

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

Financial Statements, Supplemental Schedule
and Independent Auditors' Report and Compliance Report
For the Years Ended December 31, 2016 and 2015

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

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

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Independent Auditors' Report

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

Report on the Financial Statements

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, 2016 and 2015, 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 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, 2016 and 2015, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2017, 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.

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

Morganton, North Carolina
August 7, 2017

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Financial Position
December 31, 2016 and 2015**

<u>Assets</u>	2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current assets:			
Cash	\$ 1,914,251	\$ -	\$ 1,914,251
Investments	-	601,606	601,606
Pledges receivable - current	103,835	-	103,835
Grants receivable	-	-	-
Prepaid expenses	4,567	-	4,567
Land option	-	-	-
Total current assets	<u>2,022,653</u>	<u>601,606</u>	<u>2,624,259</u>
Noncurrent assets:			
Property and equipment (at cost), net	8,330,092	-	8,330,092
Pledges receivable - long-term (net)	-	-	-
Total noncurrent assets	<u>8,330,092</u>	<u>-</u>	<u>8,330,092</u>
Total assets	<u>\$ 10,352,745</u>	<u>\$ 601,606</u>	<u>\$ 10,954,352</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 26,329	\$ -	\$ 26,329
Short-term notes payable	584,100	-	584,100
Total current liabilities	<u>610,429</u>	<u>-</u>	<u>610,429</u>
Net assets:			
Unrestricted:			
Undesignated	8,292,526	-	8,292,526
Board designated	1,449,789	-	1,449,789
Temporarily restricted	-	601,606	601,606
Total net assets	<u>9,742,316</u>	<u>601,606</u>	<u>10,343,922</u>
Total liabilities and net assets	<u>\$ 10,352,745</u>	<u>\$ 601,606</u>	<u>\$ 10,954,352</u>

See accompanying notes to financial statements.

2015		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 2,133,745	\$ -	\$ 2,133,745
-	572,776	572,776
108,100	-	108,100
-	3,144	3,144
3,253	-	3,253
50,000	-	50,000
<u>2,295,098</u>	<u>575,921</u>	<u>2,871,018</u>
5,381,225	-	5,381,225
100,620	-	100,620
<u>5,481,844</u>	<u>-</u>	<u>5,481,844</u>
<u>\$ 7,776,942</u>	<u>\$ 575,921</u>	<u>\$ 8,352,864</u>
\$ 11,237	\$ -	\$ 11,237
-	-	-
<u>11,237</u>	<u>-</u>	<u>11,237</u>
5,996,435	-	5,996,435
1,769,271	-	1,769,271
-	575,921	575,921
<u>7,765,706</u>	<u>575,921</u>	<u>8,341,627</u>
<u>\$ 7,776,942</u>	<u>\$ 575,921</u>	<u>\$ 8,352,864</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Activities For the Years Ended December 31, 2016 and 2015

	2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Contributions	\$ 189,241	\$ 115,916	\$ 305,157
Preserve income	-	50,294	50,294
Noncash contributions	-	-	-
Special events, net	59,917	-	59,917
Grants:			
Rostan Family Foundation	-	-	-
Town of Valdese	10,000	-	10,000
Von Drehle Private Foundation	5,000	-	5,000
Fred and Alice Stanback	100,000	2,170,425	2,270,425
Z. Smith Reynolds	-	35,000	35,000
Foundation for the Carolinas	-	-	-
Dover Foundation	-	1,000	1,000
Catawba County	2,000	-	2,000
Southern Appalachian Highlands Conservancy	-	27,700	27,700
Conservation Trust for North Carolina	-	86,649	86,649
Unifour Foundation	5,000	-	5,000
N.C. Department of Environment & Natural Resources-CWMTF	-	226,862	226,862
Clabough Foundation	-	12,500	12,500
U.S. Endowment for Forestry and Communities	-	30,000	30,000
North Carolina Community Foundation, Inc.	-	100,000	100,000
Wilson Family Foundation	25,000	-	25,000
Community Foundation of Burke County	8,912	-	8,912
Total	<u>405,070</u>	<u>2,856,346</u>	<u>3,261,416</u>
Net assets released from restrictions:			
Satisfaction of program transactions	2,830,661	(2,830,661)	-
Total revenues	<u>3,235,731</u>	<u>25,685</u>	<u>3,261,416</u>
Expenses:			
Program services	1,159,009	-	1,159,009
Management and General	91,811	-	91,811
Fundraising	45,906	-	45,906
Total expenses	<u>1,296,726</u>	<u>-</u>	<u>1,296,726</u>
Changes in net assets before nonoperating revenue (expense)	<u>1,939,005</u>	<u>25,685</u>	<u>1,964,690</u>
Nonoperating Revenue (Expense):			
Unrealized gains (losses) on investments	7,328	-	7,328
Realized gains (losses) on investments	2,320	-	2,320
Interest expense	(1,996)	-	(1,996)
Interest and dividend income	29,952	-	29,952
Total	<u>37,605</u>	<u>-</u>	<u>37,605</u>
Changes in net assets	1,976,609	25,685	2,002,294
Net assets, beginning of year	7,765,706	575,921	8,341,627
Net assets, end of year	<u>\$ 9,742,316</u>	<u>\$ 601,606</u>	<u>\$10,343,922</u>

See accompanying notes to financial statements.

2015		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 638,045	\$ -	\$ 638,045
-	-	-
53,001	284,400	337,401
48,325	-	48,325
-	60,000	60,000
-	-	-
-	-	-
100,000	-	100,000
-	45,000	45,000
-	1,494,740	1,494,740
-	-	-
-	-	-
-	-	-
-	41,927	41,927
-	-	-
-	1,083,668	1,083,668
-	-	-
-	90,000	90,000
-	-	-
-	-	-
-	8,710	8,710
839,372	3,108,445	3,947,817
6,353,920	(6,353,920)	-
<u>7,193,292</u>	<u>(3,245,475)</u>	<u>3,947,817</u>
2,187,603	-	2,187,603
87,384	-	87,384
43,693	-	43,693
<u>2,318,680</u>	<u>-</u>	<u>2,318,680</u>
4,874,612	(3,245,475)	1,629,137
(33,305)	-	(33,305)
1,381	-	1,381
-	-	-
18,907	-	18,907
<u>(13,018)</u>	<u>-</u>	<u>(13,018)</u>
4,861,595	(3,245,475)	1,616,120
2,904,111	3,821,396	6,725,507
<u>\$ 7,765,706</u>	<u>\$ 575,921</u>	<u>\$ 8,341,627</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Functional Expenses
For the Years Ended December 31, 2016 and 2015**

	2016			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 205,345	\$ 58,670	\$ 29,335	\$ 293,350
Payroll taxes	16,269	4,648	2,324	23,241
Employee benefits	29,429	8,408	4,204	42,042
Dues and subscriptions	1,024	293	146	1,463
Insurance	4,970	1,420	710	7,100
Maintenance	3,748	1,071	535	5,354
Meetings and workshops	3,273	935	468	4,676
Conservation easement purchase	410,276	-	-	410,276
Travel	4,554	1,301	651	6,505
Telephone	5,672	1,620	810	8,102
Professional services - contract	41,336	-	-	41,336
Office supplies	2,616	747	374	3,736
Database maintenance	-	-	-	-
Utilities	1,764	504	252	2,520
Rent	5,460	1,560	780	7,800
Property taxes	1,208	-	-	1,208
Professional fees	12,960	3,703	1,851	18,514
Printing	10,049	2,871	1,436	14,355
Postage	1,746	499	249	2,495
Depreciation	3,143	898	449	4,490
Pension plan	6,995	1,999	999	9,994
Bank service charges and administrative fees	5,312	1,518	759	7,589
Bad debts (allowance for uncollectible pledges - see footnote 5)	(3,864)	(1,104)	(552)	(5,520)
Grants to partners	19,668	-	-	19,668
Below book land sales	236,820	-	-	236,820
Land stewardship	128,361	-	-	128,361
Miscellaneous	876	250	125	1,252
Total expenses	<u>\$ 1,159,009</u>	<u>\$ 91,811</u>	<u>\$ 45,906</u>	<u>\$ 1,296,726</u>

See accompanying notes to financial statements.

2015

<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 191,547	\$ 54,728	\$ 27,364	\$ 273,638
15,175	4,336	2,168	21,679
24,931	7,123	3,562	35,616
821	235	117	1,173
3,758	1,074	537	5,368
2,922	835	417	4,175
4,703	1,344	672	6,718
998,400	-	-	998,400
3,287	939	470	4,696
6,094	1,741	871	8,705
57,738	-	-	57,738
4,479	1,280	640	6,398
560	160	80	800
1,755	501	251	2,506
5,460	1,560	780	7,800
2,420	-	-	2,420
18,902	5,401	2,700	27,003
5,756	1,645	822	8,223
3,508	1,002	501	5,011
2,685	767	384	3,836
6,229	1,780	890	8,898
4,568	1,305	653	6,526
(3,609)	(1,031)	(516)	(5,155)
63,402	-	-	63,402
759,807	-	-	759,807
-	-	-	-
<u>2,305</u>	<u>660</u>	<u>331</u>	<u>3,297</u>
<u>\$ 2,187,603</u>	<u>\$ 87,384</u>	<u>\$ 43,693</u>	<u>\$ 2,318,680</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015**

	2016		Total
	Unrestricted	Temporarily Restricted	
Cash Flows From Operating Activities:			
Changes in net assets	\$ 1,976,609	\$ 25,685	\$ 2,002,294
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	4,490	-	4,490
Unrealized (gain) loss on investments	(7,328)	-	(7,328)
Realized (gain) loss on investments	(2,320)	-	(2,320)
Expense on sale of property	-	-	-
Below book land sales	-	-	-
Noncash contributions	-	-	-
(Increase) decrease in operating assets:			
Grants and pledges receivable	3,145	104,885	108,030
Prepaid expenses	(1,314)	-	(1,314)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	15,093	-	15,093
Net cash provided (used) by operating activities	<u>1,988,375</u>	<u>130,570</u>	<u>2,118,945</u>
Cash Flows From Investing Activities:			
Purchase of property and equipment	(3,281,950)	-	(3,281,950)
Land option	50,000	-	50,000
Purchase of investments	(19,182)	-	(19,182)
Proceeds from sale of land	328,593	-	328,593
Net cash provided (used) by investing activities	<u>(2,922,539)</u>	<u>-</u>	<u>(2,922,539)</u>
Cash Flows From Financing Activities:			
Proceeds from short-term payable	-	584,100	584,100
Net cash provided (used) by financing activities	<u>-</u>	<u>584,100</u>	<u>584,100</u>
Net increase (decrease) in cash and cash equivalents	(934,164)	714,669	(219,495)
Transfer of funds	714,669	(714,669)	-
Beginning cash and cash equivalents	<u>2,133,745</u>	<u>-</u>	<u>2,133,745</u>
Ending cash and cash equivalents	<u>\$ 1,914,251</u>	<u>\$ -</u>	<u>\$ 1,914,251</u>
Supplemental Information:			
Cash received for interest			<u>\$ 29,952</u>
Cash paid for interest			<u>\$ 1,996</u>
Noncash Transaction:			
Acquisition of property through donations			<u>\$ -</u>
Acquisition of stock through contributions			<u>\$ -</u>
<i>See accompanying notes to financial statements.</i>			

2015		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 4,861,595	\$ (3,245,475)	\$ 1,616,120
3,836	-	3,836
33,305	-	33,305
(1,381)	-	(1,381)
(19,908)	-	(19,908)
759,807	-	759,807
(53,001)	(284,400)	(337,401)
97,945	(1,772)	96,173
(3,253)	-	(3,253)
<u>11,238</u>	<u>-</u>	<u>11,238</u>
<u>5,690,183</u>	<u>(3,531,647)</u>	<u>2,158,536</u>
(1,144,015)	-	(1,144,015)
(50,000)	-	(50,000)
(9,829)	-	(9,829)
87,999	-	87,999
<u>(1,115,845)</u>	<u>-</u>	<u>(1,115,845)</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
4,574,338	(3,531,648)	1,042,690
(3,531,648)	3,531,648	-
<u>1,091,056</u>	<u>-</u>	<u>1,091,056</u>
<u>\$ 2,133,745</u>	<u>\$ -</u>	<u>\$ 2,133,745</u>
		<u>\$ 18,907</u>
		<u>\$ -</u>
		<u>\$ 284,400</u>
		<u>\$ 53,001</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

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.

Open Tax Years - The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2015, 2014 and 2013 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.

Reclassifications - Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform with presentation in the 2016 financial statements.

2. Investments

The following is a summary of the Organization's investments as of December 31, 2016 and 2015.

	<u>2016</u>		
	<u>Cost</u>	<u>Gross Unrealized Gain (loss)</u>	<u>Fair Value 12/31/16</u>
Pooled multi-management fund	\$121,014	\$ 7,328	\$128,342
U. S. equities	118,316	-	118,316
International equities	56,792	-	56,792
Directional hedge funds	70,990	-	70,990
Emerging markets	37,861	-	37,861
Fixed Income	70,990	-	70,990
Diversifying hedge funds	70,990	-	70,990
Real assets	<u>47,325</u>	-	<u>47,325</u>
	<u>\$594,278</u>	<u>\$ 7,328</u>	<u>\$601,606</u>

	<u>2015</u>		
	<u>Cost</u>	<u>Gross Unrealized Gain (loss)</u>	<u>Fair Value 12/31/15</u>
Pooled multi-management fund	\$124,973	\$ (6,705)	\$118,268
U. S. equities	163,577	(9,044)	154,533
International equities	57,733	(3,192)	54,541
Small cap equities	57,733	(3,192)	54,541
Large cap equities	48,111	(2,660)	45,451
Fixed income funds	81,788	(4,522)	77,266
Hedge funds	48,111	(2,660)	45,451
Real assets	<u>24,055</u>	<u>(1,330)</u>	<u>22,725</u>
	<u>\$606,081</u>	<u>\$ (33,305)</u>	<u>\$572,776</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

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 liability
- 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, 2016 and 2015 are as follows:

	2016				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled multi-management fund	\$128,342	\$128,342	\$ -	\$ -	\$128,342
U. S. equities	118,316	-	-	118,316	118,316
International equities	56,792	-	-	56,792	56,792
Directional hedge funds	70,990	-	-	70,990	70,990
Emerging markets	37,861	-	-	37,861	37,861
Fixed income	70,990	-	-	70,990	70,990
Diversifying hedge funds	70,990	-	-	70,990	70,990
Real assets	<u>47,325</u>	<u>-</u>	<u>-</u>	<u>47,325</u>	<u>47,325</u>
Total investments	<u>\$601,606</u>	<u>\$128,342</u>	<u>\$ -</u>	<u>\$ 473,264</u>	<u>\$601,606</u>
	2015				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled multi-management fund	\$118,268	\$118,268	\$ -	\$ -	\$118,268
U. S. equities	154,533	-	-	154,533	154,533
International equities	54,541	-	-	54,541	54,541
Small cap equities	54,541	-	-	54,541	54,541
Large cap equities	45,451	-	-	45,451	45,451
Fixed income funds	77,266	-	-	77,266	77,266
Hedge funds	45,451	-	-	45,451	45,451
Real assets	<u>22,725</u>	<u>-</u>	<u>-</u>	<u>22,725</u>	<u>22,725</u>
Total investments	<u>\$572,776</u>	<u>\$118,268</u>	<u>\$ -</u>	<u>\$ 454,508</u>	<u>\$572,776</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>2016</u>	<u>2015</u>
Level 3 inputs, beginning of year	\$454,508	\$ 90,014
Purchases of investments	(7,149)	750
Transfer into Level 3	-	389,886
Sales	-	-
Net realized and unrealized gains	<u>25,905</u>	<u>(26,142)</u>
Level 3 inputs, end of year	<u>\$473,264</u>	<u>\$454,508</u>

5. 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, 2016 and 2015. Pledges receivable are classified as unrestricted at the reporting date.

Pledges receivable are summarized as follows at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Pledges expected to be collected in:		
Less than one year	\$109,300	\$108,100
One year to five years	-	111,605
Allowance for uncollectible pledges	<u>(5,465)</u>	<u>(10,985)</u>
	<u>\$103,835</u>	<u>\$208,720</u>

Pledges receivable consists 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.

6. Property and Equipment

Property and equipment is summarized as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 8,294,000	\$ 5,373,378
Equipment	26,809	24,324
Furniture and fixtures	1,545	1,545
Vehicle	<u>39,857</u>	<u>15,190</u>
Total	8,362,211	5,414,437
Less accumulated depreciation	<u>(32,119)</u>	<u>(33,212)</u>
Property and equipment, net	<u>\$ 8,330,092</u>	<u>\$ 5,381,225</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$4,490 and \$3,836, respectively.

7. 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, 2016, the fund value was \$59,055.

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, 2016, the fund value was \$128,342 which is shown on the Statements of Financial Position as temporarily restricted 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 anytime may request all of the monies other than \$20,000. At December 31, 2016, the fund values were \$473,264 which are shown on the Statements of Financial Position as temporarily restricted investments.

The Community Foundation of Western North Carolina limited endowment was \$128,342 and the Foundation for the Carolinas endowment was \$473,264 for a total of \$601,606. See footnote 2 for additional information on these endowments.

8. 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 \$9,994 and \$8,898 for the years ended December 31, 2016 and 2015, respectively.

9. 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 \$1,663,822 and \$1,892,560 at December 31, 2016 and 2015, respectively.

10. Lease

The Conservancy leases office space under an operating lease expiring in 2017.

Minimum future rental payments under the operating lease as of December 31, 2016 for the next year are as follows:

<u>Year Ended</u>	<u>Amount</u>
2017	<u>\$7,800</u>

Rent expense was \$7,800 for the years ended December 31, 2016 and 2015.

11. 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.

12. 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, 2016, 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.

13. Below Book Land Sales

2016

During 2016, Foothills Conservancy conveyed Buck Creek Gap land to the U.S. Forest Services. This property was purchased with donated funds; however, the donor originally provided those funds with the understanding that most of the monies be re-granted at such time as the land was sold or conveyed. Accordingly, \$271,560 was returned to the donor in 2016, creating a below book land sale of \$236,820.

2015

Foothills Conservancy received 28 lots located in Lake Hickory residential subdivisions in the vicinity of Grace Chapel Road in Caldwell County on December 21, 2007 as an unrestricted gift. At the time, the total assessed property tax value was approximately \$900,000 based on a recent county revaluation made just prior to the gift and at the height of the real estate bubble that preceded the 2008 recession. In 2013, the county again revalued properties, and Foothills Conservancy appealed the 2013 valuation of the 28 lots. In response, the county reduced the total valuation of the 28 lots to \$307,000. In 2015, Foothills Conservancy's Board of Directors approved the absolute auction of the 28 lots rather than listing the lots for sale by a realtor in order to preclude the possibility of continued ownership and responsibility of undesirable lots. All 28 lots sold producing a total gross sales price income of \$68,062.

Real estate professionals advised Foothills Conservancy that market values for the 28 lots were quite low or modest in their opinions. The lack of market activity for raw lots in this vicinity of Caldwell County lent support for the prices paid for the 28 lots. Sales of excess inventory of similar distressed properties significantly influenced and depressed market values at the time.

14. Subsequent Events

Management has evaluated subsequent events through August 7, 2017, 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.

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

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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, 2016, 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 August 7, 2017.

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, 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 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.

Lowmick Church & Co., L.L.P.

Morganton, North Carolina
August 7, 2017