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ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

| |
|--|
| OMB APPROVAL |
| OMB Number 3235-0123 |
| Expires: April 30, 2013 |
| Estimated average burden hours per response...12.00 |

| |
|-----------------|
| SEC FILE NUMBER |
| 8-48994 |

REPORT FOR THE PERIOD BEGINNING January 1, 2010 AND ENDING December 31, 2010
(MM/DD/YY) (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Northland Securities, Inc.

| |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM ID. NO. |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

45 South 7th Street, Suite 2000

(No. and Street)

Minneapolis

(City)

MN

(State)

55415

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Randy Nitzsche

612-851-5900

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Mayer Hoffman McCann P.C.

(Name - if individual, state last, first, middle name)

222 South 9th Street, Suite 1000

(Address)

Minneapolis

(City)

MN

(State)

55402

(Zip Code)

CHECK ONE:

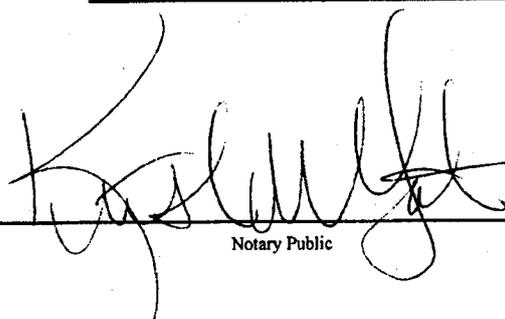
- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions

| |
|-----------------------|
| FOR OFFICIAL USE ONLY |
| |

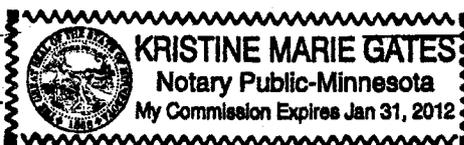
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

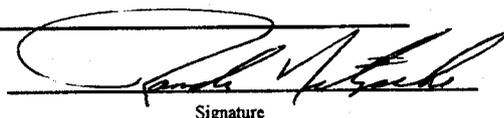
OATH OR AFFIRMATION

I, Randy Nitzsche, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Northland Securities, Inc. as of December 31, 2010, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Notary Public





Signature

CEO

Title

This report** contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c-3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

NORTHLAND SECURITIES, INC.

**FINANCIAL STATEMENTS
PURSUANT TO RULE 17a-5 OF THE
SECURITIES EXCHANGE ACT**

Years Ended December 31, 2010 and 2009



Mayer Hoffman McCann P.C.

An Independent CPA Firm

1000 Campbell Mithun Tower
222 South Ninth Street
Minneapolis, Minnesota 55402
612-339-7811 ph
612-339-9845 fx
www.mhm-pc.com

REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

To the Board of Directors

NORTHLAND SECURITIES, INC.

We have audited the statements of financial condition of Northland Securities, Inc. as of December 31, 2010 and 2009 that you are filing pursuant to Rule 17a-5(g) under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Northland Securities, Inc. as of December 31, 2010 and 2009 in conformity with accepted accounting principles generally accepted in the United States.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota

February 25, 2011

NORTHLAND SECURITIES, INC.
STATEMENTS OF FINANCIAL CONDITION

December 31, 2010 and 2009

| | 2010 | 2009 |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 780,282 | \$ 636,664 |
| Clearing deposit | 250,000 | 250,000 |
| Receivable from clearing organization | 5,471,422 | 3,435,500 |
| Securities inventory | 11,522,802 | 10,825,325 |
| Non-inventory investments | 61,947 | 258 |
| Receivables | 2,663,820 | 1,181,646 |
| Property and equipment, at cost, less accumulated depreciation | 1,521,246 | 1,692,921 |
| Intangible assets, at cost, less accumulated amortization | 54,423 | 95,650 |
| Receivable from affiliates | 1,192,595 | 638,585 |
| Other assets | 550,830 | 587,895 |
| | \$ 24,069,367 | \$ 19,344,444 |
| <u>LIABILITIES</u> | | |
| Accounts payable, trade | \$ 171,609 | \$ 335,959 |
| Capital lease liability | 803,715 | 972,537 |
| Accrued expenses | 6,676,145 | 3,869,873 |
| Income taxes | 1,830,259 | 891,271 |
| Securities sold, not yet purchased | 200,344 | - |
| | 9,682,072 | 6,069,640 |
| <u>STOCKHOLDER'S EQUITY</u> | | |
| CAPITAL CONTRIBUTED | | |
| Common stock, par value \$.01, authorized 1,000,000 shares, issued and outstanding 102,000 shares | 1,020 | 1,020 |
| Additional paid-in capital | 14,668,008 | 14,668,008 |
| TOTAL CAPITAL CONTRIBUTED | 14,669,028 | 14,669,028 |
| RETAINED EARNINGS (DEFICIT) | (281,733) | (1,394,224) |
| TOTAL STOCKHOLDER'S EQUITY | 14,387,295 | 13,274,804 |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | \$ 24,069,367 | \$ 19,344,444 |

See Notes to Financial Statements

NORTHLAND SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies**

Nature of business – Northland Securities, Inc. (the Company) is principally engaged in providing securities brokerage, investment banking, and related financial services to individuals, institutions, corporations and municipalities. The Company is a wholly owned subsidiary of Northland Capital Holdings, Inc. (Holdings). The Company shares its facilities and certain other operating expenses and personnel with other wholly owned subsidiaries of Holdings including Northland Trust Services, Inc. (Trust), Northland Networks, Inc. and subsidiary (Networks) and Northland Directions, Inc. and subsidiary (Directions). These affiliated companies provide various financial services including consulting, commercial lending, placement agent, paying agent and asset management services to individuals, institutional investors, businesses and government agencies.

The Company primarily acts as an introducing broker and dealer of securities with customers in various parts of the United States; however, most customers are located in the upper Midwest area. It clears all transactions for its customers on a fully disclosed basis with a clearing broker or dealer, who carries all the customers' accounts and maintains the related records.

Financial instruments with off-balance sheet risk:

Off-balance-sheet credit and market risk – In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities, options and bond transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contracted obligations. The Company clears all transactions for its customers on a fully disclosed basis with a clearing broker or dealer (clearing firm), who carries all the customer accounts and maintains the related records. Nonetheless, the Company is liable to the clearing firm for the transactions of its customers.

The Company's customer securities activities are transacted on either a cash or margin basis. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines, requiring the customers to deposit additional collateral, or reduce positions, when necessary.

Concentrations of credit risk – As an introducing broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of corporations, governments, institutional and individual investors. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities and options transactions can be directly impacted by volatile trading markets which may impair the customer's ability to satisfy their obligations to the Company.

NORTHLAND SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies (Continued)**

Cash and cash equivalents – The Company considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Company's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Company periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Company has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

Receivables and credit policies – Accounts receivable for fees, reimbursable expenses, and other services are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Past due accounts receivable with invoice dates over 30 days are not charged interest.

Commissions receivable on trades processed by the clearing firm are accrued on a trade date basis. The commissions receivable are paid to the Company as requested.

Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. At December 31, 2010 management considers all amounts collectible.

Securities held – Securities inventory, securities sold not yet purchased, and non-inventory investments are valued using level 1 inputs based on unadjusted quoted market prices within active markets, level 2 inputs based primarily on quoted prices for similar assets or liabilities in active or inactive markets and level 3 inputs based on present value techniques using inputs derived principally or corroborated from market data. Values using level 3 inputs were primarily valued using management's assumption about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. Changes in the fair values are recognized currently as unrealized gains or losses and included in revenue from principal transactions.

NORTHLAND SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies (Continued)

Investment banking – Underwriting revenues and fees from advisory assignments are recorded when the services have been performed and fees have been earned in accordance with the terms of the engagement.

Security transactions – Commission income and related expenses for security transactions are recognized on a trade date basis.

Firm trading securities held for resale including securities owned, and securities sold and not yet purchased, are fair valued and unrealized gains and losses are reflected in revenues from principal transactions.

Property and equipment – Property and equipment are recorded at cost. Expenditures for renewals and betterments are capitalized. Repairs and maintenance are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in the results of operations.

Intangible assets – Customer based intangibles acquired are recorded at their estimated fair value and amortized over estimated lives of three to five years.

Depreciation and amortization – Depreciation and amortization are computed on the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Useful Lives</u> |
|---------------------------------|---|
| Computer software and equipment | 3 to 5 years |
| Office furniture and fixtures | 3 to 7 years |
| Leasehold improvements | the lesser of the lease term or 7 years |

Depreciation expense was \$351,000 and \$271,000 for the years ended December 31, 2010 and 2009 respectively.

Impairment of long-lived assets – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment charges were recorded for the years ended December 31, 2010 or 2009.

NORTHLAND SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Nature of business, financial instruments with off-balance sheet risk, and significant accounting policies (Continued)**

Income taxes – Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred taxes result principally from the difference in recognition of investment income for financial statement and tax reporting purposes.

In 2009, the Company adopted new accounting guidance on accounting for uncertainty in income taxes. The Company recognizes a liability for uncertain tax matters using a “more likely than not” threshold. Uncertain tax positions are identified and evaluated based on the likelihood that the position will be sustained after scrutiny by the applicable taxing authority.

When tax positions that do not meet the “more likely than not” threshold a cumulative probability assessment is performed in the aggregate to determine the estimated tax liability for all uncertain tax positions. The Company’s policy is to recognize interest and penalties related to uncertain tax positions in the income tax provision. It is reasonably possible that the amount of unrecognized tax benefits will increase during the next 12 months; however any potential change is not expected to have a material effect on the results of operations or financial position of the Company.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Recently issued pronouncements – In January 2010, the Financial Accounting Standards Board (FASB) issued Update No. 2010-06, “Improving Disclosures about Fair Value Measurements” (“ASU 2010-06”), which clarifies existing guidance regarding the level of disaggregation within fair value measurement disclosures and current disclosure requirements pertaining to valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The guidance in ASU 2010-06 was effective for the Company January 1, 2010. While the adoption of ASU 2010-06 did not change the Company’s accounting requirements, it did impact disclosures about fair value measurements.

Subsequent events policy – Subsequent events have been evaluated through February 25, 2011, which is the date the financial statements were issued.

Commitments and contingencies – In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company’s financial position, results of operations, or cash flows.

NORTHLAND SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

(2) Receivable from clearing organization

Amounts receivable from the Company's clearing firm consist of the following:

| | December 31, | |
|------------------------|--------------|--------------|
| | 2010 | 2009 |
| Clearing deposits | \$ 250,000 | \$ 250,000 |
| Commissions receivable | 5,471,000 | 3,436,000 |
| | \$ 5,721,000 | \$ 3,686,000 |

(3) Securities inventory and securities sold, not yet purchased

The following is a summary of the fair value of major categories of securities owned and securities sold, not yet purchased as of December 31, 2010 and 2009.

| | Securities Available For Sale | Securities Sold, Not Yet Purchased |
|-----------------------------|-------------------------------------|--|
| December 31, 2010 | | |
| Corporate equity securities | \$ 243,000 | \$ 102,000 |
| Municipal bonds | 11,228,000 | - |
| Corporate debt securities | 52,000 | 98,000 |
| Total | \$ 11,523,000 | \$ 200,000 |
| | | |
| | Securities Available For Sale | Securities Sold, Not Yet Purchased |
| December 31, 2009 | | |
| Corporate equity securities | \$ 846,000 | \$ - |
| Government bonds | 56,000 | - |
| Municipal bonds | 9,795,000 | - |
| Corporate debt securities | 128,000 | - |
| Total | \$ 10,825,000 | \$ - |

NORTHLAND SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

(4) Property and equipment

The following is a summary of property and equipment:

| | December 31, | |
|---------------------------------|---------------------|--------------|
| | 2010 | 2009 |
| Computer software and equipment | \$ 1,130,000 | \$ 954,000 |
| Furniture and fixtures | 399,000 | 395,000 |
| Leasehold improvements | 1,026,000 | 1,026,000 |
| | 2,555,000 | 2,375,000 |
| Less accumulated depreciation | 1,034,000 | 682,000 |
| Total property and equipment | \$ 1,521,000 | \$ 1,693,000 |

(5) Capital lease

In 2009, the Company entered into capital lease obligations for the purchase of property and equipment.

| | December 31, | |
|---|---------------------|-------------|
| | 2010 | 2009 |
| Capital lease (secured by related assets) expiring on January 31, 2016, payable in aggregate monthly installments of \$10,903. | \$ 665,000 | \$ 796,000 |
| Capital lease (secured by related asset) expiring on April 1, 2014, payable in aggregate monthly installments of approximately \$3,800. | 139,000 | 177,000 |
| Total capital leases | \$ 804,000 | \$ 973,000 |

NORTHLAND SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

(5) Capital lease (continued)

Future minimum lease payments under the capital leases are as follows:

| <u>Years ending December 31,</u> | <u>Amounts</u> |
|---|-------------------|
| 2011 | \$ 175,900 |
| 2012 | 175,900 |
| 2013 | 175,900 |
| 2014 | 145,000 |
| Thereafter | <u>142,000</u> |
| Total minimum lease payments | 814,700 |
| Less amount representing interest | <u>10,700</u> |
| Present value of net minimum lease payments | <u>\$ 804,000</u> |

(6) Investment securities

Cost, fair value and aggregate unrealized gains and losses for investment securities at December 31, 2010 and 2009 are summarized below:

| | <u>Fair Value</u> | <u>Cost</u> | <u>Unrealized</u> | |
|--------------------------|-------------------|-------------------|-------------------|------------------|
| | | | <u>Gains</u> | <u>Losses</u> |
| December 31, 2010 | | | | |
| Equities | \$ 44,000 | \$ 44,000 | \$ - | \$ - |
| Restricted investments | <u>18,000</u> | <u>88,000</u> | <u>-</u> | <u>70,000</u> |
| Total | <u>\$ 62,000</u> | <u>\$ 132,000</u> | <u>\$ -</u> | <u>\$ 70,000</u> |
| December 31, 2009 | | | | |
| Equities | \$ 300 | \$ 300 | \$ - | \$ - |
| Restricted investments | <u>-</u> | <u>70,000</u> | <u>-</u> | <u>70,000</u> |
| Total | <u>\$ 300</u> | <u>\$ 70,300</u> | <u>\$ -</u> | <u>\$ 70,000</u> |

NORTHLAND SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(7) **Fair value measurements**

Fair value measurement definition and hierarchy – ASC Topic 820 establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of investment, the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Assets and liabilities with readily available quoted prices from an orderly market generally will have a higher degree of market price observability and require a lesser degree of judgment used in measuring fair value. ASC Topic 820 establishes a three-level valuation hierarchy for inputs used in measuring fair value. The guidance requires the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's perspective on the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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. The hierarchy consists of three levels as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access at the measurement date (most observable). Valuation adjustments and block discounts are not applied to Level 1 measurements.

Level 2 – observable inputs other than quoted prices for identical assets included within Level 1 (i.e. price quotes for similar assets).

Level 3 – unobservable inputs for the asset or liability to be used in pricing models (i.e. Black Scholes) or matrix pricing.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether the investment is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for assets and liabilities categorized in Level 3.

NORTHLAND SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(7) Fair value measurements (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31, 2010 and 2009 are as follows:

| | <u>Fair Value</u> | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
|------------------------------------|----------------------|-------------------|----------------------|------------------|
| December 31, 2010 | | | | |
| Corporate equity securities | \$ 243,000 | \$ 243,000 | \$ - | \$ - |
| Municipal bonds | 11,228,000 | - | 11,228,000 | - |
| Corporate debt securities | 52,000 | - | 52,000 | - |
| Non-inventory investments | 62,000 | - | - | 62,000 |
| Total assets | <u>\$ 11,585,000</u> | <u>\$ 243,000</u> | <u>\$ 11,280,000</u> | <u>\$ 62,000</u> |
| Securities sold, not yet purchased | <u>\$ 200,000</u> | <u>\$ 102,000</u> | <u>\$ 98,000</u> | <u>\$ -</u> |
| December 31, 2009 | | | | |
| Corporate equity securities | \$ 846,000 | \$ 846,000 | \$ - | \$ - |
| Government bonds | 56,000 | - | 56,000 | - |
| Municipal bonds | 9,795,000 | - | 9,795,000 | - |
| Corporate debt securities | 128,000 | - | 128,000 | - |
| Non-inventory investments | 300 | - | - | 300 |
| Total assets | <u>\$ 10,825,300</u> | <u>\$ 846,000</u> | <u>\$ 9,979,000</u> | <u>\$ 300</u> |
| Securities sold, not yet purchased | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The following table presents a reconciliation of assets and liabilities measured on a recurring basis, using significant unobservable inputs. There were no realized and unrealized gains and losses included in earnings for the years ended December 31, 2010 and 2009.

**Fair Value Measurements
Using Significant Unobservable Inputs
(Level 3)**

| | <u>Non-inventory Investments</u> |
|---|--------------------------------------|
| Beginning Balance | \$ 300 |
| Total gains or losses (unrealized/realized) | |
| Included in earnings | - |
| Purchases, issuances, settlements | 61,700 |
| Transfers in and/or out of Level 3 | - |
| Ending balance | <u>\$ 62,000</u> |
| | |
| The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at the reporting date | <u>\$ -</u> |

NORTHLAND SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

(8) Income tax expense

The components of the provision for federal and state income taxes are as follows:

| | <u>Years Ended December 31,</u> | |
|--|---------------------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> |
| Current income taxes | | |
| Federal income taxes | \$ 1,280,000 | \$ 570,000 |
| State and local income taxes | 458,000 | 134,000 |
| Tax benefit of net operating loss carryforward | - | (632,000) |
| Total current income tax expense | <u>1,738,000</u> | <u>72,000</u> |
| Deferred income taxes | | |
| Deferred tax asset | (299,000) | (154,000) |
| Deferred tax liability | 382,000 | - |
| Change in deferred tax valuation allowance | - | 632,000 |
| Total deferred income tax expense | <u>83,000</u> | <u>478,000</u> |
| Total income tax expense | <u>\$ 1,821,000</u> | <u>\$ 550,000</u> |
| Deferred tax asset | \$ 299,000 | \$ 154,000 |
| Deferred tax liability | (382,000) | - |
| Net deferred taxes | <u>\$ (83,000)</u> | <u>\$ 154,000</u> |

During 2009 the Company fully utilized a net operating loss carry-forward of \$2,470,000. The Company files a consolidated tax return with Holdings, Networks, Directions and Trust. The tax expense or benefit is allocated to each of the companies based on each company's proportionate share of the total income of the group. Taxes currently payable are due to Holdings.

On January 1, 2009, the Company adopted new accounting guidance on the accounting for uncertainty in income taxes. The adoption of the new guidance resulted in a decrease to retained earnings as of January 1, 2009, of \$187,000, which was reflected as a cumulative effect of a change in accounting principle, with a corresponding increase to the net liability for unrecognized tax expenses. Unrecognized tax benefits are the differences between a tax position taken, or expected to be taken in a tax return, and the benefit recognized for accounting purposes pursuant to accounting guidance.

NORTHLAND SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(8) Income tax expense (continued)

The total amount of unrecognized tax benefits, if recognized, would affect the effective tax rate as of December 31, 2010 and 2009, respectively, are \$83,000 and \$181,000. Currently, the Company does not expect the liability for unrecognized tax benefits to change significantly in the next twelve months with the above balances classified on the consolidated balance sheets as a part of long-term liabilities. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. As of December 31, 2010, a gross balance of \$118,000 has been accrued related to the unrecognized tax benefits balance, interest and penalties.

The Company files tax returns, including returns for its subsidiaries, in the United States (U.S.) federal jurisdiction and in various state jurisdictions. Uncertain tax positions are related to tax years that remain subject to examination. U.S. tax returns for fiscal years ended December 31, 2006 through 2010 remain subject to examination by federal tax authorities. Tax returns for state and local jurisdictions for fiscal years ended December 31, 2005 through 2010 remain subject to examination by state and local tax authorities.

(9) Commitments

The Company conducts its operations in leased facilities. The leases have varying terms expiring through January 2016. The lease agreements provide for monthly rental payments ranging between \$500 and \$38,000, plus a proportionate share of the building's operating expenses. Rent expensed under these arrangements was \$930,000 and \$971,000 for the years ended December 31, 2010 and 2009, respectively.

The Company is obligated under operating leases for office and computer equipment. The leases have varying terms expiring through January, 2014. Aggregate payments under these leases amount to \$76,000 per month. Rent expensed under these arrangements was \$929,000 and \$805,000 for the years ended December 31, 2010 and 2009, respectively.

Future minimum lease payments which must be made under noncancellable lease agreements are:

| <u>Years Ending December 31,</u> | <u>Amounts</u> |
|----------------------------------|---------------------|
| 2011 | \$ 1,159,000 |
| 2012 | 1,007,000 |
| 2013 | 555,000 |
| 2014 | 533,000 |
| 2015 and thereafter | 575,000 |
| Total minimum lease payments | <u>\$ 3,829,000</u> |

NORTHLAND SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

(10) Customer transactions

The Company does not hold customer funds or securities. Accordingly, the Company is exempt from the requirement to maintain a "Special Reserve Account for the Exclusive Benefit of Customers" under provisions of SEC Rule 15c3-3 based on Paragraph K(2)(ii) of that rule.

(11) Related party transaction

Networks, Trust and Directions are affiliates of the Company through common ownership by Holdings. The Company received a management fee totaling \$59,000 and \$92,000 from Networks, Trust and Directions in years ending December 31, 2010 and 2009, respectively. In addition, the Company handles the payment of all salaries for the related companies. The affiliates reimburse the Company for the direct compensation costs as incurred.

The Company has the following receivables (payable) at year end:

| | December 31, | |
|----------|---------------------|-------------|
| | 2010 | 2009 |
| Networks | \$ 200,000 | \$ 494,000 |
| Trust | 38,000 | 18,000 |
| Holdings | 955,000 | 127,000 |
| | \$ 1,193,000 | \$ 639,000 |

The Company makes advances and loans to various employees during the year. The total amount due from employees at December 31, 2010 and 2009 was \$557,000 and \$590,000 respectively and is included in the statement of financial position under the caption Receivables. The Company has paid attorney fees of \$84,000 and \$69,000 to a law firm of which one of its officers and directors is a principal.

(12) Net capital requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c 3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15-to-1. The rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2010, the Company had net capital and net capital requirements of \$8,101,000 and \$648,000, respectively. The Company's net capital ratio was 1.2 to 1.

NORTHLAND SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

(13) Employee benefit plan

The Company has a contributory 401(k) plan (the Plan) that covers substantially all employees. Employees are eligible to participate in the Plan upon completing thirty days of employment. The Company has not provided a matching contribution through 2010.

(14) Cash flow disclosures

The following is a summary of supplemental cash flow information:

| | <u>Years Ended December 31,</u> | |
|---|---------------------------------|-------------------|
| | <u>2010</u> | <u>2009</u> |
| Cash received: interest | <u>\$ 545,000</u> | <u>\$ 456,000</u> |
| Cash received: taxes | <u>\$ -</u> | <u>\$ 69,000</u> |
| Cash paid: interest | <u>\$ 60,000</u> | <u>\$ 67,000</u> |
| Cash paid: taxes | <u>\$ 24,000</u> | <u>\$ -</u> |
| Non-cash financing arrangements: | | |
| Asset acquired under capital lease | <u>\$ -</u> | <u>\$ 202,000</u> |
| Leasehold improvements acquired through operating lease agreement | <u>\$ -</u> | <u>\$ 894,000</u> |
| Cumulative affect of uncertain tax positions | <u>\$ -</u> | <u>\$ 187,000</u> |



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Report of Independent Registered Accounting Firm on Applying Agreed-Upon Procedures Related to an Entity's SIPC Assessment Reconciliation

To the Board of Directors of
Northland Securities, Inc.
45 South 7th Street, Ste. 2000
Minneapolis, MN 55402

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2010 which were agreed to by Northland Securities, Inc. (the Company) and the Securities and Exchange Commission, Financial Industry Regulatory Authority Inc., and SIPC, solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Northland Securities, Inc.'s management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2010, with the amounts reported in Form SIPC-7 for the year ended December 31, 2010 noting no differences;
3. Compared any adjustments reported in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed noting no differences.

To the Board of Directors of
Northland Securities, Inc.
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We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

Myron Hoffman M. C. C.

Minneapolis, MN
February 25, 2011

NORTHLAND SECURITIES, INC.

**SCHEDULE OF ASSESSMENT PAYMENTS TO SECURITIES INVESTOR
PROTECTION CORPORATION**

The Period January 1, 2010 to December 31, 2010

| | | | | |
|---|------------------|---------------|----|-----------------|
| General assessment | | | \$ | 89,752 |
| Less payments made: | | | | |
| | <u>Date Paid</u> | <u>Amount</u> | | |
| | 7/29/2010 | \$ 42,737 | | (42,737) |
| | | \$ 47,015 | | (47,015) |
| Interest on late payment | | | | <u>-</u> |
| Total assessment balance and interest due | | | \$ | <u><u>-</u></u> |

NORTHLAND SECURITIES, INC.

**SCHEDULE OF SECURITIES INVESTOR PROTECTION CORPORATION
ASSESSMENT**

| | |
|---|-------------------|
| Total revenues | \$ 37,337,172 |
| Adjustments | |
| Net investment gains | (31,610) |
| Revenues from distribution shares of investment company and sale of variable annuities | (1,286,596) |
| Other deductions | (58,500) |
| Interest and dividend expense | <u>(59,589)</u> |
| SIPC net operating revenues | <u>35,900,877</u> |
| | |
| General assessment @ .0025 | \$ <u>89,752</u> |