

***FOOTHILLS CONSERVANCY OF
NORTH CAROLINA, INC.***

Financial Statements,
Independent Auditors' Report and Compliance Report
For the Years Ended December 31, 2020 and 2019

Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

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Certified Public Accountants

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Independent Auditors' Report

To the Board of Directors of
Foothills Conservancy of North Carolina, Inc.

We have audited the accompanying financial statements of Foothills Conservancy of North Carolina, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, 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 misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 the 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 Foothills Conservancy of North Carolina, Inc. as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2021 on our consideration of Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting and compliance.

Lawrence Church & Co., L.L.P.

Morganton, North Carolina
July 20, 2021

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Financial Position
December 31, 2020 and 2019**

<u>Assets</u>	2020		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Current assets:			
Cash	\$ 1,513,678	\$ 9,093	\$ 1,522,771
Investments	2,547,467	929,007	3,476,474
Pledges receivable - current, net	1,190	-	1,190
Grants receivable	-	4,305	4,305
Total current assets	<u>4,062,335</u>	<u>942,405</u>	<u>5,004,740</u>
Noncurrent assets:			
Property and equipment (at cost), net	<u>13,679,525</u>	-	<u>13,679,525</u>
Total noncurrent assets	<u>13,679,525</u>	-	<u>13,679,525</u>
Total assets	<u>\$ 17,741,860</u>	<u>\$ 942,405</u>	<u>\$ 18,684,265</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 7,608	\$ -	\$ 7,608
Current portion of long-term debt	-	-	-
Total current liabilities	<u>7,608</u>	-	<u>7,608</u>
Long-term liabilities:			
Security deposits	1,000	-	1,000
Long-term notes payable	-	-	-
Total long-term liabilities	<u>1,000</u>	-	<u>1,000</u>
Total liabilities	<u>8,608</u>	-	<u>8,608</u>
Net assets:			
Net assets without restrictions:			
Undesignated	16,222,848	-	16,222,848
Board designated	1,510,404	-	1,510,404
Net assets with restrictions:			
Donor Restrictions	-	922,405	922,405
Perpetual Endowments	-	20,000	20,000
Total net assets	<u>17,733,252</u>	<u>942,405</u>	<u>18,675,657</u>
Total liabilities and net assets	<u>\$ 17,741,860</u>	<u>\$ 942,405</u>	<u>\$ 18,684,265</u>

See accompanying notes to financial statements.

2019		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 1,409,902	\$ 820,368	\$ 2,230,270
1,459,798	712,899	2,172,697
15,390	-	15,390
-	94,444	94,444
<u>2,885,090</u>	<u>1,627,711</u>	<u>4,512,801</u>
<u>10,589,463</u>	<u>-</u>	<u>10,589,463</u>
<u>10,589,463</u>	<u>-</u>	<u>10,589,463</u>
<u>\$ 13,474,553</u>	<u>\$ 1,627,711</u>	<u>\$ 15,102,264</u>
\$ 75,200	\$ -	\$ 75,200
3,260	-	3,260
<u>78,460</u>	<u>-</u>	<u>78,460</u>
1,000	-	1,000
108,670	-	108,670
<u>109,670</u>	<u>-</u>	<u>109,670</u>
<u>188,130</u>	<u>-</u>	<u>188,130</u>
12,195,435	-	12,195,435
1,090,987	-	1,090,987
-	1,607,711	1,607,711
-	20,000	20,000
<u>13,286,422</u>	<u>1,627,711</u>	<u>14,914,133</u>
<u>\$ 13,474,553</u>	<u>\$ 1,627,711</u>	<u>\$ 15,102,264</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Activities
For the Years Ended December 31, 2020 and 2019**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	\$ 1,232,861	\$ 287,135	\$ 1,519,996
Noncash grants and contributions	-	-	-
Fees for service	-	3,502	3,502
Rental income	6,550	-	6,550
Special events	61,178	-	61,178
Grants:			
Trusts, Foundations and non-government grants	-	2,627,154	2,627,154
Local Governments	-	252,500	252,500
State funds	-	1,960,126	1,960,126
Federal funds	-	592,720	592,720
Total	1,300,589	5,723,137	7,023,726
Net assets released from restrictions:			
Satisfaction of program transactions	6,408,444	(6,408,444)	-
Total revenues	7,709,033	(685,307)	7,023,726
Expenses:			
Program services	3,333,408	-	3,333,408
Management and General	138,345	-	138,345
Fundraising	69,170	-	69,170
Total expenses	3,540,923	-	3,540,923
Changes in net assets before nonoperating revenue (expense)	4,168,110	(685,307)	3,482,803
Nonoperating Revenue (Expense):			
Unrealized gains (losses) on investments	131,874	-	131,874
Realized gains (losses) on investments	23,630	-	23,630
Interest expense	(9,625)	-	(9,625)
Investment earnings	132,842	-	132,842
Total	278,720	-	278,720
Changes in net assets	4,446,830	(685,307)	3,761,524
Net assets, beginning of year	13,286,422	1,627,711	14,914,133
Net assets, end of year	\$ 17,733,252	\$ 942,405	\$18,675,657

See accompanying notes to financial statements.

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 303,975	\$ 595,081	\$ 899,056
786,679	-	786,679
-	1,650	1,650
1,925	-	1,925
123,994	-	123,994
-	2,613,881	2,613,881
-	2,000	2,000
-	1,737,386	1,737,386
-	70,038	70,038
<u>1,216,574</u>	<u>5,020,035</u>	<u>6,236,609</u>
<u>4,240,046</u>	<u>(4,240,046)</u>	<u>-</u>
<u>5,456,620</u>	<u>779,989</u>	<u>6,236,609</u>
4,229,776	-	4,229,776
131,018	-	131,018
65,508	-	65,508
<u>4,426,302</u>	<u>-</u>	<u>4,426,302</u>
<u>1,030,318</u>	<u>779,989</u>	<u>1,810,307</u>
-	143,472	143,472
-	20,489	20,489
(6,816)	-	(6,816)
-	126,274	126,274
<u>(6,816)</u>	<u>290,235</u>	<u>283,419</u>
1,023,500	1,070,225	2,093,725
<u>12,262,922</u>	<u>557,487</u>	<u>12,820,409</u>
<u>\$ 13,286,422</u>	<u>\$ 1,627,711</u>	<u>\$ 14,914,133</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019**

2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 292,698	\$ 83,628	\$ 41,814	\$ 418,140
Payroll taxes	24,348	6,957	3,478	34,783
Employee benefits	31,581	9,023	4,512	45,116
Dues and subscriptions	7,141	2,040	1,020	10,201
Insurance	6,755	1,930	965	9,650
Maintenance	6,537	1,868	934	9,339
Meetings and workshops	2,679	765	383	3,827
Travel	1,418	405	203	2,026
Telephone	4,603	1,315	658	6,575
Professional services - contract	75,203	-	-	75,203
Office supplies	8,708	2,488	1,244	12,440
Database maintenance	641	183	92	916
Educational activities	6,331	1,809	904	9,044
Events	1,181	338	169	1,688
Graphic design/merchandise	10,100	2,885	1,443	14,428
Utilities	3,536	1,010	505	5,051
Property taxes	660	-	-	660
Professional fees	8,020	2,291	1,145	11,456
Printing	8,794	2,513	1,256	12,563
Postage	1,591	455	227	2,273
Depreciation	19,911	5,689	2,844	28,444
Pension plan	11,524	3,293	1,646	16,463
Bank service charges and administrative fees	19,251	5,500	2,750	27,501
Contribution - Community Foundation	-	-	-	-
Bad debts (allowance for uncollectible pledges - see footnote 7)	6,855	1,960	978	9,793
Below book land sales	2,418,355	-	-	2,418,355
Conservation/easement purchase	261,636	-	-	261,636
Conservation - land stewardship	93,350	-	-	93,350
Total expenses	<u>\$ 3,333,408</u>	<u>\$ 138,345</u>	<u>\$ 69,170</u>	<u>\$ 3,540,923</u>

See accompanying notes to financial statements.

2019

<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 257,022	\$ 73,435	\$ 36,719	\$ 367,176
19,729	5,637	2,818	28,185
32,584	9,310	4,655	46,548
7,364	2,104	1,052	10,519
5,823	1,664	832	8,318
8,396	2,399	1,199	11,994
5,724	1,635	818	8,177
3,342	955	477	4,773
5,386	1,539	769	7,693
76,508	-	-	76,508
13,871	3,963	1,982	19,816
641	183	92	916
20,556	5,873	2,936	29,365
4,923	1,407	703	7,033
3,921	1,120	560	5,601
1,365	390	195	1,950
2,137	-	-	2,137
7,197	2,056	1,028	10,281
12,405	3,544	1,772	17,721
2,326	664	332	3,322
14,714	4,204	2,102	21,020
11,772	3,364	1,682	16,818
16,646	4,756	2,378	23,779
3,066	876	438	4,380
(210)	(60)	(31)	(300)
1,071,163	-	-	1,071,163
2,596,325	-	-	2,596,325
25,081	-	-	25,081
<u>\$ 4,229,776</u>	<u>\$ 131,018</u>	<u>\$ 65,508</u>	<u>\$ 4,426,302</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Cash Flows From Operating Activities:			
Changes in net assets	\$ 4,446,830	\$ (685,307)	\$ 3,761,523
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	28,444	-	28,444
Unrealized (gain) loss on investments	(131,874)	-	(131,874)
Realized (gain) loss on investments	(23,630)	-	(23,630)
Noncash investment earnings	(132,842)	-	(132,842)
Investment and administrative fees on investments	18,616	-	18,616
Below book land sale	2,418,355	-	2,418,355
Noncash grants and contributions	-	-	-
Net assets released from restrictions	216,106	(216,106)	-
(Increase) decrease in operating assets:			
Grants and pledges receivable	14,200	90,139	104,339
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	(67,594)	-	(67,594)
Security deposits	-	-	-
Net cash provided (used) by operating activities	6,786,611	(811,275)	5,975,336
Cash Flows From Investing Activities:			
Purchase of property and equipment	(5,092,646)	-	(5,092,646)
Investment distributions	45,314	-	45,314
Purchase of investments	(1,079,362)	-	(1,079,362)
Re-granted funds	(1,817,973)	-	(1,817,973)
Proceeds from sale of land	1,373,762	-	1,373,762
Net cash provided (used) by investing activities	(6,570,905)	-	(6,570,905)
Cash Flows From Financing Activities:			
Payments on long-term payable	(111,930)	-	(111,930)
Payments on short-term payable	-	-	-
Net cash provided (used) by financing activities	(111,930)	-	(111,930)
Net increase (decrease) in cash and cash equivalents	103,776	(811,275)	(707,499)
Beginning cash and cash equivalents	1,409,902	820,368	2,230,270
Ending cash and cash equivalents	\$ 1,513,678	\$ 9,093	\$ 1,522,771
Supplemental Information:			
Investment earnings			\$ 132,842
Interest expense			\$ 9,625
Noncash Transaction:			
Acquisition of property through donations/grants			\$ -
<i>See accompanying notes to financial statements.</i>			

2019		
<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
\$ 1,023,500	\$ 1,070,225	\$ 2,093,725
21,020	-	21,020
(143,472)	-	(143,472)
(20,489)	-	(20,489)
(126,246)	-	(126,246)
16,370	-	16,370
1,071,163	-	1,071,163
(225,912)	-	(225,912)
328,199	(328,199)	-
5,700	(90,444)	(84,744)
35,950	39,250	75,200
1,000	-	1,000
<u>1,986,783</u>	<u>690,832</u>	<u>2,677,615</u>
-	-	-
(1,618,241)	-	(1,618,241)
53,926	-	53,926
(270,850)	-	(270,850)
(433,051)	-	(433,051)
707,117	-	707,117
<u>(1,561,099)</u>	<u>-</u>	<u>(1,561,099)</u>
(3,070)	-	(3,070)
-	-	-
<u>(3,070)</u>	<u>-</u>	<u>(3,070)</u>
422,614	690,832	1,113,446
987,288	129,536	1,116,824
<u>\$ 1,409,902</u>	<u>\$ 820,368</u>	<u>\$ 2,230,270</u>
		<u>\$ 126,274</u>
		<u>\$ 6,816</u>
		<u>\$ 786,679</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Notes to the Financial Statements For the Years Ended December 31, 2020 and 2019

1. General Information and Summary of Significant Accounting Policies

Nature of Activities - Foothills Conservancy of North Carolina, Inc. is a non-profit organization and was organized as a land trust which provides people with a choice in how rural land and urban green spaces are used. Land can be preserved for the future through flexible, non-regulatory land protection methods that advance economic growth while respecting the nature of a community.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under the accrual basis, revenues are recognized in the accounting period in which they are earned regardless of when they are actually received. Expenses are recognized in the accounting period in which a liability is incurred regardless of when the expense is actually paid.

Basis of Presentation - The Organization reports in compliance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities: Presentation of Financial Statements. Under these provisions, 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:

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.

Net Assets With Donor Restriction

Net assets with donor restrictions represent resources whose use is limited by donors for the purpose and/or time in which they may be expended, and resources that must be maintained in perpetuity. Eventually, net assets with donor restrictions, other than those that must be maintained in perpetuity, are released to net assets without donor restrictions as their time and purpose requirements are met. Net assets with donor restrictions that must be maintained in perpetuity do not get reclassified since, by definition, their restrictions never expire. The income may be unrestricted or restricted, according to the donor's wishes.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include all cash and certificates of deposit with an original maturity of three months or less. These accounts, at times, may exceed federally insured limits. The Organization has not experienced any losses on these accounts, and management does not believe it is exposed to any significant credit risk.

Restricted and Unrestricted Support and Revenue - Revenues received are recorded as an increase in net assets without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions, other than those that must be maintained in perpetuity, are reclassified to net assets without donor restrictions and are reported in the Statement of Activities as net assets released from restrictions.

Property and Equipment - The Organization capitalizes all expenditures for property and equipment in excess of \$1,500. The cost of equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes and for income tax purposes.

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When equipment is sold, or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

The useful lives of equipment for purposes of computing depreciation are:

Equipment	5 years
Office furniture	7 years

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Donated Materials and Services - In accordance with FASB ASC 958-605 *Not-for-Profit Entities: Revenue Recognition*, the Organization records contributed services if the services received create or enhance long-lived assets, or require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. A number of unpaid volunteers who serve in the capacity of Board members and on various volunteer committees, have made significant contributions of their time in the furtherance of the Organization's programs. The value of this contributed time is not reflected in these financial statements, since it does not meet the above recognition criteria.

Conservation Easements - The Organization acquires easements through both donations and purchases. The acquisition of easements establishes a fiduciary responsibility for the Organization and, therefore, no recording of an asset or liability is recorded. This fiduciary responsibility consists of an obligation to monitor and enforce this easement in accordance with the property deed. Purchases of easements are recorded as decreases in net assets without donor restrictions if purchased with unrestricted assets, and as decreases in net assets with donor restrictions if purchased with donor-restricted assets. Donated easements are not recognized in the Statement of Activities.

Functional Classification of Expenses - The Organization allocates its expenses on a functional basis among its program and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their nature and expense classification. Other expenses that are common to several functions are allocated by statistical means.

Reclassification of Comparative Financial Statements - Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

2. Restrictions on Assets

Net assets with donor restrictions are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Easement Stewardship	\$473,895	\$ 420,049
Preservation Stewardship	286,850	272,850
Land Acquisition	9,093	-
Legal Defense	148,262	-
Perpetual Endowment	20,000	20,000
Clean Water Management Trust Fund Grant	4,305	33,023
N. C. Department of Agriculture Consumer Services Grant	-	55,421
U. S. Endowment Forestry & Communications Grant	-	6,000
Oakhill Park/Canoe Creek Project	-	805,368
Tryon International Agricultural Plan	-	15,000
	<u>\$942,405</u>	<u>\$1,627,711</u>

3. Investments

The following is a summary of the Organization's investments as of December 31, 2020 and 2019:

The Organization has amounts invested with various foundations. The allocation of the investments invested with those foundations is as follows. See Note 9 for additional information.

	<u>2020</u>	<u>2019</u>
MSCI World	\$ 918,242	\$ 800,150
Barclays Aggregate Bond Index	612,162	533,433
U. S. Equities	486,518	167,823
Private Investment Partners	136,225	167,823
Defensive Hedge Funds	291,910	125,867
International Equities	291,910	100,693
Fixed Income	291,910	83,911
Real Assets	155,686	83,911
Emerging Markets	194,607	67,129
Global Equities	97,304	41,956
Total	<u>\$3,476,474</u>	<u>\$2,172,697</u>

4. Fair Value of Financial Instruments

Financial Instruments

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents, and note payable: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.
- Investments: The fair values of investments are based on quoted market prices for those or similar investments.

5. Fair Value Measurements

FASB ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level I -Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level II -Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liabilities in inactive markets
- inputs other than quoted prices that are observable for the assets or liabilities
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

If an asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level III -Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Fair Values Measured on a Recurring Basis

Fair values of assets measured on a recurring basis at December 31, 2020 and 2019 are as follows:

	2020				Total
	Fair Value	Level 1	Level 2	Level 3	
Pooled Multi-management Fund	\$1,530,404	\$ -	\$ -	\$1,530,404	\$1,530,404
U. S. Equities	486,518	-	-	486,518	486,518
Private Investments Partners	136,225	-	-	136,225	136,225
Defensive Hedge Funds	291,910	-	-	291,910	291,910
International Equities	291,910	-	-	291,910	291,910
Fixed Income	291,910	-	-	291,910	291,910
Real Assets	155,686	-	-	155,686	155,686
Emerging Markets Equities	194,607	-	-	194,607	194,607
Global Equities	<u>97,304</u>	<u>-</u>	<u>-</u>	<u>97,304</u>	<u>97,304</u>
Total investments	<u>\$3,476,474</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,476,474</u>	<u>\$3,476,474</u>

	2019				Total
	Fair Value	Level 1	Level 2	Level 3	
Pooled Multi-management Fund	\$1,333,584	\$ -	\$ -	\$1,333,584	\$1,333,584
U. S. Equities	167,823	-	-	167,823	167,823
Private Investment Partners	167,823	-	-	167,823	167,823
Defensive Hedge Funds	125,867	-	-	125,867	125,867
International Equities	100,693	-	-	100,693	100,693
Fixed Income Funds	83,911	-	-	83,911	83,911
Real Assets	83,911	-	-	83,911	83,911
Emerging Market Equities	67,129	-	-	67,129	67,129
Global Equities	<u>41,956</u>	<u>-</u>	<u>-</u>	<u>41,956</u>	<u>41,956</u>
Total investments	<u>\$2,172,697</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,172,697</u>	<u>\$2,172,697</u>

Investment accounts of stocks, money market funds, mutual funds, and government bonds are recorded at fair value based on current quoted market prices provided by investment custodians or other models.

A reconciliation of changes in Level 3 inputs is as follows:

	2020	2019
Level 3 inputs, beginning of year	\$2,172,697	\$1,681,936
Purchase of investments	1,079,362	270,850
Investment earnings (net)	131,578	124,083
Net unrealized and realized gains	155,503	163,962
Distributions	(45,314)	(53,926)
Administration fees	(17,352)	(14,208)
Transfer into Level 3	-	-
Level 3 Inputs, end of year	<u>\$3,476,474</u>	<u>\$2,172,697</u>

6. Pledges Receivable

The Organization has conducted a For Now & Forever Board Pledge Commitment established by the Board of Directors for various purposes. In total, at December 31, 2013, the pledge commitment recorded promises totaling \$534,000. In accordance with FASB ASC 958-310 Receivables and FASB ASC 820 Fair Value Measurements and Disclosures, promises to give related to the pledge commitment are recorded at their estimated fair value. Amounts due more than one year later generally are recorded at the present value of the estimated future cash flows, discounted at a risk-free rate. No discount has been reflected in these financial statements. Also, management has set up an allowance for amounts that may not be collectible at December 31, 2020 and 2019. Pledges receivable are classified as unrestricted at the reporting date.

Pledges receivable are summarized as follows at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Pledges expected to be collected in:		
Less than one year	\$2,000	\$16,200
One year to five years	-	-
Allowance for uncollectible pledges	<u>(810)</u>	<u>(810)</u>
	<u>\$1,190</u>	<u>\$15,390</u>

Pledges receivable consist primarily of balances on multi-year board pledges made for various purposes, which are payable over the next five years. The discount on these pledges to give is immaterial and is not recorded.

7. Property and Equipment

Property and equipment is summarized as follows:

	<u>2020</u>	<u>2019</u>
Land	\$13,241,944	\$10,127,358
Equipment	7,332	7,332
Furniture and fixtures	6,568	6,568
Vehicle	58,844	54,924
Building and building improvements	<u>432,104</u>	<u>432,104</u>
Total	13,746,793	10,628,287
Less accumulated depreciation	<u>(67,268)</u>	<u>(38,824)</u>
Property and equipment, net	<u>\$13,679,525</u>	<u>\$10,589,463</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$28,444 and \$21,020, respectively.

8. Investment In Community Foundation

In 2007, the Organization created a permanent endowment through the Community Foundation of Burke County with a contribution of \$10,000. Additional contributions to the Foundation during the year were made in the amount of \$-0-. Foothills Conservancy of North Carolina, Inc. will benefit from the income from this endowment in perpetuity. At December 31, 2020, the fund value was \$71,473.

In 2009, the Organization created a limited endowment through the Community Foundation of Western North Carolina with a permanent endowment contribution of \$25,000. Foothills Conservancy of North Carolina, Inc. will benefit from the income from the endowment in perpetuity and, at any time, may request all of the monies other than \$25,000. At December 31, 2020, the fund value was \$1,555,404, which is shown on the Statements of Financial Position as investments.

In 2007, the Organization created two limited endowments through the Foundation for the Carolinas with permanent endowment contributions of \$20,000. Foothills Conservancy of North Carolina, Inc. will benefit from the income from the endowments in perpetuity and, at any time, may request all of the monies other than \$20,000. At December 31, 2020, the fund values were \$1,146,320 which are shown on the Statements of Financial Position as investments.

In 2020, the Organization created two quasi endowments through the Foundation for the Carolinas. Foothills Conservancy of North Carolina, Inc. will benefit from the income from the endowments in perpetuity and, at any time, may request all of the monies. At December 31, 2020, the fund values were \$799,750 which are shown on the Statements of Financial Position as investments.

The Community Foundation of Western North Carolina Limited Endowment was \$1,530,404, and the Foundation for the Carolinas Endowment was \$1,946,070, for a total of \$3,476,474. See Note 3 for additional information on these endowments.

9. Long-Term Debt

On November 15, 2018, the Organization borrowed \$115,000 from a financial institution to purchase land at an interest rate of 6% for a 20 year term, secured by a deed of trust on the land. The loan was paid in full on February 12, 2020.

The Organization also entered into a financing arrangement to purchase land on January 28, 2020 for \$800,000 at an interest rate of 1.5%. The entire amount, including principal and interest, was due and payable in six months. The loan has been paid in full.

Interest expense for the years ended December 31, 2020 and 2019 was \$9,625 and \$6,816, respectively.

10. Pension Plan

The Organization implemented a 401(k) plan in March 2017 which is available to all employees who have completed three months of service. The Organization contributes 3% of gross salaries, plus 2% match to the plan for eligible employees. The Organization's contribution to the 401(k) plan was \$16,463 and \$16,818 for the years ended December 31, 2020 and 2019, respectively. Prior to March 2017, the Organization had a Simplified Employer Pension Plan (SEP). The Organization's contribution to the SEP plan was \$2,507 for the year ended December 31, 2017. The employees also made elective deferrals to a 403(b) plan.

11. Concentration of Credit Risk

The Organization maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured balance was approximately \$1,276,042 and \$1,980,102 at December 31, 2020 and 2019, respectively.

12. Paycheck Protection Program Loan

The Organization is the recipient of loan proceeds in the amount of \$90,000 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“Cares Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

As of December 31, 2020, the Organization has spent \$90,000 of the loan, and the use of those funds have been for the purposes consistent with the PPP. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the entire loan, there is no assurance that the Organization will not take actions that could cause the Organization to be ineligible for forgiveness of the loan, in whole, or in part.

Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

The Organization has followed FASB ASC 958-605 Government Grant Model, which is founded on the premise that the substance of PPP funds is a government grant delivered in the form of a forgivable loan. The PPP loan proceeds are recognized as income as eligible expenses are incurred.

13. Economic Injury Disaster Loan Emergency Advance

The Organization is the recipient of an advance in the amount of \$7,000 under the Economic Injury Disaster Loan Emergency Advance (“EIDL”). The EIDL, established as part of the Coronavirus Aid, Relief and Economic Security Act (“Cares Act”), provides for the advance of funds by the SBA for qualifying businesses. The EIDL advance provided \$1,000 per employee up to a maximum of \$10,000. The advance is considered a grant and is reported in the financial statements as such. The advance is not required to be repaid.

14. Liquidity and Availability of Resources

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the balance sheet date to fund expenses without limitations:

	<u>2020</u>	<u>2019</u>
Cash	\$1,522,771	\$2,230,270
Investments	3,476,474	2,172,697
Pledges receivable, net	1,190	15,390
Grant receivable	<u>4,305</u>	<u>94,444</u>
	5,004,740	4,512,801
Less those unavailable for general expenditure within one year, due to:		
Board designated restrictions	1,510,404	1,090,987
Donor restrictions as to time or purpose	922,405	1,607,711
Perpetual endowments	<u>20,000</u>	<u>20,000</u>
	<u>\$2,551,931</u>	<u>\$1,794,103</u>

15. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Organization has received proceeds from several federal and State grants. Periodic audits of these grants may be required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

16. Uncertain Tax Positions

FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, clarifies the accounting for uncertainty in income tax positions. Based on an evaluation of uncertain tax positions, management is required to measure potential tax liabilities that could have a risk of greater than a 50% likelihood of being realized upon settlement. As of December 31, 2020, management has determined that the Organization has no such risk and, therefore, no liabilities have been recorded for uncertain tax positions.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions material to the financial statements.

17. Related Party Transactions

The Organization entered into a lease agreement with Simply Green Recycling/Citizen Earth Media for the rental of office space payable by Simply Green Recycling/Citizen Earth Media at a rate of \$550 monthly for a total of \$6,550 and \$1,925 for the years ended December 31, 2020 and 2019, respectively. The president of Simply Green Recycling/Citizen Earth Media was an employee of Foothills Conservancy of N. C., Inc. during 2020 and 2019.

The executive director had an active real estate license through his father-in-law's real estate firm. The Organization has a policy in place that when a seller of conservation property has a seller's agent, a staff member with an active real estate license who is qualified to conduct transactions on behalf of the Organization can act as a buyer's agent on behalf of the Organization. When the broker commission is split between the seller's and the buyer's agent, the Organization's employee/agent's commission would go to the real estate firm, which is customary. In this case, it would be his father-in-law's firm. The firm would take their share of the commission with the remaining commission collected by the firm being donated to the Organization in lieu of the employee agent who served as the broker. An exception to N. C. Real Estate Commission Rule A.0109(g) allows brokers to share compensation with a party to the transaction. For the year ended December 31, 2020 and 2019, the Organization received \$-0- and \$10,800, respectively. As of 2020, the executive director no longer has a broker relationship with his father-in-law's real estate firm.

18. Below Book Land Sales

On August 12, 2020, Foothills Conservancy of NC, Inc. conveyed the Jacob Fork East land to the State of North Carolina. This land was acquired with a grant with the understanding that the monies be re-granted at the time the land was sold or conveyed. Accordingly, \$865,000 was returned to the grantor on August 19, 2020, creating a loss on the land transaction of \$1,202,870.

On October 11, 2020, Foothills Conservancy of NC, Inc. conveyed the Wilson Ridge land to the United States Forest Service. This land was acquired with a grant with the understanding that the monies be re-granted at the time the land was sold or conveyed. Accordingly, \$50,973 was returned to the grantor on October 30, 2020, creating a loss on the land transaction of \$54,608.

On November 2, 2020, Foothills Conservancy of NC, Inc. conveyed the Henry Fork River land to the State of North Carolina. This land was acquired with a grant with the understanding that the monies be re-granted at the time the land was sold or conveyed. Accordingly, \$902,000 was returned to the grantor on November 12, 2020, creating a loss on the land transaction of \$1,155,675.

The total below book land sales were \$2,418,355 and \$1,071,163 for the years ended December 31, 2020 and 2019, respectively.

19. Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. The Organization adopted the requirements of the new standard effective January 1, 2020. Management has analyzed the provisions of the new standard and has concluded that no changes are necessary to conform with the new standard.

20. Subsequent Events

Management has evaluated subsequent events through July 20, 2021, the date on which the financial statements were available to be issued. During the period from the end of the year, and through this date, the following circumstances occurred that require recognition or disclosure in these financial statements:

COVID-19 Pandemic

The spread of the Coronavirus Disease (COVID-19) has been deemed a worldwide pandemic. The COVID-19 pandemic has had significant effects on global economic markets, supply chains, businesses and communities. As a result, domestic and international equity markets have experienced significant declines. The declines impacting Foothills Conservancy of North Carolina, Inc. are not reflected in the financial statements for the year ended December 31, 2020, since the full impact of COVID-19 is unknown and cannot be reasonably estimated as of July 20, 2021.

Lease Agreement

Foothills Conservancy of North Carolina, Inc. is in the process of completing negotiations with the State of North Carolina on a lease agreement for 130+/- acres of land near Old Fort, N. C. The State of North Carolina owns the property and will lease the land to the Organization for development and management of 3 plus miles of the Fonta Flora State Trail. The lease agreement is currently pending approval by the Council of State.

Land Donation

On April 20, 2021, the Organization received a donation of fee simple title to 322 +/- acres in Caldwell County, N. C., from Rocky River Hydro LLC. The property was purchased in 2020 by Rocky River Hydro LLC for \$3,059,000.

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**Independent Auditors' Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

To the Board of Directors of
Foothills Conservancy of North Carolina, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Foothills Conservancy of North Carolina, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Foothills Conservancy of North Carolina, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Foothills Conservancy of North Carolina, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did identify deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiencies in Foothills Conservancy of North Carolina, Inc.'s internal control to be material weaknesses:

Significant Audit Adjustments

Condition: Proposed material adjusting entries to the financial statements that, in our judgement, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that the Organization's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Effect: Errors could occur in financial reporting resulting in inaccurate or incomplete financial statements.

Name of contact person: Andrew Kota, Executive Director

Corrective action: Management is aware that year-end audit adjustments are typically required. Management will examine existing controls to see if they can be strengthened, given available resources, thus reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

Proposed completion date: The Organization will implement this immediately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foothills Conservancy of North Carolina, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is discussed previously.

Foothills Conservancy of North Carolina, Inc.'s Response to Findings

Foothills Conservancy of North Carolina, Inc.'s response to the findings identified in our audit is described previously. Foothills Conservancy of North Carolina, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Low Smith Church & Co., L.L.P.

Morganton, North Carolina
July 20, 2021