

KENTUCKY NATURAL LANDS TRUST, INC.
BEREA, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017



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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in the year ended December 31, 2018, the Organization adopted new accounting guidance, ASU 2016-14, *Presentation of Financial Statements for Non Profit Entities*. Our opinion is not modified with respect to this matter.

Craft, Noble & Company, PLLC

Craft, Noble & Company, PLLC

Richmond, Kentucky

March 20, 2019

KENTUCKY NATURAL LANDS TRUST, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	ASSETS	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 239,298	\$ 169,527
Accounts and pledges receivable	791,807	709,020
Total Current Assets	1,031,105	878,547
FIXED ASSETS		
Land	7,140,798	7,140,798
Property and equipment, net	13,437	22,614
Total Fixed Assets	7,154,235	7,163,412
OTHER ASSETS		
Investments - at market value	4,213,243	4,059,753
Easements	3	3
Options to purchase land	2,083	-
Cash held for the benefit of IBCF	9,120,323	8,208,393
Total Other Assets	13,335,652	12,268,149
TOTAL ASSETS	\$ 21,520,992	\$ 20,310,108
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - related party	\$ 86,655	\$ 69,881
Accounts payable - Indiana Bats	9,120,323	8,208,393
Accrued vacation	34,391	38,434
TOTAL LIABILITIES	9,241,369	8,316,708
NET ASSETS		
Net assets - without donor restrictions	11,800,163	11,591,647
Net assets - with donor restrictions	479,460	401,753
TOTAL NET ASSETS	12,279,623	11,993,400
TOTAL LIABILITIES AND NET ASSETS	\$ 21,520,992	\$ 20,310,108

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTION		
Revenues and Other Support		
Grants	\$ 470,780	\$ 1,230,350
Project income	79,000	72,820
Contributions	340,301	247,818
Interest and dividend income	70,944	55,681
Net unrealized and realized gains on investments	(97,901)	266,142
Miscellaneous income	8,911	-
Total	<u>872,035</u>	<u>1,872,811</u>
Net Assets Released from Restrictions	<u>751,023</u>	<u>3,727,159</u>
TOTAL REVENUE WITHOUT DONOR RESTRICTIONS	<u>1,623,058</u>	<u>5,599,970</u>
EXPENSES		
Program Services		
Forest preservation	1,087,770	1,260,639
Supporting Services		
General and administrative	240,473	274,754
Fundraising	86,299	80,811
TOTAL EXPENSES	<u>1,414,542</u>	<u>1,616,204</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>208,516</u>	<u>3,983,766</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Revenues and Other Support		
Grants	766,288	2,999,645
Contributions	57,800	87,600
Project income	4,642	-
Miscellaneous income	-	1,395
Total	<u>828,730</u>	<u>3,088,640</u>
Net Assets Released from Restrictions	<u>(751,023)</u>	<u>(3,727,159)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>77,707</u>	<u>(638,519)</u>
INCREASE IN NET ASSETS	286,223	3,345,247
NET ASSETS AT BEGINNING OF YEAR	<u>11,993,400</u>	<u>8,648,153</u>
NET ASSETS AT END OF YEAR	<u>\$ 12,279,623</u>	<u>\$ 11,993,400</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, 2018

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 354,566	\$ 81,105	\$ 41,416	\$ 477,087
Investment account fees	17,784	3,876	1,140	22,800
Travel	32,557	7,095	2,087	41,739
Professional services	559,947	122,040	35,894	717,881
Supplies	11,892	2,592	762	15,246
Insurance	12,897	2,811	827	16,535
Postage	1,321	288	85	1,694
Telephone	4,672	1,019	299	5,990
Repairs	5,218	1,137	335	6,690
Surveyor	32,984	6,756	-	39,740
Publications, dues & subscriptions	5,045	1,100	323	6,468
Meetings	1,111	242	71	1,424
Data services	8,844	1,927	567	11,338
Printing & duplications	4,554	993	292	5,839
Accounting and administrative fees	14,762	3,217	946	18,925
Depreciation	7,159	1,560	458	9,177
Rent and utilities	8,481	1,848	544	10,873
Taxes & licenses	3,740	815	240	4,795
Miscellaneous expenses	236	52	13	301
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 1,087,770</u>	<u>\$ 240,473</u>	<u>\$ 86,299</u>	<u>\$ 1,414,542</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.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 286,223	\$ 3,345,247
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	9,177	11,890
Net realized (gain) on investments	(204,880)	(48,161)
Net unrealized (gain) loss on investments	302,781	(217,981)
(Increase) decrease in assets		
Accounts and pledges receivable	(82,787)	(378,421)
Options to purchase	(2,083)	2,000
Cash held for benefit of IBCF	(911,930)	(1,685,181)
Increase (decrease) in liabilities		
Accounts payable - related party	16,774	(25,874)
Accounts payable - Indiana Bats	911,930	1,685,181
Accrued vacation	(4,043)	7,166
	<u>321,162</u>	<u>2,695,866</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land	-	(2,538,097)
Purchase of investments	(1,315,671)	(323,222)
Proceeds from sales of investments	1,064,280	256,503
	<u>(251,391)</u>	<u>(2,604,816)</u>
NET CASH (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	69,771	91,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>169,527</u>	<u>78,477</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 239,298</u>	<u>\$ 169,527</u>

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

KENTUCKY NATURAL LANDS TRUST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, but may be designated for specific purpose by the board of directors.
- Restricted net assets – Net assets subject to temporary or permanent donor-imposed stipulations. When a temporary 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. Generally, the donors of permanently restricted assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

On January 1, 2018, the Organization adopted *Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities*. Changes to the Organization's accounting policies have been made in accordance with the provisions in the standards. Changes in presentation of the Financial Statements have been retrospectively applied to the comparative statements presented. The adoption of the standard did not result in substantial changes to the Organization's accounting policies and had no material effect on the amounts reported for the current or prior financial years except as disclosed below:

- Restricted net assets are no longer disaggregated between temporary and permanently restricted net assets on the face of the financial statements. Net assets subject to donor-imposed stipulations are presented in a single asset category. The purpose and length of any such stipulation is disclosed in the Notes to the Financial Statements.

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.

KENTUCKY NATURAL LANDS TRUST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Subsequent Events

Management of the Organization has considered subsequent events through March 20, 2019, 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 20, 2019. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2015 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, 2018 and 2017 depreciation expense was \$9,177 and \$11,890, respectively. At December 31, 2018 and 2017, accumulated depreciation amounted to \$104,343 and \$95,166, respectively. The cost of repairs and maintenance is expensed as incurred.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

The Organization adopted ASU 2016-14, *Financial Statement Presentation for Not-for-Profit Organizations*, for the year ended December 31, 2018. This guidance changes how Not-for-Profit Organizations present their financial statements, particularly liquidity, and the availability of resources, financial performance, and cash flow. It is designed to improve financial reporting by not-for-profit entities. Adoption of ASU 2016-14 had no effect on previously report net assets or change in net assets.

KENTUCKY NATURAL LANDS TRUST, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018 AND 2017

NOTE 3 – 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, 2018 and 2017. For the years ended December 31, 2018 and 2017, contributions to the Plan amounted to approximately \$8,125 and \$17,912, respectively.

NOTE 4 – INVESTMENTS

Investments at December 31, 2018 are summarized as follows:

	<u>Cost Basis</u>	<u>Fair Market Value</u>
Money market funds	\$ 627,595	\$ 627,595
Corporate bonds and notes	2,127,043	2,113,972
Equities	<u>1,305,211</u>	<u>1,471,677</u>
Total	<u>\$ 4,059,849</u>	<u>\$ 4,213,244</u>

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	<u>926,410</u>	<u>1,392,239</u>
Total	<u>\$ 3,611,054</u>	<u>\$ 4,059,753</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, 2018 AND 2017

NOTE 4 – 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, 2018 and 2017:

	<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, 2018</u>				
Money market funds	\$ 627,595	\$ 627,595	\$ -	\$ -
Corporate bonds and notes	2,113,972	489,310	1,624,662	-
Equities	<u>1,471,677</u>	<u>1,471,677</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,213,244</u>	<u>\$ 2,588,582</u>	<u>\$ 1,624,662</u>	<u>\$ -</u>
<u>December 31, 2017</u>				
Time deposits	\$ 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>

NOTE 5 – 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 6 – NET ASSETS – WITH DONOR RESTRICTIONS

Net assets – with donor restriction consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 400,000	\$ 400,000
Land acquisition	77,707	-
Glade Cress	1,753	1,753
Fort Knox	-	-
Total	<u>\$ 479,460</u>	<u>\$ 401,753</u>

KENTUCKY NATURAL LANDS TRUST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 7 – BOARD DESIGNATED NET ASSETS

The board designate net assets are comprised of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Without donor restriction:		
Designated by the Board for:		
Forest Stewardship	\$ 2,178,501	\$ 2,300,497
Undesignated	<u>9,621,662</u>	<u>9,291,150</u>
Total net assets - without donor restriction	<u>\$ 11,800,163</u>	<u>\$ 11,591,647</u>

NOTE 8 - LIQUIDITY

As part of the Organizations liquidity management, it pools cash in excess of daily requirements in other demand deposit accounts such as savings or money market accounts.

The Organizations financial assets available within one year of the balance sheet date for general expenditure are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalent	\$ 239,298	\$ 169,527
Accounts and pledges receivable	575,807	333,333
Investments	4,213,243	4,059,753
Cash held for the benefit of IBCF	<u>9,120,323</u>	<u>8,208,393</u>
Subtotal	14,148,671	12,771,006
Less cash held for use by others	(9,120,323)	(8,208,393)
Less board designated net assets	(2,178,501)	(2,300,497)
Less donor restrictions for specific purposes	<u>(479,460)</u>	<u>(401,753)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 2,370,387</u>	<u>\$ 1,860,363</u>