

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

Financial Statements, Supplemental Schedule, Compliance Report
and Independent Auditors' Report
For the Years Ended December 31, 2012 and 2011

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

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Table of Contents

| | <u>Page(s)</u> |
|---|----------------|
| Independent Auditors' Report | 1-2 |
| Financial Statements and Supplemental Schedule of Foothills Conservancy of North Carolina, Inc. for the Years Ended December 31, 2012 and 2011: | |
| Financial Statements: | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6-13 |
| Supplemental Information: | |
| Supplemental Schedules of Operating Expenses | 14 |
| Compliance Section: | |
| Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <u>Government Auditing Standards</u> | 15-16 |

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

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

Independent Auditors' Report

Board of Directors
Foothills Conservancy of North Carolina, Inc.
Morganton, North Carolina

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, 2012 and 2011, and the related statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 accounting policies used and the reasonableness 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, 2012 and 2011, 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 Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Supplemental Schedules of Operating Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2013, 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 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 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.

Lowdermilk Hundt & Co.

Morganton, North Carolina
August 12, 2013

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Financial Position
December 31, 2012 and 2011**

| <u>Assets</u> | 2012 | | |
|---------------------------------------|---------------------|-------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Current assets: | | | |
| Cash | \$ 656,105 | \$ - | \$ 656,105 |
| Investments | - | 379,033 | 379,033 |
| Grants receivable | - | 3,588 | 3,588 |
| Land option | - | 10,000 | 10,000 |
| Total current assets | 656,105 | 392,622 | 1,048,727 |
| Property and equipment (at cost), net | <u>2,898,106</u> | <u>905,818</u> | <u>3,803,924</u> |
| Total assets | <u>\$ 3,554,211</u> | <u>\$ 1,298,440</u> | <u>\$ 4,852,651</u> |
| <u>Liabilities and Net Assets</u> | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ - | \$ - | \$ - |
| Total current liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Net assets: | | | |
| Unrestricted: | | | |
| Undesignated | 3,207,119 | - | 3,207,119 |
| Board designated | 347,092 | - | 347,092 |
| Temporarily restricted | - | 1,298,440 | 1,298,440 |
| Total net assets | <u>3,554,211</u> | <u>1,298,440</u> | <u>4,852,651</u> |
| Total liabilities and net assets | <u>\$ 3,554,211</u> | <u>\$ 1,298,440</u> | <u>\$ 4,852,651</u> |

See accompanying notes to financial statements.

| 2011 | | |
|---------------------|-----------------------------------|---------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| \$ 796,479 | \$ - | \$ 796,479 |
| - | 295,848 | 295,848 |
| - | 1,163 | 1,163 |
| - | 10,000 | 10,000 |
| <u>796,479</u> | <u>307,011</u> | <u>1,103,490</u> |
| <u>2,435,596</u> | <u>905,818</u> | <u>3,341,414</u> |
| <u>\$ 3,232,075</u> | <u>\$ 1,212,829</u> | <u>\$ 4,444,904</u> |
| | | |
| <u>\$ 7,129</u> | <u>\$ -</u> | <u>\$ 7,129</u> |
| <u>7,129</u> | <u>-</u> | <u>7,129</u> |
| | | |
| 2,567,559 | - | 2,567,559 |
| 657,387 | - | 657,387 |
| - | 1,212,829 | 1,212,829 |
| <u>3,224,947</u> | <u>1,212,829</u> | <u>4,437,776</u> |
| <u>\$ 3,232,075</u> | <u>\$ 1,212,829</u> | <u>\$ 4,444,904</u> |

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Activities
For the Years Ended December 31, 2012 and 2011**

| | 2012 | | Total |
|--|---------------------|------------------------|--------------------|
| | Unrestricted | Temporarily Restricted | |
| Revenues: | | | |
| Contributions | \$ 328,102 | \$ 29,738 | \$ 357,840 |
| Noncash contributions | 9,837 | - | 9,837 |
| Grants: | | | |
| Rostan Family Foundation | - | 15,000 | 15,000 |
| Blumenthal Foundation | - | 5,000 | 5,000 |
| Von Drehle Private Foundation | - | 5,000 | 5,000 |
| Southern Appalachian Highlands Conservancy | - | - | - |
| Crescent Resources, LLC | - | 5,000 | 5,000 |
| Foundation for the Carolinas | - | 104,250 | 104,250 |
| Other grants | - | 10,811 | 10,811 |
| The Glass Foundation, Inc. | - | - | - |
| Dover Foundation | - | 7,500 | 7,500 |
| Conservation Trust for North Carolina | - | 85,021 | 85,021 |
| NRCS Easement Program | - | 176,500 | 176,500 |
| N.C. Department of Environment and Natural Resources-CWMTF | - | 165,180 | 165,180 |
| Clabough Foundation | - | 5,000 | 5,000 |
| N.C. Agricultural Development and Farmland Preservation Trust Fund | - | 123,819 | 123,819 |
| Wal-Mart Foundation | - | - | - |
| Z. Smith Reynolds Foundation | - | - | - |
| Community Foundation of Burke County | - | 5,000 | 5,000 |
| Total | <u>337,939</u> | <u>742,818</u> | <u>1,080,757</u> |
| Net assets released from restrictions: | | | |
| Satisfaction of program transactions | <u>657,207</u> | <u>(657,207)</u> | <u>-</u> |
| Total revenues | 995,146 | 85,611 | 1,080,757 |
| Expenses: | | | |
| Operating expenses | <u>729,739</u> | <u>-</u> | <u>729,739</u> |
| Changes in net assets before nonoperating revenue (expense) | <u>265,407</u> | <u>85,611</u> | <u>351,018</u> |
| Nonoperating Revenue (Expense): | | | |
| Miscellaneous income | 17,041 | - | 17,041 |
| Unrealized gains (losses) on investments | 24,427 | - | 24,427 |
| Realized gains (losses) on investments | 14,829 | - | 14,829 |
| Gain on sale of property | 350 | - | 350 |
| Interest and dividend income | <u>7,206</u> | <u>-</u> | <u>7,206</u> |
| Total | <u>63,854</u> | <u>-</u> | <u>63,854</u> |
| Changes in net assets | 329,261 | 85,611 | 414,872 |
| Net assets, beginning of year | <u>3,224,951</u> | <u>1,212,829</u> | <u>4,437,780</u> |
| Net assets, end of year | <u>\$ 3,554,211</u> | <u>\$ 1,298,440</u> | <u>\$4,852,651</u> |

See accompanying notes to financial statements.

| 2011 | | |
|---------------------|-----------------------------------|---------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| \$ 223,847 | \$ 56,869 | \$ 280,716 |
| - | - | - |
| - | - | - |
| - | - | - |
| - | 85,312 | 85,312 |
| - | - | - |
| - | 103,750 | 103,750 |
| - | 13,580 | 13,580 |
| - | 7,500 | 7,500 |
| - | 5,000 | 5,000 |
| - | 30,200 | 30,200 |
| - | - | - |
| - | 729,943 | 729,943 |
| - | - | - |
| - | 25,000 | 25,000 |
| - | 50,000 | 50,000 |
| - | 40,000 | 40,000 |
| - | - | - |
| <u>223,847</u> | <u>1,147,154</u> | <u>1,371,001</u> |
| <u>1,118,873</u> | <u>(1,118,873)</u> | <u>-</u> |
| 1,342,720 | 28,281 | 1,371,001 |
| <u>480,592</u> | <u>-</u> | <u>480,592</u> |
| <u>862,128</u> | <u>28,281</u> | <u>890,410</u> |
| - | - | - |
| (10,706) | - | (10,706) |
| (3,048) | - | (3,048) |
| - | - | - |
| <u>8,935</u> | <u>-</u> | <u>8,935</u> |
| <u>(4,819)</u> | <u>-</u> | <u>(4,819)</u> |
| 857,309 | 28,281 | 885,591 |
| <u>2,367,640</u> | <u>1,184,548</u> | <u>3,552,188</u> |
| <u>\$ 3,224,947</u> | <u>\$ 1,212,829</u> | <u>\$ 4,437,776</u> |

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011**

| | 2012 | | |
|---|---------------------|-------------------------------|-------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| Cash Flows From Operating Activities: | | | |
| Changes in net assets | \$ 329,261 | \$ 85,611 | \$ 414,873 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities: | | | |
| Depreciation | 1,372 | - | 1,372 |
| Unrealized (gain) loss on investments | - | (24,427) | (24,427) |
| Realized (gain) loss on investments | - | (14,829) | (14,829) |
| (Gain) loss on sale of property | (350) | - | (350) |
| (Increase) decrease in operating assets: | | | |
| Grants receivable | - | (2,425) | (2,425) |
| Prepaid expenses | - | - | - |
| Land option | - | - | - |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable and accrued expenses | (7,127) | - | (7,127) |
| Net cash provided (used) by operating activities | 323,156 | 43,930 | 367,086 |
| Cash Flows From Investing Activities: | | | |
| Purchase of property and equipment | (463,882) | - | (463,882) |
| Purchase of investments | - | (43,929) | (43,929) |
| Proceeds from sale of vehicle | 350 | - | 350 |
| Net cash provided (used) by investing activities | (463,532) | (43,929) | (507,461) |
| Cash Flows From Financing Activities: | | | |
| Payments on short-term payable | - | - | - |
| Net cash provided (used) by financing activities | - | - | - |
| Net increase (decrease) in cash and cash equivalents | (140,376) | - | (140,376) |
| Beginning cash and cash equivalents | 796,479 | - | 796,479 |
| Ending cash and cash equivalents | \$ 656,105 | \$ - | \$ 656,105 |
| Supplemental Information: | | | |
| Cash received for interest | | | \$ 7,206 |
| Noncash Transaction: | | | |
| Donated stock | | | \$ 9,837 |
| Donated easements | | | \$ 707,958 |
| <i>See accompanying notes to financial statements.</i> | | | |

| 2011 | | |
|---------------------|-------------------------------|-------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| \$ 857,309 | \$ 28,281 | \$ 885,590 |
| 2,004 | - | 2,004 |
| - | 10,706 | 10,706 |
| - | 3,048 | 3,048 |
| - | - | - |
| - | 2,455 | 2,455 |
| 1,000 | - | 1,000 |
| - | - | - |
| <u>3,067</u> | <u>-</u> | <u>3,067</u> |
| <u>863,380</u> | <u>44,490</u> | <u>907,870</u> |
| (621,850) | - | (621,850) |
| - | (44,489) | (44,489) |
| <u>-</u> | <u>-</u> | <u>-</u> |
| <u>(621,850)</u> | <u>(44,489)</u> | <u>(666,339)</u> |
| <u>-</u> | <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> |
| 241,530 | - | 241,530 |
| 554,949 | - | 554,949 |
| <u>\$ 796,479</u> | <u>\$ -</u> | <u>\$ 796,479</u> |
| | | <u>\$ 8,935</u> |
| | | <u>\$ -</u> |
| | | <u>\$ -</u> |

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Notes to Financial Statements For the Years Ended December 31, 2012 and 2011

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:

Unrestricted Net Assets

Funds which are available for current operation.

Temporarily Restricted

Temporarily restricted net assets are comprised of restricted contributions received by a support organization or individual that are restricted by the donor. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if the restriction expires during the same accounting period in which the gift was received, the contribution is reported as an increase in unrestricted net assets.

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 unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets 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 \$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.

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 unrestricted net assets 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.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2011, 2010 and 2009 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, 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 Conservancy acquires easements through both donations and purchases. The acquisition of easements establishes a fiduciary responsibility for the Conservancy 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 unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted net assets if purchased with donor-restricted assets. Donated easements are not recognized in the Statement of Activities.

2. Investments

The following is a summary of the Organization's investments as of December 31, 2012 and 2011.

| | 2012 | | |
|------------------------------|------------------|---|------------------------------------|
| | <u>Cost</u> | <u>Gross Unrealized Gain (loss)</u> | <u>Fair Value 12/31/12</u> |
| Pooled multi-management fund | \$103,961 | \$ - | \$103,961 |
| International equities | 50,130 | 4,885 | 55,015 |
| Small cap equities | 25,064 | 2,443 | 27,507 |
| Large cap equities | 74,567 | 7,267 | 81,834 |
| Fixed income funds | 43,112 | 4,201 | 47,313 |
| Hedge funds | 45,242 | 4,409 | 49,651 |
| Real assets | 12,530 | 1,222 | 13,752 |
| | <u>\$354,606</u> | <u>\$24,427</u> | <u>\$379,033</u> |

| | 2011 | | |
|------------------------------|------------------|---|------------------------------------|
| | <u>Cost</u> | <u>Gross Unrealized Gain (loss)</u> | <u>Fair Value 12/31/11</u> |
| Pooled multi-management fund | \$ 91,284 | \$ - | \$ 91,284 |
| International equities | 43,054 | (2,141) | 40,913 |
| Small cap equities | 21,527 | (1,071) | 20,456 |
| Large cap equities | 64,043 | (3,185) | 60,858 |
| Fixed income funds | 37,026 | (1,841) | 35,185 |
| Hedge funds | 38,856 | (1,932) | 36,924 |
| Real assets | 10,763 | (535) | 10,228 |
| | <u>\$306,554</u> | <u>\$(10,706)</u> | <u>\$295,848</u> |

3. 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.

4. Fair Value Measurements

Fair Value Measurements - Disclosures related to FASB ASC 820 **Fair Value Measurements and Disclosures** should result in an increased consistency and comparability in fair value measurements by defining fair value, providing a framework for measuring fair value, and expanding the disclosures related to fair value.

FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with the definition, the statement establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level I - Quoted market prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level I include listed equities and listed derivatives. As required by FASB ASC 820, the Organization, to the extent that it holds such investments, does not adjust the quoted market price for these investments, even in situations where the Organization holds a large position and a sale could reasonably impact the quoted price.

Level II - Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Fair value is determined through the use of models other than valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, and certain over-the-counter derivatives.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in the category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, distressed debt and non-investment grade residual interests in securitizations, and collateralized debt obligations.

In some cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. Accordingly, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of inputs that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Fair Values Measured on a Recurring Basis

Fair values of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

| | 2012 | | | | |
|------------------------------|-------------------------|-------------------------|--------------------|------------------------|-------------------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Pooled multi-management fund | \$103,961 | \$103,961 | \$ - | \$ - | \$103,961 |
| International equities | 55,015 | 55,015 | - | - | 55,015 |
| Small cap equities | 27,507 | 27,507 | - | - | 27,507 |
| Large cap equities | 81,834 | 81,834 | - | - | 81,834 |
| Fixed income funds | 47,313 | 47,313 | - | - | 47,313 |
| Hedge funds | 49,651 | - | - | 49,651 | 49,651 |
| Real assets | <u>13,752</u> | <u>13,752</u> | - | - | <u>13,752</u> |
| Total investments | <u>\$379,033</u> | <u>\$329,382</u> | <u>\$ -</u> | <u>\$49,651</u> | <u>\$379,033</u> |

| | 2011 | | | | |
|------------------------------|-------------------------|-------------------------|--------------------|------------------------|-------------------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Pooled multi-management fund | \$ 91,284 | \$ 91,284 | \$ - | \$ - | \$ 91,284 |
| International equities | 40,913 | 40,913 | - | - | 40,913 |
| Small cap equities | 20,456 | 20,456 | - | - | 20,456 |
| Large cap equities | 60,858 | 60,858 | - | - | 60,858 |
| Fixed income funds | 35,185 | 35,185 | - | - | 35,185 |
| Hedge funds | 36,924 | - | - | 36,924 | 36,924 |
| Real assets | <u>10,228</u> | <u>10,228</u> | - | - | <u>10,228</u> |
| Total investments | <u>\$295,848</u> | <u>\$258,924</u> | <u>\$ -</u> | <u>\$36,924</u> | <u>\$295,848</u> |

Investment accounts of stocks, money market funds, mutual funds, and government bonds that are recorded to 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:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|------------------------|------------------------|
| Level 3 inputs, beginning of year | \$36,924 | \$29,789 |
| Purchases of investments | - | - |
| Sales | - | - |
| Net realized and unrealized gains | <u>12,727</u> | <u>7,135</u> |
| Level 3 inputs, end of year | <u>\$49,651</u> | <u>\$36,924</u> |

5. Property and Equipment

Property and equipment is summarized as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 3,798,073 | \$ 3,340,282 |
| Equipment | 21,132 | 21,132 |
| Furniture and fixtures | 1,545 | 1,545 |
| Vehicle | <u>6,091</u> | <u>2,600</u> |
| Total | 3,826,841 | 3,365,559 |
| Less accumulated depreciation | <u>(22,917)</u> | <u>(24,145)</u> |
| Property and equipment, net | <u>\$ 3,803,924</u> | <u>\$ 3,341,414</u> |

6. 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, 2012, the fund value was \$56,326.

In 2009 the Organization created a permanent endowment through the Community Foundation of Western North Carolina with a contribution of \$25,000. Foothills Conservancy of North Carolina, Inc. will benefit from the income from the endowment in perpetuity. At December 31, 2012, the fund value was \$103,961.

7. Pension Plan

The Organization has a Simplified Employer Pension Plan (SEP) which is available to all employees who have completed three months of service. The Organization contributes 3% of gross salaries to the plan for eligible employees. The employees may make elective deferrals to a 403(b) plan. The Organization's contribution to the SEP plan was \$8,096 and \$6,946 for the years ended December 31, 2012 and 2011, respectively.

8. Risk of Loss

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 \$406,766 and \$548,389 at December 31, 2012 and 2011, respectively.

On November 9, 2010, the FDIC issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. The unlimited insurance coverage is available to all depositors, including consumers, businesses, and government entities. This unlimited insurance coverage is separate from, and in addition to, the insurance coverage provided to a depositor's other deposit accounts held at an FDIC-insured institution.

A noninterest-bearing transaction account is a deposit account where interest is neither accrued nor paid; depositors are permitted to make an unlimited number of transfers and withdrawals; and the bank does not reserve the right to require advance notice of an intended withdrawal.

Money Market Deposit Accounts (MMDAs) and Negotiable Order of Withdrawal (NOW) accounts are not eligible for this unlimited insurance coverage, regardless of the interest rate, even if no interest is paid on the account.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amount reported in the statement of financial position.

9. Lease

The Conservancy leases office space under an operating lease expiring in 2013.

Minimum future rental payments under the operating lease as of December 31, 2012 for the next year are as follows:

| <u>Year Ended</u> | <u>Amount</u> |
|-------------------|----------------|
| 2013 | <u>\$6,500</u> |

Rent expense was \$7,800 for the years ended December 31, 2012 and 2011.

10. 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.

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, 2012, 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.

11. Commitments and Contingencies

At December 31, 2012 and 2011, the Organization had a land option to purchase conservation land for \$10,000. The Organization also has 2,795 acres under conservation easements.

12. Subsequent Events

Management has evaluated subsequent events through August 12, 2013, 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.

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Schedules of Operating Expenses
For the Years Ended December 31, 2012 and 2011**

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Operating Expenses: | | |
| Salaries | \$ 247,571 | \$ 241,757 |
| Payroll taxes | 21,265 | 20,749 |
| Employee benefits | 17,078 | 16,779 |
| Dues and subscriptions | 1,219 | 2,750 |
| Insurance | 3,766 | 3,201 |
| Maintenance | 2,278 | 2,295 |
| Meetings and workshops | 4,460 | 3,836 |
| Conservation easement purchase | 308,891 | - |
| Travel | 6,170 | 8,673 |
| Telephone | 8,136 | 7,196 |
| Professional services - contract | 23,746 | 93,552 |
| Office supplies | 3,061 | 3,036 |
| Database maintenance | 2,810 | 945 |
| Utilities | 1,749 | 2,550 |
| Rent | 7,800 | 7,800 |
| Property taxes | 5,396 | 7,170 |
| Professional fees | 18,376 | 13,006 |
| Printing | 7,739 | 8,717 |
| Postage | 2,819 | 2,332 |
| Depreciation | 1,372 | 2,004 |
| Pension plan | 8,096 | 6,946 |
| Bank service charges and administrative fees | 4,510 | 3,990 |
| Direct mail | - | 4,243 |
| Website graphic design | - | 2,800 |
| Americorps | 5,006 | - |
| Miscellaneous | <u>16,427</u> | <u>14,267</u> |
| Total operating expenses | <u>\$ 729,739</u> | <u>\$ 480,592</u> |

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

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

**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
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, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 12, 2013.

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 the Organization'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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. The governing board should remain involved in the financial affairs of Foothills Conservancy of North Carolina, Inc. to provide oversight. The Board of Directors will remain involved in the financial affairs of Foothills Conservancy of North Carolina, Inc. to provide oversight.

Lowdermilk Church & Co., L.L.P. (the independent auditors) prepared the draft financial statements for Foothills Conservancy of North Carolina, Inc. As with most smaller organizations, this becomes necessary due to the cost benefit of either out-sourcing or hiring personnel with the expertise to prepare financial statements in conformity with generally accepted accounting principles. The Board of Directors feel that the cost benefit of having the financial statements prepared by the independent auditor precludes the cost of hiring additional personnel.

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

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.

Lowdermilk Church & Co.

Morganton, North Carolina
August 12, 2013