

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Financial Statements, Independent Auditors' Report and Compliance Report
For the Years Ended December 31, 2022 and 2021

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

121 North Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Foothills Conservancy of North Carolina, Inc. as of December 31, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foothills Conservancy of North Carolina, Inc. and to meet our other ethical responsibilities in accordance with the ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foothills Conservancy of North Carolina, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foothills Conservancy of North Carolina, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Foothills Conservancy of North Carolina, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report, dated July 10, 2023, on our consideration of the 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, 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 the 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 the Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting and compliance.

Lowdermilk Church & Co., L.L.P.

Morganton, North Carolina
July 10, 2023

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Financial Position
December 31, 2022 and 2021**

| <u>Assets</u> | 2022 | | <u>Total</u> |
|---------------------------------------|---------------------------------------|------------------------------------|---------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | |
| Current assets: | | | |
| Cash | \$ 2,081,485 | \$ 381,666 | \$ 2,463,151 |
| Investments | 2,148,546 | 1,103,435 | 3,251,981 |
| Pledges receivable - current, net | 8,590 | - | 8,590 |
| Grants receivable | - | 34,000 | 34,000 |
| Prepaid expenses | 1,393 | - | 1,393 |
| Total current assets | 4,240,013 | 1,519,101 | 5,759,114 |
| Noncurrent assets: | | | |
| Property and equipment (at cost), net | 21,133,226 | - | 21,133,226 |
| Total noncurrent assets | 21,133,226 | - | 21,133,226 |
| Total assets | \$ 25,373,238 | \$ 1,519,101 | \$ 26,892,339 |
| <u>Liabilities and Net Assets</u> | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 28,485 | \$ - | \$ 28,485 |
| Re-grant payable | 225,000 | - | 225,000 |
| Total current liabilities | 253,485 | - | 253,485 |
| Long-term liabilities: | | | |
| Security deposits | - | - | - |
| Total long-term liabilities | - | - | - |
| Total liabilities | 253,485 | - | 253,485 |
| Net assets: | | | |
| Net assets without restrictions: | | | |
| Undesignated | 21,833,228 | - | 21,833,228 |
| Board designated | 3,286,525 | - | 3,286,525 |
| Net assets with restrictions: | | | |
| Donor Restrictions | - | 1,499,101 | 1,499,101 |
| Perpetual Endowments | - | 20,000 | 20,000 |
| Total net assets | 25,119,753 | 1,519,101 | 26,638,854 |
| Total liabilities and net assets | \$ 25,373,238 | \$ 1,519,101 | \$ 26,892,339 |

See accompanying notes to financial statements.

| 2021 | | |
|---------------------------------------|------------------------------------|----------------------|
| <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
| \$ 1,694,171 | \$ 83,066 | \$ 1,777,237 |
| 2,934,602 | 955,887 | 3,890,489 |
| 8,590 | - | 8,590 |
| - | 9,500 | 9,500 |
| 3,679 | - | 3,679 |
| <u>4,641,042</u> | <u>1,048,453</u> | <u>5,689,495</u> |
| | | |
| <u>18,519,130</u> | <u>-</u> | <u>18,519,130</u> |
| <u>18,519,130</u> | <u>-</u> | <u>18,519,130</u> |
| | | |
| <u>\$ 23,160,172</u> | <u>\$ 1,048,453</u> | <u>\$ 24,208,625</u> |
| | | |
| \$ 18,376 | \$ - | \$ 18,376 |
| - | - | - |
| <u>18,376</u> | <u>-</u> | <u>18,376</u> |
| | | |
| <u>1,000</u> | <u>-</u> | <u>1,000</u> |
| <u>1,000</u> | <u>-</u> | <u>1,000</u> |
| | | |
| <u>19,376</u> | <u>-</u> | <u>19,376</u> |
| | | |
| 19,288,412 | - | 19,288,412 |
| 3,852,384 | - | 3,852,384 |
| - | 1,028,453 | 1,028,453 |
| - | 20,000 | 20,000 |
| <u>23,140,796</u> | <u>1,048,453</u> | <u>24,189,249</u> |
| <u>\$ 23,160,172</u> | <u>\$ 1,048,453</u> | <u>\$ 24,208,625</u> |

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Activities
For the Years Ended December 31, 2022 and 2021**

| | 2022 | | |
|---|---------------------------------------|------------------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues: | | | |
| Contributions | \$ 301,512 | \$ 219,076 | \$ 520,588 |
| Contributions of nonfinancial assets | 1,804,186 | - | 1,804,186 |
| Fees for service | - | 9,145 | 9,145 |
| Rental income | 6,810 | - | 6,810 |
| Special events | 196,805 | - | 196,805 |
| Merchandise sales | - | - | - |
| Grants: | | | |
| Trusts, Foundations and non-government grants | - | 1,538,161 | 1,538,161 |
| Local Governments | - | 65,000 | 65,000 |
| State funds | - | 2,798,196 | 2,798,196 |
| Federal funds | - | 446,134 | 446,134 |
| Total | <u>2,309,314</u> | <u>5,075,712</u> | <u>7,385,025</u> |
| Net assets released from restrictions: | | | |
| Satisfaction of program transactions | <u>4,605,064</u> | <u>(4,605,064)</u> | <u>-</u> |
| Total revenues | <u>6,914,378</u> | <u>470,648</u> | <u>7,385,025</u> |
| Expenses: | | | |
| Program services | 4,081,680 | - | 4,081,680 |
| Management and General | 196,035 | - | 196,035 |
| Fundraising | 98,020 | - | 98,020 |
| Total expenses | <u>4,375,735</u> | <u>-</u> | <u>4,375,735</u> |
| Changes in net assets before nonoperating revenue (expense) | <u>2,538,643</u> | <u>470,648</u> | <u>3,009,290</u> |
| Nonoperating Revenue (Expense): | | | |
| Unrealized gains (losses) on investments | (570,358) | - | (570,358) |
| Realized gains (losses) on investments | 10,672 | - | 10,672 |
| Investment earnings | - | - | - |
| Total | <u>(559,684)</u> | <u>-</u> | <u>(559,684)</u> |
| Changes in net assets | 1,978,958 | 470,648 | 2,449,605 |
| Net assets, beginning of year | <u>23,140,796</u> | <u>1,048,453</u> | <u>24,189,249</u> |
| Net assets, end of year | <u>\$ 25,119,754</u> | <u>\$ 1,519,101</u> | <u>\$ 26,638,854</u> |

See accompanying notes to financial statements.

| 2021 | | |
|---------------------------------------|------------------------------------|---------------------|
| Without Donor Restrictions | With Donor Restrictions | Total |
| \$ 317,883 | \$ 112,815 | \$ 430,698 |
| 3,969,000 | - | 3,969,000 |
| - | 14,714 | 14,714 |
| 8,655 | - | 8,655 |
| 125,324 | - | 125,324 |
| 835 | - | 835 |
| - | 1,982,920 | 1,982,920 |
| - | 7,000 | 7,000 |
| - | 186,326 | 186,326 |
| - | - | - |
| <u>4,421,697</u> | <u>2,303,775</u> | <u>6,725,472</u> |
| <u>2,197,727</u> | <u>(2,197,727)</u> | <u>-</u> |
| <u>6,619,424</u> | <u>106,048</u> | <u>6,725,472</u> |
| 1,423,541 | - | 1,423,541 |
| 152,113 | - | 152,113 |
| 76,058 | - | 76,058 |
| <u>1,651,712</u> | <u>-</u> | <u>1,651,712</u> |
| <u>4,967,712</u> | <u>106,048</u> | <u>5,073,760</u> |
| 413,526 | - | 413,526 |
| 26,206 | - | 26,206 |
| 100 | - | 100 |
| <u>439,832</u> | <u>-</u> | <u>439,832</u> |
| 5,407,544 | 106,048 | 5,513,592 |
| 17,733,252 | 942,405 | 18,675,657 |
| <u>\$ 23,140,796</u> | <u>\$ 1,048,453</u> | <u>\$24,189,249</u> |

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Functional Expenses
For the Years Ended December 31, 2022 and 2021**

2022

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries | \$ 373,326 | \$ 106,665 | \$ 53,332 | \$ 533,323 |
| Payroll taxes | 28,852 | 8,244 | 4,122 | 41,218 |
| Employee benefits | 38,355 | 10,959 | 5,479 | 54,793 |
| Dues and subscriptions | 10,778 | 3,080 | 1,540 | 15,398 |
| Insurance | 7,809 | 2,231 | 1,116 | 11,156 |
| Maintenance | 18,527 | 5,293 | 2,647 | 26,467 |
| Meetings and workshops | 7,291 | 2,083 | 1,042 | 10,416 |
| Travel | 5,951 | 1,700 | 850 | 8,501 |
| Telephone | 5,283 | 1,509 | 755 | 7,547 |
| Professional services - contract | 17,614 | - | - | 17,614 |
| Office supplies | 19,596 | 5,599 | 2,799 | 27,994 |
| Database maintenance | 768 | 219 | 110 | 1,097 |
| Educational activities | 8,570 | 2,449 | 1,224 | 12,243 |
| Events | 25,624 | 7,321 | 3,660 | 36,604 |
| Graphic design/merchandise | 22,708 | 6,487 | 3,244 | 32,440 |
| Utilities | 3,318 | 948 | 474 | 4,740 |
| Property taxes | 14,686 | - | - | 14,686 |
| Professional fees | 10,139 | 2,897 | 1,449 | 14,485 |
| Printing | 12,143 | 3,469 | 1,735 | 17,347 |
| Postage | 3,864 | 1,104 | 552 | 5,519 |
| Depreciation | 28,211 | 8,060 | 4,030 | 40,301 |
| Pension plan | 24,859 | 7,103 | 3,551 | 35,513 |
| Bank service charges and administrative fees | 30,159 | 8,617 | 4,308 | 43,084 |
| Grants to partners | 7,000 | - | - | 7,000 |
| Below book land sales | 839,830 | - | - | 839,830 |
| Conservation/easement purchase | 2,400,654 | - | - | 2,400,654 |
| Conservation - land stewardship | 46,298 | - | - | 46,298 |
| Conservation - trails | 62,316 | - | - | 62,316 |
| Sales taxes | 7,151 | - | - | 7,151 |
| Total expenses | <u>\$ 4,081,680</u> | <u>\$ 196,035</u> | <u>\$ 98,020</u> | <u>\$ 4,375,735</u> |

See accompanying notes to financial statements.

2021

| <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------|-------------------------------|--------------------|---------------------|
| \$ 291,318 | \$ 83,234 | \$ 41,617 | \$ 416,169 |
| 21,912 | 6,260 | 3,130 | 31,302 |
| 29,589 | 8,454 | 4,227 | 42,270 |
| 14,577 | 4,165 | 2,083 | 20,825 |
| 6,636 | 1,896 | 948 | 9,480 |
| 4,436 | 1,267 | 634 | 6,337 |
| 3,553 | 1,015 | 508 | 5,076 |
| 1,202 | 343 | 172 | 1,717 |
| 3,937 | 1,125 | 562 | 5,624 |
| 43,281 | - | - | 43,281 |
| 12,107 | 3,459 | 1,730 | 17,295 |
| 45 | 13 | 6 | 64 |
| 10,035 | 2,867 | 1,434 | 14,336 |
| 15,171 | 4,334 | 2,167 | 21,672 |
| 4,423 | 1,263 | 632 | 6,318 |
| 3,959 | 1,131 | 566 | 5,656 |
| 2,833 | - | - | 2,833 |
| 27,646 | 7,899 | 3,949 | 39,494 |
| 9,929 | 2,837 | 1,418 | 14,184 |
| 1,998 | 571 | 285 | 2,854 |
| 21,097 | 6,028 | 3,014 | 30,139 |
| 19,733 | 5,638 | 2,819 | 28,190 |
| 29,098 | 8,314 | 4,157 | 41,569 |
| 328,791 | - | - | 328,791 |
| 277,131 | - | - | 277,131 |
| 59,358 | - | - | 59,358 |
| 110,447 | - | - | 110,447 |
| 69,299 | - | - | 69,299 |
| - | - | - | - |
| <u>\$ 1,423,541</u> | <u>\$ 152,113</u> | <u>\$ 76,058</u> | <u>\$ 1,651,712</u> |

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Cash Flows For the Years Ended December 31, 2022 and 2021

| | 2022 | | Total |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | |
| Cash Flows From Operating Activities: | | | |
| Changes in net assets | \$ 1,978,958 | \$ 470,648 | \$ 2,449,606 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | | |
| Depreciation | 40,301 | - | 40,301 |
| Unrealized (gain) loss on investments | 570,358 | - | 570,358 |
| Realized (gain) loss on investments | (10,672) | - | (10,672) |
| Investment and administrative fees on investments | 27,032 | - | 27,032 |
| Below book land sale | 839,830 | - | 839,830 |
| Contributions of nonfinancial assets | (1,804,186) | - | (1,804,186) |
| Net assets released from restrictions | 147,547 | (147,547) | - |
| (Increase) decrease in operating assets: | | | |
| Grants and pledges receivable | - | (24,500) | (24,500) |
| Sales tax receivable | 3,679 | - | 3,679 |
| Prepaid expenses | (1,393) | - | (1,393) |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable and accrued expenses | 235,109 | - | 235,109 |
| Security deposits | (1,000) | - | (1,000) |
| Net cash provided (used) by operating activities | <u>2,025,562</u> | <u>298,600</u> | <u>2,324,162</u> |
| Cash Flows From Investing Activities: | | | |
| Purchase of property and equipment | (2,028,480) | - | (2,028,480) |
| Investment distributions | 133,000 | - | 133,000 |
| Purchase of investments | (81,048) | - | (81,048) |
| Re-granted funds | (490,000) | - | (490,000) |
| Proceeds from sale of land | 828,280 | - | 828,280 |
| Net cash provided (used) by investing activities | <u>(1,638,248)</u> | <u>-</u> | <u>(1,638,248)</u> |
| Net increase (decrease) in cash and cash equivalents | 387,314 | 298,600 | 685,914 |
| Beginning cash and cash equivalents | 1,694,171 | 83,066 | 1,777,237 |
| Ending cash and cash equivalents | <u>\$ 2,081,485</u> | <u>\$ 381,666</u> | <u>\$ 2,463,151</u> |
| Supplemental Information: | | | |
| Net Investment earnings | | | <u>\$ -</u> |
| Noncash Transactions: | | | |
| Acquisition of property through donations/grants | | | <u>\$ 1,800,000</u> |
| Acquisition of stock through contributions | | | <u>\$ 4,186</u> |
| <i>See accompanying notes to financial statements.</i> | | | |

| 2021 | | |
|---|--|---------------------|
| <u>Without Donor</u> <u>Restrictions</u> | <u>With Donor</u> <u>Restrictions</u> | <u>Total</u> |
| \$ 5,407,544 | \$ 106,048 | \$ 5,513,592 |
| 30,139 | - | 30,139 |
| (413,526) | - | (413,526) |
| (26,206) | - | (26,206) |
| 28,421 | - | 28,421 |
| 328,791 | - | 328,791 |
| (3,969,000) | - | (3,969,000) |
| 26,879 | (26,879) | - |
| (7,400) | (5,195) | (12,595) |
| (3,679) | - | (3,679) |
| - | - | - |
| 10,768 | - | 10,768 |
| - | - | - |
| <u>1,412,731</u> | <u>73,973</u> | <u>1,486,704</u> |
| (1,244,534) | - | (1,244,534) |
| 90,806 | - | 90,806 |
| (93,510) | - | (93,510) |
| - | - | - |
| 15,000 | - | 15,000 |
| <u>(1,232,238)</u> | <u>-</u> | <u>(1,232,238)</u> |
| 180,493 | 73,973 | 254,466 |
| 1,513,678 | 9,093 | 1,522,771 |
| <u>\$ 1,694,171</u> | <u>\$ 83,066</u> | <u>\$ 1,777,237</u> |
| | | <u>\$ 100</u> |
| | | <u>\$ 3,969,000</u> |
| | | <u>\$ 8,365</u> |

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Notes to the Financial Statements
For the Years Ended December 31, 2022, and 2021

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. In April 2023, the Organization's cash and equivalents were enrolled in their financial institution's (Truist) Insured Cash Sweep program which insures 100% of these cash resources by the Federal Deposit Insurance Corporation.

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 a 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 is 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 that 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.

Reclassification of Comparative Financial Statements
Certain reclassifications have been made to the 2021 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

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 programs 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>2022</u> | <u>2021</u> |
|---------------------------------------|---------------------|---------------------|
| Easement Stewardship | \$ 538,443 | \$ 473,895 |
| Preservation Stewardship | 369,820 | 306,820 |
| Land Acquisition | 381,666 | 83,066 |
| Legal Defense | 175,172 | 155,172 |
| Perpetual Endowment | 20,000 | 20,000 |
| Burke County | 30,000 | - |
| American Farmland Trust | 4,000 | - |
| National Fish and Wildlife Foundation | - | 9,500 |
| | <u>\$ 1,519,101</u> | <u>\$ 1,048,453</u> |

3. Investments

The following is a summary of the Organization's investments as of December 31, 2022, and 2021:

The Organization has amounts invested with various foundations. The allocation of the investments invested with those foundations is as follows. See Note 8 for additional information.

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|---------------------|---------------------|
| MSCI World | \$ 804,752 | \$ 983,260 |
| Barclays Aggregate Bond Index | 536,502 | 655,506 |
| U. S. Equities | 439,467 | 562,931 |
| Private Investment Partners | 382,145 | 157,621 |
| Defensive Hedge Funds | 286,609 | 337,759 |
| International Equities | 210,180 | 337,758 |
| Fixed Income | 191,073 | 337,758 |
| Real Assets | 191,073 | 180,138 |
| Emerging Markets | 114,644 | 225,172 |
| Global Equities | 95,536 | 112,586 |
| Total | <u>\$ 3,251,981</u> | <u>\$ 3,890,489</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 and cash equivalents: 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, 2022 and 2021 are as follows:

| | 2022 | | | | Total |
|------------------------------|---------------------|----------------|----------------|---------------------|---------------------|
| | Fair Value | Level 1 | Level 2 | Level 3 | |
| Pooled Multi-management Fund | \$ 1,341,254 | \$ - | \$ - | \$ 1,341,254 | \$ 2,682,508 |
| U.S. Equities | 439,467 | - | - | 439,467 | 878,934 |
| Private Investment Partners | 382,145 | - | - | 382,145 | 764,290 |
| Defensive Hedge Funds | 286,609 | - | - | 286,609 | 573,218 |
| International Equities | 210,180 | - | - | 210,180 | 420,360 |
| Fixed Income | 191,073 | - | - | 191,073 | 382,146 |
| Real Assets | 191,073 | - | - | 191,073 | 382,146 |
| Emerging Markets Equities | 114,644 | - | - | 114,644 | 229,288 |
| Global Equities | 95,536 | - | - | 95,536 | 191,072 |
| Totla Investments | \$ 3,251,981 | \$ - | \$ - | \$ 3,251,981 | \$ 6,503,962 |

| | 2021 | | | | Total |
|------------------------------|---------------------|----------------|----------------|---------------------|---------------------|
| | Fair Value | Level 1 | Level 2 | Level 3 | |
| Pooled Multi-management Fund | \$ 1,638,766 | \$ - | \$ - | \$ 1,638,766 | \$ 3,277,532 |
| U.S. Equities | 562,931 | - | - | 562,931 | 1,125,862 |
| Private Investment Partners | 157,621 | - | - | 157,621 | 315,242 |
| Defensive Hedge Funds | 337,759 | - | - | 337,759 | 675,518 |
| International Equities | 337,758 | - | - | 337,758 | 675,516 |
| Fixed Income | 337,758 | - | - | 337,758 | 675,516 |
| Real Assets | 180,138 | - | - | 180,138 | 360,276 |
| Emerging Markets Equities | 225,172 | - | - | 225,172 | 450,344 |
| Global Equities | 112,586 | - | - | 112,586 | 225,172 |
| Totla Investments | \$ 3,890,489 | \$ - | \$ - | \$ 3,890,489 | \$ 7,780,978 |

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:

| | 2022 | 2021 |
|------------------------------------|---------------------|---------------------|
| Level 3 inputs, beginning of year | \$ 3,890,489 | \$ 3,476,474 |
| Purchase of investments | 81,048 | 93,510 |
| Investment earnings (net) | (313,785) | 281,636 |
| Net unrealized and realized gains | (246,975) | 156,683 |
| Distributions | (133,000) | (90,806) |
| Administration fees | (25,797) | (27,008) |
| Level 3 Inputs, end of year | \$ 3,251,981 | \$ 3,890,489 |

6. Pledges Receivable

The Organization has conducted a "For Now & Forever Board Pledge Commitment" established by the Board of Directors for various purposes. 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, 2022 and 2021. Pledges receivable are classified as unrestricted at the reporting date.

Pledges receivable are summarized as follows at December 31, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------------|-----------------|-----------------|
| Pledges expected to be collected in: | | |
| Less than one year | \$ 9,400 | \$ 9,400 |
| One year to five years | - | - |
| Allowance for uncollectible pledges | (810) | (810) |
| | <u>\$ 8,590</u> | <u>\$ 8,590</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>2022</u> | <u>2021</u> |
|------------------------------------|----------------------|----------------------|
| Land | \$ 20,132,636 | \$ 18,077,836 |
| Construction in progress | 474,014 | - |
| Equipment | 12,207 | 7,332 |
| Furniture and fixtures | 6,568 | 6,568 |
| Vehicle | 213,404 | 92,697 |
| Building and building improvements | <u>432,104</u> | <u>432,104</u> |
| Total | 21,270,933 | 18,616,537 |
| Less accumulated depreciation | <u>137,707</u> | <u>97,407</u> |
| Property and equipment, net | <u>\$ 21,133,226</u> | <u>\$ 18,519,130</u> |

Depreciation expense for the years ended December 31, 2022, and 2021 was \$40,301 and \$30,139, 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. Foothills Conservancy of North Carolina, Inc. will benefit from the income from this endowment in perpetuity. At December 31, 2022, the fund value was \$62,102.

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, 2022, the fund value was \$1,366,254. All of this amount, with the exception of the \$25,000, 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, 2022, the fund values were \$1,184,441 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, 2022, the fund values were \$726,285 which are shown on the Statements of Financial Position as investments.

The Community Foundation of Western North Carolina Limited Endowment was \$1,341,254, and the Foundation for the Carolinas Endowment was \$1,910,726, for a total of \$3,251,980. See Note 3 for additional information on these endowments.

9. 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 up to a 4% match to the plan for eligible employees. The Organization's contribution to the 401(k) plan was \$35,513 and \$28,190 for the years ended December 31, 2022, and 2021, respectively.

10. 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 \$2,522,882 and \$1,792,234 at December 31, 2022 and 2021, respectively.

11. 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>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Cash | \$ 2,463,151 | \$ 1,777,237 |
| Investments | 3,251,981 | 3,890,489 |
| Pledges receivable, net | 8,590 | 8,590 |
| Grant receivable | 34,000 | 9,500 |
| Sales tax receivable | - | 3,679 |
| | <u>5,757,722</u> | <u>5,689,495</u> |
| Less those unavailable for general expenditure within one year, due to: | | |
| Board designated restrictions | 3,286,525 | 3,852,384 |
| Donor restrictions as to time or purpose | 1,499,101 | 1,028,453 |
| Perpetual endowments | 20,000 | 20,000 |
| | <u>\$ 952,096</u> | <u>\$ 788,658</u> |

12. 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.

13. 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, 2021, 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.

14. Contributed Nonfinancial Assets

For the years ended December 31, contributed nonfinancial assets recognized within the statement of activities included:

| | <u>2022</u> | <u>2021</u> |
|-------|---------------------|---------------------|
| Land | \$ 1,800,000 | \$ 3,969,000 |
| Stock | 4,186 | 8,365 |
| | <u>\$ 1,804,186</u> | <u>\$ 3,977,365</u> |

The Organization recognized contributed nonfinancial assets within revenue, including contributed land and stock. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed land is utilized for program services to assist the Organization in fulfilling its purpose. Contributed land is valued at the appraised value determined by an independent property appraisal.

Contributed stock is utilized to assist the Organization in fulfilling its purpose. Contributed stock is valued at the fair market value at the time of contribution.

15. Below Book Land Sales

On September 20, 2022, Foothills Conservancy of North Carolina, Inc. ("FCNC") conveyed the Buffalo Cove Road land to the State of North Carolina. This property was acquired for \$364,446 and conveyed to the State of North Carolina for \$130,780 and donating the remaining value of \$235,739.

On October 11, 2022, Foothills Conservancy of North Carolina, Inc. ("FCNC") conveyed 130.45+/- acres of Jacob Fork land to the State of North Carolina. This property was acquired with a grant with the understanding that the monies would be re-granted at the time the land was sold or conveyed. Accordingly, \$265,000 was returned to the grantor, creating a loss on the land transaction of \$363,845.

On December 30, 2022, Foothills Conservancy of North Carolina, Inc. ("FCNC") conveyed 75.212+/- acres of Finger Bridge land to the State of North Carolina. This property was acquired with a grant with the understanding that the monies would be re-granted at the time the land was sold or conveyed. Accordingly, \$225,000 was returned to the grantor, creating a loss on the land transaction of \$240,247.

On May 20, 2021, Foothills Conservancy of North Carolina, Inc. ("FCNC") conveyed the North Fork Catawba River land to the State of North Carolina. This property was acquired with N. C. Wildlife Resources Commission ("NCWRC") funds. FCNC was successful in selling the North Fork Catawba River land to NCWRC for \$15,000 by donating remaining value of \$226,487.

On November 5, 2021, Foothills Conservancy of North Carolina, Inc. conveyed its remaining Little Cedar Mountain land to the State of North Carolina by donation. The property is now owned and managed by N. C. Wildlife Resources Commission. FCNC had earlier acquired the 95.19-acre +/- Little Cedar Mountain property from Sharon B. Winters and spouse. Prior to FCNC's property conveyance to the State of N. C., FCNC traded 49.1 acres +/- (valued in total at \$98,000) to neighboring property owner, Robert K. Denton, and spouse, and received \$79,000 worth of Denton property in the vicinity on the Henry Fork River. Denton also paid cash funds of \$19,000 to FCNC to attain equal value (\$98,000) in the concurrent trade property conveyances. The transactions were approved by NCWRC, a private philanthropist who contributed funds to support FCNC's initial purchase from the Winters, and FCNC's Board of Directors.

The total below book land sales were \$839,830 and \$328,791 for the years ended December 31, 2022, and 2021, respectively.

16. Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07 Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The Organization adopted the requirements of the new standard effect July 1, 2021. See Note 1 for details of this new standard.

17. Subsequent Events

Management has evaluated subsequent events through July 10, 2023, 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, no circumstances occurred that require recognition or disclosure in these financial statements.

**Independent Auditor's 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, 2022, 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 10, 2023.

Report on 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 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 not identify deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on 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 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.

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.

Lowdermilk Church & Co., L.L.P.

Morganton, North Carolina
July 10, 2023