

NORTH CAROLINA STATE BAR

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 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, 2016

The following is a discussion and analysis of the financial performance of the North Carolina State Bar for the year ended December 31, 2016. 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, 2016; and the Client Security Fund of the North Carolina State Bar ("CSF") as of and for the year ended September 30, 2016, 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 two years are presented in the analysis.

Financial Highlights

- The State Bar's net position (excluding CSF) was \$16,175,167 at December 31, 2016 compared to \$10,458,404 at December 31, 2015, an increase of \$5,716,763 for the year ended December 31, 2016. The Client Security Fund's net position was \$542,373 at September 30, 2016, compared to \$1,130,685 at September 30, 2015, a decrease of \$588,312 for the year ended September 30, 2016.

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 Statements of Net Position present the current and noncurrent portions of assets and liabilities separately.

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

The Statements of Cash Flows present 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, 2016

The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2016, and CSF as of and for the year ended September 30, 2016:

	State Bar (excluding CSF)	CSF	Total
Current assets	\$ 11,027,184	\$ 602,022	\$ 11,629,206
Capital assets, net	16,266,001	-	16,266,001
Noncurrent assets	10,970,623	-	10,970,623
Total assets	<u>38,263,808</u>	<u>602,022</u>	<u>38,865,830</u>
Current liabilities	7,356,589	59,649	7,416,238
Long-term liabilities	14,732,052	-	14,732,052
Total liabilities	<u>22,088,641</u>	<u>59,649</u>	<u>22,148,290</u>
Net position:			
Net investment in capital assets	5,612,626	-	5,612,626
Restricted	6,424,101	-	6,424,101
Unrestricted	4,138,440	542,373	4,680,813
Total net position	<u>\$ 16,175,167</u>	<u>\$ 542,373</u>	<u>\$ 16,717,540</u>
Operating revenues	\$ 24,061,854	\$ 730,556	\$ 24,792,410
Operating expenses	18,055,703	1,319,154	19,374,857
Operating income	<u>6,006,151</u>	<u>(588,598)</u>	<u>5,417,553</u>
Nonoperating revenues (expenses):			
Interest income	87,234	286	87,520
Interest expense	(376,622)	-	(376,622)
Total nonoperating revenues (expenses)	<u>(289,388)</u>	<u>286</u>	<u>(289,102)</u>
Changes in net position	<u>\$ 5,716,763</u>	<u>\$ (588,312)</u>	<u>\$ 5,128,451</u>

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
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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 (as restated):

	State Bar (excluding CSF)	CSF	(Restated) 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>

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2016

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 2016 and 2015. 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, 2016

Events Affecting Future Operations

Affecting the State Bar:

2016 was a good year financially for the State Bar, separate and apart from the programs operated by its various boards. The operational budget adopted in January, 2016 projected a surplus, on the cash basis, of \$137,618. When all was said and done, income had exceeded expenses, on the cash basis, by \$195,385, or \$57,767 more than had been anticipated.

While the larger than expected surplus was pleasing in and of itself, it should also be borne in mind that it has had the salutary effect of augmenting the State Bar's not inconsiderable cash reserves. In that regard, it should also be noted that the agency has fairly ready access to more than \$1,309,000 on deposit with the State Bar Foundation, money resulting from very successful fund raising efforts in support of the construction of the new headquarters building that was completed in 2013. That amount is expected to increase by about \$60,000 over the next couple of years as contributors finish making installment payments in fulfillment of their pledges. Relatively conservative cash projections going forward encourage the belief that the State Bar should be able to sustain its programs, service its membership, and maintain an adequate financial cushion well into the next decade without having to seek permission from the General Assembly to raise dues. Even so, circumstances beyond mere solvency must be borne in mind. This is particularly true in regard to the required maintenance of a satisfactory "minimum debt service coverage ratio" as a condition of the mortgage loan from First Citizens Bank. In essence, that covenant requires that revenues and expenditures, as calculated and compared on the accrual basis, satisfy a one to one ratio. While the formula used to compute the ratio does allow expenses to exceed revenues within limits, deficit spending must be carefully monitored and controlled.

Generally speaking, the State Bar's income has always been somewhat more predictable than its costs. On the revenue side of the State Bar's financial equation, the most significant item is, of course, "dues." Nearly ninety percent of the agency's income from year to year is derived from the annual membership fee. In recent years, dues revenue has risen on average by approximately 2.5% annually as the population of licensed lawyers has increased proportionately. For the purposes of 2017, the estimated increase in dues revenue is somewhat less, about 1.8%. It should be noted that although the growth of the Bar appears inexorable, with most state's law schools remaining fully subscribed even during these uncertain economic times, the State Bar is aware of predictions that membership growth may decelerate and perhaps stop altogether in the foreseeable future. The agency is also advertent to the ongoing turmoil associated with the Charlotte School of Law and the possibility that many of its students may never graduate or be admitted to practice. Indeed, there is some doubt as to whether the school will continue in operation. Needless to say, if the number of new admitters were to fall off considerably, that could have serious implications for the financing of the State Bar's operations and the extent and character of its regulatory program. For that reason, 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 scenarios.

Finally, with respect to revenue, it should be noted that the State Bar Foundation's contribution last year was \$25,000 less than the amount included in the budget. Funding from the Foundation, which can be used only to defray the cost of maintaining the building, was limited at the behest of the Foundation's trustees during the fourth quarter of 2016 as they began to question whether the Foundation ought to be administered as an endowment, where distributions are limited to the amount earned on investments, or whether it ought to be operated purely as a source of funding for the maintenance of the State Bar's building, however and whenever such funding might be needed. That discussion is still ongoing.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
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On the expense side of the ledger, there are several items that must be carefully monitored going forward. In recent years, the State Bar has become increasingly involved in complex litigation that has necessitated the hiring of outside legal counsel with special expertise. In 2015, about \$420,000 was spent for this purpose. In 2016, about \$140,000 was paid to independent legal counsel. \$200,000 is budgeted in 2017 and it appears almost certain that that amount will be insufficient. In any event, this sort of cost is unpredictable, uncontrollable and likely, it seems, to be an increasingly significant category of expense for the agency. Because it is recognized that unchecked legal expenses could quickly erode the State Bar's 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.

Two other categories of expense bear mentioning. The State Bar, like virtually every other employer in the country is anxious about the cost of providing health care insurance for its employees. Through careful management and with the assistance of some excellent consultants, the agency has for many years been able to provide good and affordable coverage for its staff, despite steadily rising healthcare costs and a shifting and complex regulatory environment. We suspect this is going to be an even greater challenge if and when the Affordable Care Act is repealed and replaced.

That concern is balanced to some extent by circumstances that may reduce costs in regard to the State Bar's efforts to communicate with its nearly 28,000 active members. A study is ongoing of the question of whether the State Bar's magazine, which costs nearly \$136,000 to print and mail, might be effectively and economically replaced by a digital publication. A decision to convert thusly might enable the agency to save almost the entire budgeted amount next year and every year thereafter.

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 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.

IOLTA's assets exceeded its liabilities by \$6,764,000 (net position) at December 31, 2016. This is an increase from 2015 when assets exceeded liabilities by \$785,056, and an increase from 2014 when assets exceeded liabilities by \$327,697.

IOLTA's total liabilities were \$6,852,732 at December 31, 2016. This is an increase from 2015 and 2014 when total liabilities were \$2,281,545 and \$2,156,852, respectively.

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

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2016

The following presents condensed financial information for IOLTA as of and for the year ended December 31:

	2016	2015	2014	Current Year Amount Change	Current Year % Change
Current assets	\$ 2,642,776	\$ 3,058,268	\$ 2,471,216	\$ (415,492)	-14%
Capital assets, net	3,333	8,333	13,333	(5,000)	-60%
Noncurrent assets	10,970,623	-	-	10,970,623	100%
Total assets	13,616,732	3,066,601	2,484,549	10,550,131	344%
Current liabilities	2,306,210	2,281,545	2,156,852	24,665	1%
Noncurrent liabilities	4,546,522	-	-	4,546,522	100%
Total liabilities	6,852,732	2,281,545	2,156,852	4,571,187	200%
Net position:					
Investment in					
capital assets	3,333	8,333	13,333	(5,000)	-60%
Restricted	6,424,101	421,451	-	6,002,650	1424%
Unrestricted	336,566	355,272	314,364	(18,706)	-5%
Total net position	\$ 6,764,000	\$ 785,056	\$ 327,697	\$ 5,978,944	762%
Operating revenues	\$ 14,039,787	\$ 2,797,811	\$ 1,722,406	\$ 11,241,976	402%
Operating expenses	8,146,807	2,348,886	2,250,243	5,797,921	247%
Operating income	5,892,980	448,925	(527,837)	5,444,055	1213%
Non-operating revenue	85,964	8,434	14,773	77,530	919%
Changes in net position	\$ 5,978,944	\$ 457,359	\$ (513,064)	\$ 5,521,585	1207%

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:

Grant Awards:

	2016	2015	2014	Current Year Amount Change	Current Year % Change
IOLTA Funds	\$ 1,637,640	\$ 1,593,780	\$ 1,910,640	\$ 43,860	3%
BofA Funds	6,155,228	421,445	-	5,733,783	1361%
Grant awards	\$ 7,792,868	\$ 2,015,225	\$ 1,910,640	\$ 5,777,643	287%

IOLTA received a distribution of \$12,071,404 in March 2016 from the funds set aside for tax relief according to the terms in the settlement agreement effective in August 2014 between the United States and Bank of America Corporation. In addition, IOLTA received an additional \$13,333 from residual interest on the BofA funds in November 2016. These settlement proceeds are restricted solely for the purpose of providing funds to legal aid organizations in 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 general overhead expense.

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Management's Discussion and Analysis
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The balance in the designated unrestricted net position as of December 31, 2016 was \$251,900. The purpose of this designation is so IOLTA will have the ability to maintain grant award levels in times of economic downturn.

Lastly, IOLTA managed \$2,666,634 in state funds in 2016. IOLTA expenses include the cost of administering these funds as no state funds may be used for administration.

Affecting the Client Security Fund:

The Supreme Court's order establishing the Client Security Fund requires that the Fund be operated in such a way as to maintain a cash reserve of at least \$1,000,000. In 2016 valid payable claims far exceeded the amount generated by the Supreme Court's assessment of the membership at the rate of \$25 per active member, and could not be fully paid as they were approved because doing so would have reduced the Fund below the required \$1,000,000 minimum balance. In the fall of 2016, the Supreme Court entered an order increasing the annual assessment for the purposes of 2017 only to \$50 to enable the payment of all approved claims, to generate sufficient revenue to pay claims and operate the Fund in 2017, and to maintain the required minimum balance. The Court's order provided for the reinstitution of the \$25 annual assessment in the following years. It is hoped that continuing assessment at that level will be adequate in the future, although the Fund's rather unpredictable claims experience will ultimately be determinative.

Affecting the Board of Continuing Legal Education:

The Continuing Legal Education program is financially self-sufficient. Its costs are fairly constant and its revenues 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. Going forward, CLE revenues may be expected to increase as a function of the expanding population of lawyers liable to satisfy the requirements. It also seems likely 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. As more and more of the process becomes automated and digital, labor costs should decrease.

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 certification: between 90 to 100 each year on average, but upon reliable sums generated each year from the imposition of an annual fee to maintain certification. This annual fee was raised in 2016 and should provide a stable 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 simplify the examination process, while at the same time eliminating the need for costly psychometric consultation.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
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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 that 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 Certification program is presently implementing software that should allow examinations to be administered with greater ease and effectiveness and at a lesser cost than has heretofore been the case.

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
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Bar ("State Bar") which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2016 and 2015 and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2016 and 2015, nor the changes in its net position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 – 9, 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.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 19, 2017

NORTH CAROLINA STATE BAR
Statements of Net Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 9,525,665	\$ 11,017,089
Restricted cash, current portion	1,175,482	1,578,606
Receivables from related entities	6,241	2,000
Dues and fees receivable, net	687,743	542,223
Other receivables	8,343	3,360
Interest receivable	204,793	235,232
Prepaid expenses	20,939	27,421
Total current assets	<u>11,629,206</u>	<u>13,405,931</u>
Capital assets, net	<u>16,266,001</u>	<u>17,071,692</u>
Noncurrent assets:		
Restricted cash, noncurrent portion	<u>10,970,623</u>	<u>-</u>
Total assets	<u>38,865,830</u>	<u>30,477,623</u>
LIABILITIES:		
Current liabilities:		
Current portion of long-term debt	467,845	450,981
Accounts payable	219,604	112,682
Other accrued expenses	115,740	97,676
Payable as Agent for the State	243,307	219,480
Accrued vacation	240,261	226,685
Pension contribution payable	566,257	543,567
Amounts held for escheatment	517,480	516,230
Grants approved and unpaid	2,032,335	2,015,225
Claims payable	32,644	50,000
Unearned revenue	2,980,765	4,002,475
Total current liabilities	<u>7,416,238</u>	<u>8,235,001</u>
Noncurrent liabilities:		
Grants approved and unpaid	4,546,522	-
Long-term debt	10,185,530	10,653,533
Total noncurrent liabilities	<u>14,732,052</u>	<u>10,653,533</u>
Total liabilities	<u>22,148,290</u>	<u>18,888,534</u>
NET POSITION:		
Net investment in capital assets	5,612,626	5,967,178
Restricted	6,424,101	421,451
Unrestricted	4,680,813	5,200,460
Total net position	<u>\$ 16,717,540</u>	<u>\$ 11,589,089</u>

NORTH CAROLINA STATE BAR
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues:		
Dues	\$ 8,239,550	\$ 8,080,785
Assessments	685,445	673,900
Reimbursements of claim awards	45,111	114,336
Sponsor and attendee fees	495,432	447,910
Renewal, registration and examination fees	419,810	382,331
Professional corporation fees	42,397	65,758
Interstate law firm fees	96,480	104,502
Reinstatement fees	83,278	95,394
Penalty fees	256,739	354,683
EAJC processing fees	96,770	86,937
DHC reimbursable costs and grievance fees	148,899	153,552
Foundation contributions	50,000	89,569
Bar magazine income	45,901	49,523
Interest from participants - IOLTA	1,767,287	1,847,195
Settlement proceeds - IOLTA	12,084,737	842,972
Cy pres receipts - IOLTA	96,000	75,655
Settlement agent accounts - IOLTA	52,763	31,989
Professional and administrative services - IOLTA	39,000	-
Other	46,811	70,875
Total operating revenues	24,792,410	13,567,866
Operating expenses:		
Salaries and wages	6,184,139	5,938,042
Pension plan contributions	566,721	546,621
Other employee benefits	707,961	624,493
Grant awards - IOLTA	1,637,640	1,593,780
Grants funded from settlement proceeds - IOLTA	6,155,228	421,445
Other grant awards	15,000	11,580
Claim awards	1,104,051	506,744
Professional fees	264,602	469,731
Council and committee meetings, including officers' travel	540,472	599,927
Publications, postage, and printing	275,574	306,689
Depreciation	875,148	852,605
Equipment rental and maintenance	231,133	166,476
Coordinator fee and expenses	3,147	21,898
Paralegal reception	15,875	21,748
Travel and automotive	124,352	121,066
Community outreach	4,139	6,872
Exam analysis	32,200	12,600
Test administration	23,012	39,810
Rent expense	26,994	22,450
Disciplinary proceedings	139,750	129,608
Building maintenance and utilities	217,590	201,276
Bank service charges	83,053	95,480
Bad debt expense	-	52,824
Other office expense	75,305	78,109
Telephone	36,535	37,686
Insurance and bonds	35,236	36,144
Total operating expenses	19,374,857	12,915,704
Operating income	5,417,553	652,162
Nonoperating revenues (expenses):		
Interest income	87,520	9,737
Interest expense	(376,622)	(390,821)
Total nonoperating revenues (expenses)	(289,102)	(381,084)
Changes in net position	5,128,451	271,078
Net position - beginning of year	11,589,089	11,318,011
Net position - end of year	\$ 16,717,540	\$ 11,589,089

See Notes to Financial Statements

NORTH CAROLINA STATE BAR
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from attorneys for dues	\$ 7,188,150	\$ 8,838,660
Cash received from program participants - IOLTA	1,797,726	1,833,117
Cash received from fees	1,523,887	1,543,071
Cash received from settlement proceeds - IOLTA	12,084,737	842,972
Cash received from Cy Pres - IOLTA	96,000	75,655
Cash received from settlement agent accounts - IOLTA	52,763	31,989
Cash received from other services - IOLTA	39,000	-
Cash received from assessments and reimbursements	730,556	788,571
Other cash received	586,913	486,863
Payments for IOLTA grants	(3,205,409)	(1,907,152)
Payments to claimants	(1,121,407)	(456,744)
Payments to employees for services	(7,422,555)	(7,041,780)
Payments to suppliers of goods and services	(1,247,067)	(1,282,523)
Cash payments for other operating expenses	(1,217,521)	(1,189,308)
Net cash provided by operating activities	<u>9,885,773</u>	<u>2,563,391</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(69,457)	(97,125)
Interest paid	(376,622)	(390,821)
Principal payments on bank borrowings	(451,139)	(436,940)
Net cash used in capital and related financing activities	<u>(897,218)</u>	<u>(924,886)</u>
Cash flows from investing activities:		
Interest received	87,520	9,737
Net cash provided by investing activities	<u>87,520</u>	<u>9,737</u>
Net increase in cash and cash equivalents	9,076,075	1,648,242
Cash and cash equivalents - beginning of year	12,595,695	10,947,453
Cash and cash equivalents - end of year	<u>\$ 21,671,770</u>	<u>\$ 12,595,695</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,417,553	\$ 652,162
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	875,148	852,605
Changes in assets and liabilities:		
Receivables	(30,973)	(285,087)
Prepaid expenses	6,482	(558)
Accounts payable and accrued expenses	55,481	295,038
Accrued vacation and pension	36,266	67,376
Grants approved and unpaid	4,563,632	105,085
Amount held for escheatment	1,250	79,351
Claims payable	(17,356)	50,000
Unearned revenue	(1,021,710)	747,419
Total adjustments	<u>4,468,220</u>	<u>1,911,229</u>
Net cash provided by operating activities	<u>\$ 9,885,773</u>	<u>\$ 2,563,391</u>

See Notes to Financial Statements

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: 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; North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts; and the Client Security Fund of the North Carolina State Bar. The State 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 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 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 State 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 State 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 the 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 2016, 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 consists 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 accounts.

Other Receivables

Other receivables consists of amounts due from advertising revenue and council meeting charges.

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

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 2016 and not remitted to CSF until the following January. Annual assessments were \$25 per attorney for 2016. There were no outstanding CSF assessments due from the Bar as of September 30, 2016.

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 received in advance 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 \$251,900 of its unrestricted net position at December 31, 2016 to be reserved for future program awards. The designated unrestricted net position may be made available for general operations with the board's consent.

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 assessed a total of \$3.50 per credit hour in 2016 (\$3.00 per credit hour in 2015), 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; \$1.00 per credit hour to the North Carolina Equal Access to Justice Commission ("EAJC") to provide financial support (\$.50 per credit hour in 2015); 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.
- IOLTA's ongoing 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 \$370,282 and \$330,377 in 2016 and 2015, respectively. 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 2016 and 2015, such cy pres funds in the amount of \$96,000 and \$75,655 were received and included in funds available for 2016 and 2015 grants, respectively.

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

Revenue Recognition (Continued)

Included in operating revenues of IOLTA are settlement proceeds received in 2016 and 2015 of \$12,084,737 and \$842,972, respectively, and are restricted for purposes specified in the settlement agreements, as further discussed in Note 14.

- 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 2016 and 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.

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. The current portion of grants approved but unpaid as of December 31, 2016 are expected to be funded in 2017. The noncurrent portion of grants approved but unpaid as of December 31, 2016 are expected to be funded in the years subsequent to 2017.

Grant awards subject to matching requirements are recognized upon the grantee's satisfaction of the required match. No grants were awarded in 2016 that were subject to matching requirements at December 31, 2016. Grants totaling \$20,000 that were awarded in 2015 met the matching requirements in 2016 and were paid in December 2016.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

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

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.

NOTE 2 - DEPOSITS AND CREDIT RISK

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

	2016	2015
BB&T, checking account	\$ 1,912,680	\$ 2,735,867
BB&T, money market account	4,120,902	4,371,087
Wells Fargo	12,743	13,953
STIF account (with NC State Treasurer)	1,483,379	1,501,244
First Citizens Bank	1,995,961	2,394,938
	<u>\$ 9,525,665</u>	<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 \$7.5 million as of December 31, 2016.

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 depositories pledge securities for all deposits in excess of FDIC coverage so that 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.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 3 - RESTRICTED CASH

Restricted cash consists of the following at December 31:	2016	2015
Bar (with First Citizen's Trust fund)	\$ 517,480	\$ 516,230
IOLTA - cash held in agency (with NC State Treasurer)	243,307	219,480
IOLTA - settlement funds (with NC State Treasurer)	11,385,318	842,896
	<u>\$12,146,105</u>	<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 represent monies received from donations on behalf of Bank of America, N.A. The donations are 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). Settlement proceeds expected to be used in 2017 are classified as current assets. Settlement proceeds expected to be used in years subsequent to 2017 are classified as noncurrent assets.

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 years ended December 31 are as follows:

	2016	2015
Legal Aid of North Carolina, Inc. (LANC)	\$ 2,394,207	\$ 2,475,880
Pisgah Legal Services	149,143	152,412
Legal Services of Southern Piedmont (LSSP)	123,284	127,102
	<u>\$ 2,666,634</u>	<u>\$ 2,755,394</u>

Funds received by IOLTA associated with these agency transactions and undisbursed at year end are included in restricted cash and payable as agent for the State in the Statement of Net Position. These funds totaled \$243,307 and \$219,480 at December 31, 2016 and 2015, respectively.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 5 - DUES AND FEES RECEIVABLE

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

	2016	2015
Dues receivable:		
Bar dues	\$ 173,991	\$ 178,411
CSF assessments	6,360	9,040
	180,351	187,451
Less: Allowance for doubtful accounts	(97,861)	(100,540)
	82,490	86,911
Fees receivable:		
Bar DHC fees	347,610	297,583
Less: Allowance for doubtful accounts	(97,734)	(97,734)
	249,876	199,849
CLE fees	370,377	270,375
IOLTA fees	-	88
	370,377	270,463
Less: Allowance for doubtful accounts	(15,000)	(15,000)
	355,377	255,463
Total dues and fees receivable, net	<u>\$ 687,743</u>	<u>\$ 542,223</u>

NOTE 6 - CLE ASSESSMENTS

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

	2016	2015
Chief Justice's Commission on Professionalism	\$ 374,126	\$ 357,769
North Carolina Equal Access to Justice Commission	313,923	175,821
North Carolina State Bar	94,202	86,937
	<u>\$ 782,251</u>	<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, 2016:

	Cost 12/31/2015	Additions	Retirements	Cost 12/31/2016
Building costs	\$17,438,606	\$ 3,732	\$ -	\$17,442,338
Computer equipment and software	1,640,585	65,725	-	1,706,310
Artwork	393,365	-	-	393,365
Furniture and office equipment	1,377,808	-	-	1,377,808
Automobiles	37,431	-	-	37,431
Total cost	<u>20,887,795</u>	<u>69,457</u>	<u>-</u>	<u>20,957,252</u>
Less accumulated depreciation:				
Building costs	(1,696,679)	(610,286)	-	(2,306,965)
Computer equipment and software	(1,600,228)	(55,637)	-	(1,655,865)
Furniture and office equipment	(491,793)	(205,344)	-	(697,137)
Automobiles	(27,403)	(3,881)	-	(31,284)
	<u>(3,816,103)</u>	<u>(875,148)</u>	<u>-</u>	<u>(4,691,251)</u>
Total capital assets, net	<u>\$17,071,692</u>	<u>\$ (805,691)</u>	<u>\$ -</u>	<u>\$16,266,001</u>

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	(1,556,095)	(44,133)	-	(1,600,228)
Furniture and office equipment	(294,498)	(197,295)	-	(491,793)
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>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 8 - ACCRUED VACATION

The change in accrued vacation is as follows for the years ended December 31:

	2016	2015
Beginning Balance	\$ 226,685	\$ 199,828
Increases	415,810	395,546
Decreases	(402,234)	(368,689)
Ending Balance	<u>\$ 240,261</u>	<u>\$ 226,685</u>

NOTE 9 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2016:

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.

	\$10,653,375
Less current portion	(467,845)
Long-term debt	<u>\$10,185,530</u>

Principal maturities and interest payments of long-term debt are as follows at December 31, 2016:

	Principal	Interest
2017	\$ 467,845	\$ 359,916
2018	484,230	343,531
2019	501,188	326,573
2020	517,857	309,904
2021	8,682,255	290,884
	<u>\$10,653,375</u>	<u>\$ 1,630,808</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, 2016, the State Bar had approximately \$2,000,000 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 loan is secured by the building. Management is aware of no violations of these commitments as of December 31, 2016 or subsequent thereto.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 10 - CHANGE IN LONG-TERM LIABILITIES

The change in long-term liabilities is as follows at December 31, 2016:

	Balance 12/31/2015	Increases	Decreases	Balance 12/31/2016	Current Portion of Balance
Grants approved and unpaid	<u>\$ 2,015,225</u>	<u>\$ 4,563,632</u>	<u>\$ -</u>	<u>\$ 6,578,857</u>	<u>\$ 2,032,335</u>
Note Payable	<u>\$11,104,514</u>	<u>\$ -</u>	<u>\$ (451,139)</u>	<u>\$10,653,375</u>	<u>\$ 467,845</u>

The change in long-term liabilities is as follows at December 31, 2015:

	Balance 12/31/2014	Increases	Decreases	Balance 12/31/2015	Current Portion of Balance
Grants approved and unpaid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,015,225</u>
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. Forfeitures amounted to \$0 and \$5,338 for 2016 and 2015, respectively. On behalf of each participant eligible to share in allocations, the State Bar contributes 10% of such participant's annual compensation to the Plan. Pension costs under the Plan totaled \$566,721 and \$546,621 in 2016 and 2015, respectively.

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 \$715,598 and \$678,008 in 2016 and 2015, respectively, 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.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 13 - LEASES

Lessee

Facilities

The Bar leases facilities for its Lawyers' Assistance Program in Charlotte, North Carolina. The lease agreement expires July 1, 2018 with an option to renew for one additional term of three years. Monthly rent expense under the lease agreement will increase by 3% per year. The Bar's lease expense for the leased LAP office space was \$26,994 and \$22,450 for 2016 and 2015, respectively.

Equipment

The Bar leases office equipment under operating leases with varying expirations through 2021. Lease expense for office equipment was approximately \$23,000 and \$21,000 in 2016 and 2015, respectively.

The minimum lease payments required under operating leases having an initial term of more than one year are as follows at December 31, 2016:

2017	\$ 45,216
2018	25,386
2019	12,186
2020	12,186
2021	9,690
	<u>\$ 104,664</u>

NOTE 14 - SETTLEMENT PROCEEDS - IOLTA

In April 2015, IOLTA received \$842,972 in accordance with the terms in a settlement agreement ("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. In 2015, IOLTA funded grants totaling \$421,445 from these proceeds. The remaining unspent proceeds at December 31, 2015 of \$421,451, are included in IOLTA's restricted net position at December 31, 2015.

According to the terms in the Settlement Agreement, IOLTA received a distribution of \$12,084,737 in 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. In 2016, IOLTA funded grants totaling \$6,155,228 from these proceeds (including \$414,695 of the proceeds received in 2015). The remaining unspent proceeds at December 31, 2016 of \$6,424,101 are included in the IOLTA's restricted net position at December 31, 2016.

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 2016 of \$213,638 of which \$88,637 was received in 2017. The Bar recognized support from CLE in 2015 of \$278,454 of which \$160,133 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 reception 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, 2016:

	Overhead	Computer	Copying	Total
CLE	\$ 36,800	\$ 16,776	\$ 5,947	\$ 59,523
Legal Specialization	16,300	-	1,143	17,443
Paralegal	16,300	5,905	1,583	23,788
IOLTA	-	-	362	362
CSF	17,220	-	1,260	18,480
Total	<u>\$ 86,620</u>	<u>\$ 22,681</u>	<u>\$ 10,295</u>	<u>\$ 119,596</u>

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. Inter-program rental income recognized by the Bar for 2016 and 2015 totaled \$26,859 and \$27,387, respectively.

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.

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 Foundation also made contributions to the Bar in 2016 and 2015 of \$50,000 and \$89,569, respectively, 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 incurred legal fees to outside counsel totaling approximately \$165,000 and \$428,000 during 2016 and 2015, respectively. 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 during 2016.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)

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.

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 - RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified to conform with the current period presentation. These reclassifications had no effect on the reported results of operations.

NOTE 19 - SUBSEQUENT EVENTS

Management of the State Bar evaluated subsequent events through April 19, 2017, which is the date the financial statements were available to be issued. The State Bar increased the annual assessment to attorneys to support the Client Security Fund from \$25 to \$50 for 2017. They discovered no other subsequent events that should be disclosed.

The audit was conducted in approximately 565 hours at a cost of \$68,100.

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 years ended December 31, 2016 and 2015 and have issued our report thereon dated April 19, 2017, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Net Position - State Bar Programs, Schedules of Revenues, Expenses and Changes in Net Position - State Bar Programs and Schedules of Cash Flows - State Bar Programs as of and for the years ended December 31, 2016 and 2015 are presented for the purposes of additional analyses 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
April 19, 2017

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2016

ASSETS:

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Current assets:				
Cash and cash equivalents	\$ 6,221,785	\$ 288,637	\$ 180,694	\$ 458,134
Restricted cash, current portion	517,480	-	-	-
Receivables from related entities	137,136	-	-	-
Dues and fees receivable, net	332,366	355,377	-	-
Other receivables	8,343	-	-	-
Interest receivable	-	-	-	-
Prepaid expenses	14,351	1,000	-	-
Total current assets	<u>7,231,461</u>	<u>645,014</u>	<u>180,694</u>	<u>458,134</u>
Capital assets:				
Property and equipment	20,113,125	615,578	60,609	95,424
Less accumulated depreciation	<u>(3,873,368)</u>	<u>(606,185)</u>	<u>(53,774)</u>	<u>(88,741)</u>
Total capital assets	<u>16,239,757</u>	<u>9,393</u>	<u>6,835</u>	<u>6,683</u>
Noncurrent assets:				
Restricted cash, noncurrent portion	-	-	-	-
Total assets	<u>23,471,218</u>	<u>654,407</u>	<u>187,529</u>	<u>464,817</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	467,845	-	-	-
Accounts payable	68,520	150,846	-	-
Other accrued expenses	109,362	-	-	-
Payable to the Bar	-	125,676	1,100	4,079
Payable as Agent for the State	-	-	-	-
Accrued vacation	209,465	9,099	3,319	3,620
Pension contribution payable	492,741	23,647	5,452	8,258
Amounts held for escheatment	517,480	-	-	-
Grants approved but unpaid	-	-	-	-
Claims payable	-	-	-	-
Unearned revenue	2,923,875	-	-	56,890
Total current liabilities	<u>4,789,288</u>	<u>309,268</u>	<u>9,871</u>	<u>72,847</u>
Noncurrent liabilities:				
Grants approved but unpaid	-	-	-	-
Long-term debt	10,185,530	-	-	-
Total noncurrent liabilities	<u>10,185,530</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>14,974,818</u>	<u>309,268</u>	<u>9,871</u>	<u>72,847</u>

NET POSITION:

Net investment in capital assets	5,586,382	9,393	6,835	6,683
Restricted	-	-	-	-
Unrestricted	<u>2,910,018</u>	<u>335,746</u>	<u>170,823</u>	<u>385,287</u>
Total net position	<u>\$ 8,496,400</u>	<u>\$ 345,139</u>	<u>\$ 177,658</u>	<u>\$ 391,970</u>

Continued on next page

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs (Continued)
December 31, 2016

Continued from previous page

ASSETS:

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Current assets:				
Cash and cash equivalents	\$ 1,774,393	\$ 602,022	\$ -	\$ 9,525,665
Restricted cash, current portion	658,002	-	-	1,175,482
Receivables from related entities	-	-	(130,895)	6,241
Dues and fees receivable, net	-	-	-	687,743
Other receivables	-	-	-	8,343
Interest receivable	204,793	-	-	204,793
Prepaid expenses	5,588	-	-	20,939
Total current assets	<u>2,642,776</u>	<u>602,022</u>	<u>(130,895)</u>	<u>11,629,206</u>
Capital assets:				
Property and equipment	21,630	50,886	-	20,957,252
Less accumulated depreciation	<u>(18,297)</u>	<u>(50,886)</u>	<u>-</u>	<u>(4,691,251)</u>
Total capital assets	<u>3,333</u>	<u>-</u>	<u>-</u>	<u>16,266,001</u>
Noncurrent assets:				
Restricted cash, noncurrent portion	<u>10,970,623</u>	<u>-</u>	<u>-</u>	<u>10,970,623</u>
Total assets	<u>13,616,732</u>	<u>602,022</u>	<u>(130,895)</u>	<u>38,865,830</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	-	-	-	467,845
Accounts payable	238	-	-	219,604
Other accrued expenses	-	6,378	-	115,740
Payable to the Bar	40	-	(130,895)	-
Payable as Agent for the State	243,307	-	-	243,307
Accrued vacation	8,541	6,217	-	240,261
Pension contribution payable	21,749	14,410	-	566,257
Amounts held for escheatment	-	-	-	517,480
Grants approved but unpaid	2,032,335	-	-	2,032,335
Claims payable	-	32,644	-	32,644
Unearned revenue	-	-	-	2,980,765
Total current liabilities	<u>2,306,210</u>	<u>59,649</u>	<u>(130,895)</u>	<u>7,416,238</u>
Noncurrent liabilities:				
Grants approved but unpaid	4,546,522	-	-	4,546,522
Long-term debt	-	-	-	10,185,530
Total noncurrent liabilities	<u>4,546,522</u>	<u>-</u>	<u>-</u>	<u>14,732,052</u>
Total liabilities	<u>6,852,732</u>	<u>59,649</u>	<u>(130,895)</u>	<u>22,148,290</u>

NET POSITION:

Net investment in capital assets	3,333	-	-	5,612,626
Restricted	6,424,101	-	-	6,424,101
Unrestricted	<u>336,566</u>	<u>542,373</u>	<u>-</u>	<u>4,680,813</u>
Total net position	<u>\$ 6,764,000</u>	<u>\$ 542,373</u>	<u>\$ -</u>	<u>\$ 16,717,540</u>

NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2016

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Operating revenues:				
Dues	\$ 8,239,550	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Reimbursements of claim awards	-	-	-	-
Sponsor and attendee fees	-	495,432	-	-
Renewal, registration and examination fees	-	-	178,450	241,360
Professional corporations	42,397	-	-	-
Interstate law firms	96,480	-	-	-
Reinstatement fees	83,278	-	-	-
Penalty fees	25,953	214,516	850	15,420
EAJC processing fees	96,770	-	-	-
DHC reimbursable costs and grievance fees	148,899	-	-	-
Foundation contributions	50,000	-	-	-
Support from Continuing Legal Education	213,638	-	-	-
Bar magazine income	45,901	-	-	-
State Bar overhead and computer usage and copier charges	119,596	-	-	-
Rental income	26,859	-	-	-
Other	46,811	-	-	-
Interest from participants - IOLTA	-	-	-	-
Settlement proceeds - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	-	-	-	-
Settlement agent accounts - IOLTA	-	-	-	-
Professional and administrative services - IOLTA	-	-	-	-
Total operating revenues	<u>9,236,132</u>	<u>709,948</u>	<u>179,300</u>	<u>256,780</u>
Operating expenses:				
Salaries and wages	5,322,433	274,352	84,288	115,741
Pension plan contributions	489,089	27,492	5,722	8,259
Other employee benefits	612,790	31,294	9,713	17,707
Grant awards - IOLTA	-	-	-	-
Grants funded from settlement proceeds - IOLTA	-	-	-	-
Other grant awards	-	-	-	15,000
Claim awards	-	-	-	-
Professional fees	216,049	11,864	6,510	6,510
Council and committee meetings	489,505	3,607	18,016	10,230
Publications, postage, and printing	227,271	35,606	6,504	4,977
Depreciation	859,777	5,376	2,890	2,105
Equipment rental and maintenance	216,433	-	-	-
LAP support provided by CLE	-	213,638	-	-
State Bar overhead, computer usage and copier charges	-	59,523	17,443	23,788
Coordinator fee and expenses	-	-	-	-
Paralegal journal	-	-	-	15,875
Travel and automotive	113,711	2,700	4,375	-
Community outreach	-	-	4,139	-
Exam analysis	-	-	12,198	20,002
Test administration	-	-	5,069	17,943
Rent expense	26,994	13,629	2,880	2,400
Disciplinary proceedings	138,230	-	-	-
Building maintenance and utilities	217,590	-	-	-
Bank service charges	75,520	7,533	-	-
Bad debt expense	-	-	-	-
Other office expense	56,651	5,576	1,448	3,654
Telephone	33,445	1,697	719	504
Insurance and bonds	27,403	3,362	1,120	1,120
Total operating expenses	<u>9,122,891</u>	<u>697,249</u>	<u>183,034</u>	<u>265,815</u>
Operating income (loss)	<u>113,241</u>	<u>12,699</u>	<u>(3,734)</u>	<u>(9,035)</u>
Nonoperating revenues (expenses):				
Interest income	1,251	4	2	13
Interest expense	(376,622)	-	-	-
Total nonoperating revenues (expenses)	<u>(375,371)</u>	<u>4</u>	<u>2</u>	<u>13</u>
Changes in net position	(262,130)	12,703	(3,732)	(9,022)
Net position - beginning of year	<u>8,758,530</u>	<u>332,436</u>	<u>181,390</u>	<u>400,992</u>
Net position - end of year	<u>\$ 8,496,400</u>	<u>\$ 345,139</u>	<u>\$ 177,658</u>	<u>\$ 391,970</u>

Continued on next page

NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs (Continued)
Year Ended December 31, 2016

Continued from previous page

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Operating revenues:				
Dues	\$ -	\$ -	\$ -	\$ 8,239,550
Assessments	-	685,445	-	685,445
Reimbursements of claim awards	-	45,111	-	45,111
Sponsor and attendee fees	-	-	-	495,432
Renewal, registration and examination fees	-	-	-	419,810
Professional corporations	-	-	-	42,397
Interstate law firms	-	-	-	96,480
Reinstatement fees	-	-	-	83,278
Penalty fees	-	-	-	256,739
EAJC processing fees	-	-	-	96,770
DHC reimbursable costs and grievance fees	-	-	-	148,899
Foundation contributions	-	-	-	50,000
Support from Continuing Legal Education	-	-	(213,638)	-
Bar magazine income	-	-	-	45,901
State Bar overhead and computer usage and copier charges	-	-	(119,596)	-
Rental income	-	-	(26,859)	-
Other	-	-	-	46,811
Interest from participants - IOLTA	1,767,287	-	-	1,767,287
Settlement proceeds - IOLTA	12,084,737	-	-	12,084,737
Cy pres receipts - IOLTA	96,000	-	-	96,000
Settlement agent accounts - IOLTA	52,763	-	-	52,763
Professional and administrative services - IOLTA	39,000	-	-	39,000
Total operating revenues	14,039,787	730,556	(360,093)	24,792,410
Operating expenses:				
Salaries and wages	233,352	153,973	-	6,184,139
Pension plan contributions	21,749	14,410	-	566,721
Other employee benefits	31,198	5,259	-	707,961
Grant awards - IOLTA	1,637,640	-	-	1,637,640
Grants funded from settlement proceeds - IOLTA	6,155,228	-	-	6,155,228
Other grant awards	-	-	-	15,000
Claim awards	-	1,104,051	-	1,104,051
Professional fees	15,903	7,766	-	264,602
Council and committee meetings	10,469	8,645	-	540,472
Publications, postage, and printing	-	1,216	-	275,574
Depreciation	5,000	-	-	875,148
Equipment rental and maintenance	14,700	-	-	231,133
LAP support provided by CLE	-	-	(213,638)	-
State Bar overhead, computer usage and copier charges	362	18,480	(119,596)	-
Coordinator fee and expenses	2,243	904	-	3,147
Paralegal journal	-	-	-	15,875
Travel and automotive	3,566	-	-	124,352
Community outreach	-	-	-	4,139
Exam analysis	-	-	-	32,200
Test administration	-	-	-	23,012
Rent expense	7,950	-	(26,859)	26,994
Disciplinary proceedings	-	1,520	-	139,750
Building maintenance and utilities	-	-	-	217,590
Bank service charges	-	-	-	83,053
Bad debt expense	-	-	-	-
Other office expense	7,391	585	-	75,305
Telephone	56	114	-	36,535
Insurance and bonds	-	2,231	-	35,236
Total operating expenses	8,146,807	1,319,154	(360,093)	19,374,857
Operating income (loss)	5,892,980	(588,598)	-	5,417,553
Nonoperating revenues (expenses):				
Interest income	85,964	286	-	87,520
Interest expense	-	-	-	(376,622)
Total nonoperating revenues (expenses)	85,964	286	-	(289,102)
Changes in net position	5,978,944	(588,312)	-	5,128,451
Net position - beginning of year	785,056	1,130,685	-	11,589,089
Net position - end of year	\$ 6,764,000	\$ 542,373	\$ -	\$ 16,717,540

See Independent Auditor's Report on the Supplementary Information

NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2016

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Cash flows from operating activities:				
Receipts from attorneys for dues	\$ 7,188,150	\$ -	\$ -	\$ -
Cash received from program participants - IOLTA	-	-	-	-
Cash received from fees	448,171	609,946	179,300	286,470
Cash received from settlement proceeds - IOLTA	-	-	-	-
Cash received from Cy Pres - IOLTA	-	-	-	-
Cash received from settlement agent accounts - IOLTA	-	-	-	-
Cash received from other services - IOLTA	-	-	-	-
Cash received from assessments and reimbursements	-	-	-	-
Other cash received	586,913	-	-	-
Payments for IOLTA grants	-	-	-	-
Payments to claimants	-	-	-	-
Payments to employees for services	(6,395,916)	(331,323)	(100,175)	(140,746)
Payments to suppliers of goods and services	(1,047,357)	2,497	(20,370)	(78,740)
Cash payments for other operating expenses	(741,446)	(347,788)	(59,051)	(49,018)
Net cash provided by (used in) operating activities	<u>38,515</u>	<u>(66,668)</u>	<u>(296)</u>	<u>17,966</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(51,329)	(4,832)	(4,508)	(8,788)
Interest paid	(376,622)	-	-	-
Principal payments on bank borrowings	(451,139)	-	-	-
Net cash used in capital and related financing activities	<u>(879,090)</u>	<u>(4,832)</u>	<u>(4,508)</u>	<u>(8,788)</u>
Cash flows from investing activities:				
Interest received	1,251	4	2	13
Net cash provided by investing activities	<u>1,251</u>	<u>4</u>	<u>2</u>	<u>13</u>
Net increase (decrease) in cash and cash equivalents	(839,324)	(71,496)	(4,802)	9,191
Cash and cash equivalents - beginning of year	<u>7,578,589</u>	<u>360,133</u>	<u>185,496</u>	<u>448,943</u>
Cash and cash equivalents - end of year	<u>\$ 6,739,265</u>	<u>\$ 288,637</u>	<u>\$ 180,694</u>	<u>\$ 458,134</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 113,241	\$ 12,699	\$ (3,734)	\$ (9,035)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	859,777	5,376	2,890	2,105
Changes in assets and liabilities:				
Receivables	38,502	(100,002)	-	-
Prepaid expenses	10,766	(1,000)	-	-
Accounts payable and accrued expenses	37,983	14,444	1,000	(5,755)
Accrued vacation and pension	28,396	1,815	(452)	961
Grants approved and unpaid	-	-	-	-
Amount held for escheatment	1,250	-	-	-
Claims payable	-	-	-	-
Unearned revenue	(1,051,400)	-	-	29,690
Total adjustments	<u>(74,726)</u>	<u>(79,367)</u>	<u>3,438</u>	<u>27,001</u>
Net cash provided by (used in) operating activities	<u>\$ 38,515</u>	<u>\$ (66,668)</u>	<u>\$ (296)</u>	<u>\$ 17,966</u>

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NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs (Continued)
Year Ended December 31, 2016

Continued from previous page

	IOLTA	Client Security Fund	Total State Bar
Cash flows from operating activities:			
Receipts from attorneys for dues	\$ -	\$ -	\$ 7,188,150
Cash received from program participants - IOLTA	1,797,726	-	1,797,726
Cash received from fees	-	-	1,523,887
Cash received from settlement proceeds - IOLTA	12,084,737	-	12,084,737
Cash received from Cy Pres - IOLTA	96,000	-	96,000
Cash received from settlement agent accounts - IOLTA	52,763	-	52,763
Cash received from other services - IOLTA	39,000	-	39,000
Cash received from assessments and reimbursements	-	730,556	730,556
Other cash received	-	-	586,913
Payments for IOLTA grants	(3,205,409)	-	(3,205,409)
Payments to claimants	-	(1,121,407)	(1,121,407)
Payments to employees for services	(281,305)	(173,090)	(7,422,555)
Payments to suppliers of goods and services	(72,705)	(30,392)	(1,247,067)
Cash payments for other operating expenses	(14,397)	(5,821)	(1,217,521)
Net cash provided by (used in) operating activities	10,496,410	(600,154)	9,885,773
Cash flows from capital and related financing activities:			
Purchases of property and equipment	-	-	(69,457)
Interest paid	-	-	(376,622)
Principal payments on bank borrowings	-	-	(451,139)
Net cash used in capital and related financing activities	-	-	(897,218)
Cash flows from investing activities:			
Interest received	85,964	286	87,520
Net cash provided by investing activities	85,964	286	87,520
Net increase (decrease) in cash and cash equivalents	10,582,374	(599,868)	9,076,075
Cash and cash equivalents - beginning of year	2,820,644	1,201,890	12,595,695
Cash and cash equivalents - end of year	\$ 13,403,018	\$ 602,022	\$ 21,671,770
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 5,892,980	\$ (588,598)	\$ 5,417,553
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	5,000	-	875,148
Changes in assets and liabilities:			
Receivables	30,527	-	(30,973)
Prepaid expenses	(3,284)	-	6,482
Accounts payable and accrued expenses	2,561	5,248	55,481
Accrued vacation and pension	4,994	552	36,266
Grants approved and unpaid	4,563,632	-	4,563,632
Amount held for escheatment	-	-	1,250
Claims payable	-	(17,356)	(17,356)
Unearned revenue	-	-	(1,021,710)
Total adjustments	4,603,430	(11,556)	4,468,220
Net cash provided by (used in) operating activities	\$ 10,496,410	\$ (600,154)	\$ 9,885,773

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

ASSETS:

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Current assets:				
Cash and cash equivalents	\$ 7,062,359	\$ 360,133	\$ 185,496	\$ 448,943
Restricted cash	516,230	-	-	-
Receivables from related entities	226,227	-	-	-
Dues and fees receivable, net	286,760	255,375	-	-
Other receivables	3,360	-	-	-
Interest receivable	-	-	-	-
Prepaid expenses	25,117	-	-	-
Total current assets	<u>8,120,053</u>	<u>615,508</u>	<u>185,496</u>	<u>448,943</u>
Capital assets:				
Property and equipment	20,061,796	610,746	56,101	86,636
Less accumulated depreciation	(3,013,591)	(600,809)	(50,884)	(86,636)
Total capital assets	<u>17,048,205</u>	<u>9,937</u>	<u>5,217</u>	<u>-</u>
Total assets	<u>25,168,258</u>	<u>625,445</u>	<u>190,713</u>	<u>448,943</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	450,981	-	-	-
Accounts payable	43,353	68,082	100	-
Other accrued expenses	96,546	-	-	-
Payable to the Bar	-	193,996	-	9,834
Payable as Agent for the State	-	-	-	-
Accrued vacation	197,733	10,161	3,501	3,194
Pension contribution payable	476,077	20,770	5,722	7,723
Amounts held for escheatment	516,230	-	-	-
Grants approved but unpaid	-	-	-	-
Claims payable	-	-	-	-
Unearned revenue	3,975,275	-	-	27,200
Total current liabilities	<u>5,756,195</u>	<u>293,009</u>	<u>9,323</u>	<u>47,951</u>
Long-term debt	<u>10,653,533</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>16,409,728</u>	<u>293,009</u>	<u>9,323</u>	<u>47,951</u>

NET POSITION:

Net investment in capital assets	5,943,691	9,937	5,217	-
Restricted	-	-	-	-
Unrestricted	<u>2,814,839</u>	<u>322,499</u>	<u>176,173</u>	<u>400,992</u>
Total net position	<u>\$ 8,758,530</u>	<u>\$ 332,436</u>	<u>\$ 181,390</u>	<u>\$ 400,992</u>

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

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ASSETS:

	<u>IOLTA</u>	<u>Client Security Fund</u>	<u>Eliminating Entries</u>	<u>Total State Bar</u>
Current assets:				
Cash and cash equivalents	\$ 1,758,268	\$ 1,201,890	\$ -	\$ 11,017,089
Restricted cash	1,062,376	-	-	1,578,606
Receivables from related entities	-	-	(224,227)	2,000
Dues and fees receivable, net	88	-	-	542,223
Other receivables	-	-	-	3,360
Interest receivable	235,232	-	-	235,232
Prepaid expenses	2,304	-	-	27,421
Total current assets	<u>3,058,268</u>	<u>1,201,890</u>	<u>(224,227)</u>	<u>13,405,931</u>
Capital assets:				
Property and equipment	21,630	50,886	-	20,887,795
Less accumulated depreciation	(13,297)	(50,886)	-	(3,816,103)
Total capital assets	<u>8,333</u>	<u>-</u>	<u>-</u>	<u>17,071,692</u>
Total assets	<u>3,066,601</u>	<u>1,201,890</u>	<u>(224,227)</u>	<u>30,477,623</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	-	-	-	450,981
Accounts payable	1,147	-	-	112,682
Other accrued expenses	-	1,130	-	97,676
Payable to the Bar	20,397	-	(224,227)	-
Payable as Agent for the State	219,480	-	-	219,480
Accrued vacation	6,143	5,953	-	226,685
Pension contribution payable	19,153	14,122	-	543,567
Amounts held for escheatment	-	-	-	516,230
Grants approved but unpaid	2,015,225	-	-	2,015,225
Claims payable	-	50,000	-	50,000
Unearned revenue	-	-	-	4,002,475
Total current liabilities	<u>2,281,545</u>	<u>71,205</u>	<u>(224,227)</u>	<u>8,235,001</u>
Long-term debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,653,533</u>
Total liabilities	<u>2,281,545</u>	<u>71,205</u>	<u>(224,227)</u>	<u>18,888,534</u>

NET POSITION:

Net investment in capital assets	8,333	-	-	5,967,178
Restricted	421,451	-	-	421,451
Unrestricted	<u>355,272</u>	<u>1,130,685</u>	<u>-</u>	<u>5,200,460</u>
Total net position	<u>\$ 785,056</u>	<u>\$ 1,130,685</u>	<u>\$ -</u>	<u>\$ 11,589,089</u>

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
Operating revenues:				
Dues	\$ 8,080,785	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Reimbursements of claim awards	-	-	-	-
Sponsor and attendee fees	-	447,910	-	-
Renewal, registration and examination fees	-	-	146,100	236,231
Professional corporations	65,758	-	-	-
Interstate law firms	104,502	-	-	-
Reinstatement fees	95,394	-	-	-
Penalty fees	48,047	292,336	4,935	9,365
EAJC processing fees	86,937	-	-	-
DHC reimbursable costs and grievance fees	153,552	-	-	-
Foundation contributions	89,569	-	-	-
Support from Continuing Legal Education	278,454	-	-	-
Bar magazine income	49,523	-	-	-
State Bar overhead and computer usage and copier charges	108,961	-	-	-
Rental income	27,387	-	-	-
Other	70,875	-	-	-
Interest from participants - IOLTA	-	-	-	-
Settlement proceeds - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	-	-	-	-
Settlement agent accounts - IOLTA	-	-	-	-
Total operating revenues	9,259,744	740,246	151,035	245,596
Operating expenses:				
Salaries and wages	5,146,862	269,631	59,635	92,908
Pension plan contributions	479,132	20,770	5,721	7,723
Other employee benefits	558,234	25,786	9,070	10,868
Grant awards - IOLTA	-	-	-	-
Grants funded from settlement proceeds - IOLTA	-	-	-	-
Other grant awards	10,000	-	-	1,580
Claim awards	-	-	-	-
Professional fees	443,672	8,084	1,940	1,939
Council and committee meetings	547,399	3,319	20,632	14,254
Publications, postage, and printing	249,822	34,975	9,446	11,247
Depreciation	843,664	3,666	275	-
Equipment rental and maintenance	152,250	334	-	-
LAP support provided by CLE	-	278,454	-	-
State Bar overhead, computer usage and copier charges	-	59,953	12,962	17,312
Coordinator fee and expenses	-	-	-	-
Paralegal journal	-	-	-	21,748
Travel and automotive	109,617	2,323	4,498	-
Community outreach	-	-	6,872	-
Exam analysis	-	-	9,600	3,000
Test administration	-	-	4,095	35,715
Rent expense	22,450	14,397	2,640	2,400
Disciplinary proceedings	128,278	-	-	-
Building maintenance and utilities	201,276	-	-	-
Bank service charges	89,818	5,662	-	-
Bad debt expense	40,824	12,000	-	-
Other office expense	66,367	2,033	547	1,112
Telephone	35,039	1,428	400	645
Insurance and bonds	28,353	3,350	1,119	1,119
Total operating expenses	9,153,057	746,165	149,452	223,570
Operating income (loss)	106,687	(5,919)	1,583	22,026
Nonoperating revenues (expenses):				
Interest income	959	-	2	4
Interest expense	(390,821)	-	-	-
Total nonoperating revenues (expenses)	(389,862)	-	2	4
Changes in net position	(283,175)	(5,919)	1,585	22,030
Net position - beginning of year	9,041,705	338,355	179,805	378,962
Net position - end of year	\$ 8,758,530	\$ 332,436	\$ 181,390	\$ 400,992

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

Continued from previous page

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Operating revenues:				
Dues	\$ -	\$ -	\$ -	\$ 8,080,785
Assessments	-	673,900	-	673,900
Reimbursements of claim awards	-	114,336	-	114,336
Sponsor and attendee fees	-	-	-	447,910
Renewal, registration and examination fees	-	-	-	382,331
Professional corporations	-	-	-	65,758
Interstate law firms	-	-	-	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
Support from Continuing Legal Education	-	-	(278,454)	-
Bar magazine income	-	-	-	49,523
State Bar overhead and computer usage and copier charges	-	-	(108,961)	-
Rental income	-	-	(27,387)	-
Other	-	-	-	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	2,797,811	788,236	(414,802)	13,567,866
Operating expenses:				
Salaries and wages	219,587	149,419	-	5,938,042
Pension plan contributions	19,153	14,122	-	546,621
Other employee benefits	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	-	-	-	11,580
Claim awards	-	506,744	-	506,744
Professional fees	11,455	2,641	-	469,731
Council and committee meetings	7,610	6,713	-	599,927
Publications, postage, and printing	-	1,199	-	306,689
Depreciation	5,000	-	-	852,605
Equipment rental and maintenance	13,892	-	-	166,476
LAP support provided by CLE	-	-	(278,454)	-
State Bar overhead, computer usage and copier charges	401	18,333	(108,961)	-
Coordinator fee and expenses	20,585	1,313	-	21,898
Paralegal journal	-	-	-	21,748
Travel and automotive	4,628	-	-	121,066
Community outreach	-	-	-	6,872
Exam analysis	-	-	-	12,600
Test administration	-	-	-	39,810
Rent expense	7,950	-	(27,387)	22,450
Disciplinary proceedings	-	1,330	-	129,608
Building maintenance and utilities	-	-	-	201,276
Bank service charges	-	-	-	95,480
Bad debt expense	-	-	-	52,824
Other office expense	7,467	583	-	78,109
Telephone	76	98	-	37,686
Insurance and bonds	-	2,203	-	36,144
Total operating expenses	2,348,886	709,376	(414,802)	12,915,704
Operating income (loss)	448,925	78,860	-	652,162
Nonoperating revenues (expenses):				
Interest income	8,434	338	-	9,737
Interest expense	-	-	-	(390,821)
Total nonoperating revenues (expenses)	8,434	338	-	(381,084)
Changes in net position	457,359	79,198	-	271,078
Net position - beginning of year	327,697	1,051,487	-	11,318,011
Net position - end of year	\$ 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
Cash flows from operating activities:				
Receipts from attorneys for dues	\$ 8,838,660	\$ -	\$ -	\$ -
Cash received from program participants - IOLTA	-	-	-	-
Cash received from fees	508,355	648,541	151,035	235,140
Cash received from settlement proceeds - IOLTA	-	-	-	-
Cash received from Cy Pres - IOLTA	-	-	-	-
Cash received from settlement agent accounts - IOLTA	-	-	-	-
Cash received from assessments and reimbursements	-	-	-	-
Other cash received	486,863	-	-	-
Payments for IOLTA grants	-	-	-	-
Payments to claimants	-	-	-	-
Payments to employees for services	(6,117,306)	(317,497)	(75,006)	(109,172)
Payments to suppliers of goods and services	(1,124,081)	(4,025)	(17,901)	(74,918)
Cash payments for other operating expenses	(836,118)	(241,975)	(57,204)	(33,146)
Net cash provided by (used in) operating activities	<u>1,756,373</u>	<u>85,044</u>	<u>924</u>	<u>17,904</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(86,800)	(4,833)	(5,492)	-
Interest paid	(390,821)	-	-	-
Principal payments on bank borrowings	(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>
Cash flows from investing activities:				
Interest received	959	-	2	4
Net cash provided by investing activities	<u>959</u>	<u>-</u>	<u>2</u>	<u>4</u>
Net increase (decrease) in cash and cash equivalents	842,771	80,211	(4,566)	17,908
Cash and cash equivalents - beginning of year	<u>6,735,818</u>	<u>279,922</u>	<u>190,062</u>	<u>431,035</u>
Cash and cash equivalents - end of year	<u>\$ 7,578,589</u>	<u>\$ 360,133</u>	<u>\$ 185,496</u>	<u>\$ 448,943</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
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	843,664	3,666	275	-
Changes in assets and liabilities:				
Receivables	(183,741)	(91,705)	-	-
Prepaid expenses	(2,613)	-	-	-
Accounts payable and accrued expenses	88,228	180,312	(354)	4,007
Accrued vacation and pension	66,922	(1,310)	(580)	2,327
Grants approved and unpaid	-	-	-	-
Amount held for escheatment	79,351	-	-	-
Claims payable	-	-	-	-
Unearned revenue	757,875	-	-	(10,456)
Total adjustments	<u>1,649,686</u>	<u>90,963</u>	<u>(659)</u>	<u>(4,122)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,756,373</u>	<u>\$ 85,044</u>	<u>\$ 924</u>	<u>\$ 17,904</u>

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

Continued from previous page

	IOLTA	Client Security Fund	Total State Bar
Cash flows from operating activities:			
Receipts from attorneys for dues	\$ -	\$ -	\$ 8,838,660
Cash received from program participants - IOLTA	1,833,117	-	1,833,117
Cash received from fees	-	-	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	-	-	486,863
Payments for IOLTA grants	(1,907,152)	-	(1,907,152)
Payments to claimants	-	(456,744)	(456,744)
Payments to employees for services	(256,704)	(166,095)	(7,041,780)
Payments to suppliers of goods and services	(36,541)	(25,057)	(1,282,523)
Cash payments for other operating expenses	(12,639)	(8,226)	(1,189,308)
Net cash provided by (used in) operating activities	570,697	132,449	2,563,391
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	-	-	(924,886)
Cash flows from investing activities:			
Interest received	8,434	338	9,737
Net cash provided by investing activities	8,434	338	9,737
Net increase (decrease) in cash and cash equivalents	579,131	132,787	1,648,242
Cash and cash equivalents - beginning of year	2,241,513	1,069,103	10,947,453
Cash and cash equivalents - end of year	\$ 2,820,644	\$ 1,201,890	\$ 12,595,695
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 448,925	\$ 78,860	\$ 652,162
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	5,000	-	852,605
Changes in assets and liabilities:			
Receivables	(9,976)	335	(285,087)
Prepaid expenses	2,055	-	(558)
Accounts payable and accrued expenses	21,715	1,130	295,038
Accrued vacation and pension	(2,107)	2,124	67,376
Grants approved and unpaid	105,085	-	105,085
Amount held for escheatment	-	-	79,351
Claims payable	-	50,000	50,000
Unearned revenue	-	-	747,419
Total adjustments	121,772	53,589	1,911,229
Net cash provided by (used in) operating activities	\$ 570,697	\$ 132,449	\$ 2,563,391