

KENTUCKY NATURAL LANDS TRUST, INC.
BEREA, KENTUCKY

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AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018



CRAFT, NOBLE & COMPANY
PLLC

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TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 – 6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 12

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, 2019 and 2018, 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.



Change in Accounting Principle

As discussed in Note 2 to the financial statements, in the year ended December 31, 2019, the Organization adopted new accounting guidance, ASU 2019-09 Revenue from Contracts with Customers (Topic 606) and ASU 2016-18 Statement of Cash Flows (Topic 230) Restricted Cash. Our opinion is not modified with respect to these matters.

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, 2019 and 2018, 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

April 13, 2020

KENTUCKY NATURAL LANDS TRUST, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	ASSETS	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 268,970	\$ 239,298
Accounts and pledges receivable	<u>222,000</u>	<u>791,807</u>
Total Current Assets	<u>490,970</u>	<u>1,031,105</u>
FIXED ASSETS		
Land	6,052,260	7,140,798
Property and equipment, net	<u>9,753</u>	<u>13,437</u>
Total Fixed Assets	<u>6,062,013</u>	<u>7,154,235</u>
OTHER ASSETS		
Investments - at market value	6,377,349	4,213,243
Investments - at cost value	187,615	-
Easements	3	3
Options to purchase land	1,000	2,083
Cash held for the benefit of IBCF	<u>8,832,474</u>	<u>9,120,323</u>
Total Other Assets	<u>15,398,441</u>	<u>13,335,652</u>
TOTAL ASSETS	<u>\$ 21,951,424</u>	<u>\$ 21,520,992</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - related party	\$ 52,032	\$ 86,655
Accounts payable - Indiana Bats	8,832,474	9,120,323
Accrued vacation	<u>31,686</u>	<u>34,391</u>
TOTAL LIABILITIES	8,916,192	9,241,369
NET ASSETS		
Net assets - without donor restrictions	12,288,231	11,800,163
Net assets - with donor restrictions	<u>747,001</u>	<u>479,460</u>
TOTAL NET ASSETS	<u>13,035,232</u>	<u>12,279,623</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,951,424</u>	<u>\$ 21,520,992</u>

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTION		
Revenues and Other Support		
Grants	\$ 267,065	\$ 470,780
Project income	90,392	79,000
Contributions	305,761	340,301
Interest and dividend income	95,613	70,944
Net unrealized and realized gains on investments	479,630	(97,901)
Miscellaneous income	<u>28,234</u>	<u>8,911</u>
Total	1,266,695	872,035
Net Assets Released from Restrictions	<u>696,248</u>	<u>751,023</u>
TOTAL REVENUE WITHOUT DONOR RESTRICTIONS	<u>1,962,943</u>	<u>1,623,058</u>
EXPENSES		
Program Services		
Forest preservation	1,132,550	1,087,770
Supporting Services		
General and administrative	250,730	240,473
Fundraising	<u>91,595</u>	<u>86,299</u>
TOTAL EXPENSES	<u>1,474,875</u>	<u>1,414,542</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>488,068</u>	<u>208,516</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Revenues and Other Support		
Grants	860,089	766,288
Contributions	42,020	57,800
Project income	-	4,642
Gain on sale of property	61,680	-
Miscellaneous income	<u>-</u>	<u>-</u>
Total	963,789	828,730
Net Assets Released from Restrictions	<u>(696,248)</u>	<u>(751,023)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>267,541</u>	<u>77,707</u>
INCREASE IN NET ASSETS	755,609	286,223
NET ASSETS AT BEGINNING OF YEAR	<u>12,279,623</u>	<u>11,993,400</u>
NET ASSETS AT END OF YEAR	<u>\$ 13,035,232</u>	<u>\$ 12,279,623</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, 2019

	<u>Program</u> <u>Services</u>	<u>Supporting</u> <u>Services</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 373,873	\$ 85,521	\$ 43,671	\$ 503,065
Investment account fees	20,257	4,415	1,299	25,971
Travel	27,749	6,047	1,779	35,575
Professional services	572,188	124,708	36,679	733,575
Supplies	12,159	2,650	779	15,588
Insurance	15,278	3,330	980	19,588
Postage	1,433	312	92	1,837
Telephone	4,863	1,061	311	6,235
Repairs	33,178	7,230	2,130	42,538
Surveyor	10,968	2,246	-	13,214
Publications, dues & subscriptions	5,844	1,274	374	7,492
Meetings	2,735	596	175	3,506
Data services	1,564	341	100	2,005
Printing & duplications	8,691	1,895	557	11,143
Accounting and administrative fees	22,072	4,810	1,414	28,296
Depreciation	5,353	1,166	342	6,861
Rent and utilities	9,808	2,137	629	12,574
Taxes & licenses	3,789	826	243	4,858
Miscellaneous expenses	748	165	41	954
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	<u>\$ 1,132,550</u>	<u>\$ 250,730</u>	<u>\$ 91,595</u>	<u>\$ 1,474,875</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</u> <u>Services</u>	<u>Supporting</u> <u>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.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 755,609	\$ 286,223
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	6,861	9,177
Net realized (gain) on investments	(149,170)	(204,880)
Net unrealized (gain) loss on investments	(330,460)	302,781
Net realized (gain) on land	(61,680)	-
(Increase) decrease in assets		
Accounts and pledges receivable	569,807	(82,787)
Options to purchase	1,083	(2,083)
Cash held for benefit of IBCF	287,849	(911,930)
Increase (decrease) in liabilities		
Accounts payable - related party	(34,623)	16,774
Accounts payable - Indiana Bats	(287,849)	911,930
Accrued vacation	(2,705)	(4,043)
	<u>754,722</u>	<u>321,162</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(3,178)	-
Purchase of land	(377,379)	-
Proceeds from sale of land	1,527,596	-
Distributions from S-Corporations	794	-
Purchase of investments	(4,715,484)	(1,315,671)
Proceeds from sales of investments	2,842,601	1,064,280
	<u>(725,050)</u>	<u>(251,391)</u>
NET CASH (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	29,672	69,771
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>239,298</u>	<u>169,527</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u>\$ 268,970</u>	<u>\$ 239,298</u>

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

KENTUCKY NATURAL LANDS TRUST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Kentucky Natural Lands Trust (KNLT) is a nationally accredited conservation organization committed to protecting, connecting and restoring wildlands in ways that benefit local, regional and global communities. KNLT's efforts are aimed at protecting biodiversity at a landscape level scale. KNLT primarily works within Central Appalachia, a region of unique biodiversity with high landscape resiliency. The forests KNLT protects are part of a major eastern wildlands corridor known to be critical to plants, animals, and the natural systems that support life on the planet. These protected areas are also important to both the culture and transitioning economy of the region.

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.

Financial Statement Presentation

Under FASB ASU 2016-14, Kentucky Natural Lands Trust, Inc. is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction. In addition, Kentucky Natural Lands Trust, Inc. is required to present a statement of cash flows and statements of functional expenses.

Revenue Recognition

Contributions received are recorded as with or without donor restriction, depending on the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in net assets without donor restriction.

Donor restricted support is reported as an increase in net assets with donor restriction, depending on the nature and timing of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets from restrictions.

Revenues on contracts with customers are measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfied a performed obligation by transferring control over a product or service to a customer.

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, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management of the Organization has considered subsequent events through April 13, 2020, 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 unrelated business income related to a pass-thru entity. The Organization had no unrelated business income tax in the years ending December 31, 2019 and 2018. 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 13, 2020. The Organization has never been audited by the Internal Revenue Service (IRS), however, the tax years of 2016 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, 2019 and 2018 depreciation expense was \$6,861 and \$9,177, respectively. At December 31, 2019 and 2018, accumulated depreciation amounted to \$111,204 and \$104,343, respectively. The cost of repairs and maintenance is expensed as incurred.

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

The Organization adopted *ASU 2014-09- Revenue from Contracts with Customers (Topic 606)* and *ASU 2016-18- Statement of Cash Flows (Topic 230): Restricted Cash*, for the year ended December 31, 2019. *ASU 2014-09- Revenue from Contracts with Customers* changes how revenue from contracts with customers is recognized and reported. It is designed to provide a consistent framework across entities for revenue recognition with added disclosures and the removal of inconsistencies and weaknesses in existing revenue requirements. *ASU 2016-18- Statement of Cash Flows* changes how restricted cash is presented and disclosed to provide a better understanding of operations.

KENTUCKY NATURAL LANDS TRUST, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019 AND 2018

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, 2019 and 2018. For the years ended December 31, 2019 and 2018, contributions to the Plan amounted to approximately \$18,678 and \$8,125, respectively.

NOTE 4 – INVESTMENTS

Investments at December 31, 2019 are summarized as follows:

	<u>Cost Basis</u>	<u>Fair Market Value</u>
Money market funds	\$ 1,594,427	\$ 1,594,427
Corporate bonds and notes	2,741,303	2,772,549
Equities	<u>1,566,477</u>	<u>2,010,504</u>
Total	<u>\$ 5,902,077</u>	<u>\$ 6,377,350</u>

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>

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, 2019 AND 2018

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.

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, 2019 and 2018:

	<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, 2019</u>				
Money market funds	\$ 1,594,297	\$ 1,594,297	\$ -	\$ -
Corporate bonds and notes	2,772,549	1,714,855	1,057,694	-
Equities	<u>2,198,119</u>	<u>2,010,504</u>	<u>-</u>	<u>187,615</u>
Total	<u>\$ 6,564,965</u>	<u>\$ 5,319,656</u>	<u>\$ 1,057,694</u>	<u>\$ 187,615</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>

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>2019</u>	<u>2018</u>
Land	\$ 400,000	\$ 400,000
Land acquisition	345,463	77,707
Glade Cress	793	1,753
Fort Knox	-	-
Total	<u>\$ 746,256</u>	<u>\$ 479,460</u>

KENTUCKY NATURAL LANDS TRUST, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 – BOARD DESIGNATED NET ASSETS

The board designate net assets are comprised of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Without donor restriction:		
Designated by the Board for:		
Forest Stewardship	\$ 2,711,922	\$ 2,178,501
Permanence Fund	213,248	-
Undesignated	9,362,609	9,621,662
Total net assets - without donor restriction	\$ 12,287,779	\$ 11,800,163

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>2019</u>	<u>2018</u>
Cash and cash equivalent	\$ 268,970	\$ 239,298
Accounts and pledges receivable	222,000	575,807
Investments	6,377,349	4,213,243
Cash held for the benefit of IBCF	8,832,474	9,120,323
Subtotal	15,700,793	14,148,671
Less cash held for use by others	(8,832,474)	(9,120,323)
Less board designated net assets	(2,925,170)	(2,178,501)
Less donor restrictions for specific purposes	(746,256)	(479,460)
Financial assets available to meet cash needs for general expenditure within one year	\$ 3,196,893	\$ 2,370,387