FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Financial Statements, Supplemental Schedule, Compliance Report
and Independent Auditors' Report
For the Years Ended December 31, 2011 and 2010

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

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

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

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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 nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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, 2011 and 2010, 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 14, 2012, 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 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 audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Loewenstein Church & Co.

August 14, 2012

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Financial Position
December 31, 2011 and 2010

	2011		
Assets	**Unrestricted**	**Temporarily Restricted**	**Total**
Current assets:			
Cash	$ 796,479	$ -	$ 796,479
Investments	-	295,848	295,848
Grants receivable	-	1,163	1,163
Prepaid expenses	-	-	-
Land option	-	10,000	10,000
Total current assets	796,479	307,011	1,103,490
Property and equipment (at cost), net	2,435,596	905,818	3,341,414
Total assets	$ 3,232,075	$ 1,212,829	$4,444,904
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$ 7,125	$ -	$ 7,125
Total current liabilities	7,125	-	7,125
Net assets:			
Unrestricted:			
Undesignated	2,567,563	-	2,567,563
Board designated	657,387	-	657,387
Temporarily restricted	-	1,212,829	1,212,829
Total net assets	3,224,951	1,212,829	4,437,780
Total liablities and net assets	$ 3,232,075	$ 1,212,829	$4,444,904

See accompanying notes to financial statements.

2010		
Unrestricted	Temporarily Restricted	Total
$ 554,949	$ -	$ 554,949
-	265,113	265,113
-	3,618	3,618
1,000	-	1,000
-	10,000	10,000
555,949	278,730	834,679
1,815,754	905,818	2,721,572
$ 2,371,702	$ 1,184,548	$3,556,252
$ 4,062	$ -	$ 4,062
4,062	-	4,062
2,035,414	-	2,035,414
332,226	-	332,226
-	1,184,548	1,184,548
2,367,640	1,184,548	3,552,188
$ 2,371,702	$ 1,184,548	$3,556,252

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Activities
For the Years Ended December 31, 2011 and 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenues:			
Contributions	$ 223,847	$ 56,869	$ 280,716
Grants:			
Catawba County	-	-	-
Southern Appalachian Highlands Conservancy	-	85,312	85,312
Blue Ridge Forever	-	-	-
Foundation for the Carolinas	-	103,750	103,750
Other grants	-	13,580	13,580
The Glass Foundation, Inc.	-	7,500	7,500
Dover Foundation	-	5,000	5,000
Conservation Trust for North Carolina	-	30,200	30,200
N.C. Department of Environment and Natural Resources-CWMTF	-	729,943	729,943
Clabough Foundation	-	-	-
N.C. Agricultural Development and Farmland Preservation Trust Fund	-	25,000	25,000
Wal-Mart Foundation	-	50,000	50,000
Z. Smith Reynolds Foundation	-	40,000	40,000
Community Foundation of Western North Carolina	-	-	-
Total	223,847	1,147,154	1,371,001
Net assets released from restrictions:			
Satisfaction of program transactions	1,118,873	(1,118,873)	-
Total revenues	1,342,720	28,281	1,371,001
Expenses:			
Operating expenses	480,592	-	480,592
Changes in net assets before nonoperating revenue (expense)	862,128	28,281	890,410
Nonoperating Revenue (Expense):			
Interest expense	-	-	-
Miscellaneous income	-	-	-
Unrealized gains (losses) on investments	(10,706)	-	(10,706)
Realized gains (losses) on investments	(3,048)	-	(3,048)
Gain on sale of property	-	-	-
Interest and dividend income	8,935	-	8,935
Total	(4,819)	-	(4,819)
Changes in net assets	857,309	28,281	885,591
Net assets, beginning of year	2,367,640	1,184,548	3,552,188
Net assets, end of year	$ 3,224,951	$ 1,212,829	$ 4,437,780

See accompanying notes to financial statements.

2010		
	Temporarily	
Unrestricted	Restricted	Total
$ 194,811	$ 748,134	$ 942,945
-	2,500	2,500
-	-	-
-	8,000	8,000
-	-	-
-	21,778	21,778
-	-	-
-	-	-
-	55,453	55,453
-	12,669	12,669
-	10,000	10,000
-	-	-
-	-	-
-	-	-
-	25,000	25,000
194,811	883,534	1,078,345
1,029,193	(1,029,193)	-
1,224,004	(145,659)	1,078,345
426,854	-	426,854
797,150	(145,659)	651,491
(3,180)	-	(3,180)
-	-	-
15,754	-	15,754
12,670	-	12,670
162,144	-	162,144
7,950	-	7,950
195,338	-	195,338
992,488	(145,659)	846,829
1,375,152	1,330,207	2,705,359
$ 2,367,640	$ 1,184,548	$ 3,552,188

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011		
Cash Flows From Operating Activities:	Unrestricted	Temporarily Restricted	Total
Changes in net assets	$ 857,309	$ 28,281	$ 885,591
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	2,004	-	2,004
Unrealized (gain) loss on investments	-	10,706	10,706
Realized (gain) loss on investments	-	3,048	3,048
(Gain) loss on sale of property	-	-	-
(Increase) decrease in operating assets:			
Grants receivable	-	2,455	2,455
Prepaid expenses	1,000	-	1,000
Land option	-	-	-
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	3,067	-	3,067
Net cash provided (used) by operating activities	863,380	44,490	907,870
Cash Flows From Investing Activities:			
Purchase of property and equipment	(621,850)	-	(621,850)
Purchase of investments	-	(44,489)	(44,489)
Proceeds from sale of land	-	-	-
Net cash provided (used) by investing activities	(621,850)	(44,489)	(666,339)
Cash Flows From Financing Activities:			
Payments on short-term payable	-	-	-
Net cash provided (used) by financing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	241,530	-	241,530
Beginning cash and cash equivalents	554,949	-	554,949
Ending cash and cash equivalents	$ 796,479	$ -	$ 796,479
Supplemental Information:			
Cash paid for interest			$ -
Cash received for interest			$ 8,935

See accompanying notes to financial statements.

2010		
Unrestricted	Temporarily Restricted	Total
$ 992,488	$ (145,659)	$ 846,829
2,400	-	2,400
-	(15,754)	(15,754)
-	(12,670)	(12,670)
-	(162,144)	(162,144)
-	(3,618)	(3,618)
(1,000)	-	(1,000)
-	-	-
(46,959)	-	(46,959)
946,929	(339,845)	607,084
(690,278)	-	(690,278)
-	(29,367)	(29,367)
98,745	614,255	713,000
(591,533)	584,888	(6,645)
-	(452,112)	(452,112)
-	(452,112)	(452,112)
355,396	(207,068)	148,327
199,552	207,068	406,620
$ 554,949	$ -	$ 554,949
		$ 3,180
		$ 4,950

1. General Information and Summary of Significant Accounting Policies

Nature of Activities - Foothills Conservancy of North Carolina, Inc. is a non-profit organization and was organized as a land trust which provides people with a choice in how rural land and urban green spaces are used. Land can be preserved for the future through flexible, non-regulatory land protection methods that advance economic growth while respecting the nature of a community.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under the accrual basis, revenues are recognized in the accounting period in which they are earned regardless of when they are actually received. Expenses are recognized in the accounting period in which a liability is incurred regardless of when the expense is actually paid.

Basis of Presentation - The Organization reports in compliance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities: Presentation of Financial Statements. Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Funds which are available for current operation.

Temporarily Restricted

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

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include all cash and certificates of deposit with an original maturity of three months or less. These accounts at times may exceed federally insured limits. The Organization has not experienced any losses on these accounts and management does not believe it is exposed to any significant credit risk.

Restricted and Unrestricted Support and Revenue - Revenues received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

Property and Equipment - The Organization capitalizes all expenditures for property and equipment in excess of $500. The cost of equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes and for income tax purposes.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

The useful lives of equipment, for purposes of computing depreciation are:

Equipment	5 years
Office furniture	7 years

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2010, 2009 and 2008 are subject to examination by the IRS, generally for three years after they were filed.

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, 2011 and 2010.

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

	2010		
	Cost	Gross Unrealized Gain (loss)	Fair Value 12/31/10
Pooled multi-management fund	$ 70,412	$ -	$ 70,412
International equities	29,168	2,568	31,736
Small cap equities	28,631	2,521	31,152
Large cap equities	50,105	4,411	54,516
Fixed income funds	43,664	3,844	47,508
Hedge funds	27,379	2,410	29,789
	$249,359	$15,754	$265,113

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 1 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, 2011 and 2010 are as follows:

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

	2010				
	Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled multi-management fund	$ 70,412	$ 70,412	$ -	$ -	$ 70,412
International equities	31,736	31,736	-	-	31,736
Small cap equities	31,152	31,152	-	-	31,152
Large cap equities	54,516	54,516	-	-	54,516
Fixed income funds	47,508	47,508	-	-	47,508
Hedge funds	29,789	-	-	29,789	29,789
Total investments	$265,113	$235,324	$ -	$29,789	$265,113

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:

	2011	**2010**
Level 3 inputs, beginning of year	$29,789	$21,944
Purchases of investments	-	-
Sales	-	-
Net realized and unrealized gains	7,135	7,845
Level 3 inputs, end of year	$36,924	$29,789

5. Property and Equipment

Property and equipment is summarized as follows:

	2011	2010
Land	$ 3,340,282	$ 2,719,235
Equipment	21,132	20,334
Furniture and fixtures	1,545	1,545
Vehicle	2,600	2,600
Total	3,365,559	2,743,714
Less accumulated depreciation	(24,145)	(22,142)
Property and equipment, net	$ 3,341,414	$ 2,721,572

6. Investment In Community Foundation

In 2007 the Organization created a permanent endowment through the Community Foundation of Burke County with a contribution of $10,000. Additional contributions to the foundation during the year were made in the amount of $-0-. Foothills Conservancy of North Carolina, Inc. will benefit from the income from this endowment in perpetuity.

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.

7. Pension Plan

The Organization has a Simplified Employer Pension Plan (SEP) which is available to all employees who have completed three months of service. The Organization contributes 3% of gross salaries to the plan for eligible employees. The employees may make elective deferrals to a 403(b) plan. The Organization's contribution to the SEP plan was $6,946 and $6,560 for the years ended December 31, 2011 and 2010, respectively.

8. Risk of Loss

The Organization maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation up to $250,000. The uninsured balance was approximately $548,389 and $283,987 at December 31, 2011 and 2010, respectively.

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

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

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

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

9. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Organization has received proceeds from several federal and State grants. Periodic audits of these grants may be required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Uncertain Tax Positions

FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, clarifies the accounting for uncertainty in income tax positions. Based on an evaluation of uncertain tax positions, management is required to measure potential tax liabilities that could have a risk of greater than a 50% likelihood of being realized upon settlement. As of December 31, 2011, 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.

10. Commitments and Contingencies

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, 2011 and 2010, the Organization had a land option to purchase conservation land for $10,000. The Organization also has 2,460 acres under conservation easements.

11. Subsequent Events

Management has evaluated subsequent events through August 14, 2012, the date on which the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Schedules of Operating Expenses
For the Years Ended December 31, 2011 and 2010

Operating Expenses:	**2011**	**2010**
Salaries	$ 241,757	$ 218,652
Payroll taxes	20,749	18,565
Employee benefits	16,779	15,742
Dues and subscriptions	2,750	1,562
Insurance	3,201	4,830
Maintenance	2,295	1,990
Meetings and workshops	3,836	4,354
Travel	8,673	7,359
Telephone	7,196	7,199
Professional services - contract	93,552	63,060
Office supplies	3,036	6,825
Security maintenance	-	60
Database maintenance	945	945
Utilities	2,550	3,625
Rent	7,800	7,800
Property taxes	7,170	5,337
Professional fees	13,006	16,430
Printing	8,717	13,837
Postage	2,332	2,122
Depreciation	2,004	2,401
Pension plan	6,946	6,560
Bank service charges and administrative fees	3,990	3,642
Direct mail	4,243	-
Website graphic design	2,800	-
Miscellaneous	14,267	13,957
Total operating expenses	$ 480,592	$ 426,854

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Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

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

We have audited the financial statements of Foothills Conservancy of North Carolina, Inc. (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated August 14, 2012. 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

Management of Foothills Conservancy of North Carolina, Inc. is responsible for establishing and maintaining effective 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 Foothills Conservancy of North Carolina, Inc.'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.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting, that we consider to be significant deficiencies in internal control over financial reporting. 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foothills Conservancy of North Carolina, Inc.'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 management, Board of Directors 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 14, 2012