

KENTUCKY NATURAL LANDS TRUST, INC.
BEREA, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016



CRAFT, NOBLE & COMPANY
PLLC

Certified Public Accountants
Post Office Box 827
Richmond, KY 40476
www.craftnoble.com

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 – 5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 10

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, 2017 and 2016, 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, 2017 and 2016, 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 5, 2018

KENTUCKY NATURAL LANDS TRUST, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	ASSETS	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 169,527	\$ 78,477
Accounts and pledges receivable	709,020	330,599
Total Current Assets	878,547	409,076
FIXED ASSETS		
Land	7,140,798	4,602,701
Property and equipment, net	22,614	34,504
Total Fixed Assets	7,163,412	4,637,205
OTHER ASSETS		
Investments - at market value	4,059,753	3,726,892
Easements	3	3
Options to purchase land	-	2,000
Cash held for the benefit of IBCF	8,208,393	6,523,212
Total Other Assets	12,268,149	10,252,107
TOTAL ASSETS	\$ 20,310,108	\$ 15,298,388
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - related party	\$ 69,881	\$ 95,755
Accounts payable - Indiana Bats	8,208,393	6,523,212
Accrued vacation	38,434	31,268
TOTAL LIABILITIES	8,316,708	6,650,235
NET ASSETS		
Unrestricted	11,591,647	7,607,881
Temporarily restricted	401,753	1,040,272
TOTAL NET ASSETS	11,993,400	8,648,153
TOTAL LIABILITIES AND NET ASSETS	\$ 20,310,108	\$ 15,298,388

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED NET ASSETS		
Revenues and Other Support		
Grants	\$ 1,230,350	\$ 803,820
Project income	72,820	75,071
Contributions	247,818	174,226
Interest and dividend income	55,681	42,037
Net unrealized and realized gains on investments	266,142	18,670
Miscellaneous income	-	3,259
Total	<u>1,872,811</u>	<u>1,117,083</u>
Net Assets Released from Restrictions	<u>3,727,159</u>	<u>835,686</u>
TOTAL UNRESTRICTED SUPPORT	<u>5,599,970</u>	<u>1,952,769</u>
EXPENSES		
Program Services		
Forest preservation	1,260,639	1,078,613
Supporting Services		
General and administrative	274,754	235,082
Fundraising	80,811	69,141
TOTAL EXPENSES	<u>1,616,204</u>	<u>1,382,836</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>3,983,766</u>	<u>569,933</u>
TEMPORARILY RESTRICTED NET ASSETS		
Revenues and Other Support		
Grants	2,999,645	1,167,460
Contributions	87,600	30,500
Miscellaneous income	1,395	-
Total	<u>3,088,640</u>	<u>1,197,960</u>
Net Assets Released from Restrictions	<u>(3,727,159)</u>	<u>(835,686)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(638,519)</u>	<u>362,274</u>
INCREASE IN NET ASSETS	3,345,247	932,207
NET ASSETS AT BEGINNING OF YEAR	<u>8,648,153</u>	<u>7,715,946</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,993,400</u>	<u>\$ 8,648,153</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, 2017

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 370,754	\$ 84,808	\$ 43,307	\$ 498,869
Investment account fees	16,506	3,598	1,058	21,162
Travel	27,802	6,059	1,782	35,643
Professional services	456,778	99,554	29,281	585,613
Supplies	4,423	964	284	5,671
Insurance	15,159	3,304	972	19,435
Postage	1,617	352	104	2,073
Telephone	4,573	997	293	5,863
Repairs	4,122	898	264	5,284
Surveyor	304,835	62,436	-	367,271
Publications, dues & subscriptions	3,488	760	224	4,472
Meetings	3,279	715	210	4,204
Data services	5,231	1,140	335	6,706
Printing & duplications	2,657	579	170	3,406
Accounting and administrative fees	14,976	3,264	960	19,200
Depreciation	9,274	2,021	594	11,889
Rent and utilities	8,109	1,767	520	10,396
Taxes & licenses	5,268	1,148	338	6,754
Miscellaneous expenses	1,788	390	115	2,293
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 1,260,639</u>	<u>\$ 274,754</u>	<u>\$ 80,811</u>	<u>\$ 1,616,204</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.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 3,345,247	\$ 932,207
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	11,890	16,393
Net realized (gain) on investments	(48,161)	(39,299)
Net unrealized (gain) loss on investments	(217,981)	20,629
(Increase) decrease in assets		
Accounts and pledges receivable	(378,421)	(326,099)
Options to purchase	2,000	100
Cash held for benefit of IBCF	(1,685,181)	(378,837)
Increase (decrease) in liabilities		
Accounts payable - related party	(25,874)	27,513
Accounts payable - Indiana Bats	1,685,181	378,837
Accrued vacation	7,166	1,358
	<u>2,695,866</u>	<u>632,802</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(12,814)
Purchase of land	(2,538,097)	(1,932,535)
Purchase of investments	(323,222)	(649,675)
Proceeds from sales of investments	256,503	1,862,029
	<u>(2,604,816)</u>	<u>(732,995)</u>
NET CASH (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	91,050	(100,193)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>78,477</u>	<u>178,670</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 169,527</u>	<u>\$ 78,477</u>

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

KENTUCKY NATURAL LANDS TRUST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management of the Organization has considered subsequent events through April 23, 2018, 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 April 23, 2018. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2014 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, 2017 and 2016 depreciation expense was \$11,890 and \$16,392, respectively. At December 31, 2017 and 2016, accumulated depreciation amounted to \$102,565 and \$90,675, 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, 2017 and 2016. For the years ended December 31, 2017 and 2016, contributions to the Plan amounted to approximately \$17,912 and \$16,843, respectively.

KENTUCKY NATURAL LANDS TRUST, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017 AND 2016

NOTE 3 – INVESTMENTS

Investments at December 31, 2017 are summarized as follows:

	<u>Cost Basis</u>	<u>Fair Market Value</u>
Money market funds	\$ 1,754,122	\$ 1,754,122
Corporate bonds and notes	930,522	913,392
Equities	926,410	1,392,239
Total	\$ 3,611,054	\$ 4,059,753

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	852,499	1,070,483
Total	\$ 3,530,542	\$ 3,726,887

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, 2017 AND 2016

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, 2017 and 2016:

	<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, 2017</u>				
Money market funds	\$ 1,754,122	\$ 1,754,122	\$ -	\$ -
Corporate bonds and notes	913,392	873,267	40,125	-
Equities	<u>1,392,239</u>	<u>1,392,239</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,059,753</u>	<u>\$ 4,019,628</u>	<u>\$ 40,125</u>	<u>\$ -</u>
<u>December 31, 2016</u>				
Time deposits	\$ 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>

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>2017</u>	<u>2016</u>
Land	400,000	\$ 400,000
Land acquisition	-	658,519
Glade Cress	1,753	9,753
Fort Knox	-	86,718
Total	<u>\$ 401,753</u>	<u>\$ 677,998</u>