

NORTH CAROLINA STATE BAR

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

NORTH CAROLINA STATE BAR
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NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015

The following is a discussion and analysis of the financial performance of the North Carolina State Bar for the year ended December 31, 2015. The accompanying financial statements and footnotes comprise our complete set of financial information. The financial statements of the North Carolina State Bar include the net position and revenues, expenses and changes in net position of the North Carolina State Bar programs which are comprised of: North Carolina State Bar ("Bar"); the North Carolina State Bar Boards of Continuing Legal Education ("CLE"), Legal Specialization, Paralegal Certification ("Paralegal"); and the Plan for Interest on Lawyers' Trust Accounts ("IOLTA"), as of and for the year ended December 31, 2015; and the Client Security Fund of the North Carolina State Bar ("CSF") as of and for the year ended September 30, 2015, collectively "State Bar". The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current and the previous year are presented in the analysis.

Financial Highlights

- The State Bar's net position (excluding CSF) was \$10,458,404 at December 31, 2015 compared to \$10,266,524 at December 31, 2014, an increase of \$191,880 for the year ended December 31, 2015. The Client Security Fund's net position was \$1,130,685 at September 30, 2015, compared to \$1,051,487 at September 30, 2014, an increase of \$79,198 for the year ended September 30, 2015.

Overview of the Basic Financial Statements

The basic financial statements of the State Bar report information about the State Bar using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the State Bar.

The Statement of Net Position presents the current and noncurrent portions of assets and liabilities separately.

The Statement of Revenues, Expenses and Changes in Net Position presents information on how the State Bar's assets changed as a result of the year's operations.

The Statement of Cash Flows presents information on how the State Bar's cash changed as a result of the year's activity.

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015

The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2015, and CSF as of and for the year ended September 30, 2015:

	State Bar (excluding CSF)	CSF	Total
Current assets	\$ 12,204,041	\$ 1,201,890	\$ 13,405,931
Capital assets, net	17,071,692	-	17,071,692
Total assets	<u>29,275,733</u>	<u>1,201,890</u>	<u>30,477,623</u>
Current liabilities	8,163,796	71,205	8,235,001
Long-term liabilities	10,653,533	-	10,653,533
Total liabilities	<u>18,817,329</u>	<u>71,205</u>	<u>18,888,534</u>
Net position:			
Net investment in capital assets	5,967,178	-	5,967,178
Restricted	421,451	-	421,451
Unrestricted	4,069,775	1,130,685	5,200,460
Total net position	<u>\$ 10,458,404</u>	<u>\$ 1,130,685</u>	<u>\$ 11,589,089</u>
Operating revenues	\$ 12,779,630	\$ 788,236	\$ 13,567,866
Operating expenses	12,206,328	709,376	12,915,704
Operating income	<u>573,302</u>	<u>78,860</u>	<u>652,162</u>
Nonoperating revenues (expenses):			
Interest income	9,399	338	9,737
Interest expense	(390,821)	-	(390,821)
Total nonoperating revenues (expenses)	<u>(381,422)</u>	<u>338</u>	<u>(381,084)</u>
Changes in net position	<u>\$ 191,880</u>	<u>\$ 79,198</u>	<u>\$ 271,078</u>

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015

The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2014, and CSF as of and for the year ended September 30, 2014 (as restated):

	State Bar (excluding CSF)	CSF	(Restated) Total
Current assets	\$ 10,540,512	\$ 1,069,438	\$ 11,609,950
Capital assets, net	17,827,172	-	17,827,172
Total assets	<u>28,367,684</u>	<u>1,069,438</u>	<u>29,437,122</u>
Current liabilities	7,002,202	17,951	7,020,153
Long-term liabilities	11,098,958	-	11,098,958
Total liabilities	<u>18,101,160</u>	<u>17,951</u>	<u>18,119,111</u>
Net position:			
Net investment in capital assets	6,285,718	-	6,285,718
Restricted	-	-	-
Unrestricted	3,980,806	1,051,487	5,032,293
Total net position	<u>\$ 10,266,524</u>	<u>\$ 1,051,487</u>	<u>\$ 11,318,011</u>
Operating revenues	\$ 12,260,804	\$ 785,346	\$ 13,046,150
Operating expenses	11,464,802	1,104,565	12,569,367
Operating income	<u>796,002</u>	<u>(319,219)</u>	<u>476,783</u>
Nonoperating revenues (expenses):			
Interest income	6,851	688	7,539
Interest expense	(405,161)	-	(405,161)
Loss on disposal of assets	(6,056)	-	(6,056)
Total nonoperating revenues (expenses)	<u>(404,366)</u>	<u>688</u>	<u>(403,678)</u>
Changes in net position	<u>\$ 391,636</u>	<u>\$ (318,531)</u>	<u>\$ 73,105</u>

Budgetary Highlights

The North Carolina State Bar uses budgetary tools internally to measure and control revenues and expenses. Significant categorical variances are reviewed on a quarterly basis and any adjustments to the budget are approved by the State Bar's Council (board of directors) and its Finance and Audit Committee on an as-needed basis.

Long-Term Debt

With the completion of the new State Bar Headquarters in 2013, the State Bar incurred a twelve million dollar loan. The term of the loan is 10 years with amortization on a 20-year schedule. The interest rate is fixed at 3.4% for the entire term, subject to certain minimum deposit requirements. Principal and interest payments were made throughout 2015 and 2014. The total balance outstanding is presented on the accompanying statement of net position.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015

Events Affecting Future Operations

*Affecting the North Carolina State Bar **program**:*

Although generally accepted accounting principals, as prescribed by Governmental Accounting Standards Board ("GASB") have required presentation of the State Bar programs as one enterprise fund of the State of North Carolina, the predominate size of the State Bar's regulatory undertaking and its budget relative to those of the boards seems to warrant comment concerning the North Carolina State Bar **program** ("Bar") separate and apart from the other entities. The year 2015 was not a bad year for the Bar, financially speaking. The operational budget adopted by the Council last January anticipated a surplus, on the cash basis, of about \$112,000. Unfortunately, the budget had to be amended twice during the year, primarily to allow for significantly higher payments for "legal services" than had been estimated at the beginning of the year. The initial appropriation of \$50,000 for that line item was increased at mid-year to \$270,000, and finally, in October to \$400,000. Remarkably, even that provision was ultimately insufficient in that we had, by year end, spent approximately \$428,000 on outside lawyers, primarily in defense of anti-trust claims. The revised budget, which also included a couple of much less significant amendments to other line items, finally projected a deficit of more than \$237,000. When all was said and done, expenses actually exceeded revenues by only \$35,648 (cash basis). This "savings" relative to the revised budget was accomplished during the fourth quarter as the result of a moratorium on discretionary spending and a considerable infusion of income from the State Bar Foundation, which agreed in October to fully fund all of the State Bar's annual expenses for building maintenance. That beneficence totaled nearly \$90,000, none of which was anticipated as income in the original budget for 2015.

Although the cost of legal services is expected to moderate in 2016, it is difficult to say with any certainty what the future holds in regard to litigation involving the State Bar. Given the agency's responsibility for enforcing the statute prohibiting the unauthorized practice of law, and the likelihood that in so doing claims of unlawful anti-competitive activity may be engendered, there appears to be some appreciable risk that future expenditures for outside counsel could be even more substantial. Because it is recognized that unchecked legal expenses could quickly erode the State Bar's solid financial position, efforts are being made to ensure that policy decisions that could give rise to litigation are consistently informed by appropriate considerations of risk management.

As far as income is concerned, the Bar's primary source of revenue, nearly 90%, is the membership fee paid by each of its active members. Not surprisingly, the Bar's revenues tend to increase as a function of membership growth, as do its expenses. Dues have been at the statutory maximum of \$300 since 2012. It is believed that dues at this level, in combination with existing cash reserves, should be sufficient to defray ordinary operating costs for the next several years and to pay the increased debt service associated with the borrowing that was necessary to finance the new headquarters. This assumes that the population of lawyers will continue to increase in accordance with recent experience. Over the past several years, dues revenue has risen on average by approximately 2.5% annually as the population of licensed lawyers has increased. Although the growth of the Bar appears inexorable, with our state's seven law schools remaining fully subscribed, we are aware of predictions that growth may decelerate and perhaps stop altogether in the foreseeable future. Such an eventuality would have serious implications for the financing of the State Bar's operations and the extent and character of its regulatory program. For those reasons, the executive director and the Finance and Audit Committee are monitoring developments closely and are attempting to ascertain what the State Bar's response should be in regard to various "slow growth" and "no growth" scenarios.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015

The Bar's other revenue streams are well understood and fairly reliable. However, it should be noted that because the agency is required to maintain its funds in fully collateralized accounts, which in the present environment pay virtually no interest, the yield on our substantial average daily balances is negligible. Should interest rates rise in the near future, the Bar's cash flow situation would be considerably enhanced.

On a more encouraging note, an additional source of funding for the State Bar came on line for the first time during 2015 and ought to be significant for many years to come. As was mentioned above, the Foundation furnished nearly \$90,000 to the Bar last year to defray the considerable cost of maintaining the building. The Foundation's trustees have since pledged to bear those costs going forward indefinitely. For the purposes of the State Bar's 2016 budget, \$75,000 has been provided. It seems likely that infusions of similar magnitude can be expected for the next several years, given the fact that the Foundation's unencumbered cash reserves and unfunded pledges now total \$1,377,245.

Affecting IOLTA:

IOLTA uses the accrual method of accounting and budgetary tools internally to measure and control revenues and expenses. Budget to actual variances are examined by the IOLTA Finance Committee and the Board of Trustees on a monthly basis. Variances are reviewed at board meetings and any adjustments to budgets are approved by the IOLTA Board.

The primary revenue source for IOLTA is interest earned on general attorney trust accounts. Other sources of income include interest from settlement agents' accounts; funds from Cy Pres awards; national settlements; and interest on investments.

The following table provides a summary of revenues and expenses for the years ended December 31:

	<u>2015</u>	<u>2014</u>	<u>Current Year Change</u>
Interest from participants	\$ 1,847,195	\$ 1,689,792	\$ 157,403
Settlement proceeds	842,972	-	842,972
CY Pres	75,655	5,764	69,891
Settlement agent accounts	31,989	26,850	5,139
Operating revenue	<u>2,797,811</u>	<u>1,722,406</u>	<u>\$ 1,075,405</u>
Operating expenses	<u>2,348,886</u>	<u>2,250,243</u>	<u>98,643</u>
Operating income (loss)	448,925	(527,837)	976,762
Grant software income	-	9,000	(9,000)
Interest income	8,434	5,773	2,661
Net income (loss)	<u>\$ 457,359</u>	<u>\$ (513,064)</u>	<u>\$ 970,423</u>

The funds received are used for funding grants to providers of civil legal services for the indigent and for funding programs concerned with the improvement of the administration of justice. The following table provides a summary of IOLTA grant awards for the years ended December 31:

	<u>2015</u>	<u>2014</u>	<u>Current Year Change</u>
Grant awards (including matching of \$6,000 and \$8,500 for 2015 and 2014, respectively)	<u>\$ 2,021,225</u>	<u>\$ 1,901,640</u>	<u>\$ 119,585</u>

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For the Fiscal Year Ended December 31, 2015

IOLTA maintains a designated reserve fund to maintain grant award levels in times of economic downturn. The balance designated as of December 31, 2015 was \$668,021, which includes externally restricted amounts of \$421,451.

IOLTA's assets exceeded its liabilities by \$785,056 (net position) at December 31, 2015. The following table provides a summary of IOLTA's assets and liabilities for the years ended December 31:

	2015	2014	Current Year Change
Current assets	\$ 3,058,268	\$ 2,471,216	\$ 587,052
Capital assets, net	8,333	13,333	(5,000)
Total assets	3,066,601	2,484,549	582,052
Current liabilities	2,281,545	2,156,852	124,693
Noncurrent liabilities	-	-	-
Total liabilities	2,281,545	2,156,852	124,693
Net position	\$ 785,056	\$ 327,697	\$ 457,359

IOLTA disbursed \$2,755,394 in State funds in 2015. IOLTA expenses include the cost of administering these funds as no State funds may be used for administration.

Affecting the Client Security Fund:

During its 2015 fiscal year, the Client Security Fund's Board of Trustees was able to administer the Fund and pay all legitimate claims within the prescribed limits without reducing the principal amount of the Fund below \$1,000,000, which is the minimum amount the Supreme Court requires be held in reserve. It appears that this will not be possible in 2016 as the Board enters the fourth quarter of its current fiscal year with insufficient funds to pay some claims that have already been found to be reimbursable. The current situation raises a serious question as to the adequacy of the \$25.00 assessment that a Supreme Court order now in effect imposes annually upon each active member of the State Bar, it being apparent that the cost of administering the program as presently constituted cannot be significantly reduced.

Affecting the Board of Continuing Legal Education:

The Continuing Legal Education program is financially self-sufficient. Its costs are fairly constant and its revenues are more than sufficient to sustain its regulatory activities. Indeed, because North Carolina lawyers tend to take more CLE than is strictly required, 15 hours per year on average as opposed to the 12 hours mandated by the rules, additional revenue is generally available to subsidize the operations of the State Bar's Lawyer Assistance Program. Revenue is also boosted by the imposition and collection of substantial penalties related to noncompliance. The subsidy noted above totaled \$198,243 in 2015 and is expected to increase in 2016. Going forward, CLE revenues may be expected to grow as a function of the expanding population of lawyers liable to satisfy the requirements.

It also seems probable that the board's expenses will be moderating in the next few years as it begins to leverage technology more effectively. This seems especially likely in regard to the electronic distribution and filing of annual report forms for the State's lawyers.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015

Affecting the Board of Legal Specialization:

The Specialization program is also financially self-sufficient with revenues that have exceeded expenses consistently in recent years, albeit by relatively modest amounts. With over one thousand lawyers certified in thirteen areas of specialty, the program has become reliant not so much upon the application fees of those seeking initial certification, about 90 to 100 lawyers each year on average, but upon reliable sums generated each year from the imposition of an annual fee upon all certified specialists. An increase in the annual fee went into effect in 2016 and should provide a stable and sustaining income stream in support of the program's administration for many years to come. Expenses also appear to be well in hand as technology is being extensively deployed to improve and reduce the cost of the examination process.

Affecting the Board of Paralegal Certification:

The Paralegal Certification program is much more than financially viable. Not only does its income routinely exceed its expenses, it also maintains a very large cash reserve, approximately \$450,000 at December 31, 2015, which was created in the program's early days when tremendous numbers of paralegals rushed to take advantage of a procedure that allowed for initial certification without the necessity of passing an examination. Like the Legal Specialization program, the Paralegal program is presently implementing software that should allow examinations to be administered with greater ease and effectiveness and at a lower cost, while eliminating the need for costly psychometric consultation.

Contacting the State Bar's Financial Management

This financial report is designed to provide a general overview of the State Bar's finances and to demonstrate the State Bar's accountability for the funds it receives and expends. If you have questions or require additional information, please contact the North Carolina State Bar, 217 East Edenton Street, Raleigh, North Carolina 27601.

Independent Auditor's Report

Members of the State Bar Council
North Carolina State Bar

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Bar ("State Bar") which comprise the statement of net position as of December 31, 2015 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State Bar's preparation and fair presentation of the basic 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 State Bar'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 basic 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 net position of the State Bar as of December 31, 2015 and the changes in its net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 18 to the financial statements, the State Bar restated its beginning net position for the cumulative effect of accounting errors resulting in prior period adjustments. In our opinion, such adjustments are appropriate and have been properly applied.

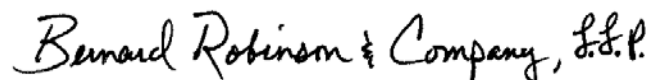
As discussed in Note 1, these financial statements are presented only for the State Bar and do not purport to and do not present fairly the financial position of the State of North Carolina as of December 31, 2015, nor the changes in its net position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the State Bar and its Related Affiliates as of December 31, 2014, were audited by other auditors whose separate reports dated April 16, 2015, expressed unmodified opinions on those statements.

Other Matter***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Raleigh, North Carolina
August 25, 2016

NORTH CAROLINA STATE BAR
Statement of Net Position
December 31, 2015

ASSETS:

Current assets:

Cash and cash equivalents	\$ 11,017,089
Restricted cash	1,578,606
Receivables from related entities	2,000
Dues and fees receivable, net	545,583
Interest receivable	235,232
Prepaid expenses	27,421
Total current assets	<u>13,405,931</u>

Capital assets, net	<u>17,071,692</u>
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Total assets	<u>30,477,623</u>
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LIABILITIES:

Current liabilities:

Current portion of long-term debt	450,981
Accounts payable	112,682
Other accrued expenses	97,676
Payable as Agent for the State	219,480
Accrued vacation	226,685
Pension contribution payable	543,567
Amounts held for escheatment	516,230
Grants approved and unpaid	2,015,225
Claims payable	50,000
Unearned revenue	4,002,475
Total current liabilities	<u>8,235,001</u>

Long-term debt	<u>10,653,533</u>
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Total liabilities	<u>18,888,534</u>
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NET POSITION:

Net investment in capital assets	5,967,178
Restricted	421,451
Unrestricted	5,200,460
Total net position	<u>\$ 11,589,089</u>

NORTH CAROLINA STATE BAR
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2015

Operating revenues:	
Dues	\$ 8,080,785
Assessments	673,900
Reimbursements of claim awards	114,336
Sponsor and attendee fees	447,910
Renewal, registration and examination fees	382,331
Professional corporation fees	65,758
Interstate law firm fees	104,502
Reinstatement fees	95,394
Penalty fees	354,683
EAJC processing fees	86,937
DHC reimbursable costs and grievance fees	153,552
Foundation contributions	89,569
Bar magazine income	49,523
Interest from participants - IOLTA	1,847,195
Settlement proceeds - IOLTA	842,972
Cy pres receipts - IOLTA	75,655
Settlement agent accounts - IOLTA	31,989
Other	70,875
Total operating revenues	<u>13,567,866</u>
Operating expenses:	
Salaries and wages	5,938,042
Pension plan contributions	546,621
Other employee benefits	624,493
Grant awards - IOLTA	1,593,780
Grants funded from settlement proceeds - IOLTA	421,445
Other grant awards	11,580
Claim awards	506,744
Professional fees	469,731
Council and committee meetings, including officers' travel	599,927
Publications, postage, and printing	306,689
Depreciation	852,605
Equipment rental and maintenance	166,476
Coordinator fee and expenses	21,898
Paralegal reception	21,748
Travel and automotive	121,066
Community outreach	6,872
Exam analysis	12,600
Test administration	39,810
Rent expense	22,450
Disciplinary proceedings	129,608
Building maintenance and utilities	201,276
Bank service charges	95,480
Bad debt expense	52,824
Other office expense	78,109
Telephone	37,686
Insurance and bonds	36,144
Total operating expenses	<u>12,915,704</u>
Operating income	<u>652,162</u>
Nonoperating revenues (expenses):	
Interest income	9,737
Interest expense	(390,821)
Total nonoperating revenues (expenses)	<u>(381,084)</u>
Changes in net position	271,078
Net position - beginning of year (restated)	11,318,011
Net position - end of year	<u>\$ 11,589,089</u>

See Notes to Financial Statements

NORTH CAROLINA STATE BAR**Statement of Cash Flows****Year Ended December 31, 2015**

Cash flows from operating activities:	
Receipts from attorneys for dues	\$ 8,838,660
Cash received from program participants - IOLTA	1,833,117
Cash received from fees	1,543,071
Cash received from settlement proceeds - IOLTA	842,972
Cash received from Cy Pres - IOLTA	75,655
Cash received from settlement agent accounts - IOLTA	31,989
Cash received from assessments and reimbursements	788,571
Other cash received	555,762
Payments for IOLTA grants	(2,753,036)
Payments to claimants	(456,744)
Payments to employees for services	(7,041,780)
Payments to suppliers of goods and services	(1,282,523)
Cash payments for other operating expenses	(1,189,308)
Net cash provided by operating activities	<u>1,786,406</u>
Cash flows from capital and related financing activities:	
Purchases of property and equipment	(97,125)
Interest paid	(390,821)
Principal payments on bank borrowings	(436,940)
Net cash used in capital and related financing activities	<u>(924,886)</u>
Cash flows from investing activities:	
Interest received	9,737
Net cash provided by investing activities	<u>9,737</u>
Net increase in cash and cash equivalents	871,257
Cash and cash equivalents - beginning of year	<u>10,145,832</u>
Cash and cash equivalents - end of year	<u>\$ 11,017,089</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 652,162</u>
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	852,605
Changes in assets and liabilities:	
Restricted cash	(776,985)
Receivables	(285,087)
Prepaid expenses	(558)
Accounts payable and accrued expenses	295,038
Accrued vacation and pension	67,376
Grants approved and unpaid	105,085
Amount held for escheatment	79,351
Claims payable	50,000
Unearned revenue	747,419
Total adjustments	<u>1,134,244</u>
Net cash provided by operating activities	<u>\$ 1,786,406</u>

NORTH CAROLINA STATE BAR

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The North Carolina State Bar ("State Bar") is comprised of the following North Carolina State Bar programs: the North Carolina State Bar; North Carolina State Bar Board of Continuing Legal Education; North Carolina State Bar Board of Legal Specialization; North Carolina State Bar Board of Paralegal Certification; and North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts; and the Client Security Fund of the North Carolina State Bar. The North Carolina State Bar is also affiliated with the Chief Justice's Commission on Professionalism; the North Carolina Equal Access to Justice Commission; and the North Carolina State Bar Foundation as further discussed in Note 16, Related Party Transactions.

- The North Carolina State Bar *program* (the "Bar") was created by the direction of the North Carolina Legislature in 1933 and is considered an agency of the State of North Carolina. All attorneys licensed to practice in North Carolina must become members of the Bar. The Bar's programs are organized as standing committees under the governance of the North Carolina State Bar Council (the "Council"). The Council is composed of a variable number of councilors equal to the number of judicial districts plus 16, the officers of the Bar, and each retiring president of the Bar, who is a councilor for one year from the date of the expiration of his term as president.
- The North Carolina State Bar Board of Continuing Legal Education ("CLE") was established by order of the North Carolina Supreme Court on October 7, 1987. CLE was given the responsibility for administering the continuing legal education program for attorneys licensed to practice law in North Carolina.
- The North Carolina State Bar Board of Legal Specialization ("Legal Specialization") was established in 1987 as a separate program to certify attorneys as legal specialists.
- The North Carolina State Bar Board of Paralegal Certification ("Paralegal") was approved by the Bar and adopted by the North Carolina Supreme Court in 2004 to assist in the development of paralegal standards, raise the profile of the paralegal profession, and standardize the expectations of the public and other legal professionals.
- The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts ("IOLTA") was approved by the North Carolina Supreme Court on June 23, 1983, and was implemented by the Bar in January 1984. Interest earned on general trust accounts, net of allowable service charges, is transferred to IOLTA. The funds received are used for funding grants to providers of civil legal services for the indigent and for funding programs concerned with the improvement of the administration of justice. On October 11, 2007, the Supreme Court delivered an order to the Bar to implement a mandatory IOLTA program, effective January 1, 2008.
- The Client Security Fund of the North Carolina State Bar ("CSF" or "Client Security Fund") was created by direction of the Supreme Court in 1984 and became operational on January 1, 1985. The Supreme Court has the discretion to assess attorneys in order to provide funds which are used to reimburse clients who have been embezzled of their monies by their attorneys. These funds are segregated and administered by the CSF Board of Trustees. CSF has a fiscal year end of September 30.

NORTH CAROLINA STATE BAR

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the State Bar is responsible.

For financial reporting purposes, the State Bar is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR). These financial statements for the State Bar are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

Basis of Presentation

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board ("GASB").

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The basic financial statements of the State Bar are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured and depreciation is recorded as a cost of operations. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows. Fees received for the various licenses are deemed earned when the license periods begin.

The State Bar classifies its revenues as operating or non-operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the State Bar's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of membership dues and assessments, reimbursements of claim awards, CLE fees, renewal, registration and examination fees and interest from IOLTA participants. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. Non-operating revenues and expenses include activities that have characteristics of non-exchange transactions and consist primarily of investing and financing type activities.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows the State Bar considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Dues and Fees Receivable

Dues receivable consists of Bar membership dues and CSF assessments in arrears and late fees assessed thereon. Each active member of the Bar is required to pay annual dues to support the Bar plus an assessment to support CSF. In 2015, annual dues and assessments were \$300 and \$25, respectively. Dues and assessments for the calendar year are due January 1, with a \$30 late fee assessed for dues paid after June 30. Attorneys may be suspended for non-payment. Fees receivable consist of Bar Disciplinary Hearing Committee ("DHC") and grievance fees billed and unpaid as of year end and CLE attendee and sponsor fees receivable. CLE attendee fees receivable are based on fees billed in March following year end related to CLE taken in the current fiscal year. The Bar provides an allowance for doubtful accounts for amounts estimated to be uncollectible based on management's review of all accounts.

Interest Receivable

Interest receivable consists of amounts due from various financial institutions holding deposits of IOLTA participating lawyers' trust accounts and is received in January following year end.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The State Bar capitalizes assets that have a cost of \$1,000 or greater at the date of acquisition and an expected useful life in excess of two years. Artwork is not depreciated since it does not have a determinable useful life. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	3 - 39 years
Computer equipment and software	3 - 5 years
Furniture and office equipment	5 - 7 years
Automobiles	3 - 5 years
Artwork (not depreciable)	N/A

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in non-operating revenue or expense for the period.

Payable to Client Security Fund

Included in other accrued expenses is a payable to Client Security Fund representing assessments received by the Bar on behalf of CSF in December 2015 and not remitted to CSF until the following January. Annual assessments were \$25 per attorney for 2015. There were no outstanding CSF assessments due from the Bar as of September 30, 2015.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenue

Unearned revenue consists of Bar dues and Paralegal renewal fees received prior to the license renewal period. Bar dues notices are mailed prior to January 1 of the year for which they are due. Amounts collected prior to January 1 represent unearned revenues as of December 31. The renewal payment period for Paralegal calendar year renewals is from October 1 through the following February 15. Amounts collected prior to January 1 represent unearned revenue as of December 31.

Payable as Agent for the State

Payable as Agent for the State consists of funds held by IOLTA acting as an agent on behalf of the State of North Carolina. These funds are included in restricted cash at December 31. See also Note 4 - Agency Transactions.

Amounts Held for Escheatment

Amounts held for escheatment represent amounts held by the Bar for the beneficiaries of attorney trust accounts assumed by the Bar. These funds are included in restricted cash in the Statement of Net Position.

Accrued Vacation

The State Bar provides for the accumulation of up to 105 hours of earned vacation leave with such leave being fully vested when earned. Sick leave is accumulated indefinitely; however, no payments are made for accrued and unused sick leave at the end of the calendar year or in the event an employee separates from employment.

Net Position

The State Bar's net position is classified as follows:

Investment in capital assets - This represents the State Bar's investment in capital assets net of related debt and accumulated depreciation.

Restricted - This represents the State Bar's portion of net position restricted externally as to use by creditors, grantors, contributors or laws or regulations of other governments, net of related liabilities.

Unrestricted net position - This represents the State Bar's portion of net position which is not subject to externally imposed stipulations pertaining to its use. Unrestricted net position is used for the general operations of the State Bar and may be used at the discretion of the governing board to meet current expenses for any purpose.

The IOLTA Board of Trustees has designated \$246,570 of its unrestricted net position at December 31, 2015 to be reserved for future program awards. The designated unrestricted net position may be made available for general operations with the board's consent.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

- Bar revenues are generated primarily from annual membership dues which are recognized when earned.
- CLE revenues consist primarily of fees from attorneys or providers for each approved credit hour of continuing education and are recognized in the period in which the program is held. Penalties are charged for late filing and late compliance and are recognized as income in the period to which they relate. The CLE program assesses a total of \$3.00 per credit hour, of which \$1.25 per credit hour is earned by CLE and the remaining is distributed as follows: \$1.00 per credit hour to CJCP to provide financial support; \$.50 per credit hour to the North Carolina Equal Access to Justice Commission ("EAJC") to provide financial support; and \$.25 per credit hour to the Bar as compensation for administering the funds distributed to the commissions. Assessments other than the \$1.25 per CLE credit hour to administer the CLE program are not included in CLE revenues or expenses in the accompanying Statement of Revenues, Expenses and Changes in Net Position.
- Legal Specialization revenues relate primarily to certification, application and examination fees charged to attorneys who are certified legal specialists and are recognized in the period earned.
- Paralegal revenues from renewal fees are recognized when the licensing period begins, which is January 1 for calendar year renewals and July 1 for mid-year renewals. Calendar year renewal fees collected prior to January 1 are deferred and recognized as revenue in the subsequent period. Paralegal application and examination fees are recognized when earned, which is generally when received.
- CSF revenues are comprised of assessments and reimbursements of claim awards. Annual assessments to attorneys are made when the Board determines the reserves are low. Revenues are recognized in the period for which the assessments are due. An assessment of \$25 per attorney was ordered for 2015. CSF may be entitled to reimbursements from named attorneys to the extent of the claims awarded. These reimbursements are typically recognized upon receipt or upon completion of the appeals process.
- IOLTA's operating revenues are comprised primarily of interest from participant accounts. IOLTA management is responsible for negotiating service charges assessed by financial institutions in connection with IOLTA participants' trust accounts. Certain service charges are based on a flat fee per account, while others are dependent upon the activity in the accounts. IOLTA, by law, is entitled only to the interest earned on participants' accounts, net of certain service charges. Interest income from IOLTA participants is reported net of reported service charges of approximately \$330,377 in 2015. Beginning in 2007, funds received and disbursed by IOLTA include cy pres funds for the provision of civil legal services for indigents. Per North Carolina statute, unpaid residual funds in class action litigation (unless otherwise ordered by the court) shall be divided and sent equally to the Bar for the provision of civil legal services for indigents and to the Indigent Person's Attorney Fund. The Board policy is to distribute these funds to the "established legal services programs" as deemed by the Access to Civil Justice Act. Distribution of class action residual funds or funds from other court action or settlements not governed by the NC statute will be determined by the IOLTA trustees with the guidance of the appropriate court order or other documentation directing the funds to NC IOLTA. In 2015, such cy pres funds in the amount of \$75,655 were received and included in funds available for 2015 grants.

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant Awards - IOLTA

Grants are awarded by the IOLTA Board of Trustees to organizations that carry out programs concerned with the improvements of the administration of justice. These programs may consist of:

- Providing civil legal services for indigents;
- Enhancement and improvement of grievance and disciplinary procedures to protect the public more fully from incompetent or unethical attorneys;
- Development and maintenance of a fund for student loans to enable meritorious persons to obtain a legal education when otherwise they would not have adequate funds for this purpose; and
- Such other programs designed to improve the administration of justice as may from time to time be proposed by the Board of Trustees and approved by the Supreme Court of North Carolina.

Grant awards are recognized as expense in the period of award. Grants approved and unpaid as of December 31, 2015 are expected to be funded in the year subsequent thereto.

Grant awards subject to matching requirements are recognized upon the grantee's satisfaction of the required match. Grant awards totaling \$20,000 in 2015 are subject to matching requirements at December 31, 2016, and are expected to be recognized in 2016. Grants totaling \$34,000 that were awarded in 2014 met the matching requirements in 2015 and were paid in January 2016.

Claim Awards - CSF

Claim awards are recognized upon authorization by the Board of Trustees of the Client Security Fund. Effective March 6, 1997, the North Carolina Supreme Court limited CSF claim awards to \$100,000 per claim.

Income Taxes

The State Bar is a governmental agency whose net income is exempt from federal income taxes under the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 2 - DEPOSITS AND CREDIT RISK

Cash and cash equivalents consist of the following at December 31, 2015:

BB&T, checking account	\$ 2,735,867
BB&T, money market account	4,371,087
Wells Fargo	13,953
STIF account (with NC State Treasurer)	1,501,244
First Citizens Bank	2,394,938
	<u>\$11,017,089</u>

Custodial credit risk is the risk that in the event of a bank failure, the State Bar's deposits may not be returned to it. The State Bar's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits with financial institutions exceeded FDIC insured limits by approximately \$9 million as of December 31, 2015.

The State Bar's investment policy states that the State Bar is required to make sure uninsured balances on deposit are fully collateralized. The State Bar's primary private depository, BB&T, and First Citizens Bank pledge securities for all deposits in excess of FDIC coverage so that the accounts are fully collateralized. These collateralized deposits are pooled with the State Treasurer. Amounts held with the State Treasurer are insured by the State of North Carolina.

NOTE 3 - RESTRICTED CASH

Restricted cash consists of the following at December 31, 2015

Bar (with First Citizen's Trust fund)	\$ 516,230
IOLTA - cash held in agency (with NC State Treasurer)	219,480
IOLTA - settlement funds (with NC State Treasurer)	842,896
	<u>\$ 1,578,606</u>

Bar restricted cash represents amounts held for escheatment by the Bar for the beneficiaries of attorney trust accounts assumed by the Bar. IOLTA cash held in agency represents undisbursed State funds which are held in a separate STIF account. (See Note 4 - Agency Transactions). IOLTA settlement funds represents monies received in April 2015 from a donation on behalf of Bank of America, N.A. The donation is restricted for the sole purpose of providing funds to legal aid organizations in the State of North Carolina for foreclosure prevention legal assistance and community redevelopment legal assistance. (See Note 14 - Settlement Proceeds - IOLTA).

NOTE 4 - AGENCY TRANSACTIONS

In October 2004, IOLTA began receiving and disbursing certain cash awards on behalf of the State of North Carolina. These funds are not available for use by IOLTA, but instead are forwarded to the State-designated organizations upon receipt. Awards disbursed by IOLTA acting as an agent of the State for the year ended December 31, 2015 are as follows:

Legal Aid of North Carolina, Inc. (LANC)	\$ 2,475,880
Pisgah Legal Services	152,412
Legal Services of Southern Piedmont (LSSP)	127,102
	<u>\$ 2,755,394</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 4 - AGENCY TRANSACTIONS (Continued)

Funds received by IOLTA associated with these agency transactions and undisbursed at year end totaled \$219,480 and are included in restricted cash and payable as agent for the State in the Statement of Net Position at December 31, 2015.

NOTE 5 - DUES AND FEES RECEIVABLE

Dues and fees receivable consist of the following at December 31, 2015:

Dues receivable:	
Bar dues	\$ 181,771
CSF assessments	9,040
	<u>190,811</u>
Less: Allowance for doubtful accounts	(100,540)
	<u>90,271</u>
Fees receivable:	
Bar DHC fees	297,583
Less: Allowance for doubtful accounts	(97,734)
	<u>199,849</u>
CLE fees	270,375
IOLTA fees	88
	<u>270,463</u>
Less: Allowance for doubtful accounts	(15,000)
	<u>255,463</u>
Total dues and fees receivable, net	<u><u>\$ 545,583</u></u>

NOTE 6 - CLE ASSESSMENTS

CLE collected and disbursed assessments as follows for the year ended December 31, 2015:

Chief Justice's Commission on Professionalism	\$ 357,769
North Carolina Equal Access to Justice Commission	175,821
North Carolina State Bar	86,937
	<u>\$ 620,527</u>

These amounts are not included in CLE revenues and expenses but are passed on to the respective agencies. The Bar assessments are included in EAJC processing fees in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 7 - CAPITAL ASSETS

Changes in capital assets are as follows for the year ended December 31, 2015:

	(Restated) Cost 12/31/2014	Additions	Retirements	Cost 12/31/2015
Building costs	\$17,402,618	\$ 35,988	\$ -	\$17,438,606
Computer equipment and software	1,583,098	57,487	-	1,640,585
Artwork	389,715	3,650	-	393,365
Furniture and office equipment	1,377,808	-	-	1,377,808
Automobiles	37,431	-	-	37,431
Total cost	<u>20,790,670</u>	<u>97,125</u>	<u>-</u>	<u>20,887,795</u>
Less accumulated depreciation:				
Building costs	(1,089,383)	(607,296)	-	(1,696,679)
Computer equipment and software	(1,549,465)	(44,133)	-	(1,593,598)
Furniture and office equipment	(301,128)	(197,295)	-	(498,423)
Automobiles	(23,522)	(3,881)	-	(27,403)
	<u>(2,963,498)</u>	<u>(852,605)</u>	<u>-</u>	<u>(3,816,103)</u>
Total capital assets, net	<u>\$17,827,172</u>	<u>\$ (755,480)</u>	<u>\$ -</u>	<u>\$17,071,692</u>

NOTE 8 - ACCRUED VACATION

The change in accrued vacation is as follows for the year ended December 31, 2015:

	Balance 12/31/2014	Increases	Decreases	Balance 12/31/2015
Accrued vacation	<u>\$ 199,828</u>	<u>\$ 395,546</u>	<u>\$ (368,689)</u>	<u>\$ 226,685</u>

NOTE 9 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2015:

A mortgage loan (First Citizens Bank) for \$12,000,000, used for the construction of the State Bar headquarters, payable in 24 monthly payments of interest only beginning December 18, 2011, and then 95 monthly payments of principal and interest beginning December 18, 2013, with payments amortized over 20 years at a fixed interest rate of 3.4%. A balloon payment is due on December 18, 2021. Certain prepayment penalties apply if the note is paid in full prior to November 18, 2016.

\$ 11,104,514

Less current portion (450,981)
Long-term debt \$ 10,653,533

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 9 - LONG-TERM DEBT (Continued)

Principal maturities and interest payments of long-term debt are as follows at December 31, 2015:

	Principal	Interest
2016	\$ 450,981	\$ 376,780
2017	467,845	359,916
2018	484,230	343,531
2019	501,188	326,573
2020	517,857	309,904
Thereafter	8,682,413	290,884
	<u>\$11,104,514</u>	<u>\$ 2,007,588</u>

The loan agreement provides for a 2.5% increase in the interest rate if the State Bar fails to maintain deposits with the bank of at least \$1,200,000 on an aggregate average during each fiscal year. At December 31, 2015, the State Bar had approximately \$2,400,000 on deposit with First Citizens Bank. In addition, specific debt to equity and debt service ratios must be maintained and yearly submittal of the audited financial statements is required. The bank lowered the required debt service coverage ratio in 2015 at management's request due to the flattening of the State Bar's revenue. The loan is secured by the building. Management is aware of no violations of these commitments as of December 31, 2015 or subsequent thereto.

NOTE 10 - CHANGE IN LONG-TERM LIABILITIES

The change in long-term liabilities is as follows:

	Balance 12/31/2014	Increases	Decreases	Balance 12/31/2015	Current Portion of Balance
Note payable	<u>\$11,541,454</u>	<u>\$ -</u>	<u>\$ (436,940)</u>	<u>\$ 11,104,514</u>	<u>\$ 450,981</u>

NOTE 11 - PENSION PLAN

Employees who have completed a year of service and attained age eighteen are eligible to participate in the State Bar's money purchase pension plan ("the Plan"). Participants who have completed a year of service during the Plan year (at least 1,000 hours of service during the Plan year) are eligible to share in the allocation of contributions and forfeitures for that Plan year. On behalf of each participant eligible to share in allocations, the State Bar contributes 10% of such participant's annual compensation to the Plan. Total pension costs under the Plan totaled \$532,499 in 2015.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 12 - LAWYERS' ASSISTANCE PROGRAM

Lawyers' Assistance Program ("LAP") is a program sponsored by the Bar that provides help to lawyers in need of assistance in dealing with substance abuse or mental health issues. LAP program expenses of \$678,008 in 2015 are reported in the accompanying Statement of Revenues, Expenses and Changes in Net Position by natural category. The majority of program expenses pertain to salaries and benefits. Program expenses also include travel, computer support, and other administrative costs.

NOTE 13 - LEASES

Lessee

Facilities

The Bar leases two offices for its Lawyers' Assistance Program in Charlotte, North Carolina which expire July 1, 2018 with an option to renew for one additional term of three years. Rent expense under the lease agreements will increase by 3% per year. The Bar's lease expense for the leased LAP office space was \$22,450 for the year ended December 31, 2015.

Equipment

The Bar leases office equipment under operating leases with varying expirations through 2021. Lease expense for office equipment was approximately \$21,000 in 2015.

The minimum lease payments required under operating leases having an initial term of more than one year are as follows at December 31, 2015:

2016	\$ 45,149
2017	43,491
2018	23,993
2019	10,792
2020	10,792
Thereafter	8,994
	<u>\$ 143,211</u>

NOTE 14 - SETTLEMENT PROCEEDS - IOLTA

In April 2015, IOLTA received \$842,972 in accordance with the terms in a settlement agreement effective in August 2014 between the United States and Bank of America Corporation ("the Bank"), whereby the Bank was required to distribute \$30 million to IOLTA programs nationwide from the funds set aside for consumer relief. These settlement proceeds are restricted for the purpose of providing funds to legal aid organizations in the State of North Carolina for foreclosure prevention legal assistance and community redevelopment legal assistance. As of December 31, 2015, IOLTA funded grants totaling \$421,445 from these proceeds. The remaining unspent proceeds at December 31, 2015 of \$421,451, are included in the State Bar's restricted net position. (See Note 19 - Subsequent Events).

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 15 - INTER-PROGRAM TRANSACTIONS

The State Bar's programs entered into the following transactions which have been eliminated in the accompanying Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position:

LAP Support Provided by CLE

CLE annually pays the Bar an amount from its excess revenues to subsidize the Lawyer's Assistance Program. The subsidy is based on actual expenses incurred by CLE and the transfer involves only those funds in excess of a cash reserve of \$200,000. The Bar recognized related support from CLE in 2015 of \$278,454 of which \$80,211 was received in 2016.

Bar Overhead, Computer Usage and Copier Charges

The Bar charges its affiliates an overhead fee for various costs incurred by the Bar in support of its affiliates. These costs include human resources, accounting and receptions services. The annual charge is based on the number of people employed by the respective affiliates. The Bar also charges its affiliates for other support services including staffing and use of the Bar's computer, postage meter, copy machine and fax machine. These charges are as follows for the year ended December 31, 2015:

	Overhead	Computer	Copying	Total
CLE	\$ 36,800	\$ 17,425	\$ 5,728	\$ 59,953
Legal Specialization	12,225	-	737	12,962
Paralegal	12,220	3,608	1,484	17,312
IOLTA	-	-	401	401
CSF	17,220	-	1,113	18,333
Total	<u>\$ 78,465</u>	<u>\$ 21,033</u>	<u>\$ 9,463</u>	<u>\$ 108,961</u>

Rent

The Bar leases office space to CLE, Legal Specialization, Paralegal, and IOLTA. These leases operate on a month-to-month basis. Rental income recognized by the Bar for the year ending December 31, 2015 totaled \$27,387.

NOTE 16 - RELATED PARTY TRANSACTIONS

The Chief Justice's Commission on Professionalism and The North Carolina Equal Access to Justice Commission

The Chief Justice's Commission on Professionalism ("CJCP"), was created by order of the Supreme Court of North Carolina on September 22, 1998, to enhance professionalism among North Carolina's lawyers. The North Carolina Equal Access to Justice Commission ("EAJC"), was created by order of the Supreme Court of North Carolina on November 3, 2005, to expand access to civil legal representation for people of low income and modest means in North Carolina. Attorneys and CLE program sponsors pay fees to the Bar for each hour of CLE credit taken by North Carolina's attorneys to support the administration of the CLE program. Portions of these fees charged are allocated to CJCP and EAJC to support these commissions and a portion is allocated to the Bar to cover the cost of administering these funds for the commissions (see Note 6 - CLE Assessments). CJCP and EAJC are independent entities separate from the State Bar and are not included in this report.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 16 - RELATED PARTY TRANSACTIONS (Continued)**The North Carolina State Bar Foundation**

In December 2009, the North Carolina State Bar Foundation ("Foundation"), was established to raise money to assist in the construction and maintenance of a new office building for the State Bar which was erected on state-owned property leased to the State Bar. The Foundation is a 501(c)(3) tax exempt entity with a separate Board of Trustees and is autonomous from the State Bar. In March 2012, the Bar transferred \$500,124 of restricted cash to the Foundation. These funds were previously donated by Paralegal and were restricted for use in construction of the State Bar's new building. The Foundation provided assistance to the Bar in 2013 and 2014 by purchasing capital assets with an aggregate cost of approximately \$1,024,000, intended for the State Bar's use. The Bar's ending net position at December 31, 2014 was restated to recognize the contribution revenue in the years the assets were purchased by the Foundation on behalf of the Bar (see Note 18 - Restatements). The Foundation also made contributions of \$89,569 to the Bar in 2015 to cover certain building-related costs.

NOTE 17 - COMMITMENTS AND CONTINGENCIES**Severance Payments and Benefits**

The State Bar has made certain commitments regarding severance payments and benefits that would be payable in the event of termination or retirement of the Executive Director under contractually-defined circumstances. No amounts for such are included in the accompanying financial statements.

Legal Proceedings

The State Bar is subject to various legal proceedings, claims and litigation. The State Bar paid legal fees to outside counsel totaling approximately \$428,000 during the year ended December 31, 2015. The outcome of these matters is currently not determinable by management; therefore, an accrual for potential future losses related to these ongoing cases has not been made in the accompanying financial statements. One significant case was settled in favor of the State Bar subsequent to year end.

Risk Management

The State Bar is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of State Bar Council members are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the State Bar under the State's public officers' and employees' liability insurance contract with a private insurance company. The State Bar also protects itself from exposures to loss through the purchase of commercial insurance.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)

Contract

Ground Lease with the State of North Carolina

In January 2009, the Council approved the State Bar's acquisition by lease of property owned by the State of North Carolina. The parcel of land of approximately 22,000 square feet is located at the intersection of Blount and Edenton Streets in the State Government Complex in the City of Raleigh. The leased property accommodates a "Class A" office building that was constructed to house the State Bar. The lease was executed on May 17, 2012 for a term of ninety-nine (99) years, commencing on the first day of July 2012 and expiring on July 1, 2110 for the consideration of one (\$1) dollar. In addition, parking facilities currently located on the leased land and the adjacent areas were relocated and reengineered at a cost of \$203,279 paid by the Bar. At the end of the lease, all improvements to the land become property of the State of North Carolina. After thirty (30) years and prior to ninety-eight (98) years into the lease, the State of North Carolina has the right to terminate the lease provided that any outstanding mortgage is paid off by the State of North Carolina and adequate compensation is paid to the Bar for its equity in the building and improvements. The Bar must be given one year's notice prior to termination.

NOTE 18 - RESTATEMENTS

Management has restated beginning net position at January 1, 2015 for the cumulative effect of accounting errors made in prior periods. The effects of the changes as of and for the year ended December 31, 2014 are as follows:

	As Originally Reported	As Adjusted	Effect of Change
Bar - To recognize Foundation contribution:			
Other revenues	\$ 441,832	\$ 1,466,490	\$ 1,024,658
Capital assets, net	\$ 16,863,396	\$ 17,805,069	\$ 941,673
Depreciation	\$ 938,516	\$ 1,021,501	\$ 82,985
Effect on net position			\$ 941,673
Bar - To correct balance in cafeteria liability:			
Other accrued expenses	\$ (41,146)	\$ 29,067	\$ 70,213
Effect on net position			\$ (70,213)
Bar - To recognize EAJC processing fees:			
Other revenues	\$ 441,832	\$ 475,166	\$ 33,334
Effect on net position			\$ 33,334
Bar net position	\$ 8,136,911	\$ 9,041,705	\$ 904,794
CLE - To correct CLE fees receivable:			
Fees receivable, net	\$ 208,870	\$ 163,670	\$ (45,200)
Effect on net position			\$ (45,200)
CLE net position	\$ 383,555	\$ 338,355	\$ (45,200)

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 18 - RESTATEMENTS (Continued)

	As Originally Reported	As Adjusted	Effect of Change
Paralegal - To recognize unearned revenue:			
Unearned revenue	\$ -	\$ 37,656	\$ 37,656
Effect on net position			\$ (37,656)
Paralegal net position	\$ 416,618	\$ 378,962	\$ (37,656)
Cumulative effect on the State Bar:			
Net position at December 31, 2014:			
Bar	\$ 8,136,911	\$ 9,041,705	\$ 904,794
CLE	383,555	338,355	(45,200)
Legal Specialization	179,805	179,805	-
Paralegal	416,618	378,962	(37,656)
IOLTA	327,697	327,697	-
CSF	1,051,487	1,051,487	-
Total combined net position	<u>\$ 10,496,073</u>	<u>\$ 11,318,011</u>	<u>\$ 821,938</u>

NOTE 19 - SUBSEQUENT EVENTS

According to the terms in the settlement agreement effective in August 2014, between the United States and Bank of America Corporation ("the Bank"), discussed previously in Note 14 - Settlement Proceeds - IOLTA, IOLTA received a distribution of \$12,071,404 in March 2016 from the funds set aside for tax relief for certain consumers that had been declared surplus triggering a distribution to IOLTA programs nationwide. These settlement proceeds are restricted solely for the purpose of providing funds to legal aid organizations in the State of North Carolina for foreclosure prevention legal assistance and community redevelopment legal assistance and no portion of the surplus distribution may be used for any other purpose, including for its general overhead expenses.

Management of the State Bar evaluated subsequent events through August 25, 2016, which is the date the financial statements were available to be issued. They discovered no other subsequent events that should be disclosed.

The audit was conducted in approximately 770 hours at a cost of \$89,627.

SUPPLEMENTARY INFORMATION

**Independent Auditor's Report
on the Supplementary Information**

Members of the State Bar Council
North Carolina State Bar

We have audited the financial statements of the North Carolina State Bar as of and for the year ended December 31, 2015 and have issued our report thereon dated August 25, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Net Position - State Bar Programs, Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs and Schedule of Cash Flows - State Bar Programs as of and for the year ended December 31, 2015 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bernard Robinson & Company, LLP.

Raleigh, North Carolina
August 25, 2016

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2015

ASSETS:

	Bar	Continuing Legal Education	Legal Specialization	Paralegal	IOLTA	Client Security Fund	Eliminating Entries	State Bar
Current assets:								
Cash and cash equivalents	\$ 7,062,359	\$ 360,133	\$ 185,496	\$ 448,943	\$ 1,758,268	\$ 1,201,890	\$ -	\$ 11,017,089
Restricted cash	516,230	-	-	-	1,062,376	-	-	1,578,606
Receivables from related entities	226,227	-	-	-	-	-	(224,227)	2,000
Dues and fees receivable, net	290,120	255,375	-	-	88	-	-	545,583
Interest receivable	-	-	-	-	235,232	-	-	235,232
Prepaid expenses	25,117	-	-	-	2,304	-	-	27,421
Total current assets	8,120,053	615,508	185,496	448,943	3,058,268	1,201,890	(224,227)	13,405,931
Capital assets:								
Property and equipment	20,061,796	610,746	56,101	86,636	21,630	50,886	-	20,887,795
Less accumulated depreciation	(3,013,591)	(600,809)	(50,884)	(86,636)	(13,297)	(50,886)	-	(3,816,103)
Total capital assets	17,048,205	9,937	5,217	-	8,333	-	-	17,071,692
Total assets	25,168,258	625,445	190,713	448,943	3,066,601	1,201,890	(224,227)	30,477,623

LIABILITIES:

Current liabilities:								
Current portion of long-term debt	450,981	-	-	-	-	-	-	450,981
Accounts payable	43,353	68,082	100	-	1,147	-	-	112,682
Other accrued expenses	96,546	-	-	-	-	1,130	-	97,676
Payable to the Bar	-	193,996	-	9,834	20,397	-	(224,227)	-
Payable as Agent for the State	-	-	-	-	219,480	-	-	219,480
Accrued vacation	197,733	10,161	3,501	3,194	6,143	5,953	-	226,685
Pension contribution payable	476,077	20,770	5,722	7,723	19,153	14,122	-	543,567
Amounts held for escheatment	516,230	-	-	-	-	-	-	516,230
Grants approved but unpaid	-	-	-	-	2,015,225	-	-	2,015,225
Claims payable	-	-	-	-	-	50,000	-	50,000
Unearned revenue	3,975,275	-	-	27,200	-	-	-	4,002,475
Total current liabilities	5,756,195	293,009	9,323	47,951	2,281,545	71,205	(224,227)	8,235,001
Long-term debt	10,653,533	-	-	-	-	-	-	10,653,533
Total liabilities	16,409,728	293,009	9,323	47,951	2,281,545	71,205	(224,227)	18,888,534

NET POSITION:

Net investment in capital assets	5,943,691	9,937	5,217	-	8,333	-	-	5,967,178
Restricted	-	-	-	-	421,451	-	-	421,451
Unrestricted	2,814,839	322,499	176,173	400,992	355,272	1,130,685	-	5,200,460
Total net position	\$ 8,758,530	\$ 332,436	\$ 181,390	\$ 400,992	\$ 785,056	\$ 1,130,685	\$ -	\$ 11,589,089

NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2015

	Bar	Continuing Legal Education	Legal Specialization	Paralegal	IOLTA	Client Security Fund	Eliminating Entries	State Bar
Operating revenues:								
Dues	\$ 8,080,785	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,080,785
Assessments	-	-	-	-	-	673,900	-	673,900
Reimbursements of claim awards	-	-	-	-	-	114,336	-	114,336
Sponsor and attendee fees	-	447,910	-	-	-	-	-	447,910
Renewal, registration and examination fees	-	-	146,100	236,231	-	-	-	382,331
Professional corporations	65,758	-	-	-	-	-	-	65,758
Interstate law firms	104,502	-	-	-	-	-	-	104,502
Reinstatement fees	95,394	-	-	-	-	-	-	95,394
Penalty fees	48,047	292,336	4,935	9,365	-	-	-	354,683
EAJC processing fees	86,937	-	-	-	-	-	-	86,937
DHC reimbursable costs and grievance fees	153,552	-	-	-	-	-	-	153,552
Foundation contributions	89,569	-	-	-	-	-	-	89,569
Support from Continuing Legal Education	278,454	-	-	-	-	-	(278,454)	-
Bar magazine income	49,523	-	-	-	-	-	-	49,523
State Bar overhead and computer usage and copier charges	108,961	-	-	-	-	-	(108,961)	-
Rental income	27,387	-	-	-	-	-	(27,387)	-
Other	70,875	-	-	-	-	-	-	70,875
Interest from participants - IOLTA	-	-	-	-	1,847,195	-	-	1,847,195
Settlement proceeds - IOLTA	-	-	-	-	842,972	-	-	842,972
Cy pres receipts - IOLTA	-	-	-	-	75,655	-	-	75,655
Settlement agent accounts - IOLTA	-	-	-	-	31,989	-	-	31,989
Total operating revenues	9,259,744	740,246	151,035	245,596	2,797,811	788,236	(414,802)	13,567,866
Operating expenses:								
Salaries and wages	5,146,862	269,631	59,635	92,908	219,587	149,419	-	5,938,042
Pension plan contributions	479,132	20,770	5,721	7,723	19,153	14,122	-	546,621
Other employee benefits	558,234	25,786	9,070	10,868	15,857	4,678	-	624,493
Grant awards - IOLTA	-	-	-	-	1,593,780	-	-	1,593,780
Grants funded from settlement proceeds - IOLTA	-	-	-	-	421,445	-	-	421,445
Other grant awards	10,000	-	-	1,580	-	-	-	11,580
Claim awards	-	-	-	-	-	506,744	-	506,744
Professional fees	443,672	8,084	1,940	1,939	11,455	2,641	-	469,731
Council and committee meetings, including officers' travel	547,399	3,319	20,632	14,254	7,610	6,713	-	599,927
Publications, postage, and printing	249,822	34,975	9,446	11,247	-	1,199	-	306,689
Depreciation	843,664	3,666	275	-	5,000	-	-	852,605
Equipment rental and maintenance	152,250	334	-	-	13,892	-	-	166,476
LAP support provided by CLE	-	278,454	-	-	-	-	(278,454)	-
State Bar overhead, computer usage and copier charges	-	59,953	12,962	17,312	401	18,333	(108,961)	-
Coordinator fee and expenses	-	-	-	-	20,585	1,313	-	21,898
Paralegal journal	-	-	-	21,748	-	-	-	21,748
Travel and automotive	109,617	2,323	4,498	-	4,628	-	-	121,066
Community outreach	-	-	6,872	-	-	-	-	6,872
Exam analysis	-	-	9,600	3,000	-	-	-	12,600
Test administration	-	-	4,095	35,715	-	-	-	39,810
Rent expense	22,450	14,397	2,640	2,400	7,950	-	(27,387)	22,450
Disciplinary proceedings	128,278	-	-	-	-	1,330	-	129,608
Building maintenance and utilities	201,276	-	-	-	-	-	-	201,276
Bank service charges	89,818	5,662	-	-	-	-	-	95,480
Bad debt expense	40,824	12,000	-	-	-	-	-	52,824
Other office expense	66,367	2,033	547	1,112	7,467	583	-	78,109
Telephone	35,039	1,428	400	645	76	98	-	37,686
Insurance and bonds	28,353	3,350	1,119	1,119	-	2,203	-	36,144
Total operating expenses	9,153,057	746,165	149,452	223,570	2,348,886	709,376	(414,802)	12,915,704
Operating income (loss)	106,687	(5,919)	1,583	22,026	448,925	78,860	-	652,162
Nonoperating revenues (expenses):								
Interest income	959	-	2	4	8,434	338	-	9,737
Interest expense	(390,821)	-	-	-	-	-	-	(390,821)
Total nonoperating revenues (expenses)	(389,862)	-	2	4	8,434	338	-	(381,084)
Changes in net position	(283,175)	(5,919)	1,585	22,030	457,359	79,198	-	271,078
Net position - beginning of year (restated)	9,041,705	338,355	179,805	378,962	327,697	1,051,487	-	11,318,011
Net position - end of year	\$ 8,758,530	\$ 332,436	\$ 181,390	\$ 400,992	\$ 785,056	\$ 1,130,685	\$ -	\$ 11,589,089

See Independent Auditor's Report on the Supplementary Information

NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2015

	Bar	Continuing Legal Education	Legal Specialization	Paralegal	IOLTA	Client Security Fund	State Bar
Cash flows from operating activities:							
Receipts from attorneys for dues	\$ 8,838,660	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,838,660
Cash received from program participants - IOLTA	-	-	-	-	1,833,117	-	1,833,117
Cash received from fees	508,355	648,541	151,035	235,140	-	-	1,543,071
Cash received from settlement proceeds - IOLTA	-	-	-	-	842,972	-	842,972
Cash received from Cy Pres - IOLTA	-	-	-	-	75,655	-	75,655
Cash received from settlement agent accounts - IOLTA	-	-	-	-	31,989	-	31,989
Cash received from assessments and reimbursements	-	-	-	-	-	788,571	788,571
Other cash received	555,762	-	-	-	-	-	555,762
Payments for IOLTA grants	-	-	-	-	(2,753,036)	-	(2,753,036)
Payments to claimants	-	-	-	-	-	(456,744)	(456,744)
Payments to employees for services	(6,117,306)	(317,497)	(75,006)	(109,172)	(256,704)	(166,095)	(7,041,780)
Payments to suppliers of goods and services	(1,124,081)	(4,025)	(17,901)	(74,918)	(36,541)	(25,057)	(1,282,523)
Cash payments for other operating expenses	(836,118)	(241,975)	(57,204)	(33,146)	(12,639)	(8,226)	(1,189,308)
Net cash provided by (used in) operating activities	<u>1,825,272</u>	<u>85,044</u>	<u>924</u>	<u>17,904</u>	<u>(275,187)</u>	<u>132,449</u>	<u>1,786,406</u>
Cash flows from capital and related financing activities:							
Purchases of property and equipment	(86,800)	(4,833)	(5,492)	-	-	-	(97,125)
Interest paid	(390,821)	-	-	-	-	-	(390,821)
Principal payments on bank borrowings	(436,940)	-	-	-	-	-	(436,940)
Net cash used in capital and related financing activities	<u>(914,561)</u>	<u>(4,833)</u>	<u>(5,492)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(924,886)</u>
Cash flows from investing activities:							
Interest received	959	-	2	4	8,434	338	9,737
Net cash provided by investing activities	<u>959</u>	<u>-</u>	<u>2</u>	<u>4</u>	<u>8,434</u>	<u>338</u>	<u>9,737</u>
Net increase (decrease) in cash and cash equivalents	911,670	80,211	(4,566)	17,908	(266,753)	132,787	871,257
Cash and cash equivalents - beginning of year	6,150,689	279,922	190,062	431,035	2,025,021	1,069,103	10,145,832
Cash and cash equivalents - end of year	<u>\$ 7,062,359</u>	<u>\$ 360,133</u>	<u>\$ 185,496</u>	<u>\$ 448,943</u>	<u>\$ 1,758,268</u>	<u>\$ 1,201,890</u>	<u>\$ 11,017,089</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 106,687	\$ (5,919)	\$ 1,583	\$ 22,026	\$ 448,925	\$ 78,860	\$ 652,162
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	843,664	3,666	275	-	5,000	-	852,605
Changes in assets and liabilities:							
Restricted cash	68,899	-	-	-	(845,884)	-	(776,985)
Receivables	(183,741)	(91,705)	-	-	(9,976)	335	(285,087)
Prepaid expenses	(2,613)	-	-	-	2,055	-	(558)
Accounts payable and accrued expenses	88,228	180,312	(354)	4,007	21,715	1,130	295,038
Accrued vacation and pension	66,922	(1,310)	(580)	2,327	(2,107)	2,124	67,376
Grants approved and unpaid	-	-	-	-	105,085	-	105,085
Amount held for escheatment	79,351	-	-	-	-	-	79,351
Claims payable	-	-	-	-	-	50,000	50,000
Unearned revenue	757,875	-	-	(10,456)	-	-	747,419
Total adjustments	<u>1,718,585</u>	<u>90,963</u>	<u>(659)</u>	<u>(4,122)</u>	<u>(724,112)</u>	<u>53,589</u>	<u>1,134,244</u>
Net cash provided by (used in) operating activities	<u>\$ 1,825,272</u>	<u>\$ 85,044</u>	<u>\$ 924</u>	<u>\$ 17,904</u>	<u>\$ (275,187)</u>	<u>\$ 132,449</u>	<u>\$ 1,786,406</u>