FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Financial Statements, Supplemental Schedule
and Independent Auditors' Report and Compliance Report
For the Years Ended December 31, 2018 and 2017

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

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Table of Contents

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

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Independent Auditors' Report

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

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, 2018 and 2017, 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 the 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, 2018 and 2017, 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 Reporting Required by <u>Government Auditing Standards</u>

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated August 5, 2019, 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 effectiveness of Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> in considering Foothills Conservancy of North Carolina, Inc.'s internal control over financial reporting and compliance.

Lowdermilk Church & Co., L.L.P.

Morganton, North Carolina
August 5, 2019

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Financial Position
December 31, 2018 and 2017

	2018		
Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Current assets:			
Cash	$ 987,288	$ 129,536	$ 1,116,824
Investments	1,257,985	423,951	1,681,936
Pledges receivable - current, net	21,090	-	21,090
Grants receivable	-	4,000	4,000
Prepaid expenses	-	-	-
Total current assets	2,266,363	557,487	2,823,850
Noncurrent assets:			
Property and equipment (at cost), net	10,111,559	-	10,111,559
Total noncurrent assets	10,111,559	-	10,111,559
Total assets	$ 12,377,922	$ 557,487	$ 12,935,409
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$ -	$ -	$ -
Short-term notes payable	-	-	-
Current portion of long-term debt	2,745	-	2,745
Total current liabilities	2,745	-	2,745
Long-term notes payable	112,255	-	112,255
Total liabilities	115,000	-	115,000
Net assets:			
Net assets without restrictions:			
Undesignated	11,483,342	-	11,483,342
Board designated	779,580	-	779,580
Net assets with restrictions:			
Donor Restrictions	-	537,487	537,487
Perpetual Endowments	-	20,000	20,000
Total net assets	12,262,922	557,487	12,820,409
Total liabilities and net assets	$ 12,377,922	$ 557,487	$ 12,935,409

See accompanying notes to financial statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
$ 1,209,889	$ 360,882	$ 1,570,771
1,398,488	383,144	1,781,632
6,555	-	6,555
-	-	-
4,359	-	4,359
2,619,292	744,026	3,363,318
8,379,429	-	8,379,429
8,379,429	-	8,379,429
$ 10,998,721	$ 744,026	$ 11,742,747
$ 16,175	$ -	$ 16,175
584,609	-	584,609
-	-	-
600,784	-	600,784
-	-	-
600,784	-	600,784
9,402,475	-	9,402,475
995,462	-	995,462
-	724,026	724,026
-	20,000	20,000
10,397,937	744,026	11,141,963
$ 10,998,721	$ 744,026	$ 11,742,747

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Activities
For the Years Ended December 31, 2018 and 2017

	2018		
Revenues:	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Contributions	$ -	$ 288,181	$ 288,181
Noncash grants and contributions	867,346	-	867,346
Fees for service	-	-	-
Special events, net	112,537	-	112,537
Grants:			
Trusts, Foundations and non-government grants	-	1,101,659	1,101,659
Local Governments	-	40,150	40,150
Corporations and individuals	-	-	-
State funds	-	1,961,486	1,961,486
Federal funds	-	4,770	4,770
Total	979,883	3,396,246	4,376,129
Net assets released from restrictions:			
Satisfaction of program transactions	3,488,159	(3,488,159)	-
Total revenues	4,468,042	(91,913)	4,376,129
Expenses:			
Program services	2,429,843	-	2,429,843
Management and General	112,075	-	112,075
Fundraising	56,038	-	56,038
Total expenses	2,597,956	-	2,597,956
Changes in net assets before nonoperating revenue (expense)	1,870,086	(91,913)	1,778,173
Nonoperating Revenue (Expense):			
Unrealized gains (losses) on investments	-	(103,465)	(103,465)
Realized gains (losses) on investments	-	33,823	33,823
Interest expense	(5,101)	-	(5,101)
Investment earnings	-	(24,984)	(24,984)
Total	(5,101)	(94,626)	(99,727)
Changes in net assets	1,864,985	(186,539)	1,678,446
Net assets, beginning of year	10,397,937	744,026	11,141,963
Net assets, end of year	$ 12,262,922	$ 557,487	$12,820,409

See accompanying notes to financial statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
$ 150,521	$ 154,384	$ 304,905
-	-	-
-	8,450	8,450
66,574	-	66,574
33,500	1,593,721	1,627,221
-	9,050	9,050
-	58,690	58,690
-	2,203,512	2,203,512
-	800	800
250,595	4,028,606	4,279,201
4,036,259	(4,036,259)	-
4,286,854	(7,653)	4,279,201
3,437,971	-	3,437,971
122,683	-	122,683
61,342	-	61,342
3,621,996	-	3,621,996
664,858	(7,653)	657,205
-	54,105	54,105
-	14,382	14,382
(9,238)	-	(9,238)
-	81,587	81,587
(9,238)	150,074	140,835
655,620	142,420	798,040
9,742,316	601,606	10,343,922
$ 10,397,937	$ 744,026	$ 11,141,963

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017

	2018			
	Program Services	Management and General	Fundraising	Total
Salaries	$ 219,798	$ 62,800	$ 31,400	$ 313,998
Payroll taxes	16,895	4,827	2,414	24,136
Employee benefits	36,694	10,484	5,242	52,420
Dues and subscriptions	2,279	651	326	3,256
Insurance	5,457	1,559	780	7,796
Maintenance	4,104	1,172	586	5,862
Meetings and workshops	2,867	819	410	4,096
Travel	4,417	1,262	631	6,310
Telephone	3,758	1,074	537	5,368
Professional services - contract	55,450	-	-	55,450
Office supplies	7,184	2,052	1,026	10,262
Database maintenance	1,164	333	166	1,663
Events	15,463	4,418	2,209	22,090
Graphic design/merchandise	8,280	2,366	1,183	11,829
Utilities	2,322	663	332	3,317
Rent	5,460	1,560	780	7,800
Property taxes	4,648	-	-	4,648
Professional fees	7,657	2,188	1,093	10,938
Printing	10,365	2,962	1,481	14,808
Postage	3,028	865	433	4,326
Depreciation	5,525	1,579	789	7,893
Pension plan	10,582	3,023	1,512	15,117
Bank service charges and administrative fees	14,437	4,125	2,062	20,624
Contribution - Community Foundation	-	-	-	-
Other contributions	3,990	1,140	570	5,700
Bad debts (allowance for uncollectible pledges - see footnote 7)	536	153	76	765
Below book land sales	2,082	-	-	2,082
Conservation - easement purchase	1,963,823	-	-	1,963,823
Conservation - land stewardship	11,578	-	-	11,578
Total expenses	$ 2,429,843	$ 112,075	$ 56,038	$ 2,597,956

See accompanying notes to financial statements.

2017			
Program Services	Management and General	Fundraising	Total
$ 233,265	$ 66,647	$ 33,324	$ 333,236
17,915	5,118	2,559	25,592
36,113	10,318	5,159	51,590
3,034	867	433	4,335
4,701	1,343	672	6,716
4,175	1,193	596	5,964
-	-	-	-
5,709	1,631	816	8,155
6,761	1,932	966	9,659
81,637	-	-	81,637
9,629	2,751	1,376	13,755
538	154	77	769
-	-	-	-
-	-	-	-
1,745	499	249	2,493
5,460	1,560	780	7,800
3,948	-	-	3,948
7,987	2,282	1,141	11,410
7,551	2,157	1,079	10,787
2,646	756	378	3,779
6,375	1,821	911	9,107
14,021	4,006	2,003	20,030
13,146	3,756	1,878	18,780
52,205	14,916	7,458	74,578
-	-	-	-
(3,584)	(1,024)	(512)	(5,120)
412,834	-	-	412,834
2,494,090	-	-	2,494,090
16,070	-	-	16,070
$ 3,437,971	$ 122,683	$ 61,342	$ 3,621,996

FOOTHILLS CONSERVANCY OF NORTH CAROLINA, INC.

Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018		
Cash Flows From Operating Activities:	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets	$ 1,864,985	$ (186,539)	$ 1,678,446
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:			
Depreciation	7,893	-	7,893
Unrealized (gain) loss on investments	103,465	-	103,465
Realized (gain) loss on investments	(33,823)	-	(33,823)
Noncash investment earnings	(24,983)	-	(24,983)
Investment and administrative fees on investments	13,665	-	13,665
Below book land sale	12,032	-	12,032
Noncash grants and contributions	(867,346)	-	(867,346)
(Increase) decrease in operating assets:			
Grants and pledges receivable	(14,535)	(4,000)	(18,535)
Prepaid expenses	4,359	-	4,359
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	(16,175)	-	(16,175)
Net cash provided (used) by operating activities	1,049,537	(190,539)	858,998
Cash Flows From Investing Activities:			
Purchase of property and equipment	(1,108,853)	-	(1,108,853)
Investment Distributions	190,666	-	190,666
Purchase of investments	(108,486)	(40,807)	(149,293)
Proceeds from sale of land	224,143	-	224,143
Net cash provided (used) by investing activities	(802,530)	(40,807)	(843,337)
Cash Flows From Financing Activities:			
Proceeds from short-term payable	-	-	-
Proceeds from long-term payable	115,000	-	115,000
Payments on short-term payable	(584,609)	-	(584,609)
Net cash provided (used) by financing activities	(469,609)	-	(469,609)
Net increase (decrease) in cash and cash equivalents	(222,602)	(231,346)	(453,948)
Beginning cash and cash equivalents	1,209,890	360,882	1,570,772
Ending cash and cash equivalents	$ 987,288	$ 129,536	$ 1,116,824
Supplemental Information:			
Investment earnings			$ 24,983
Interest expense			$ 5,101
Noncash Transaction:			
Acquistion of property through donations/grants			$ 867,346

See accompanying notes to financial statements.

2017		
Without Donor Restrictions	**With Donor Restrictions**	**Total**
$ 655,620	$ 142,420	$ 798,041
9,107	-	9,107
-	(54,105)	(54,105)
-	(14,382)	(14,382)
-	(81,586)	(81,586)
-	-	-
412,834	-	412,834
(155,000)	-	(155,000)
97,280	-	97,280
208	-	208
(10,156)	-	(10,156)
1,009,893	(7,653)	1,002,241
	-	-
(418,568)	-	(418,568)
-	-	-
(1,398,486)	368,535	(1,029,951)
102,291	-	102,291
(1,714,763)	368,535	(1,346,230)
509	-	509
-	-	-
-	-	-
509	-	509
(704,361)	360,882	(343,480)
1,914,251	-	1,914,251
$ 1,209,890	$ 360,882	$ 1,570,772
		$ 81,586
		$ 9,238
		$ 155,000

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:

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent resources whose use is not limited or restricted by donors. They generally arise as a result of exchange transactions, unrestricted contributions, or restricted contributions whose restrictions have expired.

Net Assets With Donor Restriction

Net assets with donor restrictions represent resources whose use is limited by donors for the purpose and/or time in which they may be expended, and resources that must be maintained in perpetuity. Eventually, net assets with donor restrictions, other than those that must be maintained in perpetuity, are released to net assets without donor restrictions as their time and purpose requirements are met. Net assets with donor restrictions that must be maintained in perpetuity do not get reclassified since, by definition, their restrictions never expire. The income may be unrestricted or restricted, according to the donor's wishes.

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 an increase in net assets without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions, other than those that must be maintained in perpetuity, are reclassified to net assets without donor restrictions and 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.

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions.

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 net assets without donor restrictions 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 2018, 2017 and 2016 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 Organization acquires easements through both donations and purchases. The acquisition of easements establishes a fiduciary responsibility for the Organization, 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 net assets without donor restrictions if purchased with unrestricted assets and as decreases in net assets with donor restrictions if purchased with donor-restricted assets. Donated easements are not recognized in the Statement of Activities.

Functional Classification of Expenses - The Organization allocates its expenses on a functional basis among its program and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their nature and expense classification. Other expenses that are common to several functions are allocated by statistical means.

Reclassification of Comparative Financial Statements - Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

2. Recently Issued Accounting Standards

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standard changes the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net assets class has been renamed net assets without door restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources.

The changes have the following effect on net assets at December 31, 2017:

	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted:		
Undesignated	$ 9,402,475	$ -
Board designated	995,462	-
Temporarily restricted	744,026	-
Net assets without restrictions:		
Undesignated	-	9,402,475
Board designated	-	995,462
Net assets with restrictions:		
Donor restrictions	-	724,026
Perpetual endowments	-	20,000
	$11,141,963	$11,141,963

3. Restrictions on Assets

Net assets with donor restrictions are available for the following purposes:

	2018	2017
Easement Stewardship	$255,544	$250,544
Preservation Stewardship	148,407	112,600
Perpetual Endowment	20,000	20,000
Conservation Trust for N. C. Grant	4,000	-
Valdese Lake-Rhodhiss Project	-	300,000
Linville Lake James Project	114,536	60,882
Tryon International Agricultural Plan	15,000	-
	$557,487	$744,026

4. Investments

The following is a summary of the Organization's investments as of December 31, 2018 and 2017.

The Organization has amounts invested with various foundations. The allocation of the investments invested with those foundations is as follows. See Note 9 for additional information.

	2018	2017
MSCI World	$ 673,790	$ 720,088
Barclays Aggregate Bond Index	449,194	480,059
U. S. Equities	111,791	145,371
Private Investment Partners	111,791	-
Defensive Hedge Funds	83,843	-
International Equities	67,074	69,778
Fixed Income	55,895	87,223
Real Assets	55,895	58,148
Emerging Markets	44,716	46,519
Global Equities	27,947	-
Directional Hedge Funds	-	87,223
Diversifying Hedge Funds	-	87,223
Total	$1,681,936	$1,781,632

5. 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.

6. 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 liabilities
- 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, 2018 and 2017 are as follows:

	2018				
	Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled Multi-management Fund	$1,122,984	$ -	$ -	$1,122,984	$1,122,984
U. S. Equities	111,791	-	-	111,791	111,791
Private Investments Partners	111,791	-	-	111,791	111,791
Defensive Hedge Funds	83,843	-	-	83,843	83,843
International Equities	67,074	-	-	67,074	67,074
Fixed Income	55,895	-	-	55,895	55,895
Real Assets	55,895	-	-	55,895	55,895
Emerging Markets Equities	44,716		-	44,716	44,716
Global Equities	27,947	-	-	27,947	27,947
Total investments	$1,681,936	$ -	$ -	$1,681,936	$1,681,936

	2017				
	Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Pooled Multi-management Fund	$ 1,200,147	$ -	$ -	$1,200,147	$1,200,147
U. S. Equities	145,371	-	-	145,371	145,371
International Equities	69,778	-	-	69,778	69,778
Directional Hedge Funds	87,223	-	-	87,223	87,223
Emerging Markets	46,519	-	-	46,519	46,519
Fixed Income Funds	87,223	-	-	87,223	87,223
Diversifying Hedge Funds	87,223	-	-	87,223	87,223
Real Assets	58,149	-	-	58,149	58,149
Total investments	$ 1,781,632	$ -	$ -	$1,781,632	$1,781,632

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

	2018	**2017**
Level 3 inputs, beginning of year	$ 1,781,632	$ 601,606
Purchase of investments	201,250	1,063,014
Investment earnings	(26,973)	80,386
Net unrealized and realized gains	(69,642)	68,487
Distributions	(190,666)	(21,138)
Administration fees	(13,665)	(10,723)
Transfer into Level 3	-	-
Level 3 Inputs, end of year	$ 1,681,936	$ 1,781,632

7. 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, 2018 and 2017. Pledges receivable are classified as unrestricted at the reporting date.

Pledges receivable are summarized as follows at December 31, 2018 and 2017:

	2018	**2017**
Pledges expected to be collected in:		
Less than one year	$ 22,200	$ 6,900
One year to five years	-	-
Allowance for uncollectible pledges	(1,110)	(345)
	$ 21,090	$ 6,555

Pledges receivable consist 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.

8. Property and Equipment

Property and equipment is summarized as follows:

	2018	2017
Land	$ 9,741,496	$ 8,353,577
Equipment	24,767	24,767
Furniture and fixtures	3,744	1,545
Vehicle	49,424	38,158
Construction in progress	332,005	-
Total	10,151,436	8,418,047
Less accumulated depreciation	(39,877)	(38,618)
Property and equipment, net	$ 10,111,559	$ 8,379,429

Depreciation expense for the years ended December 31, 2018 and 2017 was $7,893 and $9,107, respectively.

9. 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, 2018, the fund value was $57,863.

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, 2018, the fund value was $1,122,984 which is shown on the Statements of Financial Position as investments with donor restrictions.

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, 2018, the fund values were $558,952 which are shown on the Statements of Financial Position as investments with donor restrictions.

The Community Foundation of Western North Carolina Limited Endowment was $1,122,984 and the Foundation for the Carolinas Endowment was $558,952 for a total of $1,681,936. See Note 3 for additional information on these endowments.

10. Long-Term Debt

In September 2016, the Organization borrowed $590,000 at an interest rate of 1.50% for the purchase of land at North Cove Township in McDowell County. The entire amount, including interest and principal, was to be due and payable 12 months from the date of the note, on September 19, 2017. However, the Organization requested a 12-month extension of time to repay the note, and the Lender's Finance Committee agreed to extend until September 19, 2018. The note and interest have been paid in full.

Long-term debt at December 31, 2018 is summarized as follows:

$115,000 note payable to bank in monthly installments of $824, including interest at 6.0%, due December 2038, secured by deed of trust on real property	$115,000
Less current portion	2,745
Non current portion of long-term debt	$112,255

Interest expense for the year ended September 30, 2018 and 2017 was $5,101 and $9,238, respectively.

Maturities of long-term debt subsequent to September 30, 2018 are summarized as follows:

Year Ending September 30,	Amount
2019	$ 2,745
2020	3,239
2021	3,439
2022	3,651
2023	3,877
Thereafter	98,049
Total	$ 115,000

11. Pension Plan

The Organization implemented a 401(k) plan in March 2017 which is available to all employees who have completed three months of service. The Organization contributes 3% of gross salaries plus 2% match to the plan for eligible employees. The Organization's contribution to the 401(k) plan was $15,117 and $16,357 for the years ended December 31, 2018 and 2017, respectively. Prior to March 2017, the Organization had a Simplified Employer Pension Plan (SEP). The Organization's contribution to the SEP plan was $2,507 for the year ended December 31, 2017. The employees also made elective deferrals to a 403(b) plan.

12. 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 $873,171 and $1,326,510 at December 31, 2018 and 2017, respectively.

13. Lease

The Conservancy leased office space under an operating lease which expired in 2018. There are no future rental payments due to the expiration of the lease.

Rent expense was $7,800 for the years ended December 31, 2018 and 2017.

14. Liquidity and Availability of Resources

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the balance sheet date to fund expenses without limitations:

	2018	2017
Cash	$1,116,824	$1,570,771
Investments	1,681,936	1,781,632
Pledges receivable, net	21,090	6,555
Grant receivable	4,000	-
	2,823,850	3,358,958
Less those unavailable for general expenditure within one year, due to:		
Board designated restrictions	779,580	995,462
Donor restrictions as to time or purpose	537,487	724,026
Perpetual endowments	20,000	20,000
	$1,486,783	$1,619,470

15. 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.

16. 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, 2018, 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.

17. Subsequent Events

Management has evaluated subsequent events through August 5, 2019, the date on which the financial statements were available to be issued. During the period from the end of the year, and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

Lowdermilk Church & Co., L.L.P.
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Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Foothills Conservancy of North Carolina, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 5, 2019.

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's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foothills Conservancy of North Carolina, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lowdermilk Church & Co., L.L.P.

Morganton, North Carolina
August 5, 2019