frequently asks the individual landowners to make voluntary contributions for the future stewardship and enforcement of the easements. Stewardship conditional promises to give that are likely to be collectible at June 30, 2017 and 2016 were \$4,750 and \$5,780, respectively. Capital Campaign conditional promises to give that are likely to be collected at June 30, 2017 and 2016 were \$160,000 and \$0, respectively.

Note 5 FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Computer equipment	\$31,534	\$12,924
Office equipment	30,915	30,915
Total	<u>62,449</u>	<u>43,839</u>
Less: accumulated depreciation	<u>(41,543)</u>	<u>(38,690)</u>
Net furniture and equipment	<u><u>\$20,906</u></u>	<u><u>\$5,149</u></u>

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

Note 6 NET ASSETS

A. BOARD DESIGNATED

Certain unrestricted net assets have been internally designated as follows at June 30:

	<u>2017</u>	<u>2016</u>
Acquisition	\$360,920	\$393,073
Stewardship and enforcement	<u>448,047</u>	<u>403,006</u>
Total	<u><u>\$808,967</u></u>	<u><u>\$796,079</u></u>

B. TEMPORARILY RESTRICTED

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Operations	\$714,462	\$576,570
Land and easement acquisition	9,800	35,039
Easement stewardship	3,852,904	3,239,854
Endowment	<u>80,014</u>	<u>55,122</u>
Total	<u><u>\$4,657,180</u></u>	<u><u>\$3,906,585</u></u>

Note 7 ENDOWMENT FUND

A. GENERAL

The endowment fund is a donor-restricted permanent fund created to provide long-term general operating support of the Land Trust.

B. INTERPRETATION OF RELEVANT LAW AND ACCOUNTING PRESENTATION

The Board of Directors of the Land Trust has interpreted the State of Minnesota's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the Land Trust to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds unless there are explicit donor stipulations to the contrary:

1. The duration and preservation of the fund.
2. The purposes of the Organization and the endowment fund.
3. General economic conditions.
4. The possible effect of inflation or deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Organization.
7. The investment policy of the Organization.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
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For accounting purposes only, the Land Trust classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Land Trust.

C. FINANCIAL INFORMATION

Endowment fund activity for 2016 and 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets - June 30, 2015	\$ -	\$68,978	\$216,207	\$285,185
Investment return:				
Interest and dividends	-	11,464	-	11,464
Change in fair value	-	(11,040)	-	(11,040)
Total investment return	0	424	0	424
Contributions	-	-	-	-
Appropriation for expenditure	-	(14,280)	-	(14,280)
Net assets - June 30, 2016	0	55,122	216,207	271,329
Investment return:				
Interest and dividends	-	8,741	-	8,741
Change in fair value	-	31,721	-	31,721
Total investment return	0	40,462	0	40,462
Contributions	-	-	53,000	53,000
Appropriation for expenditure	-	(15,570)	-	(15,570)
Net assets - June 30, 2017	\$0	\$80,014	\$269,207	\$349,221
	<u>6000.02</u>	<u>6000.02</u>	<u>6000.02</u>	

D. INVESTMENT RETURN OBJECTIVES AND RISK PARAMETERS

The Land Trust has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Land Trust must hold in perpetuity or for a donor-specified period(s).

E. ENDOWMENT DISTRIBUTION POLICY

The Land Trust's policy is that distributions are determined based on the value of the Endowment Fund as of the end of the prior fiscal year. Distributions of up to 5% of the fund value may be made annually for support of operating expenses.

F. FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Land Trust to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. For fiscal years ending June 30, 2017 and 2016, there were no funds with deficiencies.

Note 8 STEWARDSHIP AND ENFORCEMENT FUND

A. GENERAL

The stewardship and enforcement fund operates as a quasi-endowment and consists of unrestricted board-designated funds and donor funds that are temporarily restricted for purpose.

The stewardship and enforcement fund has been created to meet two needs: to provide a long-term, ongoing source of income to cover the annual costs associated with monitoring and managing the portfolio of conservation easements and protected areas, and to be available to cover extraordinary expenses associated with managing, upholding or defending an easement should its terms or validity be at risk.

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B. FINANCIAL INFORMATION

Stewardship and enforcement fund activity for 2016 and 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets - June 30, 2015	\$824,591	\$2,958,169	\$3,782,760
Investment return:			
Interest and dividends	120,009	-	120,009
Change in fair value	(101,594)	-	(101,594)
Total investment return	<u>18,415</u>	<u>0</u>	<u>18,415</u>
Contributions/grants	-	281,685	281,685
Appropriation for expenditure	<u>(440,000)</u>	<u>-</u>	<u>(440,000)</u>
Net assets - June 30, 2016	<u>403,006</u>	<u>3,239,854</u>	<u>3,642,860</u>
Investment return:			
Interest and dividends	93,518	-	93,518
Change in fair value	236,918	-	236,918
Total investment return	<u>330,436</u>	<u>0</u>	<u>330,436</u>
Fees for service	6,605	-	6,605
Contributions/grants	-	488,050	488,050
Capital campaign transfer in	-	125,000	125,000
Appropriation for expenditure	<u>(292,000)</u>	<u>-</u>	<u>(292,000)</u>
Net assets - June 30, 2017	<u>\$448,047</u>	<u>\$3,852,904</u>	<u>\$4,300,951</u>

C. INVESTMENT AND DISTRIBUTION POLICY

The Land Trust has adopted investment and spending policies for the stewardship and enforcement fund assets that attempt to provide a predictable stream of funding to programs supported by the fund while seeking to maintain the purchasing power of the fund assets.

The Land Trust's policy is that up to 5% of the value of the stewardship and enforcement fund at the end of the prior fiscal year can be spent annually to meet ongoing conservation easement stewardship needs and obligations. With the approval of the Board of Directors, funds can be used to meet expenses associated with managing, upholding or defending an easement or other interest in land held by the Land Trust.

For accounting purposes, the Land Trust's policy for amounts appropriated for expenditure is to first use unrestricted amounts until depleted and then temporarily restricted donor funds. Investment income and losses are fully allocated to unrestricted.

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June 30, 2017 and 2016

Note 9 LEASE AGREEMENTS

The Land Trust leases office space in St. Paul, Minnesota under a lease agreement expiring January 31, 2020. In addition, the Land Trust leases office space in Duluth, Minnesota on a month to month basis.

The following is a schedule of future minimum payments for noncancellable operating leases:

Years Ending June 30,	Amount
2018	\$71,738
2019	73,169
2020	<u>30,840</u>
Total	<u><u>\$175,747</u></u>

Rent expense, including operating expenses, for the years ended June 30, 2017 and 2016, for all operating leases, was \$98,808 and \$98,148, respectively.

Note 10 RETIREMENT PLAN

Employees of the Land Trust meeting certain eligibility requirements are eligible to participate in a contributory 401(k) retirement plan whereby the Land Trust contributes up to 2% of the participants' compensation on a matching basis. Contributions to the Plan were \$19,439 and \$14,602 during the years ended June 30, 2017 and 2016.

Note 11 CONCENTRATIONS

CONCENTRATION OF CREDIT RISK

The Land Trust periodically has cash deposits with bank balances in excess of FDIC insurance. As of June 30, 2017 and 2016, all bank balances were covered by FDIC insurance.

Note 12 FAIR VALUE MEASUREMENTS

Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Significant other observable inputs.
- Level 3 – Significant unobservable inputs.

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Assets and liabilities that are measured at fair value on a recurring basis are as follows at June 30:

	Level 1	
	2017	2016
Investments:		
Fixed income mutual funds	\$1,568,784	\$1,215,503
Equity mutual funds	2,173,890	2,015,214
Balanced mutual funds	513,508	469,433
 Total	 \$4,256,182	 \$3,700,150

Mutual funds are valued using quoted prices in active markets

Note 13 LINE OF CREDIT

The Land Trust has a \$250,000 line of credit agreement with a commercial bank. Interest on the line of credit is set at the Prime rate (4.25% and 3.75% June 30, 2017 and 2016, respectively), and matures on February 11, 2018. It is secured by all assets of the Land Trust. At June 30, 2017 and 2016, there was no amount outstanding on the line of credit.

Note 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 12, 2017, the date that this report was available to be issued.

SUPPLEMENTAL INFORMATION

	2017				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Assets:					
Cash and cash equivalents	\$238,219	\$33,977	\$39,494	\$30,387	\$342,077
Interfund transfers in transit	(70,430)	(59,000)	145,000	(15,570)	-
Capital campaign - promises to give, net	74,457	-	75,000	-	149,457
Contributions, grants and other receivables	575,535	800	203,963	-	780,298
Deposits and other	17,952	-	-	-	17,952
Furniture and equipment, net	20,906	-	-	-	20,906
Investments	-	84,284	3,837,494	334,404	4,256,182
Land held for resale - conservation	-	128,540	-	-	128,540
Land held for conservation	-	182,119	-	-	182,119
Total assets	\$856,639	\$370,720	\$4,300,951	\$349,221	\$5,877,531
Liabilities and net assets:					
Liabilities:					
Accounts payable	\$61,536	\$-	\$-	\$-	\$61,536
Accrued expenses	77,553	-	-	-	77,553
Total liabilities	139,089	0	0	0	139,089
Net assets:					
Unrestricted	3,088	-	-	-	3,088
Unrestricted - board designated	-	360,920	448,047	-	808,967
Temporarily restricted	714,462	9,800	3,852,904	80,014	4,657,180
Permanently restricted	-	-	-	269,207	269,207
Total net assets	717,550	370,720	4,300,951	349,221	5,738,442
Total liabilities and net assets	\$856,639	\$370,720	\$4,300,951	\$349,221	\$5,877,531

	2016				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Assets:					
Cash and cash equivalents	\$195,623	\$44,965	\$83,707	\$ -	\$324,295
Interfund transfers in transit	9,280	(10,000)	15,000	(14,280)	-
Contributions, grants and other receivables	468,968	-	212,100	-	681,068
Deposits and other	19,664	-	-	-	19,664
Furniture and equipment, net	5,149	-	-	-	5,149
Investments	-	82,488	3,332,053	285,609	3,700,150
Land held for resale-conservation	-	128,540	-	-	128,540
Land held for conservation	-	182,119	-	-	182,119
Total assets	\$698,684	\$428,112	\$3,642,860	\$271,329	\$5,040,985
Liabilities and net assets:					
Liabilities:					
Accounts payable	\$45,603	\$ -	\$ -	\$ -	\$45,603
Accrued expenses	74,287	-	-	-	74,287
Total liabilities	119,890	0	0	0	119,890
Net assets:					
Unrestricted	2,224	-	-	-	2,224
Unrestricted - board designated	-	393,073	403,006	-	796,079
Temporarily restricted	576,570	35,039	3,239,854	55,122	3,906,585
Permanently restricted	-	-	-	216,207	216,207
Total net assets	578,794	428,112	3,642,860	271,329	4,921,095
Total liabilities and net assets	\$698,684	\$428,112	\$3,642,860	\$271,329	\$5,040,985

	2017				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Support and revenue:					
Contributions and grants:					
Capital campaign	\$247,329	\$ -	\$95,000	\$ -	\$342,329
All other	895,851	-	13,050	53,000	961,901
Government grant and contract revenue:					
ENRTF	31,451	-	-	-	31,451
OHF	822,973	2,127,650	380,000	-	3,330,623
All other	216,016	-	-	-	216,016
Special events:					
Contribution	123,698	-	-	-	123,698
Other	35,995	-	-	-	35,995
Less: direct expenses	(22,584)	-	-	-	(22,584)
Fees for service	-	-	6,605	-	6,605
Other revenue	9,410	-	-	-	9,410
Interest and dividends	4	1,748	93,518	8,741	104,011
Change in fair value of investments	-	60	236,918	31,721	268,699
Interfund transfers in (out), net	241,570	(59,000)	(167,000)	(15,570)	-
Total support and revenue	<u>2,601,713</u>	<u>2,070,458</u>	<u>658,091</u>	<u>77,892</u>	<u>5,408,154</u>
Expenses:					
Program services	1,932,831	2,127,850	-	-	4,060,681
Management and general	246,637	-	-	-	246,637
Fund development	283,489	-	-	-	283,489
Total expenses	<u>2,462,957</u>	<u>2,127,850</u>	<u>0</u>	<u>0</u>	<u>4,590,807</u>
Change in net assets	138,756	(57,392)	658,091	77,892	817,347
Net assets - beginning of period	578,794	428,112	3,642,860	271,329	4,921,095
Net assets - end of period	<u>\$717,550</u>	<u>\$370,720</u>	<u>\$4,300,951</u>	<u>\$349,221</u>	<u>\$5,738,442</u>

	2016				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Support and revenue:					
Contributions and grants	\$650,478	\$140,630	\$71,685	\$ -	\$862,793
Government grant and contract revenue:					
ENRTF	118,237	441,400	30,000	-	589,637
OHF	1,043,421	774,850	180,000	-	1,998,271
All other	596,482	-	-	-	596,482
Special events:					
Contribution	131,044	-	-	-	131,044
Other	35,145	-	-	-	35,145
Less: direct expenses	(12,389)	-	-	-	(12,389)
Fees for service	3,639	-	-	-	3,639
Other revenue	5,067	-	-	-	5,067
Interest and dividends	-	1,683	120,009	11,465	133,157
Change in fair value of investments	-	316	(101,594)	(11,041)	(112,319)
Interfund transfers in (out), net	464,280	(10,000)	(440,000)	(14,280)	-
Total support and revenue	3,035,404	1,348,879	(139,900)	(13,856)	4,230,527
Expenses:					
Program services	2,579,851	1,216,250	-	-	3,796,101
Management and general	235,195	-	-	-	235,195
Fund development	234,157	-	-	-	234,157
Total expenses	3,049,203	1,216,250	0	0	4,265,453
Change in net assets	(13,799)	132,629	(139,900)	(13,856)	(34,926)
Net assets - beginning of period	592,593	295,483	3,782,760	285,185	4,956,021
Net assets - end of period	\$578,794	\$428,112	\$3,642,860	\$271,329	\$4,921,095

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