

MINNESOTA LAND TRUST

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

For The Years Ended
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 18, 2018

FINANCIAL STATEMENTS

MINNESOTA LAND TRUST
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

Statement 1

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$1,689,428	\$342,077
Capital campaign - promises to give, net	395,100	149,457
Contributions, grants and other receivables	943,259	780,298
Deposits and other	28,842	17,952
Furniture and equipment, net	15,565	20,906
Investments	4,856,306	4,256,182
Land held for resale - conservation	65,650	128,540
Land held for conservation	134,000	182,119
Beneficial interest in real property	744,200	-
	<u>\$8,872,350</u>	<u>\$5,877,531</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$67,401	\$61,536
Accrued expenses	110,181	77,553
Line of credit	120,000	-
Total liabilities	<u>297,582</u>	<u>139,089</u>
Net assets:		
Unrestricted	16,946	3,088
Unrestricted - board designated	1,933,170	808,967
Temporarily restricted	6,301,445	4,657,180
Permanently restricted	323,207	269,207
Total net assets	<u>8,574,768</u>	<u>5,738,442</u>
Total liabilities and net assets	<u>\$8,872,350</u>	<u>\$5,877,531</u>

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

MINNESOTA LAND TRUST
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2018 and 2017

Statement 2

	2018			2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions and grants:								
Capital campaign	\$ -	\$819,533	\$ -	\$819,533	\$ -	\$342,329	\$ -	\$342,329
All other	1,626,361	843,589	54,000	2,523,950	609,554	299,347	53,000	961,901
Government grant and contract revenue:								
ENRTF	365,813	-	-	365,813	31,451	-	-	31,451
OHF	4,131,666	380,000	-	4,511,666	2,950,623	380,000	-	3,330,623
All other	276,706	24,000	-	300,706	216,016	-	-	216,016
Special events:								
Contribution	144,399	-	-	144,399	123,698	-	-	123,698
Other	38,900	-	-	38,900	35,995	-	-	35,995
Less: direct expenses	(25,061)	-	-	(25,061)	(22,584)	-	-	(22,584)
Fees for service	14,654	-	-	14,654	6,605	-	-	6,605
Other revenue	3,371	-	-	3,371	9,410	-	-	9,410
Gain on sale of land	2,198	-	-	2,198	-	-	-	-
Interest and dividends	142,120	14,646	-	156,766	95,271	8,740	-	104,011
Change in fair value of investments	82,230	15,842	-	98,072	236,978	31,721	-	268,699
Net assets released from restrictions:								
Satisfaction of program restrictions	453,345	(453,345)	-	-	311,542	(311,542)	-	-
Total support and revenue	7,256,702	1,644,265	54,000	8,954,967	4,604,559	750,595	53,000	5,408,154
Expenses:								
Program services	5,517,193	-	-	5,517,193	4,060,681	-	-	4,060,681
Management and general	280,539	-	-	280,539	246,637	-	-	246,637
Fund development	320,909	-	-	320,909	283,489	-	-	283,489
Total expenses	6,118,641	0	0	6,118,641	4,590,807	0	0	4,590,807
Change in net assets	1,138,061	1,644,265	54,000	2,836,326	13,752	750,595	53,000	817,347
Net assets - beginning of year	812,055	4,657,180	269,207	5,738,442	798,303	3,906,585	216,207	4,921,095
Net assets - end of year	\$1,950,116	\$6,301,445	\$323,207	\$8,574,768	\$812,055	\$4,657,180	\$269,207	\$5,738,442

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

	2018				Total
	Program Services	Management and General	Fund Development	Supporting Services	
Expenses:					
Salaries	\$950,421	\$163,797	\$124,910	\$288,707	\$1,239,128
Payroll taxes and benefits	194,187	31,223	24,088	55,311	249,498
Other staff expenses	3,596	1,062	174	1,236	4,832
Total personnel costs	1,148,204	196,082	149,172	345,254	1,493,458
Travel	63,770	1,607	3,922	5,529	69,299
Memberships, dues, licenses	4,533	484	1,662	2,146	6,679
Meeting expense	2,384	3,423	361	3,784	6,168
Board expense	-	2,271	-	2,271	2,271
Rent and building maintenance	75,795	8,085	17,180	25,265	101,060
Office expense	64,307	6,727	17,426	24,153	88,460
Depreciation	6,450	689	1,462	2,151	8,601
Postage and delivery	9,543	795	39,391	40,186	49,729
Printing and photocopying	19,555	2,086	4,432	6,518	26,073
Insurance	-	21,261	-	21,261	21,261
Project expenses	621,309	-	3,227	3,227	624,536
Project expenses - conservation easement and land acquisition	3,470,225	-	-	-	3,470,225
Contracted services	14,902	1,590	82,204	83,794	98,696
Audit and accounting	-	17,550	-	17,550	17,550
External grants	11,356	-	-	-	11,356
Miscellaneous expense	4,860	17,889	470	18,359	23,219
Total expenses	\$5,517,193	\$280,539	\$320,909	\$601,448	\$6,118,641
Percentage	90%	5%	5%	10%	100%

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.

MINNESOTA LAND TRUST
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2018 and 2017

Statement 4

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$2,836,326	\$817,347
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	8,601	2,852
Contributions to permanently restricted net assets	(54,000)	(53,000)
Realized and unrealized gain on investments	(98,072)	(268,699)
(Increase) decrease in assets:		
Capital campaign - promises to give, net	(245,643)	(149,457)
Contributions, grants and other receivables	(162,961)	(99,230)
Land held for resale - conservation	62,890	-
Land held for conservation	48,119	-
Deposits and other	(10,890)	1,712
Beneficial interest in real property	(744,200)	-
Increase (decrease) in liabilities:		
Accounts payable	5,865	15,933
Accrued expenses	32,628	3,266
Net cash provided by operating activities	<u>1,678,663</u>	<u>270,724</u>
Cash flows from investing activities:		
Purchase of equipment	(3,260)	(18,609)
Purchase of investments, including re-invested income	(1,160,552)	(580,017)
Proceeds from sale of investments	658,500	292,684
Net cash used by investing activities	<u>(505,312)</u>	<u>(305,942)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for investment in endowment	54,000	53,000
Proceeds from line of credit, net	120,000	-
Net cash provided by financing activities	<u>174,000</u>	<u>53,000</u>
Net increase in cash and cash equivalents	1,347,351	17,782
Cash and cash equivalents - beginning of year	<u>342,077</u>	<u>324,295</u>
Cash and cash equivalents - end of year	<u>\$1,689,428</u>	<u>\$342,077</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. The Land Trust accomplishes this mission through the following three strategies.

PROTECTION: Since 1991, the Land Trust has been working with landowners and local communities to protect and restore 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, 2018, the Land Trust has completed 552 land protection projects, permanently protecting 55,325 acres and 1,630,267 feet of shoreline since its founding in 1991.

RESTORATION: The Land Trust's restoration work expanded in this fiscal year. The Land Trust continued to advance the St. Louis River Restoration Initiative through additional wild rice seeding and scoping of multiple new projects including Grassy Point. It also significantly advanced its partnership with the US Fish and Wildlife Service to restore nearly two hundred acres of wetlands and prairies on private lands in the prairie pothole region of Minnesota. Also, the Land Trust began a new project with the City of Duluth to create new nominations for the Duluth Natural Areas Program. This acceleration of the restoration efforts will continue and the Land Trust plans to hire a restoration manager early in FY19.

ENGAGEMENT: The Land Trust's engagement work with the City of Duluth also continued to move forward, with several important milestones reached, including submitting the St. Louis River National Water Trail designation, breaking ground on the Grand Avenue Nordic Center, and finalizing the mini-master plan for Quarry Park. The Land Trust assisted the City on these and other nature-based outdoor recreation venues. The Land Trust also helped Duluth Youth Outdoors in their efforts to connect Duluth's young population to the outdoors through various adventure activities.

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 \$21,233 and \$11,110 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 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 \$8,601 and \$2,852 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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 2,462 and 2,619 hours of time contributed for easement monitoring and land protection work for the years ended June 30, 2018 and 2017, respectively. Since the 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 2018 or 2017.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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.
- As described in Note 6, the Land Trust is a remainder beneficiary of a grantor-retained life estate.

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

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.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 2 INVESTMENTS

Investment detail at June 30 is as follows:

	2018			
	Acquisition	Stewardship and Enforcement	Endowment	Total
Fixed income mutual funds	\$260,172	\$1,529,830	\$ -	\$1,790,002
Equity mutual funds	-	2,185,506	362,000	2,547,506
Balanced mutual funds	-	466,652	52,146	518,798
Total	\$260,172	\$4,181,988	\$414,146	\$4,856,306

	2017			
	Acquisition	Stewardship and 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	\$84,284	\$3,837,494	\$334,404	\$4,256,182

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 3 CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

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

	<u>2018</u>	<u>2017</u>
Contributions receivable - stewardship and enforcement	\$240,000	\$203,963
Grants receivable	7,000	138,500
Other receivables	<u>696,259</u>	<u>437,835</u>
Total	<u>\$943,259</u>	<u>\$780,298</u>

Note 4 PROMISES TO GIVE RECEIVABLE

A. UNCONDITIONAL

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

	<u>2018</u>	<u>2017</u>
Due in one year	\$126,400	\$63,233
Due in two to five years	<u>289,933</u>	<u>97,334</u>
Total	416,333	160,567
Less allowance	<u>(21,233)</u>	<u>(11,110)</u>
Total	<u>\$395,100</u>	<u>\$149,457</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, 2018 and 2017 were \$4,100 and \$4,750, respectively. Capital Campaign conditional promises to give that are likely to be collected at June 30, 2018 and 2017 were \$120,000 and \$160,000, respectively.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 5 FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$34,794	\$31,534
Office equipment	<u>30,915</u>	<u>30,915</u>
Total	65,709	62,449
Less: accumulated depreciation	<u>(50,144)</u>	<u>(41,543)</u>
Net furniture and equipment	<u>\$15,565</u>	<u>\$20,906</u>

Note 6 BENEFICIAL INTEREST IN REAL PROPERTY

The Land Trust is the remainder beneficiary of a grantor-retained life estate. Under the terms of the Retained Life Estate agreement dated December 20, 2017, the donors executed a deed giving the Land Trust a remainder interest in their 31.41-acre homestead, while retaining the right to occupy and maintain the property during their lifetime. The life estate will terminate automatically one year after the husband’s death. The beneficial interest in real property is recorded at an estimated fair value of \$744,200 at June 30, 2018.

Note 7 NET ASSETS

A. BOARD DESIGNATED

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

	<u>2018</u>	<u>2017</u>
Operations	\$1,163,601	\$ -
Acquisition	288,528	360,920
Stewardship and enforcement	<u>481,041</u>	<u>448,047</u>
Total	<u>\$1,933,170</u>	<u>\$808,967</u>

At June 30, 2018, the amount reported in board designated net assets for operations includes a bequest received in 2018 of \$978,601. The bequest letter states that a portion of the funds are to be used for conservation on the North Shore of Lake Superior, which would be considered temporarily restricted net assets. The amount the donor intended to be temporarily restricted was not specified in the bequest letter. The Land Trust is working to determine the appropriate amount to be temporarily restricted, which includes seeking input from the donor’s family.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

B. TEMPORARILY RESTRICTED

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

	<u>2018</u>	<u>2017</u>
Operations	\$816,202	\$714,462
Land and easement acquisition	992,303	9,800
Stewardship and enforcement	4,402,596	3,852,904
Endowment	<u>90,344</u>	<u>80,014</u>
Total	<u>\$6,301,445</u>	<u>\$4,657,180</u>

Note 8 ENDOWMENT FUND

A. GENERAL

The endowment fund consists of two donor-restricted permanent funds created to provide long-term 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.

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.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
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C. FINANCIAL INFORMATION

Endowment fund activity for 2017 and 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets - June 30, 2016	\$ -	\$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	<u>0</u>	<u>40,462</u>	<u>0</u>	<u>40,462</u>
Contributions	-	-	53,000	53,000
Appropriation for expenditure	-	(15,570)	-	(15,570)
Net assets - June 30, 2017	<u>-</u>	<u>80,014</u>	<u>269,207</u>	<u>349,221</u>
Investment return:				
Interest and dividends	-	14,646	-	14,646
Change in fair value	-	15,842	-	15,842
Total investment return	<u>0</u>	<u>30,488</u>	<u>0</u>	<u>30,488</u>
Contributions	-	-	54,000	54,000
Appropriation for expenditure	-	(20,158)	-	(20,158)
Net assets - June 30, 2018	<u>\$0</u>	<u>\$90,344</u>	<u>\$323,207</u>	<u>\$413,551</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, 2018 and 2017, there were no funds with deficiencies.

Note 9 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.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
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B. FINANCIAL INFORMATION

Stewardship and enforcement fund activity for 2017 and 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets - June 30, 2016	\$403,006	\$3,239,854	\$3,642,860
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>
Investment return:			
Interest and dividends	135,041	-	135,041
Change in fair value	85,956	-	85,956
Total investment return	<u>220,997</u>	<u>0</u>	<u>220,997</u>
Contributions/grants	-	451,242	451,242
Capital campaign transfer in	-	100,000	100,000
Appropriation for expenditure	<u>(188,003)</u>	<u>(1,550)</u>	<u>(189,553)</u>
Net assets - June 30, 2018	<u>\$481,041</u>	<u>\$4,402,596</u>	<u>\$4,883,637</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, additional 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.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
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Note 10 LEASE AGREEMENTS

The Land Trust leases office space in St. Paul, Minnesota under a lease agreement that was set to expire January 31, 2020. In August 2018, the Land Trust renewed this lease agreement through September 30, 2025. Minimum monthly lease payments start October 1, 2018 at \$8,233 and will increase 2.5% annually for the remainder of the lease period. In addition, the Land Trust leases office space in Duluth, Minnesota on a month to month basis.

Future minimum payments for noncancellable operating leases, including the renewed lease, is as follows:

<u>Years Ending</u> <u>June 30,</u>	<u>Amount</u>
2019	\$74,097
2020	100,650
2021	103,167
2022	105,744
2023	108,390
Thereafter	<u>224,976</u>
Total	<u><u>\$717,024</u></u>

Rent expense, including operating expenses, for the years ended June 30, 2018 and 2017, for all operating leases, was \$101,060 and \$98,808, respectively.

Note 11 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 (5.00% and 4.25% June 30, 2018 and 2017, respectively), and matures on May 11, 2019. It is secured by all assets of the Land Trust. At June 30, 2018 and 2017, there was \$120,000 and \$0 outstanding on the line of credit, respectively.

Note 12 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 \$19,803 and \$19,439 during the years ended June 30, 2018 and 2017.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 13 CONCENTRATIONS

CONCENTRATION OF CREDIT RISK

At times, bank balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) limit. The Land Trust has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 14 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.

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

	June 30, 2018		
	Level 1	Level 2	Total
Investments:			
Fixed income mutual funds	\$1,790,001	\$ -	\$1,790,001
Equity mutual funds	2,547,507	-	2,547,507
Balanced mutual funds	518,798	-	518,798
Beneficial interest in real property	-	744,200	744,200
 Total	 \$4,856,306	 \$744,200	 \$5,600,506
	June 30, 2017		
	Level 1	Level 2	Total
Investments:			
Fixed income mutual funds	\$1,568,784	\$ -	\$1,568,784
Equity mutual funds	2,173,890	-	2,173,890
Balanced mutual funds	513,508	-	513,508
 Total	 \$4,256,182	 \$0	 \$4,256,182

Mutual funds are valued using quoted prices in active markets and the beneficial interest in real property is valued using significant other observable inputs.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 15 **SUBSEQUENT EVENTS**

As described in Note 10, the Land Trust renewed their office space lease in August 2018. Management has evaluated subsequent events through October 18, 2018, the date that this report was available to be issued.

SUPPLEMENTAL INFORMATION

	2018				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Assets:					
Cash and cash equivalents	\$1,260,207	\$105,109	\$304,649	\$19,463	\$1,689,428
Interfund transfers in transit	(49,942)	(30,000)	100,000	(20,058)	-
Capital campaign - promises to give, net	338,100	-	57,000	-	395,100
Contributions, grants and other receivables	701,559	1,700	240,000	-	943,259
Deposits and other	28,842	-	-	-	28,842
Furniture and equipment, net	15,565	-	-	-	15,565
Investments	-	260,172	4,181,988	414,146	4,856,306
Land held for resale - conservation	-	65,650	-	-	65,650
Land held for conservation	-	134,000	-	-	134,000
Beneficial interest in real property	-	744,200	-	-	744,200
Total assets	\$2,294,331	\$1,280,831	\$4,883,637	\$413,551	\$8,872,350
Liabilities and net assets:					
Liabilities:					
Accounts payable	\$67,401	\$-	\$-	\$-	\$67,401
Accrued expenses	110,181	-	-	-	110,181
Line of credit	120,000	-	-	-	120,000
Total liabilities	297,582	0	0	0	297,582
Net assets:					
Unrestricted	16,946	-	-	-	16,946
Unrestricted - board designated	1,163,601	288,528	481,041	-	1,933,170
Temporarily restricted	816,202	992,303	4,402,596	90,344	6,301,445
Permanently restricted	-	-	-	323,207	323,207
Total net assets	1,996,749	1,280,831	4,883,637	413,551	8,574,768
Total liabilities and net assets	\$2,294,331	\$1,280,831	\$4,883,637	\$413,551	\$8,872,350

	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

	2018				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Support and revenue:					
Contributions and grants:					
Capital campaign	\$817,533	\$ -	\$2,000	\$ -	\$819,533
All other	1,680,510	744,200	45,240	54,000	2,523,950
Government grant and contract revenue:					
ENRTF	132,663	233,150	-	-	365,813
OHF	932,991	3,198,675	380,000	-	4,511,666
All other	276,706	-	24,000	-	300,706
Special events:					
Contribution	144,399	-	-	-	144,399
Other	38,900	-	-	-	38,900
Less: direct expenses	(25,061)	-	-	-	(25,061)
Fees for service	14,654	-	-	-	14,654
Other revenue	3,371	-	-	-	3,371
Gain on sale of land	-	2,198	-	-	2,198
Interest and dividends	3,555	3,524	135,041	14,646	156,766
Change in fair value of investments	(320)	(3,406)	85,956	15,842	98,072
Interfund transfers in (out), net	(94,037)	202,095	(88,000)	(20,058)	-
Total support and revenue	<u>3,925,864</u>	<u>4,380,436</u>	<u>584,237</u>	<u>64,430</u>	<u>8,954,967</u>
Expenses:					
Program services	2,045,217	3,470,325	1,551	100	5,517,193
Management and general	280,539	-	-	-	280,539
Fund development	320,909	-	-	-	320,909
Total expenses	<u>2,646,665</u>	<u>3,470,325</u>	<u>1,551</u>	<u>100</u>	<u>6,118,641</u>
Change in net assets	1,279,199	910,111	582,686	64,330	2,836,326
Net assets - beginning of year	717,550	370,720	4,300,951	349,221	5,738,442
Net assets - end of year	<u>\$1,996,749</u>	<u>\$1,280,831</u>	<u>\$4,883,637</u>	<u>\$413,551</u>	<u>\$8,574,768</u>

	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	2,601,713	2,070,458	658,091	77,892	5,408,154
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	2,462,957	2,127,850	0	0	4,590,807
Change in net assets	138,756	(57,392)	658,091	77,892	817,347
Net assets - beginning of year	578,794	428,112	3,642,860	271,329	4,921,095
Net assets - end of year	\$717,550	\$370,720	\$4,300,951	\$349,221	\$5,738,442

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