

**NORTHERN LIGHTS BUILDING COMPANY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2018 and 2017

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**NORTHERN LIGHTS BUILDING COMPANY**

**ORGANIZATION**

June 30, 2018

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Victoria Kepler	Board Chair
Amy Chung	Treasurer/Secretary
Toby Carey	Board Member
Norm Chafee	Board Member
Ellen Coffel	Board Member
David Hagman	Board Member
Mike Minea	Board Member
Gail Otteson	Board Member
Mike Hamernick	Advisor

# Fort & Company, P.A.

## Certified Public Accountants

Diane D. Krueger-Pirnat, CPA  
Laura Rusich, CPA

Connor B. Michels, EA  
Morgan L. Anderson

Christine A. Towner, CPA  
Kimberly A. Jarvis

Victoria C. Arnoldy, CPA  
John W. Fort, CPA - Inactive

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Northern Lights Building Company

We have audited the accompanying financial statements of Northern Lights Building Company (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 Northern Lights Building Company 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.

#### Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 11 and 12 are presented for the purposes of additional

analysis and are 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 audit 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.

*Fort & Company*

Fort & Company, PA  
Hibbing, MN  
December 7, 2018

**NORTHERN LIGHTS BUILDING COMPANY**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2018 and 2017

ASSETS			
	2018	2017	
<b>Current Assets</b>			
Cash	\$ 162,003	\$ 146,541	
Total Current Assets	162,003	146,541	
<b>Property and Equipment</b>			
Blacktop	49,332	49,332	
Building	179,743	179,743	
Building improvements	1,093,787	926,978	
Classrooms	19,143	19,143	
Elevator	38,716	38,716	
Equipment	19,760	19,760	
Internet technology	28,912	28,912	
Land	30,000	30,000	
Total Property and Equipment	1,459,393	1,292,584	
Less: accumulated depreciation	(445,943)	(385,885)	
Net Property and Equipment	1,013,450	906,699	
<b>Intangible Assets</b>			
Loan closing costs, less amortization of \$15,167 and \$13,893, respectively	24,722	25,996	
Total Assets	\$ 1,200,175	\$ 1,079,236	
LIABILITIES AND NET ASSETS			
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 39,469	\$ 37,369	
Accounts payable - Northern Lights Community School	-	346	
Accounts payable - other	2,654	-	
Deferred revenue	14,047	-	
Total Current Liabilities	56,170	37,715	
Long-Term Liabilities, less current maturities	361,761	401,101	
Total Liabilities	417,931	438,816	
<b>Net Assets</b>			
Unrestricted net assets			
Designated net assets	78,255	153,600	
Undesignated	703,989	486,820	
Total Net Assets	782,244	640,420	
Total Liabilities and Net Assets	\$ 1,200,175	\$ 1,079,236	

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

**NORTHERN LIGHTS BUILDING COMPANY**

**STATEMENTS OF ACTIVITIES**

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenue		
Rental income	\$ 175,623	\$ 173,855
Grant income	<u>81,858</u>	<u>45,264</u>
Total Revenue	257,481	219,119
Expenses		
Program	100,117	98,927
Management and general	<u>15,540</u>	<u>29,513</u>
Total Expenses	<u>115,657</u>	<u>128,440</u>
<b>Increase in Unrestricted Net Assets</b>	<b>141,824</b>	<b>90,679</b>
Net Assets - Beginning of Year	<u>640,420</u>	<u>549,741</u>
<b>Net Assets - End of Year</b>	<b><u>\$ 782,244</u></b>	<b><u>\$ 640,420</u></b>

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

**NORTHERN LIGHTS BUILDING COMPANY**

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	\$ 141,824	\$ 90,679
Adjustment to reconcile increase in net assets to net cash provided (used) by operating activities:		
Amortization	1,274	1,339
Depreciation	60,058	54,748
Decrease (increase) in:		
Accounts receivable	-	2,875
Deposit on building improvements	-	5,000
Increase (decrease) in:		
Accounts payable - Northern Lights Community School	(346)	(3,155)
Accounts payable - other	2,654	(5,197)
Deferred revenue	14,047	-
Net Cash Provided by (Used in) Operating Activities	219,511	146,289
Cash Flows from Investing Activities		
Purchase of property and equipment	(166,809)	(99,521)
Net Cash Provided by (Used in) Investing Activities	(166,809)	(99,521)
Cash Flows from Financing Activities		
Borrowings (payments) on long-term debt	(37,240)	69,430
Net Cash Provided by (Used in) Financing Activities	(37,240)	69,430
<b>Net Increase in Cash</b>	<b>15,462</b>	<b>116,198</b>
Cash - Beginning of Year	146,541	30,343
Cash - End of Year	\$ 162,003	\$ 146,541
Supplemental data:		
Interest paid	\$ 23,312	\$ 22,714

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



**NORTHERN LIGHTS BUILDING COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Northern Lights Building Company's mission is to hold and manage real estate and lease the real estate to a State of Minnesota Charter School. The Organization is supported primarily through rental income of the building. The Organization is incorporated as a Minnesota nonprofit organization.

**Reporting Entity**

In evaluating how to define the entity for financial reporting purposes, management considered whether the Organization is a component unit of another primary government. The Organization holds, manages, and leases property to the Northern Lights Community School. The Organization's basic financial statements include the financial position and results of operations of the Organization. Management has determined that the Organization is appropriately noted as a component unit of the Northern Lights Community School following criteria set forth in generally accepted accounting principles.

**Basis of Accounting**

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America under the accrual basis of accounting which generally records items under historical costs and sometimes requires the use of estimates and assumptions. The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period in which incurred rather than when paid.

**Basis of Presentation**

Financial statement presentation follows recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Estimates**

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

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2018 or 2017.

NORTHERN LIGHTS BUILDING COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and Equipment**

The Organization capitalizes equipment over \$500. Lesser amounts are expensed. Property and equipment is recorded at estimated fair market value at the date of donation or at cost if purchased. Depreciation methods and estimated useful lives are as follows:

		<u>Years</u>
Elevator	MACRS*	15
Building	Straight line	39
Building improvements	MACRS and straight line	5 to 39
Blacktop	Straight line	15
Classrooms	MACRS	5
Equipment	MACRS and straight line	7

\* MACRS = Modified Accelerated Cost Recovery System

**Intangible Assets**

Intangible assets subject to amortization include loan closing costs, which are being amortized on the straight-line basis over 39 years.

**Contributed Services**

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

**Allocated Expenses**

Expenses incurred for a program or supporting service are assigned directly to that program or supporting service by management. Expenses that affect either a program or supporting service are allocated among the program or supporting service in a manner to reflect a fair breakdown of expense by function.

**Income Tax Status**

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for federal or state income taxes has been recorded in the accompanying financial statements.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended June 30, 2016 through June 30, 2018 are subject to examination by the IRS, generally for three years after they are filed.

**Reclassifications**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**NORTHERN LIGHTS BUILDING COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

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**NOTE 2 MAJOR SOURCE OF REVENUE**

The Organization receives a substantial amount of its revenue from Northern Lights Community School for rental of the building owned by Northern Lights Building Company. A significant reduction in the level of revenue, if this were to occur, may have a material effect on the Organization's programs and activities.

**NOTE 3 GRANT INCOME**

The Organization is the beneficiary of a grant between the State of Minnesota and the City of Warba. The grant provides money to the City of Warba to administer under the Small Cities Development Program. Under the grant, \$300,000 is allocated to the building owned by the Northern Lights Building Company. When money is paid on the grant, the Organization will recognize grant income and a corresponding fixed asset or expense.

**NOTE 4 DEBT**

Long-term debt consists of the following as of June 30,

	<u>2018</u>	<u>2017</u>
5.5% note, dated September 23, 2016, in the original amount of \$462,060, due in monthly installments of \$5,046, secured by substantially all assets	\$ 401,230	\$ 438,470
Total Long-Term Debt	401,230	438,470
Less: current maturities	<u>39,469</u>	<u>37,369</u>
Net Long-Term Debt	<u>\$ 361,761</u>	<u>\$ 401,101</u>

Maturities of long-term debt as of June 30, 2018 are as follows:

2019	\$ 39,469
2020	41,696
2021	44,048
2022	<u>276,017</u>
	<u>\$ 401,230</u>

**NOTE 5 DESIGNATED NET ASSETS**

On September 23, 2016, the Organization took out a loan for \$100,000. This money, plus an additional \$50,000 from working capital, was designated by the Board of Directors to be used as matching funds required by the grant between the State of Minnesota and the City of Warba. The Organization had spent \$81,045 and \$0 as of June 30, 2018 and 2017, respectively, on expenses that qualified under the grant.

During the fiscal year ended June 30, 2017, the Organization's loan company asked the Board to set aside \$400 per month as an emergency fund. The Board began putting this money aside, and on October 1, 2017, increased the monthly amount to \$500. There is no formal written agreement between the Board and the loan company for this request.

**NORTHERN LIGHTS BUILDING COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

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**NOTE 5 DESIGNATED NET ASSETS (continued)**

Designated net assets consist of the following at June 30,

	<u>2018</u>	<u>2017</u>
Grant matching funds	\$ 68,955	\$ 150,000
Restricted cash	<u>9,300</u>	<u>3,600</u>
	<u>\$ 78,255</u>	<u>\$ 153,600</u>

**NOTE 6 RELATED PARTIES**

Northern Lights Community School has been identified as a related party. Mike Hamernick is an advisor for the Northern Lights Building Company board of directors. He is also involved in management of the school. In addition, Victoria Kepler is a director for Northern Lights Building Company and an employee of the school.

Transactions include monthly rental income paid by the school to the Organization in the amount of \$168,558 and \$168,558 for the years ended June 30, 2018 and 2017, respectively. Lease terms are documented in a formal lease agreement.

**NOTE 7 LEASE AGREEMENTS**

A formal lease agreement exists between Northern Lights Building Company and Northern Lights Community School. Northern Lights Community School is a related party. The term of the lease is 5 years with the two options, each to extend the term for an additional 5 years.

Minimum lease payments receivable under the above lease as of June 30, 2018 are as follows:

2018 - 2019	\$ 168,558
2019 - 2020	168,558
2020 - 2021	<u>168,558</u>
	<u>\$ 505,674</u>

**NOTE 8 CONCENTRATIONS**

Concentrations exist in the nature of the Organization's existence. Northern Lights Building Company has one lessee. Accordingly, risks exist with the concentrations of risk including the risk of default of rental payments by Northern Lights Community School.

**NOTE 9 SUBSEQUENT EVENTS**

The date through which events occurring after June 30, 2018 have been evaluated for possible adjustment to the financial statements or disclosure is December 7, 2018, which is the date on which the financial statements were available to be issued.

**NORTHERN LIGHTS BUILDING COMPANY**

**STATEMENTS OF FUNCTIONAL EXPENSES**

For the Years Ended June 30, 2018 and 2017

	2018		
	Program Services	Management and General	Total
Functional Expenses			
Accounting fees	\$ -	\$ 2,650	\$ 2,650
Amortization	1,274	-	1,274
Contract management	-	4,676	4,676
Depreciation	60,058	-	60,058
Financial administrator	-	3,806	3,806
Insurance	5,348	1,392	6,740
Interest	23,312	-	23,312
Meetings	-	2,400	2,400
Miscellaneous	-	213	213
Office expense	-	292	292
Postage	-	111	111
Real estate tax	45	-	45
Repairs and maintenance	5,961	-	5,961
Student programs	4,119	-	4,119
Total Functional Expenses	\$ 100,117	\$ 15,540	\$ 115,657

See accompanying independent auditor's report.

**NORTHERN LIGHTS BUILDING COMPANY**

**STATEMENTS OF FUNCTIONAL EXPENSES**

For the Years Ended June 30, 2018 and 2017

	2017		
	Program Services	Management and General	Total
Functional Expenses			
Accounting fees	\$ -	\$ 2,450	\$ 2,450
Amortization	1,339	-	1,339
Bank charges	-	500	500
Contract management	-	18,445	18,445
Depreciation	54,748	-	54,748
Financial administrator	-	1,860	1,860
Insurance	5,488	1,323	6,811
Interest	22,714	-	22,714
Meetings	-	2,804	2,804
Miscellaneous	-	863	863
Office expense	-	678	678
Postage	-	75	75
Real estate tax	45	-	45
Repairs and maintenance	10,818	-	10,818
Student programs	3,775	-	3,775
Training	-	515	515
Total Functional Expenses	<u>\$ 98,927</u>	<u>\$ 29,513</u>	<u>\$ 128,440</u>

See accompanying independent auditor's report.