

MECKLENBURG BAR FOUNDATION

*FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015*

MECKLENBURG BAR FOUNDATION

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June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Finance Committee and Board of Directors of
Mecklenburg Bar Foundation
Charlotte, North Carolina

We have audited the accompanying financial statements of Mecklenburg Bar Foundation, (the "Foundation" - a nonprofit corporation), which comprise the statement of financial position – modified cash basis as of June 30, 2016 and 2015, and the related statements of activities – modified cash basis and cash flows – modified cash basis for the year ended June 30, 2016 and the six months ended June 30, 2015, 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 the modified cash basis of accounting as described in Note 1 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and net assets of Mecklenburg Bar Foundation as of June 30, 2016 and 2015, and its support, revenue, expenses and changes in net assets for the year ended June 30, 2016 and six months ended June 30, 2015, in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

C. Dewitt Foard & Company, P.A.
January 30, 2017

MECKLENBURG BAR FOUNDATION**Statement of Financial Position - Modified Cash Basis****June 30, 2016 and 2015**

	June 30:	
	2016	2015
ASSETS		
Cash	\$ 362,230	\$ 414,626
Investments	220,358	170,760
Sales tax receivable	1,903	102,341
Other receivable	3,500	-
Property and Equipment:		
Land	124,978	124,978
Buildings	4,427,289	4,281,926
Total Property and Equipment	4,552,267	4,406,904
Less - accumulated depreciation	168,568	61,876
Net Property and Equipment	4,383,699	4,345,028
TOTAL ASSETS	\$ 4,971,690	\$ 5,032,755
LIABILITIES AND NET ASSETS		
Liabilities:		
Note payable - bank	\$ 2,434,142	\$ 2,490,707
Note payable - Mecklenburg County Bar	613,410	784,552
Total Liabilities	3,047,552	3,275,259
Net Assets:		
Unrestricted:		
Designated - Property	1,336,147	1,069,769
Designated - Naming rights	330,056	366,835
Designated - Professionalism Lawyer Life and Culture	2,362	2,362
Designated - Brick	1,750	-
Undesignated	30,348	70,439
Total Unrestricted	1,700,663	1,509,405
Temporarily Restricted	223,475	248,091
Total Net Assets	1,924,138	1,757,496
TOTAL LIABILITIES AND NET ASSETS	\$ 4,971,690	\$ 5,032,755

MECKLENBURG BAR FOUNDATION

Statement of Activities - Modified Cash Basis

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	TOTALS
<u>SUPPORT AND REVENUE</u>			
Contributions	\$ 401,622	\$ 17,224	\$ 418,846
Fundraising	28,866	-	28,866
Rental income	268,800	-	268,800
Investment income	-	(3,794)	(3,794)
All other income	7,228	-	7,228
Net assets released from restrictions	38,046	(38,046)	-
<i>Total Support and Revenue</i>	<i>744,562</i>	<i>(24,616)</i>	<i>719,946</i>
<u>EXPENSES</u>			
Grant expense	128,668	-	128,668
Administrative expense	145,523	-	145,523
Programs	28,436	-	28,436
Depreciation expense	106,692	-	106,692
Lawyers Impact Fund expenses	4,274	-	4,274
Interest expense	119,229	-	119,229
All other expenses	20,482	-	20,482
<i>Total Expenses</i>	<i>553,304</i>	<i>-</i>	<i>553,304</i>
<i>CHANGE IN NET ASSETS</i>	<i>191,258</i>	<i>(24,616)</i>	<i>166,642</i>
<i>NET ASSETS, BEGINNING</i>	<i>1,509,405</i>	<i>248,091</i>	<i>1,757,496</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 1,700,663</i>	<i>\$ 223,475</i>	<i>\$ 1,924,138</i>

MECKLENBURG BAR FOUNDATION

Statement of Activities - Modified Cash Basis

Six Months Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>TOTALS</u>
<u>SUPPORT AND REVENUE</u>			
Contributions	\$ 183,347	\$ 77,830	\$ 261,177
Fundraising events	10,791	-	10,791
Rental income	134,400	-	134,400
Investment income	-	2,880	2,880
All other income	1,747	-	1,747
Net assets released from restrictions	55,875	(55,875)	-
<i>Total Support and Revenue</i>	<i>386,160</i>	<i>24,835</i>	<i>410,995</i>
<u>EXPENSES</u>			
Grant expense	142,692	-	142,692
Administrative expense	87,619	-	87,619
Programs	24,244	-	24,244
Fundraising events	89,147	-	89,147
Depreciation expense	53,346	-	53,346
Lawyers Impact Fund expenses	5,533	-	5,533
Interest expense	17,941	-	17,941
All other expenses	10,055	-	10,055
<i>Total Expenses</i>	<i>430,577</i>	<i>-</i>	<i>430,577</i>
<i>CHANGE IN NET ASSETS</i>	<i>(44,417)</i>	<i>24,835</i>	<i>(19,582)</i>
<i>NET ASSETS, BEGINNING</i>	<i>1,553,822</i>	<i>223,256</i>	<i>1,777,078</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 1,509,405</i>	<i>\$ 248,091</i>	<i>\$ 1,757,496</i>

MECKLENBURG BAR FOUNDATION**Statement of Cash Flows - Modified Cash Basis****Year Ended June 30, 2016 and Six Months Ended June 30, 2015**

	Year Ended June 30, 2016	Six Months Ended June 30, 2015
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 166,642	\$ (19,582)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	106,692	53,346
Realized and unrealized (gains) losses	2,577	(2,085)
Increase (decrease) operating assets:		
Other receivable	(3,500)	-
Sales tax receivable	100,438	(59,446)
(Decrease) increase in operating liabilities:		
Deferred income	-	(193)
<i>Cash Flows From Operating Activities</i>	<i>372,849</i>	<i>(27,960)</i>
<u>INVESTING ACTIVITIES</u>		
Proceeds from the sale of investments	32,584	52,672
Purchases of investments	(84,759)	(4,066)
Purchases of fixed assets	(145,363)	(187,731)
<i>Cash Flows From Investing Activities</i>	<i>(197,538)</i>	<i>(139,125)</i>
<u>FINANCING ACTIVITIES</u>		
Proceeds from notes payable	-	288,769
Principal paid on note payable	(227,707)	-
<i>Cash Flows From Financing Activities</i>	<i>(227,707)</i>	<i>288,769</i>
CHANGE IN CASH	(52,396)	121,684
CASH - BEGINNING	414,626	292,942
CASH - ENDING	\$ 362,230	\$ 414,626
Supplemental information:		
Interest expense paid	\$ 119,229	\$ 52,097

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 1 – NATURE OF ACTIVITIES

Organization

The Mecklenburg Bar Foundation is a North Carolina not-for-profit corporation that was formed in 1962 as Lawyer's Educational Foundation and adopted its current name in 1986. The purpose of the Foundation is to advance public understanding and respect for the rule of law and the role of the legal profession, to promote the highest ideals of professionalism, public service, and access to the legal system, and to support the charitable and educational goals of the Mecklenburg County Bar 26th Judicial District (Mecklenburg County Bar).

Income tax status

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code on its exempt function income and is classified as other than a private foundation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Pursuant to the cash basis of accounting, revenue and the related assets are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. In addition, all other amounts received are recorded as cash receipts and all other amounts expended are recorded as cash disbursements. The Foundation has elected to adopt the following modifications to the cash basis of accounting:

- Purchases and disposals of investments are shown as increases and decreases in an asset account rather than as receipts and disbursements. Also, changes in the fair value of the investments are recorded as unrealized gains and losses.
- Amounts paid for sales tax which will be refunded are shown as a receivable, rather than as receipts and disbursements.
- Purchases and significant improvements to property are capitalized at cost and depreciated over the estimated useful lives of the assets.
- Loan proceeds and principal payments are recorded as increases and decreases in a liability account rather than as receipts and disbursements.
- Funds held for the benefit of others are shown as a liability rather than as a receipt and disbursement.

The significant differences between the basis of accounting employed by the Foundation and generally accepted accounting principles are as follows:

- Purchases of furniture and equipment are shown as a disbursement rather than as a fixed asset.
- Pledges are recorded when the payment is received rather than when the promise to give is made.
- Grants and other expenses are recorded when paid rather than when the obligation is incurred.
- No donated goods or services have been recorded in the accompanying financial statements.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of presentation

The net assets of the Foundation are classified and reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to any donor-imposed stipulations. Designated net assets represent funds designated by the Foundation for specific purposes. However, these funds have not been restricted by donors and are available for any purpose at the discretion of the Foundation.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. During the periods presented, the Foundation had no permanently restricted net assets.

Cash

Cash consist of cash on hand, cash in banks, and money market funds.

Property

Fixed assets are subject to a \$1,000 capitalization policy, and are recorded at cost if purchased or fair market value if donated. Costs that improve or extend the useful lives of assets are capitalized. Amounts paid for maintenance and repairs are expensed as incurred. Depreciation on the building is computed using the straight-line method over its estimated useful life, which is assumed to be forty years.

Change in fiscal year-end

The Foundation elected to change its fiscal year-end from December 31st to June 30th. Therefore these financial statements present the financial activity for the six months ended June 30, 2015, and the year ended June 30, 2016.

Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 3 – INVESTMENTS AND INVESTMENT INCOME

Investments

Investments consist of the following as of June 30:

	2016	2015
International equity funds	\$ 6,964	\$ 16,588
Fixed income funds	54,349	32,221
U.S. equity funds	85,798	58,417
Beneficial interest in assets held by Foundation for the Carolinas	47,797	60,166
All other	25,450	3,368
TOTAL	<u>\$ 220,358</u>	<u>\$ 170,760</u>

Investment income

Investment loss of \$3,794 for the year ended June 30, 2016 consist of \$6,873 of interest and dividends, \$2,577 of realized and unrealized capital loss, net of \$502 of investment fees. Investment income of \$2,880 for the six months ended June 30, 2015 consist of \$1,118 of interest and dividends, \$2,085 of realized and unrealized capital gains, net of \$323 of investment fees.

NOTE 4 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require fair value of financial instruments to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs. Level 1 assets are those whose fair value is based on quoted prices in active markets for identical assets or liabilities. Level 2 assets are those whose fair value is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 assets are those assets whose fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The beneficial interest in funds held by Foundation for the Carolinas are classified as a Level 3 asset. Its value is determined based on the fair value of the underlying investments, which consist of assets which are publicly traded and other assets which are not publicly traded. The remaining funds are classified as Level 1 assets. The changes in the Level 3 asset consist of the following:

	June 30,	
	2016	2015
Balance, beginning of period	\$ 60,165	\$ 59,439
Sales	(10,177)	(323)
Change in value	(2,191)	1,049
Balance, end of period	<u>\$ 47,797</u>	<u>\$ 60,165</u>

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 5 – NOTES PAYABLE

MCB

The note payable to MCB had a balance at June 30, 2016 and 2015 of \$600,000 and \$700,000, respectively. The note bears interest at a rate of 1.77 percent and is payable in annual installments of \$150,000 of principal plus interest. In addition, the Foundation owed \$13,410 and \$84,552 to MCB as of June 30, 2016 and 2015, respectively, of advanced funds that do not bear interest and have no scheduled repayment.

Bank

The Foundation owes the Bank a promissory note dated November 5, 2013, which had a balance as of June 30, 2016 and 2015, of \$2,434,142 and \$2,490,707, respectively. The note bears interest at a fixed rate of 4.24% and required payments of interest only until May 2015, after which date monthly payments of \$13,617 are applied first to interest and then to principal. This note is secured by the Foundation's building and land and matures April, 2024.

Interest paid

Interest paid was \$119,229 during the year ended June 30, 2016, and was \$52,097 during the six months ended June 30, 2015.

Maturities of notes payable occur during the year ending June 30:

2017 - Current portion		\$	223,960
Long-term borrowings:			
2018	\$	212,588	
2019		215,332	
2020		217,933	
2021		71,175	
Thereafter		2,106,564	2,823,592
TOTAL			<u>\$ 3,047,552</u>

NOTE 6 – AFFILIATED PARTY TRANSACTIONS

Building lease – Greenway Business Center

The Foundation has entered into an agreement effective January 1, 2015, to lease office to MCB for a ten-year period at monthly rental of \$22,400.

Amounts paid to Mecklenburg County Bar

During the year ended June 30, 2016, the Foundation paid \$286,665 to the MCB, which consisted of \$109,711 of administrative support, \$46,041 of shared office expenses and reimbursements, and \$6,000 of grants. During the six months ended June 30, 2015, the Foundation paid \$217,119 to the MCB, which consisted of \$56,422 of administrative support, \$35,468 of shared office expenses and reimbursements, and \$9,000 of grants.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following uses as of June 30:

	<u>2016</u>	<u>2015</u>
Unutilized funds:		
Hyatt Fund	\$ 100,111	\$ 110,595
McMillan Fund	96,653	112,666
McMillan Lesesne Fund	<u>26,711</u>	<u>24,830</u>
TOTAL	<u>\$ 223,475</u>	<u>\$ 248,091</u>

Net assets were released from restrictions in both years by payment for the related restricted purpose.

NOTE 8 – CONCENTRATIONS OF RISK

Credit Risk

Mecklenburg Bar Foundation regularly maintains cash balances in excess of insured limits. However, management believes that the risk to these accounts is minimal due to the creditworthiness of the financial institutions. At June 30, 2016, the amount of cash in excess of insured limits was \$126,917.

Geographic area

Mecklenburg Bar Foundation operates in a small geographic area, and is therefore sensitive to changes in the local economy.

NOTE 9 – SUBSEQUENT EVENTS

Mecklenburg Bar Foundation has evaluated subsequent events from the date of the statement of financial position through the date of the independent auditor's report, which is the date the financial statements are available to be issued. During this period, no material recognizable subsequent events were identified.