

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

Financial Statements, Supplemental Schedule, Compliance Report
and Independent Auditors' Report
For the Years Ended December 31, 2009 and 2008

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

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

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Certified Public Accountants

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Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Foothills Conservancy of North Carolina, Inc. (a non-profit organization), as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Foothills Conservancy of North Carolina, Inc.'s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2010 on our consideration of the Organization'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Foothills Conservancy of North Carolina, Inc. taken as a whole. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Louise Smith *Chen* & *Co.*
August 11, 2010

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Financial Position
December 31, 2009 and 2008**

<u>Assets</u>	2009		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current assets:			
Cash	\$ 199,552	\$ 207,068	\$ 406,619
Investments	-	207,321	207,321
Grants receivable	-	-	-
Land option	-	10,000	10,000
Total current assets	199,552	424,389	623,940
Property and equipment (at cost), net	1,678,729	905,818	2,584,547
Total assets	<u>\$ 1,878,280</u>	<u>\$ 1,330,207</u>	<u>\$3,208,487</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 51,017	\$ -	\$ 51,017
Short-term notes payable	452,111	-	452,111
Total current liabilities	503,128	-	503,128
Long-term liabilities:			
Long-term notes payable	-	-	-
Net assets:			
Unrestricted	1,375,152	-	1,375,152
Temporarily restricted	-	1,330,207	1,330,207
Total net assets	1,375,152	1,330,207	2,705,359
Total liabilities and net assets	<u>\$ 1,878,280</u>	<u>\$ 1,330,207</u>	<u>\$3,208,487</u>

See accompanying notes to financial statements.

2008		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 72,999	\$ 170,033	\$ 243,032
-	90,560	90,560
-	22,180	22,180
-	22,100	22,100
72,999	304,873	377,872
<u>1,680,486</u>	<u>905,818</u>	<u>2,586,304</u>
<u>\$ 1,753,485</u>	<u>\$ 1,210,691</u>	<u>\$2,964,176</u>
\$ 59,623	\$ -	\$ 59,623
<u>452,111</u>	<u>-</u>	<u>452,111</u>
<u>511,735</u>	<u>-</u>	<u>511,735</u>
-	-	-
1,241,750	-	1,241,750
<u>-</u>	<u>1,210,691</u>	<u>1,210,691</u>
<u>1,241,750</u>	<u>1,210,691</u>	<u>2,452,441</u>
<u>\$ 1,753,485</u>	<u>\$ 1,210,691</u>	<u>\$2,964,176</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Activities
For the Years Ended December 31, 2009 and 2008**

	2009		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Contributions	\$ 82,208	\$ 203,250	\$ 285,458
Noncash contributions	-	-	-
Membership fees	46,498	-	46,498
Administrative fees	66,000	-	66,000
Grants:			
Catawba County	-	5,000	5,000
Southern Appalachian Highlands Conservancy	-	12,500	12,500
Other grants	-	32,550	32,550
Janirve Foundation	-	20,000	20,000
Conservation Trust for North Carolina	-	32,421	32,421
N.C. Department of Environment and Natural Resources	-	521,813	521,813
N.C. State Property Office	-	-	-
N.C. Agricultural Development and Farmland Preservation Trust Fund	-	653,927	653,927
Stanback Grant	-	30,000	30,000
Z. Smith Reynolds Foundation	-	50,000	50,000
Community Foundation of Western North Carolina	-	-	-
Total	194,706	1,561,461	1,756,167
Net assets released from restrictions:			
Satisfaction of program transactions	<u>1,441,945</u>	<u>(1,441,945)</u>	<u>-</u>
Total revenues	1,636,651	119,516	1,756,167
Expenses:			
Operating expenses	<u>1,526,358</u>	<u>-</u>	<u>1,526,358</u>
Changes in net assets before nonoperating revenue (expense)	<u>110,294</u>	<u>119,516</u>	<u>229,809</u>
Nonoperating Revenue (Expense):			
Interest expense	(9,884)	-	(9,884)
Miscellaneous income	-	-	-
Unrealized gains (losses) on investments	22,385	-	22,385
Realized gains (losses) on investments	4,199	-	4,199
Loss on disposal of asset	-	-	-
Interest and dividend income	6,409	-	6,409
Total	<u>23,109</u>	<u>-</u>	<u>23,109</u>
Changes in net assets	133,402	119,516	252,918
Net assets, beginning of year	<u>1,241,750</u>	<u>1,210,691</u>	<u>2,452,441</u>
Net assets, end of year	<u>\$ 1,375,152</u>	<u>\$ 1,330,207</u>	<u>\$ 2,705,359</u>

See accompanying notes to financial statements.

2008		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 60,217	\$ 23,841	\$ 84,058
827,898	-	827,898
-	-	-
61,933	-	61,933
-	20,000	20,000
-	32,902	32,902
-	-	-
-	-	-
-	30,650	30,650
-	10,919	10,919
-	96,168	96,168
-	47,788	47,788
-	25,000	25,000
-	-	-
-	5,000	5,000
950,048	292,268	1,242,316
<u>266,049</u>	<u>(266,049)</u>	<u>-</u>
1,216,097	26,219	1,242,316
<u>375,365</u>	<u>-</u>	<u>375,365</u>
<u>840,732</u>	<u>26,219</u>	<u>866,951</u>
(24,216)	-	(24,216)
5,030	-	5,030
(37,082)	-	(37,082)
521	-	521
(56)	-	(56)
<u>5,501</u>	<u>-</u>	<u>5,501</u>
<u>(50,302)</u>	<u>-</u>	<u>(50,302)</u>
790,429	26,219	816,649
<u>451,319</u>	<u>1,184,472</u>	<u>1,635,791</u>
<u>\$ 1,241,750</u>	<u>\$ 1,210,691</u>	<u>\$ 2,452,441</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008**

	2009		
	Unrestricted	Temporarily Restricted	Total
Cash Flows From Operating Activities:			
Changes in net assets	\$ 133,402	\$ 119,516	\$ 252,918
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	3,392	-	3,392
Unrealized (gain) loss on investments	-	(22,385)	(22,385)
Realized (gain) loss on investments	-	(4,199)	(4,199)
Interest and dividend income on investments	-	-	-
Investment and administrative fees on investments	-	-	-
Loss on disposal of fixed assets	-	-	-
Noncash contributions for land	-	-	-
(Increase) decrease in operating assets:			
Grants receivable	-	22,180	22,180
Land option	-	12,100	12,100
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	(8,607)	-	(8,607)
Net cash provided (used) by operating activities	128,187	127,212	255,399
Cash Flows From Investing Activities:			
Purchase of equipment	(1,635)	-	(1,635)
Purchase of investments	-	(90,177)	(90,177)
Proceeds from sale of land	-	-	-
Net cash provided (used) by investing activities	(1,635)	(90,177)	(91,812)
Cash Flows From Financing Activities:			
Proceeds from short-term payable	-	-	-
Payments on short-term payable	-	-	-
Net cash provided (used) by financing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	126,552	37,035	163,587
Beginning cash and cash equivalents	72,999	170,033	243,032
Ending cash and cash equivalents	\$ 199,552	\$ 207,068	\$ 406,619
Supplemental Information:			
Cash paid for interest			\$ 9,884
Schedule of Noncash Investing Activities:			
Acquisition of land through contributions			\$ -

See accompanying notes to financial statements.

2008		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 790,429	\$ 26,219	\$ 816,649
4,623	-	4,623
-	37,082	37,082
-	(521)	(521)
-	(2,061)	(2,061)
-	1,377	1,377
56	-	56
(827,898)	-	(827,898)
-	41,795	41,795
-	(20,100)	(20,100)
<u>44,165</u>	<u>-</u>	<u>44,165</u>
<u>11,375</u>	<u>83,791</u>	<u>95,166</u>
-	-	-
-	-	-
<u>-</u>	<u>503,714</u>	<u>503,714</u>
<u>-</u>	<u>503,714</u>	<u>503,714</u>
44,993	-	44,993
(35,202)	(538,806)	(574,008)
<u>9,791</u>	<u>(538,806)</u>	<u>(529,015)</u>
21,166	48,699	69,865
<u>51,832</u>	<u>121,334</u>	<u>173,166</u>
<u>\$ 72,999</u>	<u>\$ 170,033</u>	<u>\$ 243,032</u>
		<u>\$ 24,216</u>
		<u>\$ 827,898</u>

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Notes to Financial Statements For the Years Ended December 31, 2009 and 2008

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.

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 - Foothills Conservancy of North Carolina, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities.

Concentration of Credit Risk - At December 31, 2009 and 2008, the Organization had deposits that exceeded the federal deposit insurance limit by \$111,718 and \$-0-, respectively.

Donated Materials and Services - Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services or immaterial equipment or materials in as much as no objective basis is available to measure the value of such services.

2. Investments

The following is a summary of the Organization's investments as of December 31, 2009 and 2008.

	<u>2009</u>		
	<u>Cost</u>	<u>Gross Unrealized Gain (loss)</u>	<u>Fair Value 12/31/09</u>
Pooled multi-manager fund	\$ 63,453	\$ (2,428)	\$ 61,025
International equities	18,222	3,722	21,944
Small cap equities	19,437	3,971	23,408
Large cap equities	21,867	4,466	26,333
Fixed income funds	43,735	8,932	52,667
Hedge funds	18,222	3,722	21,944
	<u>\$184,936</u>	<u>\$ 22,385</u>	<u>\$207,321</u>
	<u>2008</u>		
	<u>Cost</u>	<u>Gross Unrealized Gain (loss)</u>	<u>Fair Value 12/31/08</u>
International equities	\$ 18,222	\$ (4,639)	\$13,583
Small cap equities	19,437	(4,947)	14,490
Large cap equities	21,867	(5,566)	16,301
Fixed income funds	43,735	(11,133)	32,602
Hedge funds	18,222	(4,638)	13,584
	<u>\$121,483</u>	<u>\$(30,923)</u>	<u>\$90,560</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, 2009 and 2008 are as follows:

	2009		2008	
	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level I)</u>	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level I)</u>
Investments	<u>\$207,321</u>	<u>\$207,321</u>	<u>\$90,560</u>	<u>\$90,560</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

5. Property and Equipment

Property and equipment is summarized as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 2,579,809	\$ 2,579,809
Equipment	20,334	18,699
Furniture and fixtures	1,545	1,545
Vehicle	<u>2,600</u>	<u>2,600</u>
Total	2,604,288	2,602,653
Less accumulated depreciation	<u>(19,741)</u>	<u>(16,349)</u>
Equipment, net	<u>\$ 2,584,547</u>	<u>\$ 2,586,304</u>

6. Short-term Notes Payable

Short-term notes payable consists of the following:

	<u>2009</u>	<u>2008</u>
3.0% note payable, due in one installment of principal and interest in December 2009	\$ 44,993	\$ 44,993
3.0% note payable, due in one installment of principal and interest in December 2009	<u>407,118</u>	<u>407,118</u>
	<u>\$452,111</u>	<u>\$452,111</u>

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.

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.

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 \$6,420 and \$7,218 for the years ended December 31, 2009 and 2008, respectively.

9. 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.

Uncertainty in Income Taxes

In July 2006, the FASB issued interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of ASC 740-10, which clarifies the accounting for uncertainty in tax positions. Based on an evaluation of uncertain tax provisions, management is required to measure potential tax liabilities that could have a risk of greater than 50% likely of being realized upon settlement. As of December 31, 2009, management has determined that the Organization has no such risk and therefore no liabilities have been recorded for uncertain tax positions.

10. Commitments

The Conservancy acquires easements through both grants and purchases. The acquisition of easements establishes a fiduciary responsibility for the Conservancy and therefore no recording of an asset or liability is required. This fiduciary responsibility consists of an obligation to monitor and enforce this easement in accordance with the property deed.

At December 31, 2009, the Organization had a land option to purchase conservation land for \$10,000. The Organization also has 1,892 acres under conservation easements.

11. Subsequent Events

Management has evaluated subsequent events through August 11, 2010, 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.

Subsequent to year end, the short term notes payable were paid in full.

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

**Schedules of Operating Expenses
For the Years Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Operating Expenses:		
Salaries	\$ 209,792	\$ 182,004
Payroll taxes	17,635	13,908
Employee benefits	14,417	12,664
Dues and subscriptions	1,557	4,653
Insurance	3,586	4,387
Maintenance	869	4
Meetings and workshops	6,385	3,330
Conservation easement purchase	1,102,856	-
Travel	6,604	5,439
Telephone	6,788	6,107
Professional services - contract	58,788	87,678
Office supplies	2,590	3,060
Security maintenance	439	479
Database maintenance	925	895
Media ads	-	694
Utilities	2,696	2,565
Rent	7,800	7,800
Property taxes	5,446	-
Professional fees	25,837	5,490
Printing	6,051	9,007
Postage	1,987	2,778
Depreciation	3,392	4,623
Pension plan	6,420	7,218
Bank service charges and administrative fees	2,037	1,749
Contribution - Community Foundation of WNC	25,000	-
Miscellaneous	6,460	8,832
Total operating expenses	<u>\$1,526,358</u>	<u>\$ 375,365</u>

**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.
Morganton, North Carolina

We have audited the accompanying financial statements of Foothills Conservancy of North Carolina, Inc. (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated August 11, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

- 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 board of directors should remain involved in the financial affairs of the Organization to provide oversight. The board of directors will continue to remain involved in the financial affairs of the Organization to provide oversight.

- Lowdermilk Church & Co., LLP (independent auditors) prepared the draft financial statements for Foothills Conservancy of North Carolina, Inc. As with most smaller non-profit 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lowdermilk Church & Co.

August 11, 2010