

KENTUCKY NATURAL LANDS TRUST, INC.  
BEREA, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015



CRAFT, NOBLE & COMPANY  
PLLC

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Kentucky Natural Lands Trust, Inc.  
Berea, Kentucky

We have audited the accompanying financial statements of Kentucky Natural Lands Trust, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, 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 misstatements, 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 audits 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 Kentucky Natural Lands Trust, Inc. as of December 31, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Craft, Noble & Company, PLLC*

Craft, Noble & Company, PLLC  
Richmond, Kentucky  
March 1, 2017



KENTUCKY NATURAL LANDS TRUST, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 78,477	\$ 178,670
Accounts and pledges receivable	330,599	4,500
Total Current Assets	409,076	183,170
<b>FIXED ASSETS</b>		
Land	4,602,701	2,670,166
Property and equipment, net	34,504	38,083
Total Fixed Assets	4,637,205	2,708,249
<b>OTHER ASSETS</b>		
Investments - at market value	3,726,892	4,920,576
Easements	3	3
Options to purchase land	2,000	2,100
Cash held for the benefit of IBCF	6,523,212	6,144,375
Total Other Assets	10,252,107	11,067,054
<b>TOTAL ASSETS</b>	<b>\$ 15,298,388</b>	<b>\$ 13,958,473</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable - related party	\$ 95,755	\$ 68,242
Accounts payable - Indiana Bats	6,523,212	6,144,375
Accrued vacation	31,268	29,910
<b>TOTAL LIABILITIES</b>	6,650,235	6,242,527
<b>NET ASSETS</b>		
Unrestricted	7,607,881	7,037,948
Temporarily restricted	1,040,272	677,998
<b>TOTAL NET ASSETS</b>	8,648,153	7,715,946
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 15,298,388</b>	<b>\$ 13,958,473</b>

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

KENTUCKY NATURAL LANDS TRUST, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS		
Revenues and Other Support		
Grants	\$ 803,820	\$ 1,064,455
Project income	75,071	54,536
Contributions	174,226	204,863
Interest and dividend income	42,037	37,348
Net unrealized and realized gains on investments	18,670	3,741
Miscellaneous income	3,259	2,821
Total	<u>1,117,083</u>	<u>1,367,764</u>
Net Assets Released from Restrictions	<u>835,686</u>	<u>1,263,144</u>
TOTAL UNRESTRICTED SUPPORT	<u>1,952,769</u>	<u>2,630,908</u>
EXPENSES		
Program Services		
Forest preservation	1,078,613	618,578
Supporting Services		
General and administrative	235,082	134,819
Fundraising	69,141	39,651
TOTAL EXPENSES	<u>1,382,836</u>	<u>793,048</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>569,933</u>	<u>1,837,860</u>
TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Other Support		
Grants	1,167,460	1,132,927
Contributions	30,500	128,400
Total	<u>1,197,960</u>	<u>1,261,327</u>
Net Assets Released from Restrictions	<u>(835,686)</u>	<u>(1,263,144)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>362,274</u>	<u>(1,817)</u>
INCREASE IN NET ASSETS	932,207	1,836,043
NET ASSETS AT BEGINNING OF YEAR	<u>7,715,946</u>	<u>5,879,903</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,648,153</u>	<u>\$ 7,715,946</u>

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

KENTUCKY NATURAL LANDS TRUST, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 363,803	\$ 79,290	\$ 23,320	\$ 466,413
Investment account fees	15,714	3,425	1,007	20,146
Travel	20,971	4,571	1,344	26,886
Professional services	390,379	85,083	25,024	500,486
Supplies	7,480	1,630	480	9,590
Insurance	13,147	2,865	843	16,855
Postage	1,573	343	101	2,017
Telephone	3,985	869	255	5,109
Repairs	1,412	308	90	1,810
Surveyor	204,298	44,526	13,096	261,920
Publications, dues & subscriptions	1,899	414	122	2,435
Meetings	3,808	830	244	4,882
Data services	4,824	1,051	309	6,184
Printing & duplications	3,456	753	222	4,431
Accounting and administrative fees	12,688	2,765	813	16,266
Depreciation	12,786	2,787	820	16,393
Rent and utilities	9,452	2,060	606	12,118
Taxes & licenses	6,321	1,378	405	8,104
Miscellaneous expenses	617	134	40	791
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 1,078,613</u>	<u>\$ 235,082</u>	<u>\$ 69,141</u>	<u>\$ 1,382,836</u>

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

KENTUCKY NATURAL LANDS TRUST, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 360,287	\$ 78,524	\$ 23,095	\$ 461,906
Investment account fees	15,421	3,361	988	19,770
Travel	21,986	4,792	1,409	28,187
Professional services	31,281	6,818	2,005	40,104
Supplies	11,977	2,610	768	15,355
Insurance	12,489	2,722	800	16,011
Postage	1,170	255	75	1,500
Telephone	3,539	771	227	4,537
Repairs	3,335	727	213	4,275
Surveyor	87,558	19,083	5,613	112,254
Publications, dues & subscriptions	6,089	1,327	390	7,806
Meetings	5,120	1,116	328	6,564
Data services	4,122	899	264	5,285
Printing & duplications	5,020	1,094	322	6,436
Accounting and administrative fees	8,424	1,836	540	10,800
Depreciation	11,676	2,545	749	14,970
Rent and utilities	8,106	1,767	520	10,393
Taxes & licenses	20,978	4,572	1,345	26,895
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 618,578</u>	<u>\$ 134,819</u>	<u>\$ 39,651</u>	<u>\$ 793,048</u>

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

KENTUCKY NATURAL LANDS TRUST, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 932,207	\$ 1,836,043
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	16,393	14,969
Net realized (gain) loss on investments	(39,299)	29,741
Net unrealized (gain) loss on investments	20,629	(33,482)
(Increase) decrease in assets		
Accounts and pledges receivable	(326,099)	(1,933)
Options to purchase	100	(500)
Cash held for benefit of IBCF	(378,837)	(1,760,394)
Increase (decrease) in liabilities		
Accounts payable	27,513	19,939
Accounts payable - Indiana Bats	378,837	1,760,394
Accrued vacation	1,358	2,729
	632,802	1,867,506
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(12,814)	-
Purchase of land	(1,932,535)	(1,272,591)
Purchase of/transfers to investments	(649,675)	(930,195)
Proceeds from/transfers from investments	1,862,029	336,786
	(732,995)	(1,866,000)
NET CASH (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(100,193)	1,506
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	178,670	179,164
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 78,477	\$ 180,670

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



KENTUCKY NATURAL LANDS TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Kentucky Natural Lands Trust, Inc. (KNLT) is a not-for-profit organization formed in 1995 to provide for the preservation of Blanton Forest (the largest old growth forest in the state), Pine Mountain, and other Kentucky natural lands. KNLT raised more than \$3 million for the Blanton Forest project. Efforts expanded into a variety of conservation projects focusing on Kentucky's largest forest blocks and migratory corridors. This has resulted in the protection of thousands of acres of wildlands. KNLT's major sources of support include solicitations of donations from the general public and grants from private foundations.

Basis of Accounting

The financial statements of KNLT have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization recognizes all cash on hand, demand deposits, time deposits, and highly liquid debt instruments with a maturity of six months or less to be cash equivalents. Cash and cash equivalents for the purpose of the statement of cash flows exclude restricted cash and cash equivalents.

KENTUCKY NATURAL LANDS TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management of the Organization has considered subsequent events through March 1, 2017, the date this report becomes available for issue.

Income Tax Status

KNLT is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization has no unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes* (formerly FIN 48, *Accounting for Uncertainty in Income Taxes*) requires entities to disclose known or anticipated positions of income tax uncertainty. The Organization is not aware of any uncertain income tax positions as of March 1, 2017. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2013 forward could be subject to examination by the IRS or other applicable tax jurisdictions.

Investments

Investments are carried at fair market value as determined by quoted market prices at year-end. Investments in money market accounts are carried at cost, which approximates fair value. Unrealized gains and losses are included in the change in unrestricted net assets in the accompanying statement of activities, unless the donor temporarily or permanently restricts their use. Restricted investment income, whose restrictions are satisfied in the same reporting period, is reported as unrestricted revenue.

Property and Equipment

Property and equipment is carried at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes. Useful lives of property and equipment range from 3 to 27.5 years. It is KNLT's policy to capitalize items in excess of \$2,500. For the years ended December 31, 2016 and 2015 depreciation expense was \$16,392 and \$14,969, respectively. At December 31, 2016 and 2015, accumulated depreciation amounted to \$90,675 and \$74,283, respectively. The cost of repairs and maintenance is expensed as incurred.

NOTE 2 – RETIREMENT PLAN

KNLT sponsors a defined contribution retirement plan ("Plan") covering all eligible leased employees. KNLT contributed 5 percent of each leased employee's annual compensation to the Plan for the years ended December 31, 2016 and 2015. For the years ended December 31, 2016 and 2015, contributions to the Plan amounted to approximately \$16,843 and \$17,006, respectively.

KENTUCKY NATURAL LANDS TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 3 – INVESTMENTS

Investments at December 31, 2016 are summarized as follows:

	<u>Cost Basis</u>	<u>Fair Market Value</u>
Money market funds	\$ 1,722,589	\$ 1,722,589
Corporate bonds and notes	955,454	933,815
Equities	<u>852,499</u>	<u>1,070,483</u>
Total	<u>\$ 3,530,542</u>	<u>\$ 3,726,887</u>

Investments at December 31, 2015 are summarized as follows:

	<u>Cost Basis</u>	<u>Fair Market Value</u>
Money market funds	\$ 3,033,427	\$ 3,033,427
Corporate bonds and notes	894,391	871,516
Equities	<u>823,411</u>	<u>1,015,633</u>
Total	<u>\$ 4,131,050</u>	<u>\$ 4,323,426</u>

**Fair Value Measurements**

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets and liabilities. Level 2 assets and liabilities include certificates of deposit.

Level 3 – Assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

KENTUCKY NATURAL LANDS TRUST, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

NOTE 3 – INVESTMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Corporate bonds and notes, money market funds and equities: Fair values are estimated by using quoted prices of securities with similar characteristics.

Time deposits: Fair values are estimated based on stated interest rates of the time deposits.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FASB ASC 820 fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	<u>Fair Value</u>	<u>Quoted Prices in Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2016</u>				
Money market funds	\$ 1,722,589	\$ 1,722,589	\$ -	\$ -
Corporate bonds and notes	933,815	893,709	40,106	-
Equities	<u>1,070,483</u>	<u>1,070,483</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,726,887</u>	<u>\$ 3,686,781</u>	<u>\$ 40,106</u>	<u>\$ -</u>
<u>December 31, 2015</u>				
Time deposits	\$ 3,033,427	\$ 3,033,427	\$ -	\$ -
Corporate bonds and notes	871,516	712,458	40,522	-
Equities	<u>1,015,633</u>	<u>1,015,683</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,920,576</u>	<u>\$ 4,761,568</u>	<u>\$ 40,522</u>	<u>\$ -</u>

NOTE 4 – LAND ACQUISITIONS AND DISPOSITIONS

The purchases of land and sales to the State of Kentucky act to fulfill part of KNLT’s mission to coordinate the acquisition of land to create a public reserve. As a result, losses on these transactions are accepted in order to benefit the Organization’s mission. Land is included in the fixed assets on the statement of financial position. Gain or loss on sale of land is computed based on the historical cost if purchased or the fair market value at date of donation if donated.

NOTE 5 – RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	400,000	\$ 400,000
Land acquisition	638,519	181,527
Glade Cress	1,753	9,753
Fort Knox	-	86,718
Total	<u>\$ 1,040,272</u>	<u>\$ 677,998</u>