

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

Financial Statements,
Independent Auditors' Report and Compliance Report
For the Years Ended December 31, 2019 and 2018

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

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

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Lowdermilk Church & Co., L.L.P.
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, 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 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, 2019 and 2018, 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 31, 2020, 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 Clark & Co., L.L.P.

Morganton, North Carolina
July 31, 2020

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Financial Position
December 31, 2019 and 2018**

<u>Assets</u>	2019		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Current assets:			
Cash	\$ 1,409,902	\$ 820,368	\$ 2,230,270
Investments	1,459,798	712,899	2,172,697
Pledges receivable - current, net	15,390	-	15,390
Grants receivable	-	94,444	94,444
Total current assets	<u>2,885,090</u>	<u>1,627,711</u>	<u>4,512,801</u>
Noncurrent assets:			
Property and equipment (at cost), net	<u>10,589,463</u>	-	<u>10,589,463</u>
Total noncurrent assets	<u>10,589,463</u>	-	<u>10,589,463</u>
Total assets	<u>\$ 13,474,553</u>	<u>\$ 1,627,711</u>	<u>\$ 15,102,264</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 75,200	\$ -	\$ 75,200
Current portion of long-term debt	<u>3,260</u>	-	<u>3,260</u>
Total current liabilities	<u>78,460</u>	-	<u>78,460</u>
Long-term liabilities:			
Security deposits	1,000	-	1,000
Long-term notes payable	<u>108,670</u>	-	<u>108,670</u>
Total long-term liabilities	<u>109,670</u>	-	<u>109,670</u>
Total liabilities	<u>188,130</u>	-	<u>188,130</u>
Net assets:			
Net assets without restrictions:			
Undesignated	12,195,435	-	12,195,435
Board designated	1,090,987	-	1,090,987
Net assets with restrictions:			
Donor Restrictions	-	1,607,711	1,607,711
Perpetual Endowments	-	<u>20,000</u>	<u>20,000</u>
Total net assets	<u>13,286,422</u>	<u>1,627,711</u>	<u>14,914,133</u>
Total liabilities and net assets	<u>\$ 13,474,553</u>	<u>\$ 1,627,711</u>	<u>\$ 15,102,264</u>

See accompanying notes to financial statements.

2018		
<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 987,288	\$ 129,536	\$ 1,116,824
1,257,985	423,951	1,681,936
21,090	-	21,090
-	4,000	4,000
<u>2,266,363</u>	<u>557,487</u>	<u>2,823,850</u>
10,111,559	-	10,111,559
<u>10,111,559</u>	<u>-</u>	<u>10,111,559</u>
<u>\$ 12,377,922</u>	<u>\$ 557,487</u>	<u>\$ 12,935,409</u>
\$ -	\$ -	\$ -
2,745	-	2,745
<u>2,745</u>	<u>-</u>	<u>2,745</u>
-	-	-
112,255	-	112,255
<u>112,255</u>	<u>-</u>	<u>112,255</u>
115,000	-	115,000
11,483,342	-	11,483,342
779,580	-	779,580
-	537,487	537,487
-	20,000	20,000
<u>12,262,922</u>	<u>557,487</u>	<u>12,820,409</u>
<u>\$ 12,377,922</u>	<u>\$ 557,487</u>	<u>\$ 12,935,409</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Activities
For the Years Ended December 31, 2019 and 2018**

	2019		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
Revenues:			
Contributions	\$ 303,975	\$ 595,081	\$ 899,056
Noncash grants and contributions	786,679	-	786,679
Fees for service	-	1,650	1,650
Rental income	1,925	-	1,925
Special events, net	94,629	-	94,629
Grants:			
Trusts, Foundations and non-government grants	-	2,613,881	2,613,881
Local Governments	-	2,000	2,000
State funds	-	1,737,386	1,737,386
Federal funds	-	70,038	70,038
Total	<u>1,187,209</u>	<u>5,020,035</u>	<u>6,207,244</u>
Net assets released from restrictions:			
Satisfaction of program transactions	<u>4,240,046</u>	<u>(4,240,046)</u>	<u>-</u>
Total revenues	<u>5,427,255</u>	<u>779,989</u>	<u>6,207,244</u>
Expenses:			
Program services	4,209,220	-	4,209,220
Management and General	125,145	-	125,145
Fundraising	62,572	-	62,572
Total expenses	<u>4,396,937</u>	<u>-</u>	<u>4,396,937</u>
Changes in net assets before nonoperating revenue (expense)	<u>1,030,318</u>	<u>779,989</u>	<u>1,810,307</u>
Nonoperating Revenue (Expense):			
Unrealized gains (losses) on investments	-	143,472	143,472
Realized gains (losses) on investments	-	20,489	20,489
Interest expense	(6,816)	-	(6,816)
Investment earnings	-	126,274	126,274
Total	<u>(6,816)</u>	<u>290,235</u>	<u>283,419</u>
Changes in net assets	1,023,500	1,070,225	2,093,725
Net assets, beginning of year	<u>12,262,922</u>	<u>557,487</u>	<u>12,820,409</u>
Net assets, end of year	<u>\$ 13,286,422</u>	<u>\$ 1,627,711</u>	<u>\$14,914,133</u>

See accompanying notes to financial statements.

2018		
<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
\$ -	\$ 288,181	\$ 288,181
867,346	-	867,346
-	-	-
-	-	-
112,537	-	112,537
-	1,101,659	1,101,659
-	40,150	40,150
-	1,961,486	1,961,486
-	4,770	4,770
<u>979,883</u>	<u>3,396,246</u>	<u>4,376,129</u>
<u>3,488,159</u>	<u>(3,488,159)</u>	<u>-</u>
<u>4,468,042</u>	<u>(91,913)</u>	<u>4,376,129</u>
2,429,843	-	2,429,843
112,075	-	112,075
<u>56,038</u>	<u>-</u>	<u>56,038</u>
<u>2,597,956</u>	<u>-</u>	<u>2,597,956</u>
<u>1,870,086</u>	<u>(91,913)</u>	<u>1,778,173</u>
-	(103,465)	(103,465)
-	33,823	33,823
(5,101)	-	(5,101)
-	(24,984)	(24,984)
<u>(5,101)</u>	<u>(94,626)</u>	<u>(99,727)</u>
1,864,985	(186,539)	1,678,446
<u>10,397,937</u>	<u>744,026</u>	<u>11,141,963</u>
<u>\$ 12,262,922</u>	<u>\$ 557,487</u>	<u>\$ 12,820,409</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Functional Expenses
For the Years Ended December 31, 2019 and 2018**

	2019			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 257,022	\$ 73,435	\$ 36,718	\$ 367,176
Payroll taxes	19,729	5,637	2,818	28,185
Employee benefits	32,584	9,310	4,655	46,548
Dues and subscriptions	7,364	2,104	1,052	10,519
Insurance	5,823	1,664	832	8,318
Maintenance	8,396	2,399	1,199	11,994
Meetings and workshops	5,724	1,635	818	8,177
Travel	3,342	955	477	4,773
Telephone	5,386	1,539	769	7,693
Professional services - contract	76,508	-	-	76,508
Office supplies	13,871	3,963	1,982	19,816
Database maintenance	641	183	92	916
Events	-	-	-	-
Graphic design/merchandise	4,923	1,407	703	7,033
Utilities	3,921	1,120	560	5,601
Rent	1,365	390	195	1,950
Property taxes	2,137	-	-	2,137
Professional fees	7,197	2,056	1,027	10,281
Printing	12,405	3,544	1,772	17,721
Postage	2,326	664	332	3,322
Depreciation	14,714	4,204	2,102	21,020
Pension plan	11,772	3,364	1,682	16,818
Bank service charges and administrative fees	16,646	4,756	2,378	23,779
Contribution - Community Foundation	-	-	-	-
Other contributions	3,066	876	438	4,380
Bad debts (allowance for uncollectible pledges - see footnote 7)	(210)	(60)	(31)	(300)
Below book land sales	1,071,163	-	-	1,071,163
Conservation - easement purchase	2,596,325	-	-	2,596,325
Conservation - land stewardship	25,081	-	-	25,081
Total expenses	<u>\$ 4,209,220</u>	<u>\$ 125,145</u>	<u>\$ 62,572</u>	<u>\$ 4,396,937</u>

See accompanying notes to financial statements.

2018

<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 219,798	\$ 62,800	\$ 31,401	\$ 313,998
16,895	4,827	2,414	24,136
36,694	10,484	5,242	52,420
2,279	651	326	3,256
5,457	1,559	780	7,796
4,104	1,172	586	5,862
2,867	819	410	4,096
4,417	1,262	631	6,310
3,758	1,074	537	5,368
55,450	-	-	55,450
7,184	2,052	1,026	10,262
1,164	333	166	1,663
15,463	4,418	2,209	22,090
8,280	2,366	1,183	11,829
2,322	663	332	3,317
5,460	1,560	780	7,800
4,648	-	-	4,648
7,657	2,188	1,094	10,938
10,365	2,962	1,481	14,808
3,028	865	433	4,326
5,525	1,579	789	7,893
10,582	3,023	1,512	15,117
14,437	4,125	2,062	20,624
-	-	-	-
3,990	1,140	570	5,700
536	153	76	765
2,082	-	-	2,082
1,963,823	-	-	1,963,823
11,578	-	-	11,578
<u>\$ 2,429,843</u>	<u>\$ 112,075</u>	<u>\$ 56,038</u>	<u>\$ 2,597,956</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018**

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Cash Flows From Operating Activities:			
Changes in net assets	\$ 1,023,500	\$ 1,070,225	\$ 2,093,725
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	21,020	-	21,020
Unrealized (gain) loss on investments	(143,472)	-	(143,472)
Realized (gain) loss on investments	(20,489)	-	(20,489)
Noncash investment earnings	(126,246)	-	(126,246)
Investment and administrative fees on investments	16,370	-	16,370
Below book land sale	1,071,163	-	1,071,163
Noncash grants and contributions	(225,912)	-	(225,912)
Net assets released from restrictions	328,199	(328,199)	-
(Increase) decrease in operating assets:			
Grants and pledges receivable	5,700	(90,444)	(84,744)
Prepaid expenses	-	-	-
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	35,950	39,250	75,200
Security deposits	1,000	-	1,000
Net cash provided (used) by operating activities	1,986,783	690,832	2,677,615
Cash Flows From Investing Activities:			
Purchase of property and equipment	(2,051,292)	-	(2,051,292)
Investment Distributions	53,926	-	53,926
Purchase of investments	(270,850)	-	(270,850)
Proceeds from sale of land	707,117	-	707,117
Net cash provided (used) by investing activities	(1,561,099)	-	(1,561,099)
Cash Flows From Financing Activities:			
Payments on long-term payable	(3,070)	-	(3,070)
Payments on short-term payable	-	-	-
Net cash provided (used) by financing activities	(3,070)	-	(3,070)
Net increase (decrease) in cash and cash equivalents	422,614	690,832	1,113,446
Beginning cash and cash equivalents	987,288	129,536	1,116,824
Ending cash and cash equivalents	\$ 1,409,902	\$ 820,368	\$ 2,230,270
Supplemental Information:			
Investment earnings			\$ 126,274
Interest expense			\$ 6,816
Noncash Transaction:			
Acquisition of property through donations/grants			\$ 786,679
<i>See accompanying notes to financial statements.</i>			

2018		
<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
\$ 1,864,985	\$ (186,539)	\$ 1,678,446
7,893	-	7,893
103,465	-	103,465
(33,823)	-	(33,823)
(24,983)	-	(24,983)
13,665	-	13,665
12,032	-	12,032
(867,346)	-	(867,346)
-	-	-
(14,535)	(4,000)	(18,535)
4,359	-	4,359
(16,175)	-	(16,175)
-	-	-
<u>1,049,537</u>	<u>(190,539)</u>	<u>858,998</u>
-	-	-
(1,108,853)	-	(1,108,853)
190,666	-	190,666
(108,486)	(40,807)	(149,293)
224,143	-	224,143
<u>(802,530)</u>	<u>(40,807)</u>	<u>(843,337)</u>
115,000	-	115,000
(584,609)	-	(584,609)
<u>(469,609)</u>	<u>-</u>	<u>(469,609)</u>
(222,602)	(231,346)	(453,948)
1,209,890	360,882	1,570,772
<u>\$ 987,288</u>	<u>\$ 129,536</u>	<u>\$ 1,116,824</u>
		<u>\$ 24,983</u>
		<u>\$ 5,101</u>
		<u>\$ 867,346</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Notes to the Financial Statements For the Years Ended December 31, 2019 and 2018

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.

Open Tax Years - The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ended 2018, 2017 and 2016 are subject to examination by the IRS, generally, for three years after they were filed.

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 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.

2. Restrictions on Assets

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

	<u>2019</u>	<u>2018</u>
Easement Stewardship	\$ 420,049	\$255,544
Preservation Stewardship	272,850	148,407
Perpetual Endowment	20,000	20,000
Conservation Trust for N. C. Grant	-	4,000
Clean Water Management Trust Fund Grant	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	114,536
Tryon International Agricultural Plan	15,000	15,000
	<u>\$1,627,711</u>	<u>\$557,487</u>

3. Investments

The following is a summary of the Organization's investments as of December 31, 2019 and 2018.

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>2019</u>	<u>2018</u>
MSCI World	\$ 800,150	\$ 673,790
Barclays Aggregate Bond Index	533,433	449,194
U. S. Equities	167,823	111,791
Private Investment Partners	167,823	111,791
Defensive Hedge Funds	125,867	83,843
International Equities	100,693	67,074
Fixed Income	83,911	55,895
Real Assets	83,911	55,895
Emerging Markets	67,129	44,716
Global Equities	41,956	27,947
Total	<u>\$2,172,697</u>	<u>\$1,681,936</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, 2019 and 2018 are as follows:

	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 Investments 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	83,911	-	-	83,911	83,911
Real Assets	83,911	-	-	83,911	83,911
Emerging Markets 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>

	2018				Total
	Fair Value	Level 1	Level 2	Level 3	
Pooled Multi-management Fund	\$ 1,122,984	\$ -	\$ -	\$1,122,984	\$1,122,984
U. S. Equities	111,791	-	-	111,791	111,791
Private Investment Partners	111,791	-	-	111,791	111,791
Defensive Hedge Funds	83,843	-	-	83,843	83,843
International Equities	67,074	-	-	67,074	67,074
Fixed Income Funds	55,895	-	-	55,895	55,895
Real Assets	55,895	-	-	55,895	55,895
Emerging Market Equities	44,716	-	-	44,716	44,716
Global Equities	<u>27,947</u>	<u>-</u>	<u>-</u>	<u>27,947</u>	<u>27,947</u>
Total investments	<u>\$ 1,681,936</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,681,936</u>	<u>\$1,681,936</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:

	2019	2018
Level 3 inputs, beginning of year	\$1,681,936	\$1,781,632
Purchase of investments	270,850	201,250
Investment earnings	124,083	(26,973)
Net unrealized and realized gains	163,962	(69,642)
Distributions	(53,926)	(190,666)
Administration fees	(14,208)	(13,665)
Transfer into Level 3	-	-
Level 3 Inputs, end of year	<u>\$2,172,697</u>	<u>\$1,681,936</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, 2019 and 2018. Pledges receivable are classified as unrestricted at the reporting date.

Pledges receivable are summarized as follows at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Pledges expected to be collected in:		
Less than one year	\$16,200	\$22,200
One year to five years	-	-
Allowance for uncollectible pledges	<u>(810)</u>	<u>(1,110)</u>
	<u>\$15,390</u>	<u>\$21,090</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 not recorded.

7. Property and Equipment

Property and equipment is summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$10,127,358	\$ 9,741,496
Equipment	7,332	24,767
Furniture and fixtures	6,568	3,744
Vehicle	54,924	49,424
Construction in progress	-	332,005
Building and building improvements	<u>432,104</u>	<u>-</u>
Total	10,628,287	10,151,436
Less accumulated depreciation	<u>(38,824)</u>	<u>(39,877)</u>
Property and equipment, net	<u>\$10,589,463</u>	<u>\$10,111,559</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$21,020 and \$7,893, 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, 2019, the fund value was \$67,154.

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 anytime may request all of the monies other than \$25,000. At December 31, 2019, the fund value was \$1,333,583 which is shown on the Statements of Financial Position as investments with donor restrictions.

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 anytime may request all of the monies other than \$20,000. At December 31, 2019, the fund values were \$839,113 which are shown on the Statements of Financial Position as investments with donor restrictions.

The Community Foundation of Western North Carolina Limited Endowment was \$1,333,583, and the Foundation for the Carolinas Endowment was \$839,113, for a total of \$2,172,696. See Note 3 for additional information on these endowments.

9. Long-Term Debt

In September 2016, the Organization borrowed \$590,000 at an interest rate of 1.50% for the purchase of land at North Cove Township in McDowell County. The entire amount, including interest and principal, was to be due and payable 12 months from the date of the note, on September 19, 2017. However, the Organization requested a 12-month extension of time to repay the note, and the Lender's Finance Committee agreed to extend until September 19, 2018. The note and interest have been paid in full.

Long-term debt at December 31, 2019 is summarized as follows:

\$115,000 note payable to bank in monthly installments of \$824, including interest at 6.0%, due December 2038, secured by deed of trust on real property	\$111,930
Less current portion	<u>3,260</u>
Non current portion of long-term debt	<u>\$108,670</u>

Interest expense for the years ended December 31, 2019 and 2018 was \$6,816 and \$5,101, respectively.

Maturities of long-term debt subsequent to December 31, 2019 are summarized as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 3,260
2021	3,461
2022	3,674
2023	3,901
2024	4,141
Thereafter	<u>93,493</u>
Total	<u>\$ 111,930</u>

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 \$16,818 and \$15,117 for the years ended December 31, 2019 and 2018, 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 \$1,980,102 and \$873,171 at December 31, 2019 and 2018, respectively.

12. Lease

The Conservancy leased office space under an operating lease which expired in 2018. There are no future rental payments due to the expiration of the lease.

Rent expense was \$-0- and \$7,800 for the years ended December 31, 2019 and 2018, respectively.

13. 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>2019</u>	<u>2018</u>
Cash	\$2,230,270	\$1,116,824
Investments	2,172,697	1,681,936
Pledges receivable, net	15,390	21,090
Grant receivable	<u>94,444</u>	<u>4,000</u>
	4,512,801	2,823,850
Less those unavailable for general expenditure within one year, due to:		
Board designated restrictions	1,090,987	779,580
Donor restrictions as to time or purpose	1,607,711	537,487
Perpetual endowments	<u>20,000</u>	<u>20,000</u>
	<u>\$1,794,103</u>	<u>\$1,486,783</u>

14. 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.

15. 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, 2019, 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.

16. 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 \$1,925 for the year ended December 31, 2019. An employee of Foothills Conservancy of N. C., Inc. is president of Simply Green Recycling/Citizen Earth Media.

The executive director has 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, 2019, the Organization received \$10,800.

17. Below Book Land Sales

On June 19, 2019, Foothills Conservancy of NC, Inc. conveyed the Ivy Creek 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, \$433,051 was returned to the grantor on June 24, 2019, creating a loss on the land transaction of \$737,703. The total below book land sales were \$1,071,163 and \$-0- for the years ended December 1, 2019 and 2018, respectively.

18. Subsequent Events

Management has evaluated subsequent events through July 31, 2020, 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:

Short-Term Debt

On January 28, 2020, the Organization entered into a \$800,000 promissory note agreement for the acquisition of real property which is due and payable to the Conservation Trust for North Carolina six months from the date of the obligation, or no later than July 31, 2020. The promissory note is secured by a deed of trust in the real property which consists of 330.07 acres.

Early Payoff of Long-Term Debt

On November 15, 2018, the Organization entered into a \$115,000 promissory note agreement at an interest rate of 6% for the purchase of real property. The promissory note which is secured by a deed of trust in the real property financed is due and payable 20 years from the date of the note or December 31, 2038. The Organization paid the promissory note in full on February 20, 2020.

COVID-19 Pandemic

The spread of 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, 2019, since the full impact of COVID-19 is unknown and cannot be reasonably estimated as of July 31, 2020.

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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, 2019, 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 31, 2020.

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) to determine 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'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 not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 statement amounts. 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.

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 Champ & Co., L.L.P.

Morganton, North Carolina
July 31, 2020