

MECKLENBURG BAR FOUNDATION

FINANCIAL STATEMENTS
JUNE 30, 2017

MECKLENBURG BAR FOUNDATION

Table of Contents

June 30, 2017

	Page
Independent Auditors' Report	1
Audited Financial Statements:	
Statement of Financial Position – Modified Cash Basis	2
Statements of Activities – Modified Cash Basis	3
Statement of Cash Flows – Modified Cash Basis.....	4
Notes to Financial Statements	5-9

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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, 2017, and the related statements of activities – modified cash basis and cash flows – modified cash basis for the year 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 the modified cash basis of accounting as described in Note 2 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, 2017 and its support, revenue, expenses and changes in net assets for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 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.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2016 financial statements, and our report dated January 30, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. Dewitt Foard & Company, P.A.

September 29, 2017

MECKLENBURG BAR FOUNDATION**Statement of Financial Position - Modified Cash Basis****June 30, 2017, with prior year comparative totals**

	June 30:	
	2017	2016
ASSETS		
Cash	\$ 308,217	\$ 362,230
Investments	219,217	220,358
Sales tax receivable	-	1,903
Other receivable	-	3,500
Property:		
Land	124,978	124,978
Buildings	4,441,189	4,427,289
Total Property	4,566,167	4,552,267
Less - accumulated depreciation	279,598	168,568
Net Property	4,286,569	4,383,699
TOTAL ASSETS	\$ 4,814,003	\$ 4,971,690
LIABILITIES AND NET ASSETS		
Liabilities:		
Deferred income	\$ 22,400	\$ -
Note payable - bank	2,373,547	2,434,142
Note payable - Mecklenburg County Bar	448,791	613,410
Total Liabilities	2,844,738	3,047,552
Net Assets:		
Unrestricted:		
Designated - Property	1,464,231	1,336,147
Designated - Naming rights	242,236	310,471
Designated - Professionalism Lawyer Life and Culture	2,362	2,362
Designated - Brick	2,875	1,750
Undesignated	16,543	49,933
Total Unrestricted	1,728,247	1,700,663
Temporarily Restricted	241,018	223,475
Total Net Assets	1,969,265	1,924,138
TOTAL LIABILITIES AND NET ASSETS	\$ 4,814,003	\$ 4,971,690

*See accompanying notes and independent auditors' report.**Page 2*

MECKLENBURG BAR FOUNDATION

Statement of Activities - Modified Cash Basis

Year Ended June 30, 2017, with prior year comparative totals

	Year Ended June 30, 2017			Prior Year Comparative Totals
	Unrestricted	Temporarily Restricted	TOTALS	
<u>SUPPORT AND REVENUE</u>				
Contributions	\$ 280,405	\$ 14,593	\$ 294,998	\$ 418,846
Fundraising	37,807	-	37,807	28,866
Rental income	268,800	-	268,800	268,800
Investment income	-	26,912	26,912	(3,794)
All other income	2,754	-	2,754	7,228
Net assets released from restrictions	23,962	(23,962)	-	-
<i>Total Support and Revenue</i>	<i>613,728</i>	<i>17,543</i>	<i>631,271</i>	<i>719,946</i>
<u>EXPENSES</u>				
Grant expense	114,961	-	114,961	128,668
Administrative expense	164,799	-	164,799	145,523
Programs	42,392	-	42,392	28,436
Depreciation expense	111,030	-	111,030	106,692
Lawyers Impact Fund expenses	1,073	-	1,073	4,274
Interest expense	112,077	-	112,077	119,229
All other expenses	39,812	-	39,812	20,482
<i>Total Expenses</i>	<i>586,144</i>	<i>-</i>	<i>586,144</i>	<i>553,304</i>
<i>CHANGE IN NET ASSETS</i>	<i>27,584</i>	<i>17,543</i>	<i>45,127</i>	<i>166,642</i>
<i>NET ASSETS, BEGINNING</i>	<i>1,700,663</i>	<i>223,475</i>	<i>1,924,138</i>	<i>1,757,496</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 1,728,247</i>	<i>\$ 241,018</i>	<i>\$ 1,969,265</i>	<i>\$ 1,924,138</i>

MECKLENBURG BAR FOUNDATION**Statement of Cash Flows - Modified Cash Basis****Year Ended June 30, 2017, with prior year comparative totals**

	June 30:	
	2017	2016
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 45,127	\$ 166,642
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	111,030	106,692
Realized and unrealized (gains) losses	(18,576)	2,577
Increase (decrease) operating assets:		
Other receivable	3,500	(3,500)
Sales tax receivable	1,903	100,438
(Decrease) increase in operating liabilities:		
Deferred income	22,400	-
<i>Cash Flows From Operating Activities</i>	<i>165,384</i>	<i>372,849</i>
<u>INVESTING ACTIVITIES</u>		
Proceeds from the sale of investments	23,779	32,584
Purchases of investments	(4,062)	(84,759)
Purchases of fixed assets	(13,900)	(145,363)
<i>Cash Flows From Investing Activities</i>	<i>5,817</i>	<i>(197,538)</i>
<u>FINANCING ACTIVITIES</u>		
Principal paid on notes payable	(225,214)	(227,707)
<i>Cash Flows From Financing Activities</i>	<i>(225,214)</i>	<i>(227,707)</i>
CHANGE IN CASH	(54,013)	(52,396)
CASH - BEGINNING	362,230	414,626
CASH - ENDING	\$ 308,217	\$ 362,230
Supplemental information:		
Interest expense paid	\$ 112,077	\$ 119,229

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2017

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.
- Rental income is shown in the period earned rather than in the period received.

The significant differences between the basis of accounting employed by the Foundation and generally accepted accounting principles, in addition to the timing of income and expenses are as follows:

- Purchases of furniture and equipment are shown as a disbursement rather than as a fixed asset.
- 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, 2017

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.

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, 2017

NOTE 3 – INVESTMENTS AND INVESTMENT INCOME

Investments

Investments consist of the following as of June 30:

U.S. equity funds	\$	83,023
International equity funds		7,824
Fixed income funds		53,912
Mixed assets		19,956
Beneficial interest in assets held by Foundation for the Carolinas		<u>54,502</u>
TOTAL	\$	<u>219,217</u>

Investment income

Investment income of \$26,912 for the year ended June 30, 2017 consists of \$8,336 of interest and dividends and \$18,576 of realized and unrealized capital gains.

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:

Balance, beginning of period	\$	47,797
Change in value		<u>6,705</u>
Balance, end of period	\$	<u>54,502</u>

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2017

NOTE 5 – NOTES PAYABLE

MCB

The note payable to MCB had a balance at June 30, 2017 of \$448,791. The note bears interest at a rate of 1.47 percent based on the mid-term applicable federal rate and is payable in annual installments of \$150,000 of principal plus interest.

Bank

The Foundation owes the Bank a promissory note dated November 5, 2013, which had a balance as of June 30, 2017 of \$2,373,547. Monthly payments of \$13,617 are applied first to interest at a fixed rate of 4.24% and then to principal. This note is secured by the Foundation's building and land and matures April, 2024.

Interest paid

Interest paid was \$112,077 during the year ended June 30, 2017.

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

2018 - Current portion		\$	212,543
Long-term borrowings:			
2019	\$	215,332	
2020		216,724	
2021		71,175	
2022		74,296	
Thereafter		<u>2,032,268</u>	<u>2,609,795</u>
TOTAL			<u>\$ 2,822,338</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, 2017, the Foundation paid \$343,802 to the MCB, which consisted of \$109,700 of administrative support, \$61,306 of shared office expenses and reimbursements, and \$2,500 of grants.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

June 30, 2017

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

Hyatt Fund	\$ 104,991
McMillan Fund	96,482
McMillan Lesesne Fund	27,050
McMillan biography	10,250
Book drive	<u>2,245</u>
TOTAL	<u>\$ 241,018</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, 2017, the amount of cash in excess of insured limits was \$62,964.

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.