

MECKLENBURG BAR FOUNDATION

FINANCIAL STATEMENTS
DECEMBER 31, 2014

MECKLENBURG BAR FOUNDATION

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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 December 31, 2014, 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 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.

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 December 31, 2014 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 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.

Report on Summarized Comparative Information

We have previously audited Foundation's 2013 financial statements, and our report dated March 14, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. Dewitt Foard & Company, P.A.
December 2, 2015

MECKLENBURG BAR FOUNDATION**Statement of Financial Position - Modified Cash Basis****December 31, 2014, with prior-year comparative totals**

	December 31:	
	2014	2013
ASSETS		
Cash	\$ 292,942	\$ 1,102,693
Investments	217,281	223,379
Sales tax receivable	42,895	-
Property and Equipment:		
Land	124,978	-
Buildings	4,094,195	-
Construction in process	-	280,619
Total Property and Equipment	4,219,173	280,619
Less - accumulated depreciation	8,530	-
Net Property and Equipment	4,210,643	280,619
TOTAL ASSETS	\$ 4,763,761	\$ 1,606,691

LIABILITIES AND NET ASSETS

Liabilities:		
Deferred income	\$ 193	\$ 9,301
Note payable - bank	2,286,490	-
Note payable - Mecklenburg County Bar	700,000	-
Total Liabilities	2,986,683	9,301
Net Assets:		
Unrestricted:		
Designated - Property	1,224,153	1,172,496
Designated - Naming rights	256,578	-
Designated - Lawyers' support fund	7,562	7,562
Designated - Professionalism Lawyer Life and Culture	2,904	4,215
Designated - Grant	-	1,994
Undesignated	62,625	152,175
Total Unrestricted	1,553,822	1,338,442
Temporarily Restricted	223,256	258,948
Total Net Assets	1,777,078	1,597,390
TOTAL LIABILITIES AND NET ASSETS	\$ 4,763,761	\$ 1,606,691

MECKLENBURG BAR FOUNDATION**Statement of Activities - Modified Cash Basis****Year Ended December 31, 2014, with prior-year comparative totals**

	Year Ended December 31, 2014			2013
	Unrestricted	Temporarily Restricted	TOTALS	TOTALS
<u>SUPPORT AND REVENUE</u>				
Contributions	\$ 139,034	\$ 300,083	\$ 439,117	\$ 238,891
Fundraising	26,919	-	26,919	8,862
Rental income	111,014	-	111,014	95,891
Investment income	100	12,539	12,639	35,858
Gain on sale of fixed assets	-	-	-	791,603
All other income	7,065	-	7,065	-
Net assets released from restrictions	348,314	(348,314)	-	-
Total Support and Revenue	632,446	(35,692)	596,754	1,171,105
<u>EXPENSES</u>				
Grant expense	159,836	-	159,836	144,548
Administrative expense	112,178	-	112,178	117,073
Programs	25,758	-	25,758	72,799
Rent expense	92,853	-	92,853	61,819
Depreciation expense	8,530	-	8,530	5,485
Lawyers Impact Fund expenses	4,883	-	4,883	3,857
Interest expense	-	-	-	619
All other expenses	13,028	-	13,028	15,632
Total Expenses	417,066	-	417,066	421,832
CHANGE IN NET ASSETS	215,380	(35,692)	179,688	749,273
NET ASSETS, BEGINNING	1,338,442	258,948	1,597,390	848,117
NET ASSETS, ENDING	\$ 1,553,822	\$ 223,256	\$ 1,777,078	\$ 1,597,390

MECKLENBURG BAR FOUNDATION**Statement of Cash Flows - Modified Cash Basis****Year Ended December 31, 2014, with prior-year comparative totals**

	Year Ended December 31,	
	2014	2013
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 179,688	\$ 749,273
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	8,530	5,485
Realized and unrealized (gains) losses	(2,702)	(26,408)
Gain on disposal of fixed assets	-	(791,603)
Increase (decrease) operating assets:		
Sales tax receivable	(42,895)	-
(Decrease) increase in operating liabilities:		
Deferred income	(9,108)	9,301
<i>Cash Flows From Operating Activities</i>	133,513	(53,952)
<u>INVESTING ACTIVITIES</u>		
Proceeds from the sale of investments	29,025	9,487
Purchases of investments	(20,225)	(7,042)
Proceeds from the sale of fixed assets	-	1,262,137
Purchases of fixed assets	(3,938,554)	(280,619)
<i>Cash Flows From Investing Activities</i>	(3,929,754)	983,963
<u>FINANCING ACTIVITIES</u>		
Proceeds from notes payable	2,986,490	-
Principal paid on note payable	-	(91,948)
<i>Cash Flows From Financing Activities</i>	2,986,490	(91,948)
CHANGE IN CASH	(809,751)	838,063
CASH - BEGINNING	1,102,693	264,630
CASH - ENDING	\$ 292,942	\$ 1,102,693
Supplemental information:		
Interest expense paid	\$ 21,135	\$ 619

*See accompanying notes and independent auditors' report.**Page 4*

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

December 31, 2014

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

December 31, 2014

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. At December 31, 2014, 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.

Prior-year comparative totals

The financial statements include certain prior year summarized information, which is presented for comparative purposes only. Accordingly, such information should be read in conjunction with the Foundation's 2013 financial statements, from which the summarized information was derived.

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

December 31, 2014

NOTE 3 – INVESTMENTS AND INVESTMENT INCOME

Investments

Investments consist of the following as of December 31:

	<u>2014</u>	<u>2013</u>
International equity funds	\$ 33,860	\$ 38,739
Fixed income funds	58,799	69,711
U.S. equity funds	115,573	113,110
All other	<u>9,049</u>	<u>1,819</u>
TOTAL	<u>\$ 217,281</u>	<u>\$ 223,379</u>

Investment income

Investment income of \$12,639 for the year ended December 31, 2014 consist of \$10,578 of interest and dividends, \$2,702 of realized and unrealized capital gains, net of \$641 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, as follows:

Level 1 - Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 - 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 - 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 Foundation's moderate growth pool, with a year-end balance of \$59,439, is held by Foundation for the Carolinas and is classified as a Level 2 asset. Its value is determined based on the fair value of the underlying investments, which are generally publicly traded. The remaining funds are classified as Level 1 assets.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

December 31, 2014

NOTE 5 – NOTES PAYABLE

MCB

The Foundation owes \$700,000 to MCB as reimbursement for construction costs incurred by MCB on behalf of the Foundation. The note bears interest at a rate of 1.77 percent and is payable in annual installments of \$100,000 of principal plus interest in 2015 and \$150,000 of principal plus interest for the four succeeding years.

Bank

At year-end the Foundation owed \$2,286,490 to the Bank under a promissory note of up to \$2,500,000 dated November 5, 2013. The note bears interest at a fixed rate of 4.24% and requires payments of interest only until May 2015, after which date monthly payments of \$13,617 will be 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 during the year was \$21,135 and was capitalized as a cost of construction.

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

2015 - Current portion		\$	137,562
Long-term borrowings:			
2016	\$	208,402	
2017		211,263	
2018		213,949	
2019		216,753	
Thereafter		<u>1,998,561</u>	<u>2,848,928</u>
TOTAL			<u>\$ 2,986,490</u>

NOTE 6 – AFFILIATED PARTY TRANSACTIONS

Building lease

MCB entered into a lease with the Foundation to lease office space at a temporary location during 2014. The amount paid by MCB to the Foundation during the year was \$111,014.

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, MCB paid construction cost of \$1,369,273, of which \$669,273 was repaid by the Foundation to MCB, with \$700,000 due to MCB under the note agreement described in Note 4. Also, the Foundation paid \$135,372 to the MCB during the year, which consisted of \$112,178 of administrative support, \$13,194 of shared office expenses and reimbursements, and \$10,000 of grants.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

December 31, 2014

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following uses:

	<u>2014</u>	<u>2013</u>
Unutilized funds:		
Hyatt Fund	\$ 157,841	\$ 175,515
McMillan Fund	65,415	65,838
History project	<u>-</u>	<u>15,360</u>
Total unutilized funds	223,256	256,713
Time restricted: Subsequent fiscal year	<u>-</u>	<u>2,235</u>
TOTAL	<u><u>\$ 223,256</u></u>	<u><u>\$ 258,948</u></u>

\$2,235 of net assets were released during the year by expiration of time restrictions with the remaining amount released by payment for the related restricted purposes.

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 December 31, 2014 the amount of cash in excess of insured limits was \$69,133.

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.