

NORTH CAROLINA STATE BAR
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NORTH CAROLINA STATE BAR

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NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

The following is a discussion and analysis of the financial performance of the North Carolina State Bar for the year ended December 31, 2018. 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, 2018; and the Client Security Fund of the North Carolina State Bar ("CSF") as of and for the year ended September 30, 2018, 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 \$14,162,302 at December 31, 2018 compared to \$14,561,679 at December 31, 2017, a decrease of \$399,377 for the year ended December 31, 2018. The Client Security Fund's net position was \$1,401,963 at September 30, 2018, compared to \$1,404,809 at September 30, 2017, a decrease of \$2,846 for the year ended September 30, 2018.

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 years' operations.

The Statements of Cash Flows present information on how the State Bar's cash changed as a result of the years' activity.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2018, and CSF as of and for the year ended September 30, 2018:

	State Bar (excluding CSF)	CSF	Total
Current assets	\$ 15,417,731	\$ 1,433,203	\$ 16,850,934
Capital assets, net	14,676,595	-	14,676,595
Noncurrent assets	4,130,212	-	4,130,212
Total assets	<u>34,224,538</u>	<u>1,433,203</u>	<u>35,657,741</u>
Current liabilities	10,862,486	31,240	10,893,726
Long-term liabilities	9,199,750	-	9,199,750
Total liabilities	<u>20,062,236</u>	<u>31,240</u>	<u>20,093,476</u>
Net position:			
Net investment in capital assets	4,975,657	-	4,975,657
Restricted	4,035,501	-	4,035,501
Unrestricted	5,151,144	1,401,963	6,553,107
Total net position	<u>\$ 14,162,302</u>	<u>\$ 1,401,963</u>	<u>\$ 15,564,265</u>
Operating revenues	\$ 13,509,328	\$ 914,342	\$ 14,423,670
Operating expenses	13,708,446	917,299	14,625,745
Operating loss	<u>(199,118)</u>	<u>(2,957)</u>	<u>(202,075)</u>
Nonoperating revenues (expenses):			
Interest income	142,388	111	142,499
Interest expense	(342,647)	-	(342,647)
Total nonoperating revenues (expenses)	<u>(200,259)</u>	<u>111</u>	<u>(200,148)</u>
Changes in net position	<u>\$ (399,377)</u>	<u>\$ (2,846)</u>	<u>\$ (402,223)</u>

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2017, and CSF as of and for the year ended September 30, 2017:

	State Bar (excluding CSF)	CSF	Total
Current assets	\$ 15,061,049	\$ 1,453,462	\$ 16,514,511
Capital assets, net	15,471,698	-	15,471,698
Noncurrent assets	6,129,249	-	6,129,249
Total assets	<u>36,661,996</u>	<u>1,453,462</u>	<u>38,115,458</u>
Current liabilities	11,554,984	48,653	11,603,637
Long-term liabilities	10,545,333	-	10,545,333
Total liabilities	<u>22,100,317</u>	<u>48,653</u>	<u>22,148,970</u>
Net position:			
Net investment in capital assets	5,286,350	-	5,286,350
Restricted	5,182,831	-	5,182,831
Unrestricted	4,092,498	1,404,809	5,497,307
Total net position	<u>\$ 14,561,679</u>	<u>\$ 1,404,809</u>	<u>\$ 15,966,488</u>
Operating revenues	\$ 12,141,758	\$ 1,726,154	\$ 13,867,912
Operating expenses	13,506,904	863,855	14,370,759
Operating income (loss)	<u>(1,365,146)</u>	<u>862,299</u>	<u>(502,847)</u>
Nonoperating revenues (expenses):			
Interest income	126,295	137	126,432
Interest expense	(374,637)	-	(374,637)
Total nonoperating revenues (expenses)	<u>(248,342)</u>	<u>137</u>	<u>(248,205)</u>
Changes in net position	<u>\$ (1,613,488)</u>	<u>\$ 862,436</u>	<u>\$ (751,052)</u>

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

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 (loss)	<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>

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 2018 and 2017. 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, 2018

Events Affecting Future Operations

Affecting the Bar:

The Bar uses the accrual method of accounting to measure revenues and control expenses. The primary revenue source for the Bar is annual membership dues. Other sources of income include fees from the annual registration of professional corporations and interstate law firms, as well as fees charged to respondents in grievance and DHC cases. The Finance and Audit Committee reviews and approves the Bar's financial statements at the committee's quarterly meetings. At these meetings, budget to actual variances are examined and reported by the Executive Director to the committee. The Finance and Audit Committee subsequently reports to the Executive Committee of the State Bar Council and to the Council itself at each quarterly meeting of the Council.

The Bar's assets exceeded liabilities (net position) by \$7,984,569 at December 31, 2018. This is a decrease from 2017 when the net position was \$8,196,643 and a decrease from 2016 when the net position was \$8,496,400. Stagnation in membership fee revenue has contributed to the decline in our net position, along with legal fees paid to outside counsel which were substantial in 2017 (approximately \$316,000), due to several large cases in litigation. Legal fees decreased in 2018 to approximately \$96,000 as these cases are being settled. A bill is currently pending in the General Assembly which, if successful, will increase the current cap on membership fees from \$300 to \$400. This will enable the collection of additional membership fee revenue in future years.

State Bar's total liabilities were \$15,684,418 at December 31, 2018. This is a decrease from 2017 when the liabilities were \$16,178,698 and an increase from 2016 when the liabilities were \$14,974,818. The long-term debt is a mortgage loan from First Citizen's Bank.

With reference to the mortgage, it is noted that the balance will come due in 2021. That being the case, a loan commitment has been negotiated with Branch Banking and Trust to refinance the outstanding indebtedness on the First Citizen's loan with a 10-year tax-exempt bond. The anticipated closing date on the refinancing is May 9, 2019. The annual debt service on the refinanced mortgage loan will be substantially less than the current debt service on the First Citizen's mortgage loan, resulting in substantial savings for the State Bar.

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 \$5,354,548 (net position) at December 31, 2018. This is a decrease from 2017 when assets exceeded liabilities by \$5,529,501, and a decrease from 2016 when assets exceeded liabilities by \$6,674,000.

IOLTA's total liabilities were \$4,271,482 at December 31, 2018. This is a decrease from 2017 and 2016 when total liabilities were \$5,807,579 and 6,852,732, 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.

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

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

	2018	2017	2016	Current Year Amount Change	Current Year % Change
Current assets	\$ 5,495,818	\$ 5,207,831	\$ 2,642,776	\$ 287,987	6%
Capital assets, net	-	-	3,333	-	0%
Noncurrent assets	4,130,212	6,129,249	10,970,623	(1,999,037)	-33%
Total assets	9,626,030	11,337,080	13,616,732	(1,711,050)	-15%
Current liabilities	4,271,482	4,963,364	2,306,210	(691,882)	-14%
Noncurrent liabilities	-	844,215	4,546,522	(844,215)	-100%
Total liabilities	4,271,482	5,807,579	6,852,732	(1,536,097)	-26%
Net position:					
Investment in capital assets	-	-	3,333	-	0%
Restricted	4,035,501	5,182,831	6,424,101	(1,147,330)	-22%
Unrestricted	1,319,047	346,670	336,566	972,377	280%
Total net position	\$ 5,354,548	\$ 5,529,501	\$ 6,764,000	\$ (174,953)	-3%
Operating revenues	\$ 3,149,242	\$ 1,906,706	\$ 14,039,787	1,242,536	65%
Operating expenses	3,465,210	3,266,308	8,146,807	198,902	6%
Operating income (loss)	(315,968)	(1,359,602)	5,892,980	1,043,634	-77%
Non-operating revenue	141,015	125,103	85,964	15,912	13%
Changes in net position	\$ (174,953)	\$ (1,234,499)	\$ 5,978,944	\$ 1,059,546	-86%

The original, primary revenue source for IOLTA is participant income. Participant income in 2018 increased by 65.9% compared to 2017. Participant income in 2017 decreased by 2.9% compared to 2016. In the current year, IOLTA pursued comparability studies to seek out higher interest rates at current banks. The changes can also be attributed to favorable market conditions which influence interest rates and larger average balances held in IOLTA accounts.

In 2018 Cy Pres funds were \$2,400, while in 2017 and 2016, IOLTA received \$1,500 and \$96,000, respectively, from Cy Pres Awards.

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:

	2018	2017	2016	Current Year Amount Change	Current Year % Change
IOLTA Funds	\$ 1,934,500	\$ 1,669,990	\$ 1,637,640	\$ 264,510	16%
BofA Funds	1,174,600	1,251,500	6,155,228	(76,900)	-6%
Grant awards	\$ 3,109,100	\$ 2,921,490	\$ 7,792,868	\$ 187,610	6%

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

IOLTA received distributions of \$842,972 and \$12,084,737 in 2015 and 2016, respectively from the funds set aside for tax relief according to the terms in the settlement agreement effective August 2014 between the United States and Bank of America Corporation. 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.

The balance in the designated unrestricted net position as of December 31, 2018 was \$1,173,009. The purpose of this designation is so IOLTA will have the ability to maintain grant award levels in times of economic downturn.

Lastly, IOLTA disbursed \$1,105,462 in state funds in 2018. 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 to \$50 for the purposes of 2017 only, 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 additional income thus generated had the desired effect, and the Court was pleased to reinstitute the \$25 annual assessment for the purposes of 2018 and 2019. 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. The program's expenses will be moderated in the next few years as it begins to leverage technology more effectively. In 2019, the CLE program initiated electronic distribution and filing of annual report forms for the state's lawyers. As more and more of the process becomes automated and digital, printing, mailing and data processing costs should decrease.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2018

Affecting the Board of Legal Specialization:

The Legal Specialization program is financially self-sufficient with revenues that have generally exceeded expenses 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 several years to come. Expenses in 2019 for technology will increase as the program seeks a software solution to an antiquated database but, once installed and customized, the database will improve and simplify the processing of applications, resulting in greater efficiency and savings. The expense for the database software will be shared with the Paralegal Certification program.

Affecting the Board of Paralegal Certification:

The Paralegal Certification program is financially viable. Not only does its income routinely exceed its expenses, it also maintains a large cash reserve that was created in the program's early days when a tremendous number of paralegals took advantage of a procedure that allowed for initial certification without the necessity of passing an examination. As of March 2019, there are approximately 4,000 certified paralegals (CPs). Although the program averages 250 to 300 applications for certification each year, attrition among existing CPs usually offsets new certifications. Nevertheless, if the pool of CPs holds steady at 4,000, the program should have no difficulty remaining financially self-sufficient. Together with the Legal Specialization program, expenses in 2019 for technology will increase as the program seeks a software solution to an antiquated database but, once installed and customized, the database will improve and simplify the processing of applications, resulting in greater efficiency and savings.

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, 2018 and 2017, 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 North Carolina State Bar as of December 31, 2018 and 2017, 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, 2018 and 2017, 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 – 8, 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 26, 2019

NORTH CAROLINA STATE BAR
Statements of Net Position
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 13,235,319	\$ 11,859,283
Restricted cash, current portion	2,730,308	3,848,360
Receivables from related entities	-	26,691
Fees receivable, net	364,006	475,691
Other receivables	15,294	55,383
Interest receivable	426,347	216,852
Prepaid expenses	79,660	32,251
Total current assets	<u>16,850,934</u>	<u>16,514,511</u>
Capital assets, net	<u>14,676,595</u>	<u>15,471,698</u>
Noncurrent assets:		
Restricted cash, noncurrent portion	<u>4,130,212</u>	<u>6,129,249</u>
Total assets	<u>35,657,741</u>	<u>38,115,458</u>
LIABILITIES:		
Current liabilities:		
Current portion of long-term debt	501,188	484,230
Accounts payable	86,014	35,782
Other accrued expenses	176,414	140,717
Payable as Agent for the State	345,891	338,442
Accrued vacation	231,198	216,818
Pension contribution payable	574,143	554,159
Amounts held for escheatment	542,202	582,162
Grants approved and unpaid	3,896,665	4,597,745
Claims payable	10,471	27,906
Unearned revenue	4,529,540	4,625,676
Total current liabilities	<u>10,893,726</u>	<u>11,603,637</u>
Noncurrent liabilities:		
Grants approved and unpaid	-	844,215
Long-term debt	9,199,750	9,701,118
Total noncurrent liabilities	<u>9,199,750</u>	<u>10,545,333</u>
Total liabilities	<u>20,093,476</u>	<u>22,148,970</u>
NET POSITION:		
Net investment in capital assets	4,975,657	5,286,350
Restricted	4,035,501	5,182,831
Unrestricted	6,553,107	5,497,307
Total net position	<u>\$ 15,564,265</u>	<u>\$ 15,966,488</u>

NORTH CAROLINA STATE BAR
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating revenues:		
Membership fees	\$ 8,586,298	\$ 8,449,799
Assessments	718,685	1,406,731
Reimbursements of claim awards	154,550	312,246
Sponsor and attendee fees	474,217	462,301
Renewal, registration and examination fees	435,625	432,465
Professional corporations	122,670	121,214
Interstate law firms	111,500	99,020
Reinstatement fees	10,625	11,000
Penalty fees	278,187	283,728
EAJC processing fees	93,848	90,713
DHC reimbursable costs and grievance fees	100,696	112,641
Foundation contributions	50,000	48,000
Bar magazine income	38,004	49,120
Interest from participants - IOLTA	3,016,977	1,818,133
Cy pres receipts - IOLTA	2,400	1,500
Settlement agent accounts - IOLTA	64,692	38,510
Professional and administrative services - IOLTA	15,000	29,500
Other	149,696	101,291
Total operating revenues	<u>14,423,670</u>	<u>13,867,912</u>
Operating expenses:		
Salaries and wages	6,359,238	6,104,206
Pension plan contributions	574,892	557,162
Other employee benefits	739,641	718,203
Grant awards - IOLTA	1,934,500	1,669,990
Grants funded from settlement proceeds - IOLTA	1,174,600	1,251,500
Other grant awards	-	1,500
Claim awards	695,995	643,419
Professional fees	241,758	488,530
Council and committee meetings, including officers' travel	544,553	528,057
Publications, postage, and printing	275,917	277,038
Depreciation	851,902	874,296
Equipment rental and maintenance	254,742	214,384
Coordinator fee and expenses	843	5,733
Paralegal journal	15,313	15,720
Travel and automotive	128,950	131,706
Community outreach	22,459	50,933
Exam analysis	24,000	24,500
Test administration	21,484	25,668
Rent expense	28,498	27,804
Disciplinary proceedings	104,019	74,737
Building maintenance and utilities	214,017	190,332
Bank service charges	150,472	212,097
Bad debt expense	113,318	106,388
Other office expense	95,312	102,364
Telephone	34,876	36,602
Insurance and bonds	24,446	37,890
Total operating expenses	<u>14,625,745</u>	<u>14,370,759</u>
Operating loss	<u>(202,075)</u>	<u>(502,847)</u>
Nonoperating revenues (expenses):		
Interest income	142,499	126,432
Interest expense	(342,647)	(374,637)
Net nonoperating expenses	<u>(200,148)</u>	<u>(248,205)</u>
Changes in net position	(402,223)	(751,052)
Net position - beginning of year	15,966,488	16,717,540
Net position - end of year	<u>\$ 15,564,265</u>	<u>\$ 15,966,488</u>

NORTH CAROLINA STATE BAR
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from attorneys for membership fees	\$ 8,512,862	\$ 10,100,675
Cash received from program participants - IOLTA	2,807,482	1,806,074
Cash received from other fees	1,599,265	1,591,928
Cash received from Cy Pres - IOLTA	2,400	1,500
Cash received from settlement agent accounts - IOLTA	64,692	38,510
Cash received from other services - IOLTA	65,173	48,563
Cash received from assessments and reimbursements	877,005	1,708,452
Other cash received	640,515	561,157
Payments for IOLTA grants	(4,646,939)	(3,963,252)
Payments to claimants	(713,430)	(648,157)
Payments to employees for services	(7,639,407)	(7,415,112)
Payments to suppliers of goods and services	(1,417,978)	(1,662,627)
Payments for other operating expenses	(1,151,336)	(1,206,364)
Net cash provided by (used in) operating activities	<u>(999,696)</u>	<u>961,347</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(56,799)	(79,993)
Interest paid	(342,647)	(374,637)
Principal payments on bank borrowings	(484,410)	(468,027)
Net cash used in capital and related financing activities	<u>(883,856)</u>	<u>(922,657)</u>
Cash flows from investing activities:		
Interest received	142,499	126,432
Net cash provided by investing activities	<u>142,499</u>	<u>126,432</u>
Net increase (decrease) in cash and cash equivalents	(1,741,053)	165,122
Cash and cash equivalents - beginning of year	21,836,892	21,671,770
Cash and cash equivalents - end of year	<u>\$ 20,095,839</u>	<u>\$ 21,836,892</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating loss	\$ (202,075)	\$ (502,847)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	851,902	874,296
Changes in assets and liabilities:		
Receivables	(1,853)	190,071
Prepaid expenses	(47,409)	(14,562)
Accounts payable and accrued expenses	64,201	(118,028)
Accrued vacation and pension	34,364	(35,541)
Grants approved and unpaid	(1,545,295)	(1,136,897)
Amount held for escheatment	(39,960)	64,682
Claims payable	(17,435)	(4,738)
Unearned revenue	(96,136)	1,644,911
Total adjustments	<u>(797,621)</u>	<u>1,464,194</u>
Net cash provided by (used in) operating activities	<u>\$ (999,696)</u>	<u>\$ 961,347</u>

NORTH CAROLINA STATE BAR

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The North Carolina State Bar ("State Bar") is comprised of the following North Carolina State Bar programs: 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 15, 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.

Fees Receivable

Fees receivable includes of Bar membership fees and CSF assessments in arrears and late fees assessed thereon. Each active member of the Bar is required to pay annual membership fees to support the Bar plus an assessment to support CSF. In 2018, annual membership fees and assessments were \$300 and \$25, respectively. In 2017, annual membership fees and assessments were \$300 and \$50, respectively. Membership fees 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 also includes 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, council meeting charges and reimbursement of conservator fees.

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 \$5,000 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

Unearned Revenue

Unearned revenue consists of Bar dues received in advance and Paralegal renewal fees received prior to the certification 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 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.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

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

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 Statements 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 \$1,173,009 and \$346,670 of its unrestricted net position at December 31, 2018 and 2017, respectively, to be reserved for future program awards. The designated unrestricted net position may be made available for general operations with the Board's consent.

Revenue Recognition

- Bar revenues are generated primarily from annual membership fees which are recognized when earned.
- 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.

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

Revenue Recognition (Continued)

- 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 charged. The CLE program assessed a total of \$3.50 per credit hour in 2018 and 2017, 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; and \$.25 per credit hour to the Bar as compensation for administering the funds distributed to the commissions.
- Paralegal revenues from renewal fees are recognized when the certification 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 operating revenues are comprised primarily of interest from participant accounts. Interest from participant accounts is recognized as revenue when earned. 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 \$316,589 and \$257,840 in 2018 and 2017, 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 State 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 2018 and 2017, respectively, such cy pres funds in the amount of \$2,400 and \$1,500 were received and included in funds available for 2018 and 2017 grants, respectively.
- 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 2018 and \$50 for 2017. 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.

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

Grant Awards - IOLTA

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

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

Grant awards are recognized as expense in the period of award. The current portion of grants approved but unpaid as of December 31, 2018 is expected to be funded in 2019.

Grant awards subject to matching requirements are recognized upon the grantee's satisfaction of the required match. Grant awards totaling \$20,000 in 2018 met the matching requirements at December 31, 2018, and will be paid in 2019. Grants totaling \$20,000 that were awarded in 2017 met the matching requirements and were recognized in 2017 and were paid in January 2018.

Claim Awards - CSF

Claim awards are recognized upon authorization by the Board of Trustees of the Client Security Fund ("Board"). Included in claims payable at September 30, 2018, are claims approved by the Board during fiscal 2018 and unpaid as of September 30, 2018. Effective March 6, 1997, the North Carolina Supreme Court limited CSF claim awards to \$100,000 per claim.

Income Taxes

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

Use of Estimates

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

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 2 - DEPOSITS AND CREDIT RISK

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

	2018	2017
BB&T, checking account	\$ 1,975,756	\$ 2,676,966
BB&T, money market account	6,651,099	5,674,347
Wells Fargo, checking account	112	112
STIF account (with NC State Treasurer)	2,600,990	1,511,332
First Citizens Bank, money market account	1,996,969	1,996,526
PayPal	10,393	-
	<u>\$13,235,319</u>	<u>\$11,859,283</u>

Custodial credit risk is the risk that the State Bar's deposits may not be returned in the event of a bank failure. 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 \$10.4 million as of December 31, 2018.

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.

NOTE 3 - RESTRICTED CASH

Restricted cash consists of the following at December 31:

	2018	2017
Bar (with First Citizen's Trust fund)	\$ 542,202	\$ 582,162
IOLTA - cash held in agency (with NC State Treasurer)	345,891	338,442
IOLTA - settlement funds (with NC State Treasurer)	5,972,427	9,057,005
	<u>\$ 6,860,520</u>	<u>\$ 9,977,609</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 13 - Restricted Net Position - IOLTA). Settlement proceeds expected to be used in 2019 are classified as current assets. There are no settlement proceeds currently dedicated to years subsequent to 2020.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 4 - AGENCY TRANSACTIONS

In October 2004, IOLTA began receiving and disbursing certain cash awards on behalf of the State of North Carolina. This activity was taken over from the State Bar. These funds are not available for use by IOLTA, but instead are forwarded to the State-designated organizations upon receipt. Funds disbursed by IOLTA acting as an agent of the State are as follows:

	2018	2017
Legal Aid of North Carolina, Inc. (LANC)	\$ 985,588	\$ 1,804,300
Pisgah Legal Services	69,874	117,054
Pisgah Legal Services - Appropriations paid	50,000	100,000
Charlotte Center for Legal Advocacy	-	72,077
	<u>\$ 1,105,462</u>	<u>\$ 2,093,431</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 \$345,891 and \$338,442 at December 31, 2018 and 2017, respectively. Of the \$345,891 held at December 31, 2018, \$273,069 represents funds received from the State related to a portion of court fees that were repealed effective in June 2017 but have since been forwarded to IOLTA after the effective date of the repeal. As of the date of financial statement issuance, IOLTA is in the process of remitting funds back to the State consistent with guidance received from the Attorney General.

In June 2018, the State appropriated \$100,000 for Pisgah Legal Services. These funds were received by IOLTA in January 2019 and are expected to be paid out in 2019.

NOTE 5 - FEES RECEIVABLE

Fees receivable consist of the following at December 31:

	2018	2017
Bar membership fees	\$ 34,256	\$ 51,305
CSF assessments	3,930	7,700
	38,186	59,005
Less: Allowance for doubtful accounts	(21,780)	(21,780)
	<u>16,406</u>	<u>37,225</u>
Bar fees from CLE processing	34,698	32,844
Bar DHC fees	367,737	366,204
Less: Allowance for doubtful accounts - DHC fees	(205,429)	(109,804)
	<u>162,308</u>	<u>256,400</u>
CLE fees	165,594	164,222
Less: Allowance for doubtful accounts	(15,000)	(15,000)
	<u>150,594</u>	<u>149,222</u>
Total fees receivable, net	<u>\$ 364,006</u>	<u>\$ 475,691</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 6 - CLE ASSESSMENTS

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

	2018	2017
Chief Justice's Commission on Professionalism	\$ 374,549	\$ 377,526
North Carolina Equal Access to Justice Commission	374,549	375,904
North Carolina State Bar	93,604	94,869
	<u>\$ 842,702</u>	<u>\$ 848,299</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 Statements of Revenues, Expenses and Changes in Net Position.

NOTE 7 - CAPITAL ASSETS

Changes in capital assets are as follows for the year ended December 31, 2018:

	Cost 12/31/2017	Additions	Retirements	Cost 12/31/2018
Building costs	\$17,216,773	\$ -	\$ -	\$17,216,773
Computer equipment and software	808,885	32,422	-	841,307
Artwork	400,865	-	-	400,865
Furniture and office equipment	1,562,587	24,377	(3,824)	1,583,140
Automobile	37,431	-	(18,024)	19,407
Total cost	<u>20,026,541</u>	<u>56,799</u>	<u>(21,848)</u>	<u>20,061,492</u>
Less accumulated depreciation:				
Building costs	(2,867,253)	(590,493)	-	(3,457,746)
Computer equipment and software	(694,711)	(51,012)	-	(745,723)
Furniture and office equipment	(957,712)	(208,133)	3,824	(1,162,021)
Automobile	(35,167)	(2,264)	18,024	(19,407)
Total depreciation	<u>(4,554,843)</u>	<u>(851,902)</u>	<u>21,848</u>	<u>(5,384,897)</u>
Total capital assets, net	<u>\$15,471,698</u>	<u>\$ (795,103)</u>	<u>\$ -</u>	<u>\$14,676,595</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 7 - CAPITAL ASSETS (Continued)

Changes in capital assets are as follows for the year ended December 31, 2017:

	Cost 12/31/2016	Additions	Retirements	Cost 12/31/2017
Building costs	\$17,216,773	\$ -	\$ -	\$17,216,773
Computer equipment and software	1,705,529	72,493	(969,137)	808,885
Artwork	393,365	7,500	-	400,865
Furniture and office equipment	1,604,154	-	(41,567)	1,562,587
Automobiles	37,431	-	-	37,431
Total cost	<u>20,957,252</u>	<u>79,993</u>	<u>(1,010,704)</u>	<u>20,026,541</u>
Less accumulated depreciation:				
Building costs	(2,258,221)	(609,032)	-	(2,867,253)
Computer equipment and software	(1,617,205)	(56,037)	978,531	(694,711)
Furniture and office equipment	(784,541)	(205,344)	32,173	(957,712)
Automobiles	(31,284)	(3,883)	-	(35,167)
	<u>(4,691,251)</u>	<u>(874,296)</u>	<u>1,010,704</u>	<u>(4,554,843)</u>
Total capital assets, net	<u>\$16,266,001</u>	<u>\$ (794,303)</u>	<u>\$ -</u>	<u>\$15,471,698</u>

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2018:

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.

\$ 9,700,938

Less current portion (501,188)
Long-term debt \$ 9,199,750

Principal maturities and interest payments of long-term debt are as follows at December 31, 2018:

	Principal	Interest
2019	\$ 501,188	\$ 326,531
2020	517,901	309,860
2021	8,681,849	290,838
	<u>\$ 9,700,938</u>	<u>\$ 927,229</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 8 - LONG-TERM DEBT (Continued)

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, 2018, the State Bar had approximately \$1,700,000 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, 2018 or subsequent thereto.

NOTE 9 - CHANGE IN LONG-TERM LIABILITIES AND ACCRUED VACATION

The change in long-term liabilities is as follows at December 31, 2018 and 2017:

	Balance 12/31/2017	Increases	Decreases	Balance 12/31/2018	Current Portion of Balance
Grants approved and unpaid	\$ 5,441,960	\$ -	\$ (1,545,295)	\$ 3,896,665	\$ 3,896,665
Note payable	\$ 10,185,348	\$ -	\$ (484,410)	\$ 9,700,938	\$ 501,188

	Balance 12/31/2016	Increases	Decreases	Balance 12/31/2017	Current Portion of Balance
Grants approved and unpaid	\$ 6,578,857	\$ 2,921,490	\$ (4,058,387)	\$ 5,441,960	\$ 4,597,745
Note payable	\$ 10,653,375	\$ -	\$ (468,027)	\$ 10,185,348	\$ 484,230

The changes in accrued vacation are as follows at December 31:

	2018	2017
Beginning balance	\$ 216,818	\$ 240,261
Increases	430,056	422,320
Decreases	(415,676)	(445,763)
Ending balance	\$ 231,198	\$ 216,818

NOTE 10 - PENSION PLAN

Employees who have completed a year of service and attained age eighteen are eligible to participate in the State Bar's money purchase pension plan ("the Plan"). Participants who have completed a year of service during the Plan year (at least 1,000 hours of service during the Plan year) are eligible to share in the allocation of contributions and forfeitures for that Plan year. On behalf of each participant eligible to share in allocations, the State Bar contributes 10% of such participant's annual compensation to the Plan. Pension costs under the Plan totaled \$574,892 and \$557,162 in 2018 and 2017, respectively.

During the year ended December 31, 2018, the State Bar used \$13,738 of pension forfeitures to offset pension contributions. There were no forfeitures in 2017.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 11 - 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 \$719,380 and \$735,437 in 2018 and 2017, respectively, are reported in the accompanying Statements of Revenues, Expenses and Changes in Net Position by natural category. The majority of program expenses pertain to salaries and benefits. Program expenses also include travel, computer support, and other administrative costs.

NOTE 12 - LEASES

Lessee

Facilities

The Bar leases facilities for its Lawyers' Assistance Program in Charlotte, North Carolina. The lease agreement was renewed for one additional term of three years beginning July 1, 2018. The renewed lease agreement expires July 1, 2021. 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 \$28,498 and \$27,804 for 2018 and 2017, respectively.

Equipment

The Bar leases office equipment under operating leases with varying expirations through 2022. Lease expense for office equipment was approximately \$21,000 and \$23,000 for 2018 and 2017, respectively.

The minimum lease payments required under operating leases having an initial term of more than one year are as follows at December 31, 2018:

2019	\$ 47,233
2020	48,113
2021	29,144
2022	3,735
2023	-
	<u>\$ 128,225</u>

NOTE 13 - RESTRICTED NET POSITION - IOLTA

IOLTA received \$12,084,737 and \$842,972 in 2016 and 2015, respectively, in accordance with the terms in a settlement agreement ("Settlement Agreement") 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. No portion of the surplus distribution may be used for any other purpose, including for its general overhead expenses. Unspent funds of \$3,998,001 and \$5,172,601 were included in IOLTA's restricted net position as of December 31, 2018 and 2017, respectively. Grants funded from settlement proceeds and released from restriction totaled \$1,174,600 and \$1,251,500 in 2018 and 2017, respectively.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 13 - RESTRICTED NET POSITION - IOLTA (Continued)

In 2018, IOLTA received \$50,000 in accordance with the terms of a grant related to disaster legal services, of which \$12,500 was spent in accordance with the grant terms during 2018. The remaining unspent funds of \$37,500 related to this grant are included in restricted net position at December 31, 2018. In February 2017, IOLTA received \$12,000 in accordance with the terms of a leadership grant related to research and awareness about the role of civil legal aid. The remaining unspent funds related to this grant of \$10,230 were included in restricted net position at December 31, 2017 and were spent and released from restriction in 2018.

NOTE 14 - INTER-PROGRAM TRANSACTIONS

The State Bar's programs entered into the following transactions which have been eliminated in the accompanying Statements 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 at year end. The Bar recognized related support from CLE in 2018 of \$211,076 of which \$7,944 was received in 2019. The Bar recognized support from CLE in 2017 of \$250,610 of which \$39,248 was received in 2018.

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, 2018:

	Overhead	Computer	Copying	Total
CLE	\$ 37,540	\$ 18,080	\$ 1,609	\$ 57,229
Legal Specialization	16,630	-	1,363	17,993
Paralegal	16,626	6,020	904	23,550
IOLTA	-	-	316	316
CSF	17,564	-	333	17,897
Total	<u>\$ 88,360</u>	<u>\$ 24,100</u>	<u>\$ 4,525</u>	<u>\$ 116,985</u>

These charges are as follows for the year ended December 31, 2017:

	Overhead	Computer	Copying	Total
CLE	\$ 36,800	\$ 17,724	\$ 1,589	\$ 56,113
Legal Specialization	16,300	-	1,835	18,135
Paralegal	16,300	5,905	928	23,133
IOLTA	-	-	311	311
CSF	17,220	-	1,124	18,344
Total	<u>\$ 86,620</u>	<u>\$ 23,629</u>	<u>\$ 5,787</u>	<u>\$ 116,036</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 14 - INTER-PROGRAM TRANSACTIONS (Continued)

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 2018 and 2017 totaled \$28,970 and \$28,335, respectively.

Other Accrued Expenses

Included in other accrued expenses in the accompanying Statement of Net Position at December 31, 2018 are amounts payable to CSF totaling \$11,925. This amount is not eliminated since CSF has a year end of September 30.

NOTE 15 - 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). CLE had accounts payable to CJCP and EAJC of \$6,390 and \$6,149, respectively, at December 31, 2018. 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 2018 and 2017 of \$50,000 and \$48,000, respectively, to cover certain building-related costs.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 16 - COMMITMENTS AND CONTINGENCIES

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 \$96,000 and \$316,000 during 2018 and 2017, 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.

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 17 - 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 18 - SUBSEQUENT EVENTS

Management of the State Bar evaluated subsequent events through April 26, 2019 which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

The audit was conducted in approximately 415 hours at a cost of \$56,000.

SUPPLEMENTARY INFORMATION



Bernard Robinson & Company, L.L.P.

**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, 2018 and 2017, and have issued our report thereon dated April 26, 2019, 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, 2018 and 2017 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, L.L.P.

Raleigh, North Carolina
April 26, 2019

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2018

ASSETS:

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Current assets:				
Cash and cash equivalents	\$ 8,134,482	\$ 222,170	\$ 158,430	\$ 406,749
Restricted cash, current portion	542,202	-	-	-
Receivables from related entities	10,362	-	-	-
Fees receivable, net	212,332	150,594	-	-
Other receivables	15,294	-	-	-
Interest receivable	-	-	-	-
Prepaid expenses	79,660	-	-	-
Total current assets	8,994,332	372,764	158,430	406,749
Capital assets:				
Property and equipment	19,758,983	142,382	60,609	27,003
Less accumulated depreciation	(5,084,328)	(141,710)	(60,166)	(26,178)
Total capital assets	14,674,655	672	443	825
Noncurrent assets:				
Restricted cash, noncurrent portion	-	-	-	-
Total assets	23,668,987	373,436	158,873	407,574

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	501,188	-	-	-
Accounts payable	70,387	14,267	-	-
Other accrued expenses	176,414	-	-	-
Payable to the Bar	-	7,944	-	-
Payable as Agent for the State	-	-	-	-
Accrued vacation	198,884	12,613	3,822	4,783
Pension contribution payable	494,278	25,757	8,216	11,071
Amounts held for escheatment	542,202	-	-	-
Grants approved but unpaid	-	-	-	-
Claims payable	-	-	-	-
Unearned revenue	4,501,315	-	-	28,225
Total current liabilities	6,484,668	60,581	12,038	44,079
Noncurrent liabilities:				
Long-term debt	9,199,750	-	-	-
Total noncurrent liabilities	9,199,750	-	-	-
Total liabilities	15,684,418	60,581	12,038	44,079

NET POSITION:

Net investment in capital assets	4,973,717	672	443	825
Restricted	-	-	-	-
Unrestricted	3,010,852	312,183	146,392	362,670
Total net position	\$ 7,984,569	\$ 312,855	\$ 146,835	\$ 363,495

Continued on next page

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2018

ASSETS:

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Current assets:				
Cash and cash equivalents	\$ 2,881,365	\$ 1,432,123	\$ -	\$ 13,235,319
Restricted cash, current portion	2,188,106	-	-	2,730,308
Receivables from related entities	-	-	(10,362)	-
Fees receivable, net	-	1,080	-	364,006
Other receivables	-	-	-	15,294
Interest receivable	426,347	-	-	426,347
Prepaid expenses	-	-	-	79,660
Total current assets	<u>5,495,818</u>	<u>1,433,203</u>	<u>(10,362)</u>	<u>16,850,934</u>
Capital assets:				
Property and equipment	21,630	50,886	-	20,061,493
Less accumulated depreciation	(21,630)	(50,886)	-	(5,384,898)
Total capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,676,595</u>
Noncurrent assets:				
Restricted cash, noncurrent portion	4,130,212	-	-	4,130,212
Total assets	<u>9,626,030</u>	<u>1,433,203</u>	<u>(10,362)</u>	<u>35,657,741</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	-	-	-	501,188
Accounts payable	1,360	-	-	86,014
Other accrued expenses	-	-	-	176,414
Payable to the Bar	2,418	-	(10,362)	-
Payable as Agent for the State	345,891	-	-	345,891
Accrued vacation	4,967	6,129	-	231,198
Pension contribution payable	20,181	14,640	-	574,143
Amounts held for escheatment	-	-	-	542,202
Grants approved but unpaid	3,896,665	-	-	3,896,665
Claims payable	-	10,471	-	10,471
Unearned revenue	-	-	-	4,529,540
Total current liabilities	<u>4,271,482</u>	<u>31,240</u>	<u>(10,362)</u>	<u>10,893,726</u>
Noncurrent liabilities:				
Long-term debt	-	-	-	9,199,750
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,199,750</u>
Total liabilities	<u>4,271,482</u>	<u>31,240</u>	<u>(10,362)</u>	<u>20,093,476</u>

NET POSITION:

Net investment in capital assets	-	-	-	4,975,657
Restricted	4,035,501	-	-	4,035,501
Unrestricted	1,319,047	1,401,963	-	6,553,107
Total net position	<u>\$ 5,354,548</u>	<u>\$ 1,401,963</u>	<u>\$ -</u>	<u>\$ 15,564,265</u>

NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2018

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Operating revenues:				
Membership fees	\$ 8,586,298	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Reimbursements of claim awards	-	-	-	-
Sponsor and attendee fees	-	474,217	-	-
Renewal, registration and examination fees	-	-	194,350	241,275
Professional corporations	122,670	-	-	-
Interstate law firms	111,500	-	-	-
Reinstatement fees	10,625	-	-	-
Penalty fees	37,655	230,602	1,250	8,680
EAJC processing fees	93,848	-	-	-
DHC reimbursable costs and grievance fees	100,696	-	-	-
Foundation contributions	50,000	-	-	-
Support from Continuing Legal Education	211,076	-	-	-
Bar magazine income	38,004	-	-	-
State Bar overhead and computer usage and copier charges	116,985	-	-	-
Rental income	28,970	-	-	-
Other	58,416	-	-	-
Interest from participants - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	-	-	-	-
Settlement agent accounts - IOLTA	-	-	-	-
Professional and administrative services - IOLTA	-	-	-	-
Total operating revenues	<u>9,566,743</u>	<u>704,819</u>	<u>195,600</u>	<u>249,955</u>
Operating expenses:				
Salaries and wages	5,495,652	280,862	86,489	119,056
Pension plan contributions	494,941	25,757	8,216	11,071
Other employee benefits	623,071	37,313	13,615	20,007
Grant awards - IOLTA	-	-	-	-
Grants funded from settlement proceeds - IOLTA	-	-	-	-
Other grant awards	-	-	-	-
Claim awards	-	-	-	-
Professional fees	208,482	5,682	3,740	3,840
Council and committee meetings	493,554	6,756	17,354	6,302
Publications, postage, and printing	222,810	39,259	5,789	6,929
Depreciation	842,854	3,060	3,059	2,929
Equipment rental and maintenance	238,114	-	-	-
LAP support provided by CLE	-	211,076	-	-
State Bar overhead, computer usage and copier charges	-	57,229	17,993	23,550
Coordinator fee and expenses	-	-	-	-
Paralegal journal	-	-	-	15,313
Travel and automotive	117,862	1,854	1,487	-
Community outreach	-	-	22,459	-
Exam analysis	-	-	6,000	18,000
Test administration	-	-	6,830	14,654
Rent expense	28,498	14,690	2,940	2,940
Disciplinary proceedings	103,234	-	-	-
Building maintenance and utilities	214,017	-	-	-
Bank service charges	138,686	11,786	-	-
Bad debt expense	113,318	-	-	-
Other office expense	52,279	9,047	7,614	3,244
Telephone	32,169	1,441	405	449
Insurance and bonds	18,002	2,822	908	908
Total operating expenses	<u>9,437,543</u>	<u>708,634</u>	<u>204,898</u>	<u>249,192</u>
Operating income (loss)	<u>129,200</u>	<u>(3,815)</u>	<u>(9,298)</u>	<u>763</u>
Nonoperating revenues (expenses):				
Interest income	1,373	-	-	-
Interest expense	(342,647)	-	-	-
Total nonoperating revenues (expenses)	<u>(341,274)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	(212,074)	(3,815)	(9,298)	763
Net position - beginning of year	<u>8,196,643</u>	<u>316,670</u>	<u>156,133</u>	<u>362,732</u>
Net position - end of year	<u>\$ 7,984,569</u>	<u>\$ 312,855</u>	<u>\$ 146,835</u>	<u>\$ 363,495</u>

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NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2018

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Operating revenues:				
Membership fees	\$ -	\$ -	\$ -	\$ 8,586,298
Assessments	-	718,685	-	718,685
Reimbursements of claim awards	-	154,550	-	154,550
Sponsor and attendee fees	-	-	-	474,217
Renewal, registration and examination fees	-	-	-	435,625
Professional corporations	-	-	-	122,670
Interstate law firms	-	-	-	111,500
Reinstatement fees	-	-	-	10,625
Penalty fees	-	-	-	278,187
EAJC processing fees	-	-	-	93,848
DHC reimbursable costs and grievance fees	-	-	-	100,696
Foundation contributions	-	-	-	50,000
Support from Continuing Legal Education	-	-	(211,076)	-
Bar magazine income	-	-	-	38,004
State Bar overhead and computer usage and copier charges	-	-	(116,985)	-
Rental income	-	-	(28,970)	-
Other	50,173	41,107	-	149,696
Interest from participants - IOLTA	3,016,977	-	-	3,016,977
Cy pres receipts - IOLTA	2,400	-	-	2,400
Settlement agent accounts - IOLTA	64,692	-	-	64,692
Professional and administrative services - IOLTA	15,000	-	-	15,000
Total operating revenues	3,149,242	914,342	(357,031)	14,423,670
Operating expenses:				
Salaries and wages	216,307	160,872	-	6,359,238
Pension plan contributions	20,180	14,727	-	574,892
Other employee benefits	39,649	5,986	-	739,641
Grant awards - IOLTA	1,934,500	-	-	1,934,500
Grants funded from settlement proceeds - IOLTA	1,174,600	-	-	1,174,600
Other grant awards	-	-	-	-
Claim awards	-	695,995	-	695,995
Professional fees	15,200	4,814	-	241,758
Council and committee meetings	8,885	11,702	-	544,553
Publications, postage, and printing	-	1,130	-	275,917
Depreciation	-	-	-	851,902
Equipment rental and maintenance	16,628	-	-	254,742
LAP support provided by CLE	-	-	(211,076)	-
State Bar overhead, computer usage and copier charges	316	17,897	(116,985)	-
Coordinator fee and expenses	-	843	-	843
Paralegal journal	-	-	-	15,313
Travel and automotive	7,747	-	-	128,950
Community outreach	-	-	-	22,459
Exam analysis	-	-	-	24,000
Test administration	-	-	-	21,484
Rent expense	8,400	-	(28,970)	28,498
Disciplinary proceedings	-	785	-	104,019
Building maintenance and utilities	-	-	-	214,017
Bank service charges	-	-	-	150,472
Bad debt expense	-	-	-	113,318
Other office expense	22,560	568	-	95,312
Telephone	238	174	-	34,876
Insurance and bonds	-	1,806	-	24,446
Total operating expenses	3,465,210	917,299	(357,031)	14,625,745
Operating income (loss)	(315,968)	(2,957)	-	(202,075)
Nonoperating revenues (expenses):				
Interest income	141,015	111	-	142,499
Interest expense	-	-	-	(342,647)
Total nonoperating revenues (expenses)	141,015	111	-	(200,148)
Changes in net position	(174,953)	(2,846)	-	(402,223)
Net position - beginning of year	5,529,501	1,404,809	-	15,966,488
Net position - end of year	\$ 5,354,548	\$ 1,401,963	\$ -	\$ 15,564,265

See Independent Auditor's Report on the Supplementary Information

NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2018

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Cash flows from operating activities:				
Cash received from attorneys for membership fees	\$ 8,512,862	\$ -	\$ -	\$ -
Cash received from program participants - IOLTA	-	-	-	-
Cash received from other fees	472,963	703,447	195,600	227,255
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	599,408	-	-	-
Payments for IOLTA grants	-	-	-	-
Payments to claimants	-	-	-	-
Payments to employees for services	(6,582,393)	(341,591)	(108,436)	(149,248)
Payments to suppliers of goods and services	(1,169,751)	(70,611)	(25,286)	(66,277)
Payments for other operating expenses	(714,650)	(308,323)	(68,233)	(29,852)
Net cash provided by (used in) operating activities	<u>1,118,439</u>	<u>(17,078)</u>	<u>(6,355)</u>	<u>(18,122)</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(56,799)	-	-	-
Interest paid	(342,647)	-	-	-
Principal payments on bank borrowings	(484,410)	-	-	-
Net cash used in capital and related financing activities	<u>(883,856)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	1,373	-	-	-
Net cash provided by investing activities	<u>1,373</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	235,956	(17,078)	(6,355)	(18,122)
Cash and cash equivalents - beginning of year	<u>8,440,728</u>	<u>239,248</u>	<u>164,785</u>	<u>424,871</u>
Cash and cash equivalents - end of year	<u>\$ 8,676,684</u>	<u>\$ 222,170</u>	<u>\$ 158,430</u>	<u>\$ 406,749</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 129,200	\$ (3,815)	\$ (9,298)	\$ 763
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	842,854	3,060	3,059	2,929
Changes in assets and liabilities:				
Receivables	205,244	(1,372)	-	-
Prepaid expenses	(48,989)	-	-	-
Accounts payable and accrued expenses	72,255	(17,292)	-	-
Accrued vacation and pension	31,271	2,341	(116)	886
Grants approved and unpaid	-	-	-	-
Amount held for escheatment	(39,960)	-	-	-
Claims payable	-	-	-	-
Unearned revenue	(73,436)	-	-	(22,700)
Total adjustments	<u>989,239</u>	<u>(13,263)</u>	<u>2,943</u>	<u>(18,885)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,118,439</u>	<u>\$ (17,078)</u>	<u>\$ (6,355)</u>	<u>\$ (18,122)</u>

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NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2018

	IOLTA	Client Security Fund	Total State Bar
Cash flows from operating activities:			
Cash received from attorneys for membership fees	\$ -	\$ -	\$ 8,512,862
Cash received from program participants - IOLTA	2,807,482	-	2,807,482
Cash received from other fees	-	-	1,599,265
Cash received from settlement proceeds - IOLTA	-	-	-
Cash received from Cy Pres - IOLTA	2,400	-	2,400
Cash received from settlement agent accounts - IOLTA	64,692	-	64,692
Cash received from other services - IOLTA	65,173	-	65,173
Cash received from assessments and reimbursements	-	877,005	877,005
Other cash received	-	41,107	640,515
Payments for IOLTA grants	(4,646,939)	-	(4,646,939)
Payments to claimants	-	(713,430)	(713,430)
Payments to employees for services	(276,176)	(181,563)	(7,639,407)
Payments to suppliers of goods and services	(59,664)	(26,389)	(1,417,978)
Payments for other operating expenses	(16,948)	(13,330)	(1,151,336)
Net cash provided by (used in) operating activities	<u>(2,059,980)</u>	<u>(16,600)</u>	<u>(999,696)</u>
Cash flows from capital and related financing activities:			
Purchases of property and equipment	-	-	(56,799)
Interest paid	-	-	(342,647)
Principal payments on bank borrowings	-	-	(484,410)
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>(883,856)</u>
Cash flows from investing activities:			
Interest received	141,015	111	142,499
Net cash provided by investing activities	<u>141,015</u>	<u>111</u>	<u>142,499</u>
Net increase (decrease) in cash and cash equivalents	(1,918,965)	(16,489)	(1,741,053)
Cash and cash equivalents - beginning of year	11,118,648	1,448,612	21,836,892
Cash and cash equivalents - end of year	<u>\$ 9,199,683</u>	<u>\$ 1,432,123</u>	<u>\$ 20,095,839</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	<u>\$ (315,968)</u>	<u>\$ (2,957)</u>	<u>\$ (202,075)</u>
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	-	-	851,902
Changes in assets and liabilities:			
Receivables	(209,495)	3,770	(1,853)
Prepaid expenses	1,580	-	(47,409)
Accounts payable and accrued expenses	9,238	-	64,201
Accrued vacation and pension	(40)	22	34,364
Grants approved and unpaid	(1,545,295)	-	(1,545,295)
Amount held for escheatment	-	-	(39,960)
Claims payable	-	(17,435)	(17,435)
Unearned revenue	-	-	(96,136)
Total adjustments	<u>(1,744,012)</u>	<u>(13,643)</u>	<u>(797,621)</u>
Net cash provided by (used in) operating activities	<u>\$ (2,059,980)</u>	<u>\$ (16,600)</u>	<u>\$ (999,696)</u>

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2017

ASSETS:

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Current assets:				
Cash and cash equivalents	\$ 7,858,566	\$ 239,248	\$ 164,785	\$ 424,871
Restricted cash, current portion	582,162	-	-	-
Receivables from related entities	66,230	-	-	-
Fees receivable, net	321,619	149,222	-	-
Other receivables	55,383	-	-	-
Interest receivable	-	-	-	-
Prepaid expenses	30,671	-	-	-
Total current assets	8,914,631	388,470	164,785	424,871
Capital assets:				
Property and equipment	19,724,032	142,381	60,609	27,003
Less accumulated depreciation	(4,263,322)	(138,649)	(57,107)	(23,249)
Total capital assets	15,460,710	3,732	3,502	3,754
Noncurrent assets:				
Restricted cash, noncurrent portion	-	-	-	-
Total assets	24,375,341	392,202	168,287	428,625

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	484,230	-	-	-
Accounts payable	33,829	151	-	-
Other accrued expenses	140,717	-	-	-
Payable to the Bar	-	39,352	-	-
Payable as Agent for the State	-	-	-	-
Accrued vacation	187,840	10,830	3,959	3,985
Pension contribution payable	474,051	25,199	8,195	10,983
Amounts held for escheatment	582,162	-	-	-
Grants approved but unpaid	-	-	-	-
Claims payable	-	-	-	-
Unearned revenue	4,574,751	-	-	50,925
Total current liabilities	6,477,580	75,532	12,154	65,893
Noncurrent liabilities:				
Grants approved but unpaid	-	-	-	-
Long-term debt	9,701,118	-	-	-
Total noncurrent liabilities	9,701,118	-	-	-
Total liabilities	16,178,698	75,532	12,154	65,893

NET POSITION:

Net investment in capital assets	5,275,362	3,732	3,502	3,754
Restricted	-	-	-	-
Unrestricted	2,921,281	312,938	152,631	358,978
Total net position	\$ 8,196,643	\$ 316,670	\$ 156,133	\$ 362,732

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NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2017

ASSETS:

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Current assets:				
Cash and cash equivalents	\$ 1,723,201	\$ 1,448,612	\$ -	\$ 11,859,283
Restricted cash, current portion	3,266,198	-	-	3,848,360
Receivables from related entities	-	-	(39,539)	26,691
Fees receivable, net	-	4,850	-	475,691
Other receivables	-	-	-	55,383
Interest receivable	216,852	-	-	216,852
Prepaid expenses	1,580	-	-	32,251
Total current assets	5,207,831	1,453,462	(39,539)	16,514,511
Capital assets:				
Property and equipment	21,630	50,886	-	20,026,541
Less accumulated depreciation	(21,630)	(50,886)	-	(4,554,843)
Total capital assets	-	-	-	15,471,698
Noncurrent assets:				
Restricted cash, noncurrent portion	6,129,249	-	-	6,129,249
Total assets	11,337,080	1,453,462	(39,539)	38,115,458

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	-	-	-	484,230
Accounts payable	1,802	-	-	35,782
Other accrued expenses	-	-	-	140,717
Payable to the Bar	187	-	(39,539)	-
Payable as Agent for the State	338,442	-	-	338,442
Accrued vacation	4,075	6,129	-	216,818
Pension contribution payable	21,113	14,618	-	554,159
Amounts held for escheatment	-	-	-	582,162
Grants approved but unpaid	4,597,745	-	-	4,597,745
Claims payable	-	27,906	-	27,906
Unearned revenue	-	-	-	4,625,676
Total current liabilities	4,963,364	48,653	(39,539)	11,603,637
Noncurrent liabilities:				
Grants approved but unpaid	844,215	-	-	844,215
Long-term debt	-	-	-	9,701,118
Total noncurrent liabilities	844,215	-	-	10,545,333
Total liabilities	5,807,579	48,653	(39,539)	22,148,970

NET POSITION:

Net investment in capital assets	-	-	-	5,286,350
Restricted	5,182,831	-	-	5,182,831
Unrestricted	346,670	1,404,809	-	5,497,307
Total net position	\$ 5,529,501	\$ 1,404,809	\$ -	\$ 15,966,488

NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2017

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Operating revenues:				
Membership fees	\$ 8,449,799	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Reimbursements of claim awards	-	-	-	-
Sponsor and attendee fees	-	462,301	-	-
Renewal, registration and examination fees	-	-	183,500	248,965
Professional corporations	121,214	-	-	-
Interstate law firms	99,020	-	-	-
Reinstatement fees	11,000	-	-	-
Penalty fees	29,205	245,793	1,035	7,695
EAJC processing fees	90,713	-	-	-
DHC reimbursable costs and grievance fees	112,641	-	-	-
Foundation contributions	48,000	-	-	-
Support from Continuing Legal Education	250,610	-	-	-
Bar magazine income	49,120	-	-	-
State Bar overhead and computer usage and copier charges	116,036	-	-	-
Rental income	28,335	-	-	-
Other	75,051	-	-	-
Interest from participants - IOLTA	-	-	-	-
Settlement proceeds - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	-	-	-	-
Settlement agent accounts - IOLTA	-	-	-	-
Professional and administrative services - IOLTA	-	-	-	-
Total operating revenues	9,480,744	708,094	184,535	256,660
Operating expenses:				
Salaries and wages	5,244,948	273,261	87,042	117,569
Pension plan contributions	474,079	25,199	9,436	12,716
Other employee benefits	615,938	37,496	11,416	19,113
Grant awards - IOLTA	-	-	-	-
Grants funded from settlement proceeds - IOLTA	-	-	-	-
Other grant awards	-	-	-	1,500
Claim awards	-	-	-	-
Professional fees	454,300	8,095	3,142	5,742
Council and committee meetings	472,710	4,679	14,580	10,321
Publications, postage, and printing	220,430	39,386	7,662	8,151
Depreciation	859,040	5,661	3,333	2,929
Equipment rental and maintenance	202,144	-	-	-
LAP support provided by CLE	-	250,610	-	-
State Bar overhead, computer usage and copier charges	-	56,113	18,135	23,133
Coordinator fee and expenses	-	-	-	-
Paralegal journal	-	-	-	15,720
Travel and automotive	126,083	2,934	1,422	-
Community outreach	-	-	25,933	25,000
Exam analysis	-	-	6,500	18,000
Test administration	-	-	5,636	20,032
Rent expense	27,804	14,400	2,880	2,880
Disciplinary proceedings	73,750	-	-	-
Building maintenance and utilities	190,332	-	-	-
Bank service charges	202,141	9,956	-	-
Bad debt expense	100,713	-	-	-
Other office expense	78,950	3,741	7,271	1,501
Telephone	34,052	1,492	493	412
Insurance and bonds	29,642	3,540	1,179	1,179
Total operating expenses	9,407,056	736,563	206,060	285,898
Operating income (loss)	73,688	(28,469)	(21,525)	(29,238)
Nonoperating revenues (expenses):				
Interest income	1,192	-	-	-
Interest expense	(374,637)	-	-	-
Total nonoperating revenues (expenses)	(373,445)	-	-	-
Changes in net position	(299,757)	(28,469)	(21,525)	(29,238)
Net position - beginning of year	8,496,400	345,139	177,658	391,970
Net position - end of year	\$ 8,196,643	\$ 316,670	\$ 156,133	\$ 362,732

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NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2017

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Operating revenues:				
Membership fees	\$ -	\$ -	\$ -	\$ 8,449,799
Assessments	-	1,406,731	-	1,406,731
Reimbursements of claim awards	-	312,246	-	312,246
Sponsor and attendee fees	-	-	-	462,301
Renewal, registration and examination fees	-	-	-	432,465
Professional corporations	-	-	-	121,214
Interstate law firms	-	-	-	99,020
Reinstatement fees	-	-	-	11,000
Penalty fees	-	-	-	283,728
EAJC processing fees	-	-	-	90,713
DHC reimbursable costs and grievance fees	-	-	-	112,641
Foundation contributions	-	-	-	48,000
Support from Continuing Legal Education	-	-	(250,610)	-
Bar magazine income	-	-	-	49,120
State Bar overhead and computer usage and copier charges	-	-	(116,036)	-
Rental income	-	-	(28,335)	-
Other	19,063	7,177	-	101,291
Interest from participants - IOLTA	1,818,133	-	-	1,818,133
Settlement proceeds - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	1,500	-	-	1,500
Settlement agent accounts - IOLTA	38,510	-	-	38,510
Professional and administrative services - IOLTA	29,500	-	-	29,500
Total operating revenues	1,906,706	1,726,154	(394,981)	13,867,912
Operating expenses:				
Salaries and wages	224,819	156,567	-	6,104,206
Pension plan contributions	21,114	14,618	-	557,162
Other employee benefits	28,477	5,763	-	718,203
Grant awards - IOLTA	1,669,990	-	-	1,669,990
Grants funded from settlement proceeds - IOLTA	1,251,500	-	-	1,251,500
Other grant awards	-	-	-	1,500
Claim awards	-	643,419	-	643,419
Professional fees	12,350	4,901	-	488,530
Council and committee meetings	17,999	7,768	-	528,057
Publications, postage, and printing	-	1,409	-	277,038
Depreciation	3,333	-	-	874,296
Equipment rental and maintenance	12,240	-	-	214,384
LAP support provided by CLE	-	-	(250,610)	-
State Bar overhead, computer usage and copier charges	311	18,344	(116,036)	-
Coordinator fee and expenses	4,827	906	-	5,733
Paralegal journal	-	-	-	15,720
Travel and automotive	1,267	-	-	131,706
Community outreach	-	-	-	50,933
Exam analysis	-	-	-	24,500
Test administration	-	-	-	25,668
Rent expense	8,175	-	(28,335)	27,804
Disciplinary proceedings	-	987	-	74,737
Building maintenance and utilities	-	-	-	190,332
Bank service charges	-	-	-	212,097
Bad debt expense	-	5,675	-	106,388
Other office expense	9,862	1,039	-	102,364
Telephone	44	109	-	36,602
Insurance and bonds	-	2,350	-	37,890
Total operating expenses	3,266,308	863,855	(394,981)	14,370,759
Operating income (loss)	(1,359,602)	862,299	-	(502,847)
Nonoperating revenues (expenses):				
Interest income	125,103	137	-	126,432
Interest expense	-	-	-	(374,637)
Total nonoperating revenues (expenses)	125,103	137	-	(248,205)
Changes in net position	(1,234,499)	862,436	-	(751,052)
Net position - beginning of year	6,764,000	542,373	-	16,717,540
Net position - end of year	\$ 5,529,501	\$ 1,404,809	\$ -	\$ 15,966,488

See Independent Auditor's Report on the Supplementary Information

NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2017

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Cash flows from operating activities:				
Cash received from attorneys for membership fees	\$ 10,100,675	\$ -	\$ -	\$ -
Cash received from program participants - IOLTA	-	-	-	-
Cash received from other fees	410,865	745,833	184,535	250,695
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	553,980	-	-	-
Payments for IOLTA grants	-	-	-	-
Payments to claimants	-	-	-	-
Payments to employees for services	(6,375,280)	(332,673)	(104,511)	(146,308)
Payments to suppliers of goods and services	(1,394,769)	(98,927)	(25,383)	(73,617)
Payments for other operating expenses	(672,543)	(363,622)	(70,550)	(64,033)
Net cash provided by (used in) operating activities	<u>2,622,928</u>	<u>(49,389)</u>	<u>(15,909)</u>	<u>(33,263)</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(79,993)	-	-	-
Interest paid	(374,637)	-	-	-
Principal payments on bank borrowings	(468,027)	-	-	-
Net cash used in capital and related financing activities	<u>(922,657)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	1,192	-	-	-
Net cash provided by investing activities	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,701,463	(49,389)	(15,909)	(33,263)
Cash and cash equivalents - beginning of year	<u>6,739,265</u>	<u>288,637</u>	<u>180,694</u>	<u>458,134</u>
Cash and cash equivalents - end of year	<u>\$ 8,440,728</u>	<u>\$ 239,248</u>	<u>\$ 164,785</u>	<u>\$ 424,871</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 73,688	\$ (28,469)	\$ (21,525)	\$ (29,238)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	859,040	5,661	3,333	2,929
Changes in assets and liabilities:				
Receivables	34,613	169,117	-	-
Prepaid expenses	(16,320)	1,000	-	-
Accounts payable and accrued expenses	(3,336)	(199,981)	(1,100)	(4,079)
Accrued vacation and pension	(40,315)	3,283	3,383	3,090
Grants approved and unpaid	-	-	-	-
Amount held for escheatment	64,682	-	-	-
Claims payable	-	-	-	-
Unearned revenue	1,650,876	-	-	(5,965)
Total adjustments	<u>2,549,240</u>	<u>(20,920)</u>	<u>5,616</u>	<u>(4,025)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,622,928</u>	<u>\$ (49,389)</u>	<u>\$ (15,909)</u>	<u>\$ (33,263)</u>

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NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2017

	IOLTA	Client Security Fund	Total State Bar
Cash flows from operating activities:			
Cash received from attorneys for membership fees	\$ -	\$ -	\$ 10,100,675
Cash received from program participants - IOLTA	1,806,074	-	1,806,074
Cash received from other fees	-	-	1,591,928
Cash received from settlement proceeds - IOLTA	-	-	-
Cash received from Cy Pres - IOLTA	1,500	-	1,500
Cash received from settlement agent accounts - IOLTA	38,510	-	38,510
Cash received from other services - IOLTA	48,563	-	48,563
Cash received from assessments and reimbursements	-	1,708,452	1,708,452
Other cash received	-	7,177	561,157
Payments for IOLTA grants	(3,963,252)	-	(3,963,252)
Payments to claimants	-	(648,157)	(648,157)
Payments to employees for services	(279,512)	(176,828)	(7,415,112)
Payments to suppliers of goods and services	(41,779)	(28,152)	(1,662,627)
Payments for other operating expenses	(19,577)	(16,039)	(1,206,364)
Net cash provided by (used in) operating activities	(2,409,473)	846,453	961,347
Cash flows from capital and related financing activities:			
Purchases of property and equipment	-	-	(79,993)
Interest paid	-	-	(374,637)
Principal payments on bank borrowings	-	-	(468,027)
Net cash used in capital and related financing activities	-	-	(922,657)
Cash flows from investing activities:			
Interest received	125,103	137	126,432
Net cash provided by investing activities	125,103	137	126,432
Net increase (decrease) in cash and cash equivalents	(2,284,370)	846,590	165,122
Cash and cash equivalents - beginning of year	13,403,018	602,022	21,671,770
Cash and cash equivalents - end of year	\$ 11,118,648	\$ 1,448,612	\$ 21,836,892
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (1,359,602)	\$ 862,299	\$ (502,847)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,333	-	874,296
Changes in assets and liabilities:			
Receivables	(8,809)	(4,850)	190,071
Prepaid expenses	758	-	(14,562)
Accounts payable and accrued expenses	96,846	(6,378)	(118,028)
Accrued vacation and pension	(5,102)	120	(35,541)
Grants approved and unpaid	(1,136,897)	-	(1,136,897)
Amount held for escheatment	-	-	64,682
Claims payable	-	(4,738)	(4,738)
Unearned revenue	-	-	1,644,911
Total adjustments	(1,049,871)	(15,846)	1,464,194
Net cash provided by (used in) operating activities	\$ (2,409,473)	\$ 846,453	\$ 961,347