

MINNESOTA LAND TRUST

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

For The Years Ended
June 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.

September 24, 2014

FINANCIAL STATEMENTS

MINNESOTA LAND TRUST
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

Statement 1

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and cash equivalents	\$106,464	\$170,184
Contributions, grants and other receivables	465,405	271,302
Deposits and other	11,434	11,826
Furniture and equipment, net	1,867	5,600
Investments	4,135,823	3,754,777
Land held for conservation	<u>9,000</u>	<u>9,000</u>
 Total assets	 <u><u>\$4,729,993</u></u>	 <u><u>\$4,222,689</u></u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$55,859	\$37,578
Accrued expenses	<u>33,048</u>	<u>42,472</u>
Total liabilities	<u><u>88,907</u></u>	<u><u>80,050</u></u>
Net assets:		
Unrestricted	59,233	63,433
Unrestricted - board designated	1,140,753	1,059,141
Temporarily restricted	3,224,893	2,803,858
Permanently restricted	<u>216,207</u>	<u>216,207</u>
Total net assets	<u><u>4,641,086</u></u>	<u><u>4,142,639</u></u>
 Total liabilities and net assets	 <u><u>\$4,729,993</u></u>	 <u><u>\$4,222,689</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, 2014 and 2013

Statement 2

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions and grants	\$369,023	\$125,711	\$ -	\$494,734	\$325,311	\$779,618	\$ -	\$1,104,929
Government grant and contract revenue:								
ENRTF	431,344	90,000	-	521,344	77,336	43,000	-	120,336
OHF	689,185	194,000	-	883,185	999,850	82,000	-	1,081,850
All other	239,514	79,000	-	318,514	339,248	-	-	339,248
Special events:								
Contribution	72,663	-	-	72,663	63,700	-	-	63,700
Other	23,775	-	-	23,775	22,025	-	-	22,025
Less: direct expenses	(10,437)	-	-	(10,437)	(15,324)	-	-	(15,324)
Fees for service	28,900	-	-	28,900	14,084	-	-	14,084
Property condemnation proceeds	-	-	-	-	2,300	-	-	2,300
Other revenue	1,959	-	-	1,959	3,810	-	-	3,810
Interest and dividends	133,840	14,653	-	148,493	54,010	5,217	-	59,227
Change in fair value of investments	308,929	44,457	-	353,386	294,283	41,945	-	336,228
Net assets released from restrictions:								
Satisfaction of program restrictions	126,786	(126,786)	-	-	514,128	(514,128)	-	-
Total support and revenue	2,415,481	421,035	0	2,836,516	2,694,761	437,652	0	3,132,413
Expenses:								
Program services	2,021,999	-	-	2,021,999	2,512,004	-	-	2,512,004
Management and general	120,187	-	-	120,187	95,204	-	-	95,204
Fund development	195,883	-	-	195,883	193,288	-	-	193,288
Total expenses	2,338,069	0	0	2,338,069	2,800,496	0	0	2,800,496
Revenue over (under) expenses	77,412	421,035	0	498,447	(105,735)	437,652	0	331,917
Gain on sale of land	-	-	-	-	19,631	-	-	19,631
Change in net assets	77,412	421,035	0	498,447	(86,104)	437,652	0	351,548
Net assets - beginning of period	1,122,574	2,803,858	216,207	4,142,639	1,208,678	2,366,206	216,207	3,791,091
Net assets - end of period	\$1,199,986	\$3,224,893	\$216,207	\$4,641,086	\$1,122,574	\$2,803,858	\$216,207	\$4,142,639

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

	2014				Total
	Program Services	Management and General	Fund Development	Supporting Services	
Expenses:					
Salaries	\$577,139	\$52,271	\$127,843	\$180,114	\$757,253
Payroll taxes and benefits	107,177	13,537	23,365	36,902	144,079
Other staff expenses	1,613	1,373	212	1,585	3,198
Total personnel costs	685,929	67,181	151,420	218,601	904,530
Travel	48,099	1,092	3,176	4,268	52,367
Memberships, dues, licenses	10,541	1,022	3,107	4,129	14,670
Meeting expense	2,457	1,581	1,245	2,826	5,283
Board expense	-	1,595	-	1,595	1,595
Rent and building maintenance	60,987	5,742	12,201	17,943	78,930
Office expense	33,163	2,533	5,387	7,920	41,083
Depreciation	2,799	299	635	934	3,733
Postage and delivery	8,810	775	12,761	13,536	22,346
Printing and photocopying	16,947	1,804	3,943	5,747	22,694
Insurance	-	7,259	-	7,259	7,259
Project expenses	336,804	-	-	-	336,804
Project expenses - conservation easement and land acquisition	776,680	-	-	-	776,680
Contracted services	17,909	710	1,509	2,219	20,128
Audit and accounting	-	13,315	-	13,315	13,315
External grants	18,250	-	-	-	18,250
Miscellaneous expense	2,624	15,279	499	15,778	18,402
Total expenses	\$2,021,999	\$120,187	\$195,883	\$316,070	\$2,338,069
Percentage	86%	5%	9%	14%	100%

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

	2013				Total
	Program Services	Management and General	Fund Development	Supporting Services	
Expenses:					
Salaries	\$518,940	\$26,259	\$135,084	\$161,343	\$680,283
Payroll taxes and benefits	103,658	13,842	24,611	38,453	142,111
Other staff expenses	1,714	536	701	1,237	2,951
Total personnel costs	624,312	40,637	160,396	201,033	825,345
Travel	44,164	1,279	4,691	5,970	50,134
Memberships, dues, licenses	3,675	339	1,241	1,580	5,255
Meeting expense	3,814	3,617	810	4,427	8,241
Board expense	-	1,590	-	1,590	1,590
Rent and building maintenance	59,215	5,874	12,481	18,355	77,570
Office expense	34,220	2,806	6,376	9,182	43,402
Depreciation	3,897	416	883	1,299	5,196
Postage and delivery	7,402	579	1,567	2,146	9,548
Printing and photocopying	10,599	1,059	2,453	3,512	14,111
Insurance	-	6,577	-	6,577	6,577
Project expenses	353,457	-	-	-	353,457
Project expenses - conservation easement and land acquisition	1,325,450	-	-	-	1,325,450
Contracted services	9,347	1,736	1,563	3,299	12,646
Audit and accounting	-	14,255	-	14,255	14,255
External grants	28,300	-	-	-	28,300
Miscellaneous expense	4,152	14,440	827	15,267	19,419
Total expenses	\$2,512,004	\$95,204	\$193,288	\$288,492	\$2,800,496
Percentage	90%	3%	7%	10%	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, 2014 and 2013

Statement 4

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$498,447	\$351,548
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,733	5,196
Realized and unrealized (gain) loss on investments	(353,386)	(336,228)
(Increase) decrease in assets:		
Contributions, grants and other receivables	(194,103)	(89,200)
Land held for resale - conservation	-	15,000
Deposits and other	392	8
Increase (decrease) in liabilities:		
Accounts payable	18,281	23,267
Accrued expenses	(9,424)	2,751
Net cash provided (used) by operating activities	<u>(36,060)</u>	<u>(27,658)</u>
Cash flows from investing activities:		
Purchase of investments, including re-invested income	(350,941)	(580,844)
Proceeds from sale of investments	323,281	351,507
Net cash provided (used) by investing activities	<u>(27,660)</u>	<u>(229,337)</u>
Net increase (decrease) in cash and cash equivalents	(63,720)	(256,995)
Cash and cash equivalents - beginning of year	<u>170,184</u>	<u>427,179</u>
Cash and cash equivalents - end of year	<u><u>\$106,464</u></u>	<u><u>\$170,184</u></u>
Supplemental disclosures of cash flows information:		
None		

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 preserve Minnesota's natural and scenic heritage through public and private partnerships. 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, 2014, the Land Trust has completed 476 land protection projects, permanently protecting 44,390 acres and 968,339 feet of shoreline.

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

C. CONTRIBUTIONS

Contributions, including unconditional promises to give, are recorded as received. Verbal promises to give are not recorded unless confirmed in writing. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions, if any.

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.

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, excluding money market mutual funds held for easement stewardship and enforcement and endowment purpose.

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 \$3,733 and \$5,196 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013.

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 2,214 and 2,400 hours of time contributed for easement monitoring and land protection work for the years ended June 30, 2014 and 2013, 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 2014 or 2013.

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. The Land Trust's 2011 through 2013 tax years are open to examination by regulatory authorities.

FASB ASC 740-10 provides that 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.

O. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

Note 2 INVESTMENTS

Investment detail at June 30 is as follows:

	2014				2013			
	Acquisition	Stewardship and Enforcement	Endowment	Total	Acquisition	Stewardship and Enforcement	Endowment	Total
Money market funds	\$ -	\$315,759	\$ -	\$315,759	\$ -	\$305,887	\$ -	\$305,887
Corporate bonds	-	94,000	-	94,000	-	-	-	-
Fixed income mutual funds	196,725	1,106,845	-	1,303,570	307,496	1,076,197	-	1,383,693
Equity mutual funds	-	2,113,005	309,489	2,422,494	-	1,801,818	263,379	2,065,197
Total	\$196,725	\$3,629,609	\$309,489	\$4,135,823	\$307,496	\$3,183,902	\$263,379	\$3,754,777

Note 3 CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

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

	2014	2013
Contributions receivable - stewardship and enforcement	\$12,850	\$16,899
Grants receivable	242,250	82,500
Other receivables	210,305	171,903
Total	\$465,405	\$271,302

At June 30, 2014, stewardship and enforcement contributions receivable were scheduled to be received as follows: \$6,050 within one year and \$6,800 in two to seven years. All other receivables at June 30, 2014 and 2013 were scheduled to be received within one year. A present value discount on long-term pledges was considered immaterial and not recorded.

Note 4 CONDITIONAL PROMISES TO GIVE

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. 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. Total conditional promises to give that are likely to be collectible at June 30, 2014 and 2013 were \$11,480 and \$48,190, respectively.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

Note 5 FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Computer equipment	\$32,099	\$32,099
Office equipment	<u>30,915</u>	<u>30,915</u>
Total	63,014	63,014
Less: accumulated depreciation	<u>(61,147)</u>	<u>(57,414)</u>
Net furniture and equipment	<u><u>\$1,867</u></u>	<u><u>\$5,600</u></u>

Note 6 NET ASSETS

A. BOARD DESIGNATED

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

	<u>2014</u>	<u>2013</u>
Crosby Estate	\$4,997	\$41,497
Acquisition	44,650	187,656
Stewardship and enforcement	<u>1,091,106</u>	<u>829,988</u>
Total	<u><u>\$1,140,753</u></u>	<u><u>\$1,059,141</u></u>

B. TEMPORARILY RESTRICTED

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

	<u>2014</u>	<u>2013</u>
Operations	\$351,353	\$379,834
Land and easement acquisition	45,039	45,039
Easement stewardship	2,750,219	2,344,813
Endowment	<u>78,282</u>	<u>34,172</u>
Total temporarily restricted net assets	<u><u>\$3,224,893</u></u>	<u><u>\$2,803,858</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.

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
June 30, 2014 and 2013

C. FINANCIAL INFORMATION

Endowment fund activity for 2012 and 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets - June 30, 2012	\$ -	\$10	\$216,207	\$216,217
Investment return:				
Interest and dividends	-	5,217	-	5,217
Change in fair value	-	41,945	-	41,945
Total investment return	<u>0</u>	<u>47,162</u>	<u>0</u>	<u>47,162</u>
Contributions	-	-	-	-
Appropriation for expenditure	<u>-</u>	<u>(13,000)</u>	<u>-</u>	<u>(13,000)</u>
Net assets - June 30, 2013	<u>-</u>	<u>34,172</u>	<u>216,207</u>	<u>250,379</u>
Investment return:				
Interest and dividends	-	14,653	-	14,653
Change in fair value	-	44,457	-	44,457
Total investment return	<u>0</u>	<u>59,110</u>	<u>0</u>	<u>59,110</u>
Contributions	-	-	-	-
Appropriation for expenditure	<u>-</u>	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
Net assets - June 30, 2014	<u>\$0</u>	<u>\$78,282</u>	<u>\$216,207</u>	<u>\$294,489</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, 2014 and June 30, 2013 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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NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

B. FINANCIAL INFORMATION

Stewardship and enforcement fund activity for the year ended June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets - June 30, 2012	\$651,223	\$2,201,256	\$2,852,479
Investment return:			
Interest and dividends	49,997	-	49,997
Change in fair value	294,768	-	294,768
Total investment return	<u>344,765</u>	<u>0</u>	<u>344,765</u>
Contributions/grants	-	143,557	143,557
Unrestricted funds added to the fund	-	-	-
Appropriation for expenditure	<u>(166,000)</u>	<u>-</u>	<u>(166,000)</u>
Net assets - June 30, 2013	<u>829,988</u>	<u>2,344,813</u>	<u>3,174,801</u>
Investment return:			
Interest and dividends	129,325	-	129,325
Change in fair value	307,427	-	307,427
Total investment return	<u>436,752</u>	<u>0</u>	<u>436,752</u>
Contributions/grants	-	405,406	405,406
Unrestricted funds added to the fund	15,000	-	15,000
Appropriation for expenditure	<u>(190,634)</u>	<u>-</u>	<u>(190,634)</u>
Net assets - June 30, 2014	<u><u>\$1,091,106</u></u>	<u><u>\$2,750,219</u></u>	<u><u>\$3,841,325</u></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 extraordinary 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
June 30, 2014 and 2013

Note 9 LEASE AGREEMENTS

The Land Trust leases office space in St. Paul and Duluth, Minnesota under lease agreements expiring at various dates through May 2017.

The following is a schedule of future minimum payments for noncancellable operating leases as of June 30, 2014:

Years Ending June 30,	Amount
2015	\$68,658
2016	70,031
2017	<u>64,740</u>
Total	<u><u>\$203,429</u></u>

Rent expenses, including operating expenses, for the years ended June 30, 2014 and 2013, for all operating leases, was \$78,930 and \$77,570, 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 \$7,690 and \$7,762 during the years ended June 30, 2014 and 2013.

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, 2014, 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.

MINNESOTA LAND TRUST
NOTES TO FINANCIAL STATEMENTS
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Assets and liabilities that are measured at fair value on a recurring basis are as follows at June 30:

	2014		Total	2013
	Level 1	Level 2		Level 1
Money market mutual funds included with cash equivalents	\$15,680	\$ -	\$15,680	\$19,899
Investments:				
Money market mutual funds	315,759	-	315,759	305,887
Corporate bonds	-	94,000	94,000	-
Fixed income mutual funds	1,303,570	-	1,303,570	1,383,693
Equity mutual funds	2,422,494	-	2,422,494	2,065,197
Total	\$4,057,503	\$94,000	\$4,151,503	\$3,774,676

Money market funds and mutual funds are valued using quoted prices in active markets. Corporate bonds are valued using inputs which may include market data and/or quoted market prices from markets that are not active or are for the same or similar assets in active markets.

Note 13 LINE OF CREDIT

The Land Trust has a \$150,000 line of credit agreement with a commercial bank. Interest on the line of credit is variable, with an initial rate of 3.25%, and expires on February 11, 2015. It is secured by all assets of the Land Trust. At June 30, 2014, there was no amount drawn on the line of credit.

Note 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 24, 2014, the date that this report was available to be issued.

SUPPLEMENTAL INFORMATION

	2014				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Assets:					
Cash and cash equivalents	\$90,784	\$15,680	\$ -	\$ -	\$106,464
Interfund transfers in transit	169,950	(131,816)	(23,134)	(15,000)	-
Contributions, grants and other receivables	230,455	100	234,850	-	465,405
Deposits and other	11,434	-	-	-	11,434
Furniture and equipment, net	1,867	-	-	-	1,867
Investments	-	196,725	3,629,609	309,489	4,135,823
Land held for conservation	-	9,000	-	-	9,000
Total assets	\$504,490	\$89,689	\$3,841,325	\$294,489	\$4,729,993
Liabilities and net assets:					
Liabilities:					
Accounts payable	\$55,859	\$ -	\$ -	\$ -	\$55,859
Accrued expenses	33,048	-	-	-	33,048
Total liabilities	88,907	0	0	0	88,907
Net assets:					
Unrestricted	59,233	-	-	-	59,233
Unrestricted - board designated	4,997	44,650	1,091,106	-	1,140,753
Temporarily restricted	351,353	45,039	2,750,219	78,282	3,224,893
Permanently restricted	-	-	-	216,207	216,207
Total net assets	415,583	89,689	3,841,325	294,489	4,641,086
Total liabilities and net assets	\$504,490	\$89,689	\$3,841,325	\$294,489	\$4,729,993

	2013				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Assets:					
Cash and cash equivalents	\$150,285	\$19,899	\$ -	\$ -	\$170,184
Interfund transfers in transit	142,800	(103,800)	(26,000)	(13,000)	-
Contributions, grants and other receivables	254,303	100	16,899	-	271,302
Deposits and other	11,826	-	-	-	11,826
Furniture and equipment, net	5,600	-	-	-	5,600
Investments	-	307,496	3,183,902	263,379	3,754,777
Land held for conservation	-	9,000	-	-	9,000
Total assets	\$564,814	\$232,695	\$3,174,801	\$250,379	\$4,222,689
Liabilities and net assets:					
Liabilities:					
Accounts payable	\$37,578	\$ -	\$ -	\$ -	\$37,578
Accrued expenses	42,472	-	-	-	42,472
Total liabilities	80,050	0	0	0	80,050
Net assets:					
Unrestricted	63,433	-	-	-	63,433
Unrestricted - board designated	41,497	187,656	829,988	-	1,059,141
Temporarily restricted	379,834	45,039	2,344,813	34,172	2,803,858
Permanently restricted	-	-	-	216,207	216,207
Total net assets	484,764	232,695	3,174,801	250,379	4,142,639
Total liabilities and net assets	\$564,814	\$232,695	\$3,174,801	\$250,379	\$4,222,689

	2014				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Support and revenue:					
Contributions and grants	\$452,328	\$ -	\$42,406	\$ -	\$494,734
Government grant and contract revenue:					
ENRTF	104,364	326,980	90,000	-	521,344
OHF	270,685	418,500	194,000	-	883,185
All other	239,514	-	79,000	-	318,514
Special events:					
Contribution	72,663	-	-	-	72,663
Other	23,775	-	-	-	23,775
Less: direct expenses	(10,437)	-	-	-	(10,437)
Fees for service	13,900	-	15,000	-	28,900
Other revenue	1,959	-	-	-	1,959
Interest and dividends	7	4,508	129,325	14,653	148,493
Change in fair value of investments	-	1,502	307,427	44,457	353,386
Interfund transfers in (out), net	323,450	(117,816)	(190,634)	(15,000)	-
Total support and revenue	1,492,208	633,674	666,524	44,110	2,836,516
Expenses:					
Program services	1,245,319	776,680	-	-	2,021,999
Management and general	120,187	-	-	-	120,187
Fund development	195,883	-	-	-	195,883
Total expenses	1,561,389	776,680	0	0	2,338,069
Change in net assets	(69,181)	(143,006)	666,524	44,110	498,447
Net assets - beginning of period	484,764	232,695	3,174,801	250,379	4,142,639
Net assets - end of period	\$415,583	\$89,689	\$3,841,325	\$294,489	\$4,641,086

	2013				
	Operating	Acquisition	Stewardship and Enforcement	Endowment	Total
Support and revenue:					
Contributions and grants	\$1,066,372	\$20,000	\$18,557	\$ -	\$1,104,929
Government grant and contract revenue:					
ENRTF	77,336	-	43,000	-	120,336
OHF	155,900	843,950	82,000	-	1,081,850
All other	339,248	-	-	-	339,248
Special events:					
Contribution	63,700	-	-	-	63,700
Other	22,025	-	-	-	22,025
Less: direct expenses	(15,324)	-	-	-	(15,324)
Fees for service	14,084	-	-	-	14,084
Property condemnation proceeds	-	2,300	-	-	2,300
Other revenue	3,810	-	-	-	3,810
Interest and dividends	25	3,988	49,997	5,217	59,227
Change in fair value of investments	-	(485)	294,768	41,945	336,228
Interfund transfers in (out), net	(116,400)	295,400	(166,000)	(13,000)	-
Total support and revenue	1,610,776	1,165,153	322,322	34,162	3,132,413
Expenses:					
Program services	1,186,554	1,325,450	-	-	2,512,004
Management and general	95,204	-	-	-	95,204
Fund development	193,288	-	-	-	193,288
Total expenses	1,475,046	1,325,450	0	0	2,800,496
Revenue over (under) expenditures	135,730	(160,297)	322,322	34,162	331,917
Gain on sale of land	-	19,631	-	-	19,631
Change in net assets	135,730	(140,666)	322,322	34,162	351,548
Net assets - beginning of period	349,034	373,361	2,852,479	216,217	3,791,091
Net assets - end of period	\$484,764	\$232,695	\$3,174,801	\$250,379	\$4,142,639

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