

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

Financial Statements, Supplemental Schedule  
and Independent Auditors' Report and Compliance Report  
For the Years Ended December 31, 2015 and 2014

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



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# FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

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

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121 N. 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 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, 2015 and 2014, 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, 2015 and 2014, 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 31, 2016, 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 31, 2016

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

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**Statements of Financial Position  
December 31, 2015 and 2014**

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<u>Assets</u>	2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current assets:			
Cash	\$ 2,133,745	\$ -	\$ 2,133,745
Investments	-	572,776	572,776
Pledges receivable - current	108,100	-	108,100
Grants receivable	-	3,144	3,144
Prepaid expenses	3,253	-	3,253
Land option	-	50,000	50,000
	<u>2,245,098</u>	<u>625,921</u>	<u>2,871,018</u>
Total current assets			
Noncurrent assets:			
Property and equipment (at cost), net	7,847	5,373,378	5,381,225
Pledges receivable - long-term (net)	100,620	-	100,620
	<u>108,466</u>	<u>5,373,378</u>	<u>5,481,844</u>
Total noncurrent assets			
Total assets	<u>\$ 2,353,564</u>	<u>\$ 5,999,299</u>	<u>\$ 8,352,864</u>
 <b><u>Liabilities and Net Assets</u></b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 11,237	\$ -	\$ 11,237
	<u>11,237</u>	<u>-</u>	<u>11,237</u>
Total current liabilities			
Net assets:			
Unrestricted:			
Undesignated	573,057	-	573,057
Board designated	1,769,271	-	1,769,271
Temporarily restricted	-	5,999,299	5,999,299
	<u>2,342,328</u>	<u>5,999,299</u>	<u>8,341,627</u>
Total net assets			
Total liabilities and net assets	<u>\$ 2,353,564</u>	<u>\$ 5,999,299</u>	<u>\$ 8,352,864</u>

*See accompanying notes to financial statements.*



2014		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,091,056	\$ -	\$ 1,091,056
-	541,871	541,871
105,600	-	105,600
-	1,373	1,373
-	-	-
-	-	-
<u>1,196,656</u>	<u>543,243</u>	<u>1,739,899</u>
1,506,391	3,278,153	4,784,544
<u>201,065</u>	<u>-</u>	<u>201,065</u>
<u>1,707,455</u>	<u>3,278,153</u>	<u>4,985,608</u>
<u>\$ 2,904,111</u>	<u>\$ 3,821,396</u>	<u>\$ 6,725,507</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>-</u>	<u>-</u>	<u>-</u>
1,923,962	-	1,923,962
980,149	-	980,149
<u>-</u>	<u>3,821,396</u>	<u>3,821,396</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>2,904,111</u>	<u>3,821,396</u>	<u>6,725,507</u>
<u>\$ 2,904,111</u>	<u>\$ 3,821,396</u>	<u>\$ 6,725,507</u>

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

**Statements of Activities  
For the Years Ended December 31, 2015 and 2014**

	2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues:</b>			
Contributions	\$ 638,045	\$ -	\$ 638,045
Noncash contributions	53,001	284,400	337,401
Special events, net	48,325	-	48,325
Grants:			
Rostan Family Foundation	-	60,000	60,000
Blumenthal Foundation	-	-	-
Von Drehle Private Foundation	-	-	-
Fred and Alice Stanback	100,000	-	100,000
Z. Smith Reynolds	-	45,000	45,000
Foundation for the Carolinas	-	1,494,740	1,494,740
Other grants	-	-	-
Catawba County	-	-	-
Dover Foundation	-	-	-
Conservation Trust for North Carolina	-	41,927	41,927
Unifour Foundation	-	-	-
N.C. Department of Environment & Natural Resources-CWMTF	-	1,083,668	1,083,668
Clabough Foundation	-	-	-
U.S. Endowment for Forestry and Communities	-	90,000	90,000
The Community Foundation of Western NC, Inc.	-	-	-
Wilson Family Foundation	-	-	-
Community Foundation of Burke County	-	8,710	8,710
Total	<u>839,372</u>	<u>3,108,445</u>	<u>3,947,817</u>
Net assets released from restrictions:			
Satisfaction of program transactions	<u>930,542</u>	<u>(930,542)</u>	<u>-</u>
Total revenues	<u>1,769,914</u>	<u>2,177,903</u>	<u>3,947,817</u>
<b>Expenses:</b>			
Program services	2,187,603	-	2,187,603
Management and General	87,384	-	87,384
Fundraising	<u>43,693</u>	<u>-</u>	<u>43,693</u>
Total expenses	<u>2,318,680</u>	<u>-</u>	<u>2,318,680</u>
Changes in net assets before nonoperating revenue (expense)	<u>(548,766)</u>	<u>2,177,903</u>	<u>1,629,137</u>
<b>Nonoperating Revenue (Expense):</b>			
Unrealized gains (losses) on investments	(33,305)	-	(33,305)
Realized gains (losses) on investments	1,381	-	1,381
Interest expense	-	-	-
Interest and dividend income	<u>18,907</u>	<u>-</u>	<u>18,907</u>
Total	<u>(13,018)</u>	<u>-</u>	<u>(13,018)</u>
Changes in net assets	(561,784)	2,177,903	1,616,119
Net assets, beginning of year	2,904,111	3,821,396	6,725,507
Net assets, end of year	<u>\$ 2,342,328</u>	<u>\$ 5,999,299</u>	<u>\$ 8,341,627</u>

See accompanying notes to financial statements.

2014		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 365,035	\$ 109,518	\$ 474,553
-	-	-
43,843	-	43,843
-	-	-
-	15,000	15,000
-	5,000	5,000
-	5,000	5,000
-	-	-
-	46,820	46,820
-	304,686	304,686
-	2,000	2,000
-	2,000	2,000
-	2,500	2,500
-	134,450	134,450
-	5,000	5,000
-	9,579	9,579
-	10,000	10,000
-	26,500	26,500
-	25,000	25,000
-	14,691	14,691
<u>408,878</u>	<u>717,744</u>	<u>1,126,622</u>
<u>507,155</u>	<u>(507,155)</u>	<u>-</u>
<u>916,033</u>	<u>210,589</u>	<u>1,126,622</u>
556,820	-	556,820
74,378	-	74,378
37,190	-	37,190
<u>668,388</u>	<u>-</u>	<u>668,388</u>
<u>247,645</u>	<u>210,589</u>	<u>458,234</u>
(13,964)	-	(13,964)
26,829	-	26,829
(1,909)	-	(1,909)
9,827	-	9,827
<u>20,783</u>	<u>-</u>	<u>20,783</u>
268,429	210,589	479,018
<u>2,635,682</u>	<u>3,610,807</u>	<u>6,246,489</u>
<u>\$ 2,904,111</u>	<u>\$ 3,821,396</u>	<u>\$ 6,725,507</u>

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

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**Statements of Functional Expenses  
For the Years Ended December 31, 2015 and 2014**

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	2015			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 191,547	\$ 54,728	\$ 27,364	\$ 273,638
Payroll taxes	15,175	4,336	2,168	21,679
Employee benefits	24,931	7,123	3,562	35,616
Dues and subscriptions	821	235	117	1,173
Insurance	3,758	1,074	537	5,368
Maintenance	2,922	835	417	4,175
Meetings and workshops	4,703	1,344	672	6,718
Conservation easement purchase	998,400	-	-	998,400
Travel	3,287	939	470	4,696
Telephone	6,094	1,741	871	8,705
Professional services - contract	57,738	-	-	57,738
Office supplies	4,479	1,280	640	6,398
Database maintenance	560	160	80	800
Utilities	1,755	501	251	2,506
Rent	5,460	1,560	780	7,800
Property taxes	2,420	-	-	2,420
Professional fees	18,902	5,401	2,700	27,003
Printing	5,756	1,645	822	8,223
Postage	3,508	1,002	501	5,011
Depreciation	2,685	767	384	3,836
Pension plan	6,229	1,780	890	8,898
Bank service charges and administrative fees	4,568	1,305	653	6,526
Bad debts (allowance for uncollectible pledges - see footnote 5)	(3,609)	(1,031)	(516)	(5,155)
Grants to partners	63,402	-	-	63,402
Below book land sales	759,807	-	-	759,807
Miscellaneous	2,305	660	331	3,297
	<u>2,305</u>	<u>660</u>	<u>331</u>	<u>3,297</u>
<b>Total expenses</b>	<b><u>\$ 2,187,603</u></b>	<b><u>\$ 87,384</u></b>	<b><u>\$ 43,693</u></b>	<b><u>\$ 2,318,680</u></b>

*See accompanying notes to financial statements.*

2014

<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 171,110	\$ 48,889	\$ 24,444	\$ 244,443
14,285	4,081	2,041	20,407
15,386	4,396	2,198	21,980
1,187	339	170	1,695
3,623	1,035	518	5,176
1,593	455	228	2,275
3,689	1,054	527	5,270
-	-	-	-
5,945	1,698	849	8,492
6,000	1,714	857	8,571
96,936	-	-	96,936
1,768	505	253	2,526
-	-	-	-
1,906	545	272	2,723
5,460	1,560	780	7,800
2,308	-	-	2,308
10,723	3,064	1,532	15,318
5,815	1,661	831	8,307
1,851	529	264	2,645
2,633	752	376	3,762
5,731	1,638	819	8,188
4,258	1,217	608	6,083
(3,696)	(1,056)	(528)	(5,280)
51,850	-	-	51,850
145,400	-	-	145,400
1,057	302	151	1,510
<u>\$ 556,820</u>	<u>\$ 74,378</u>	<u>\$ 37,190</u>	<u>\$ 668,387</u>

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

**Statements of Cash Flows  
For the Years Ended December 31, 2015 and 2014**

	2015		Total
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	
<b>Cash Flows From Operating Activities:</b>			
Changes in net assets	\$ (561,784)	\$ 2,177,903	\$ 1,616,119
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	3,836	-	3,836
Unrealized (gain) loss on investments	33,305	-	33,305
Realized (gain) loss on investments	(1,381)	-	(1,381)
Expense on sale of property	(19,908)	-	(19,908)
Below book land sales	759,807	-	759,807
Noncash contributions	(53,001)	(284,400)	(337,401)
(Increase) decrease in operating assets:			
Grants and pledges receivable	97,945	(1,772)	96,173
Prepaid expenses	(3,253)	-	(3,253)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	11,238	-	11,238
Net cash provided (used) by operating activities	<u>266,804</u>	<u>1,891,731</u>	<u>2,158,535</u>
<b>Cash Flows From Investing Activities:</b>			
Purchase of property and equipment	-	(1,144,015)	(1,144,015)
Land option	-	(50,000)	(50,000)
Purchase of investments	(9,829)	-	(9,829)
Proceeds from sale of land	87,999	-	87,999
Net cash provided (used) by investing activities	<u>78,170</u>	<u>(1,194,015)</u>	<u>(1,115,845)</u>
<b>Cash Flows From Financing Activities:</b>			
Payments on short-term payable	-	-	-
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	344,974	697,715	1,042,689
Transfer of funds	697,715	(697,715)	-
Beginning cash and cash equivalents	<u>1,091,056</u>	<u>-</u>	<u>1,091,056</u>
Ending cash and cash equivalents	<u>\$ 2,133,745</u>	<u>\$ -</u>	<u>\$ 2,133,745</u>
<b>Supplemental Information:</b>			
Cash received for interest			<u>\$ 18,907</u>
Cash paid for interest			<u>\$ -</u>
<b>Noncash Transaction:</b>			
Acquisition of property through donations			<u>\$ 284,400</u>
Acquisition of stock through contributions			<u>\$ 53,001</u>
<i>See accompanying notes to financial statements.</i>			

2014		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 268,429	\$ 210,589	\$ 479,018
3,762	-	3,762
-	13,964	13,964
-	(26,829)	(26,829)
-	-	-
134,269	-	134,269
100,315	10,877	111,192
-	-	-
-	-	-
<u>(22,285)</u>	<u>-</u>	<u>(22,285)</u>
<u>484,490</u>	<u>208,601</u>	<u>693,091</u>
(373,847)	-	(373,847)
-	-	-
-	(83,600)	(83,600)
<u>260,000</u>	<u>-</u>	<u>260,000</u>
<u>(113,847)</u>	<u>(83,600)</u>	<u>(197,447)</u>
<u>-</u>	<u>(125,000)</u>	<u>(125,000)</u>
<u>-</u>	<u>(125,000)</u>	<u>(125,000)</u>
370,643	-	370,643
-	-	-
<u>720,413</u>	<u>-</u>	<u>720,413</u>
<u>\$ 1,091,056</u>	<u>\$ -</u>	<u>\$ 1,091,056</u>
		<u>\$ 7,347</u>
		<u>\$ 1,909</u>
		<u>\$ -</u>
		<u>\$ -</u>





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# FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

## Notes to Financial Statements For the Years Ended December 31, 2015 and 2014

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### 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 2014, 2013 and 2012 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 2014 financial statements have been reclassified for comparative purposes to conform with presentation in the 2015 financial statements.



## 2. Investments

The following is a summary of the Organization's investments as of December 31, 2015 and 2014.

	2015		
	<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
Directional hedge funds	57,733	(3,192)	54,541
Emerging markets	48,111	(2,660)	45,451
Fixed Income	81,788	(4,522)	77,266
Diversifying hedge funds	48,111	(2,660)	45,451
Real assets	24,055	(1,330)	22,725
	<u>\$606,081</u>	<u>\$(33,305)</u>	<u>\$572,776</u>

  

	2014		
	<u>Cost</u>	<u>Gross Unrealized Gain (loss)</u>	<u>Fair Value 12/31/14</u>
Pooled multi-management fund	\$127,480	\$ (3,695)	\$123,785
International equities	96,378	(2,309)	94,069
Small cap equities	21,417	(513)	20,904
Large cap equities	123,237	(2,954)	120,283
Fixed income funds	73,678	(1,767)	71,911
Hedge funds	92,226	(2,212)	90,014
Real assets	21,419	(514)	20,905
	<u>\$555,835</u>	<u>\$(13,964)</u>	<u>\$541,871</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, 2015 and 2014 are as follows:

	<u>2015</u>				
	<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
Directional hedge funds	54,541	-	-	54,541	54,541
Emerging markets	45,451	-	-	45,451	45,451
Fixed income	77,266	-	-	77,266	77,266
Diversifying 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>
	<u>2014</u>				
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pooled multi-management fund	\$123,785	\$123,785	\$ -	\$ -	\$123,785
International equities	94,069	94,069	-	-	94,069
Small cap equities	20,904	20,904	-	-	20,904
Large cap equities	120,283	120,283	-	-	120,283
Fixed income funds	71,911	71,911	-	-	71,911
Hedge funds	90,014	-	-	90,014	90,014
Real assets	<u>20,905</u>	<u>20,905</u>	<u>-</u>	<u>-</u>	<u>20,905</u>
Total investments	<u>\$541,871</u>	<u>\$451,857</u>	<u>\$ -</u>	<u>\$90,014</u>	<u>\$541,871</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>2015</u>	<u>2014</u>
Level 3 inputs, beginning of year	\$90,014	\$62,277
Purchases of investments	750	-
Transfer into Level 3	389,886	-
Sales	-	-
Net realized and unrealized gains	<u>(26,142)</u>	<u>27,737</u>
Level 3 inputs, end of year	<u>\$454,508</u>	<u>\$90,014</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, 2015 and 2014. Pledges receivable are classified as unrestricted at the reporting date.

Pledges receivable are summarized as follows at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Pledges expected to be collected in:		
Less than one year	\$108,100	\$105,600
One year to five years	111,605	217,205
Allowance for uncollectible pledges	<u>(10,985)</u>	<u>(16,140)</u>
	<u>\$208,720</u>	<u>\$306,665</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>2015</u>	<u>2014</u>
Land	\$ 5,373,378	\$ 4,772,861
Equipment	24,324	24,324
Furniture and fixtures	1,545	1,545
Vehicle	<u>15,190</u>	<u>15,190</u>
Total	5,414,437	4,813,920
Less accumulated depreciation	<u>(33,212)</u>	<u>(29,376)</u>
Property and equipment, net	<u>\$ 5,381,225</u>	<u>\$ 4,784,544</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$3,836 and \$3,762, 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, 2015, the fund value was \$56,849.

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, 2015, the fund value was \$118,268 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, 2015, the fund values were \$454,508 which are shown on the Statements of Financial Position as temporarily restricted investments.

The Community Foundation of Western North Carolina limited endowment was \$118,268 and the Foundation for the Carolinas endowment was \$454,508 for a total of \$572,776. 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 \$8,898 and \$8,188 for the years ended December 31, 2015 and 2014, 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 \$1,892,560 and \$901,500 at December 31, 2015 and 2014, respectively.

**10. Lease**

The Conservancy leases office space under an operating lease expiring in 2016.

Minimum future rental payments under the operating lease as of December 31, 2015 for the next year are as follows:

<u>Year Ended</u>	<u>Amount</u>
2016	<u>\$7,800</u>

Rent expense was \$7,800 for the years ended December 31, 2015 and 2014.

**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, 2015, 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**

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 31, 2016, 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 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, 2015, 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 31, 2016.

**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 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. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.



### Inadequate Segregation of Duties

- Condition: 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 the Organization to provide oversight.
- Effect: Material misstatements could occur whether due to fraud or error and not be detected on a timely basis.
- Response: The governing board will remain involved in the financial affairs in order to provide oversight.

### Preparation of the Financial Statements

- Condition: Lowdermilk Church & Co., LLP (the independent auditors) prepared the draft financial statements for the Organization. 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.
- Effect: If the organization prepared the financial statements, they may not be prepared in accordance with generally accepted accounting principles (GAAP).
- Response: The board of directors and management will continue services with the independent accountants to prepare the financial statements in accordance with generally accepted accounting principles.

### **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.

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

Foothills Conservancy of North Carolina, Inc.'s response to the findings identified in our audit is described 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.



## **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.

*Lowmitch Chewh + Co., L.L.P.*

Morganton, North Carolina  
August 31, 2016

