

MECKLENBURG BAR FOUNDATION

FINANCIAL STATEMENTS
DECEMBER 31, 2013

MECKLENBURG BAR FOUNDATION

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INDEPENDENT AUDITOR'S 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 not-for-profit organization), which comprise the statements of financial position – modified cash basis as of December 31, 2013, and the related statements of activities – modified cash basis, and cash flows – modified cash basis for the year ended December 31, 2013, 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; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the 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 December 31, 2013, and its support, revenue, expenses and changes in net assets for the year ended December 31, 2013, in accordance with the modified cash basis of accounting as described in Note 2.

Report on Summarized Comparative Information

We have previously audited the Mecklenburg Bar Foundation's 2012 financial statements, and our report dated February 15, 2013, 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.

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.

C. DeWitt Foard & Company, P.A.

March 14, 2014

MECKLENBURG BAR FOUNDATION**Statement of Financial Position - Modified Cash Basis****December 31, 2013, with prior-year comparative totals**

	December 31:	
	2013	2012
<u>ASSETS</u>		
Cash	\$ 1,102,693	\$ 264,630
Investments	223,379	199,416
Property and Equipment:		
Land	-	377,349
Buildings	-	344,864
Construction in process	280,619	-
Total Property and Equipment	280,619	722,213
Less - accumulated depreciation	-	246,194
Net Property and Equipment	280,619	476,019
<i>TOTAL ASSETS</i>	\$ 1,606,691	\$ 940,065

LIABILITIES AND NET ASSETS

Liabilities:		
Deferred income	\$ 9,301	\$ -
Note payable	-	91,948
<i>Total Liabilities</i>	9,301	91,948
Net Assets:		
Unrestricted:		
Designated - Building	891,877	-
Designated - Property	280,619	384,071
Designated - Lawyers' support fund	7,562	7,562
Designated - Professionalism Lawyer Life and Culture	4,215	4,215
Designated - Grant	1,994	-
Undesignated	152,175	138,544
<i>Total Unrestricted</i>	1,338,442	534,392
<i>Temporarily Restricted</i>	258,948	313,725
<i>Total Net Assets</i>	1,597,390	848,117
<i>TOTAL LIABILITIES AND NET ASSETS</i>	\$ 1,606,691	\$ 940,065

MECKLENBURG BAR FOUNDATION**Statement of Activities - Modified Cash Basis****Year Ended December 31, 2013, with prior-year comparative totals**

	Year Ended December 31, 2013			2012
	Unrestricted	Temporarily Restricted	TOTALS	TOTALS
<u>SUPPORT AND REVENUE</u>				
Contributions	\$ 211,364	\$ 27,527	\$ 238,891	\$ 377,773
Fundraising (net of \$11,946 direct benefit)	8,862	-	8,862	12,006
Rental income	95,891	-	95,891	65,242
Investment income (loss)	359	35,499	35,858	25,639
Gain on sale of fixed assets	791,603	-	791,603	-
Net assets released from restrictions	117,803	(117,803)	-	-
<i>Total Support and Revenue</i>	<i>1,225,882</i>	<i>(54,777)</i>	<i>1,171,105</i>	<i>480,660</i>
<u>EXPENSES</u>				
Grant expense	144,548	-	144,548	82,000
Administrative expense	117,073	-	117,073	115,141
Programs	72,799	-	72,799	198,248
Rent expense	61,819	-	61,819	-
Depreciation expense	5,485	-	5,485	13,165
Lawyers Impact Fund expenses	3,857	-	3,857	1,738
Interest expense	619	-	619	4,014
All other expenses	15,632	-	15,632	11,471
<i>Total Expenses</i>	<i>421,832</i>	<i>-</i>	<i>421,832</i>	<i>425,777</i>
<i>CHANGE IN NET ASSETS</i>	<i>804,050</i>	<i>(54,777)</i>	<i>749,273</i>	<i>54,883</i>
<i>NET ASSETS, BEGINNING</i>	<i>534,392</i>	<i>313,725</i>	<i>848,117</i>	<i>793,234</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 1,338,442</i>	<i>\$ 258,948</i>	<i>\$ 1,597,390</i>	<i>\$ 848,117</i>

MECKLENBURG BAR FOUNDATION**Statement of Cash Flows - Modified Cash Basis****Year Ended December 31, 2013, with prior-year comparative totals**

	Year Ended December 31,	
	2013	2012
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 749,273	\$ 54,883
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	5,485	13,165
Realized and unrealized (gains) losses	(26,408)	(19,513)
Gain on disposal of fixed assets	(791,603)	-
(Decrease) increase in operating liabilities:		
Deferred income	9,301	-
<i>Cash Flows From Operating Activities</i>	<i>(53,952)</i>	<i>48,535</i>
<u>INVESTING ACTIVITIES</u>		
Proceeds from the sale of investments	9,487	10,000
Purchases of investments	(7,042)	(2,657)
Proceeds from the sale of fixed assets	1,262,137	-
Purchases of fixed assets	(280,619)	-
<i>Cash Flows From Investing Activities</i>	<i>983,963</i>	<i>7,343</i>
<u>FINANCING ACTIVITIES</u>		
Principal paid on note payable	(91,948)	(15,432)
<i>Cash Flows From Financing Activities</i>	<i>(91,948)</i>	<i>(15,432)</i>
CHANGE IN CASH	838,063	40,446
CASH - BEGINNING	264,630	224,184
CASH - ENDING	\$ 1,102,693	\$ 264,630
Supplemental information:		
Interest expense paid	\$ 619	\$ 4,014

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

December 31, 2013

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.
- 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, 2013

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, 2013, the Foundation had no permanently restricted net assets.

Cash

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

Property

Property is recorded at historical cost subject to a \$1,000 capitalization policy and consists of land and a building in process in the Greenway Business Center.

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 2012 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, 2013

NOTE 3 – INVESTMENTS AND INVESTMENT INCOME

Investments

Investments consist of the following as of December 31:

	<u>2013</u>	<u>2012</u>
International equity funds	\$ 38,739	\$ 32,835
Fixed income funds	69,711	70,270
U.S. equity funds	113,110	94,124
<u>Real assets</u>	<u>1,819</u>	<u>2,187</u>
TOTAL	<u>\$ 223,379</u>	<u>\$ 199,416</u>

Investment income

Investment income of \$35,858 for the year ended December 31, 2013 consist of \$10,049 of interest and dividends, \$26,408 of realized and unrealized capital gains, net of \$599 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, which is held by Foundation for the Carolinas, is classified as a Level 2 asset and 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.

NOTE 5 – AFFILIATED PARTY TRANSACTIONS

Building lease – Queens Road

The Foundation leased the building at 438 Queens Road, Charlotte, North Carolina, to the Mecklenburg County Bar (MCB), a separate not-for-profit entity from January 1, 2013 through May 20, 2013, when the building was sold. Under the terms of the lease, the annual rental payment was \$65,242, which was the current fair value of the leased premises. In addition, MCB was responsible for the payment of property taxes, insurance, repairs, and maintenance on the facility.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

December 31, 2013

NOTE 5 – AFFILIATED PARTY TRANSACTIONS (continued)

Building lease – Church Street

MCB entered into a lease with the Foundation to lease the office in this location during the Foundation's lease term. The annual lease payment to the Foundation of \$111,613 includes \$933 per month to assist the Foundation with its loss of rental income due to the sale of the Queens Road property.

Building lease – Greenway Business Center

The Foundation has purchased land and is in the process of constructing a building in the Greenway Business Center, which will be leased by MCB once construction is complete. Terms of this lease have not yet been determined. The Foundation reimbursed MCB \$125,175 for the initial outflow of cash related to this land during the year.

For the year ended December 31, 2013, MCB paid \$95,891, in rent to the Foundation.

Note payable

During the year, the Foundation repaid the mortgage obligation dated March 18, 2010, due to MCB. Total payments of \$92,567 were paid to MCB, which consisted of \$619 of interest expense and \$91,948 of principal.

Amounts paid to Mecklenburg County Bar

In addition to the note payable above, the Foundation paid \$197,472 to the MCB during 2013, which consisted of \$117,073 of administrative support, \$70,399 of shared office expenses and reimbursements, and \$10,000 of grants.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following uses:

	<u>2013</u>	<u>2012</u>
Unutilized funds:		
Hyatt Fund	\$ 175,515	\$ 152,353
McMillan Fund	65,838	58,315
History project	15,360	103,057
Total unutilized funds	256,713	313,725
Time restricted: Subsequent fiscal year	2,235	-
TOTAL	<u>\$ 258,948</u>	<u>\$ 313,725</u>

Net assets released during the year were released by payment for the related restricted purposes.

MECKLENBURG BAR FOUNDATION

Notes to Financial Statements

December 31, 2013

NOTE 7 – OPERATING LEASE

Mecklenburg Bar Foundation entered into a lease for office space on Church Street for a one-year period beginning May 20, 2013. According to the lease, the Foundation shall have the option of renewing the lease for 3 additional terms of 3 months each, at a monthly rent of \$8,495. Lease expense for the year ended December 31, 2013 was \$61,819. Future minimum lease payments due in the year ending December 31, 2014 are \$38,579.

NOTE 8 – FUTURE COMMITMENTS

Mecklenburg Bar Foundation has entered into a binding agreement for the construction of a new building in the Greenway Business Center. Future payments related to this contract are expected to be \$3,814,813. In November 2013, the Foundation entered into a \$2,500,000 construction loan to assist in the financing of the building. As of December 31, 2013, no money had been drawn from this construction loan.

NOTE 9 – 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, 2013 the amount of cash in excess of insured limits was \$615,006.

Geographic area

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

NOTE 10 – 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.