THE NORTH CAROLINA STATE BAR

Management Discussion and Analysis
Audited Financial Statements

December 31, 2014 and 2013

NORTH CAROLINA
STATE BAR

Office of the Secretary

L. Thomas Lunsford, II
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June 1, 2015

RECEIVED
JUN 02 2015
By

Ms. Beth A. Wood
State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

Re: Independent Audit of the North Carolina State Bar

Dear Ms. Wood:

I am transmitting herewith the audit of the State Bar's financial transactions for calendar year 2014. The audit was prepared by the Raleigh firm of Romeo Wiggins & Company, LLP pursuant to an engagement approved by the State Auditor. Also transmitted are audited financial statements for the State Bar's several boards and agencies: the Board of Legal Specialization, the Client Security Fund Board of Trustees, the IOLTA Board of Trustees, the Board of Continuing Legal Education, the Board of Paralegal Certification, and the Chief Justice's Commission on Professionalism. You will note that the auditor's opinions are all "unqualified." Also included with this transmission is the auditor's management letter and management's official response.

The audited financial statements transmitted herewith were reviewed by the State Bar Council's Finance and Audit Committee and by its Executive Committee on April 22. They were approved by the Council at its regularly scheduled quarterly business meeting on April 23.

Please let me know if you have questions or concerns about the audited financial statements or any aspect of the State Bar's finances.

Thank you very much for your review of this material.

Very truly yours,

L. Thomas Lunsford

L. Thomas Lunsford, II
Executive Director

Enclosure

Cc: Officers of the State Bar
Angela Goodwin
Lisanne Palacios

ROMEO, WIGGINS & COMPANY, L.L.P. *Certified Public Accountants*

RW & Co.

Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

RECEIVED
JUN 02 2015
By

April 16, 2015

To the State Bar Council
The North Carolina State Bar and Related Entities
Raleigh, North Carolina

We have audited the financial statements of The North Carolina State Bar (the Bar) and its six related entities: The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts (IOLTA), The North Carolina State Bar Board of Legal Specialization, The North Carolina State Bar Board of Client Security Fund (Client Security Fund), The North Carolina State Bar Board of Continuing Legal Education, The Chief Justice's Commission on Professionalism, and The North Carolina State Bar Board of Paralegal Certification (Paralegal Certification) for the year ended December 31, 2014 (September 30, 2014 as pertains to Client Security Fund), and have issued (or soon will issue) our reports thereon dated April 16, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audits. We have communicated such information in our letter to you dated July 2, 2014. Professional standards also require that we communicate to you the following information related to our audits.

Our Responsibility under U.S. Generally Accepted Auditing Standards
As stated in our engagement letter dated July 2, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and in accordance with Statewide accounting policies established by the Office of the State Controller. Our audits of the financial statements do not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audits to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audits, we considered the internal control of the Bar and the aforementioned related entities. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Planned Scope and Timing of the Audits
The audits were performed in accordance with the planned scope and timing detailed in our engagement letter, except as pertains to yearend fieldwork which was delayed due to inclement weather. Drafts of the audited financials were posted for the Council's review on April 10, 2015.

Significant Audit Findings
Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Bar and its related entities are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Bar and its related entities during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The primary estimates affecting the financial statements are provisions for potentially uncollectible accounts and depreciation of fixed assets. We evaluated the key factors and assumptions used to develop estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audits
We encountered no difficulties in dealing with management in performing and completing our audits.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all misstatements identified during the audits, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' reports. We are pleased to report that no such disagreements arose during the course of our audits.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Bar or its related entities or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as auditors of the Bar or its related entities. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal control and/or operational matters noted during our audits have been discussed with management and the Finance & Audit Committee and are communicated in a separate letter to the Council and management.

Other Matters
With respect to *management's discussion and analysis,* we applied certain limited procedures to the supplementary information required by the Governmental Accounting Standards Board to accompany the basic financial statements. These procedures 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 audits 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 evidence sufficient to express an opinion or provide any assurance.

This information is intended solely for the use of management, the State Bar Council, and governing Boards of the related entities and is not intended to be, and should not be used by anyone other than these specified parties.

Sincerely,

Romeo, Wiggins & Company, L.L.P.

Romeo, Wiggins & Company, L.L.P.

ROMEO, WIGGINS & COMPANY, L.L.P. *Certified Public Accountants*

Geoffrey B. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

To the State Bar Council and Management
The North Carolina State Bar and Related Entities
Raleigh, North Carolina

In planning and performing our audits of the financial statements of The North Carolina State Bar ("the State Bar") and its six related entities: The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts (IOLTA), The North Carolina State Bar Board of Legal Specialization, The North Carolina State Bar Board of Client Security Fund (Client Security Fund), The North Carolina State Bar Board of Continuing Legal Education, The Chief Justice's Commission on Professionalism, and The North Carolina State Bar Board of Paralegal Certification as of and for the year ended December 31, 2014 (September 30, 2014 as pertains to Client Security Fund), in accordance with auditing standards generally accepted in the United States of America, we considered the State Bar and its related entities' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Bar and its related entities' internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar and its related entities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in The North Carolina State Bar's internal control to be a significant deficiency.

Significant Deficiency
We noted certain differences between general ledger account balances of the State Bar at December 31, 2014, and the supporting detail. We proposed, and management accepted, an adjusting entry to reconcile long-term debt, fixed assets, and interest expense to the supporting detail. We believe this deficiency occurred largely due to increased demands on the accounting department. In recent years, the State Bar has experienced significant growth in membership, constructed a new headquarters building, and obtained long-term bank financing, all of which have resulted in additional demands on accounting personnel. We encourage the Council and management to consider committing additional resources to the accounting department to ensure that accounting personnel have sufficient time to perform their assigned tasks, including cross-checks and supervisory reviews of the accounting records.

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Other Matters
The State Bar accounts for dues on a cash basis throughout the year, adjusting to an accrual basis at year-end as required for reporting under U.S. generally accepted accounting principles (GAAP). "Just in time" reports are run on December 31st of each year summarizing outstanding receivables across various categories of attorney and non-attorney dues. For financial reporting purposes, receivables are recorded net of an allowance of $148,410 at December 31, 2014 and 2013, based on management's estimate of potentially uncollectible accounts. Since the "just in time" reports were unable to provide detail of dues receivable by person and/or year, we supported the reasonableness of receivable balances through substantive revenue procedures.

We understand the State Bar subsequently completed its long-term software re-engineering project that integrates its CLE and membership functions. The new software, which went live on April 1, 2015, has enhanced reporting capabilities that should provide additional detail as to the make-up of receivable balances at December 31, 2015. The State Bar expects to begin taking on-line payments for CLE in 2015 as well. We commend management for their efforts in this regard.

This communication is intended solely for the information and use of management, the State Bar Council, and governing Boards of the related entities and is not intended to be and should not be used by anyone other than these specified parties.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
April 16, 2015

NORTH CAROLINA
STATE BAR

Office of the Secretary

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May 26, 2015

Margaret M. Hunt
Chair of the Finance and Audit Committee
North Carolina State Bar Council
217 East Edenton Street
Raleigh, North Carolina

RECEIVED
JUN 02 2015

Re: 2014 Audit—Response to the Management Letter

Dear Margaret,

As required by our financial policies, I am by means of this correspondence submitting my response to our auditor's management letter concerning the independent audit of the State Bar's financial statements for 2014. I received the management letter, which is dated April 16, 2015, last week. A copy is attached. Its content was, as you will recall, discussed in detail with the Finance and Audit Committee by the auditor at its meeting on April 16, 2015, at which time the annual audit was presented along with the auditor's unqualified opinion as to the integrity and sufficiency of the State Bar's financial statements.

In the management letter, the auditor noted that in order to reconcile long-term debt, fixed assets and interest expense in the general ledger to the supporting detail, it was necessary for an "adjusting entry" to be made. This problem and the auditor's corrective action were said to indicate a "significant deficiency" in our internal controls, which I understand is a reportable concern that does not rise to the level of a "material weakness." Upon investigation, it came to light that the adjusting entry was necessary to correct a misclassification of the undisbursed proceeds from our construction loan with First Citizens Bank. The funds, totaling $148,250, were, in the auditor's opinion, incorrectly shown as an adjusted debt balance to the Bank when that account should have shown a zero balance. This caused interest expense, furniture and fixtures, and depreciation to be correspondingly understated. Of course, no funds were ever missing or unaccounted for; they were simply assigned to the wrong accounts. Since this issue was discovered by the auditor rather than by our accounting staff, the auditor felt compelled to recognize a deficiency in our internal controls. She attributed this shortcoming primarily to the fact that our accounting staff has become somewhat overburdened, noting that significant membership growth in combination with the complexities of accounting for the financing, construction and furnishing of our new building have greatly increased demands upon the accounting department. The auditor recommended, therefore, that consideration be given by management to committing additional resources to the accounting department.

I have since reviewed the situation and am satisfied that the auditor is correct. Accordingly, I have decided to take the following measures, none of which should greatly impact the budget in the current year. I have directed the accounting manager to outsource the preparation of tax returns for the North

Carolina State Bar Foundation, Inc. This will involve relatively little expense to the Foundation but should provide significant relief to our staff. I also intend to outsource the accounting for our fixed assets. I am advised that this service can be purchased quite inexpensively and will greatly unburden the accounting manager. I also intend to hire temporary accounting personnel as needed during the fourth quarter to assist with year-end projects. With a fiscal year that ends on December 31 and a quarterly meeting in mid-January, we are always hard-pressed to close the books, translate the accounts from cash to accrual, prepare the budgets and cash projections, and assist the independent auditors. It is believed that these measures will enable us to cure any lingering "deficiency" in our internal controls for the purposes of 2015.

Finally, I expect to undertake a thorough analysis of our accounting department incident to the formulation of the budget for 2016 in order to determine whether we ought to appropriate funds for additional personnel. At the moment I am inclined to think that we can manage the situation effectively without increasing the permanent staff. I will keep you advised of any relevant developments in the meantime.

Sincerely,

L. Thomas Lunsford

L. Thomas Lunsford, II
Executive Director

LTL/sk

cc: State Bar officers
Angela Goodwin
Lisanne Palacios

Management Discussion and Analysis

Management Discussion and Analysis

This section of the North Carolina State Bar's financial report represents our discussion and analysis of the financial performance of the agency for the years ended December 31, 2014, 2013 and 2012. This information should be read in conjunction with the audited financial statements. This discussion focuses on the North Carolina State Bar only and not on any of the State Bar's affiliated entities.

Financial Highlights

- The State Bar's assets exceeded its liabilities by $8,136,911 (fund equity) for the year ended December 31, 2014. This was a decrease from 2013 when assets exceeded liabilities by $8,179,159, and an increase of $442,120 from 2012 when fund equity was $7,694,791.

- Total liabilities of the State Bar decreased by $605,660 to $15,784,079 during 2014. This decrease, as well as the increases in 2013 and 2012, was directly related to the completion and construction of the new North Carolina State Bar headquarters.

Overview of the Financial Statements

The audited financial statements of the State Bar consist of three components. They are:

- Independent Auditors' Report
- Management Discussion and Analysis (required supplementary information)
- Basic Financial Statements and Disclosures

The State Bar is an agency of the State of North Carolina, a part of the State's primary government. Its financial activities are classified and accounted for as an Enterprise Fund, whereby the Bar uses the economic resources measurement focus and the accrual basis of accounting.

The basic financial statements

The basic financial statements include the balance sheet, the statement of revenues, expenses and changes in fund equity, and the statement of cash flows. The balance sheet includes all of the State Bar's assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due dates for liabilities. Liquidity and financial flexibility can be evaluated using the information on this statement. The statement of revenues, expenses and changes in fund equity summarizes the State Bar's revenues and expenses for the current year. The statement of cash flows helps readers to assess the agency's ability to generate positive future net cash flows and to meet its obligations. It also helps readers understand the effects on the agency's financial position of both its cash and noncash investing and financing transactions during the period.

Notes to the financial statements

The notes to the financial statements provide information for a fuller understanding of the State Bar. They immediately follow the basic financial statements.

Financial Analysis of the State Bar

Since financial information is accumulated on a consistent basis year to year, changes in fund equity can be analyzed to determine the changing financial position of the State Bar as a whole.

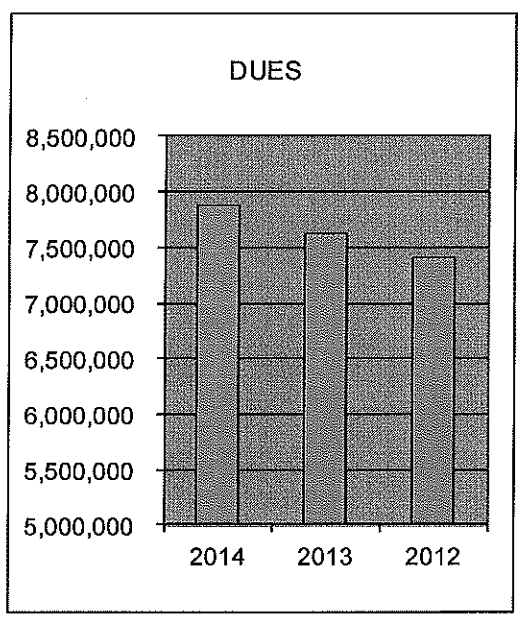
The State Bar's fund equity at December 31, 2014 was $8,136,911. This is a $42,248 decrease from fund equity of $8,179,159 at December 31, 2013. Fund equity increased in 2013 by $484,368 over 2012's $7,694,791. The following table provides a summary of the State Bar's fund equity as of December 31:

	2014	2013	2012	Current Year Amount Change	Current Year % Change
Current and other assets	$7,057,594	$6,877,882	$7,456,933	$179,712	2.61%
Capital assets	16,863,396	17,691,016	13,606,176	(827,620)	-4.68%
Total assets	$23,920,990	$24,568,898	$21,063,109	($647,908)	-2.64%
Current liabilities	4,685,121	4,843,760	4,754,581	(158,639)	-3.28%
Long-term liabilities	11,098,958	11,545,979	8,613,737	(447,021)	-3.87%
Total liabilities	15,784,079	16,389,739	13,368,318	(605,660)	-3.70%
Fund Equity	$8,136,911	$8,179,159	$7,694,791	($42,248)	-0.52%

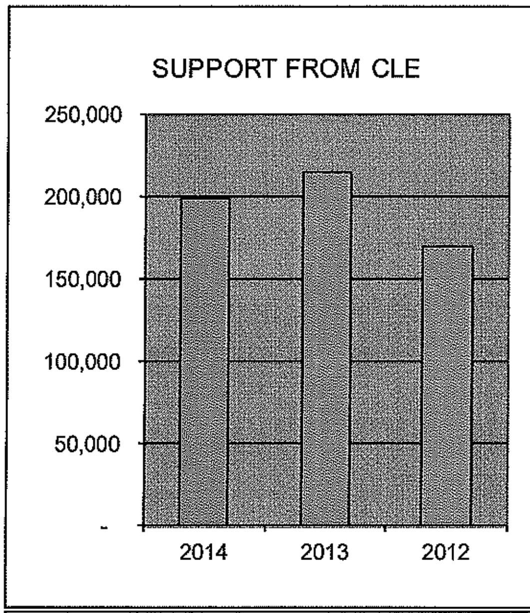
The following table provides a summary of the State Bar's changes in revenues and expenses for the years ended December 31:

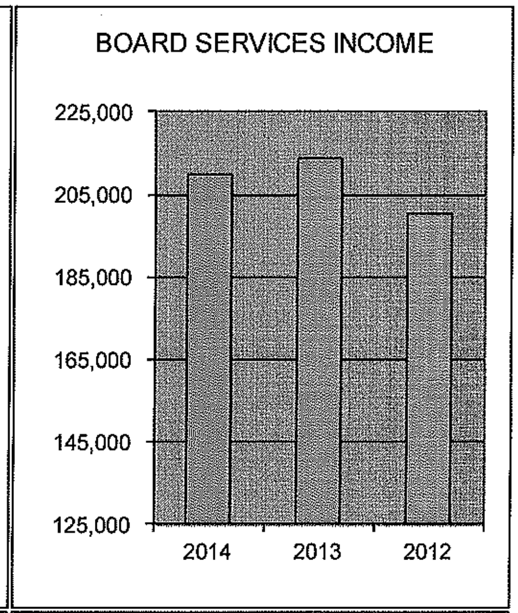
	2014	2013	2012	Current Year Amount Change	Current Year % Change
Revenues	$8,727,766	$8,541,896	$8,152,838	$185,870	2.18%
Operating expenses	8,359,854	8,027,353	7,166,301	332,501	4.14%
Operating income	367,912	514,543	986,537	(146,631)	-28.50%
Gain on sale of building	-	-	1,161,947	-	
Transfer of restricted funds-Foundation	-	-	(500,124)	-	
Interest income	1,057	1,667	4,254	(610)	-36.59%
Interest expense	(405,161)	0	(14,008)	(405,161)	100%
Gain (loss) on disposal fixed assets	(6,056)	(31,842)	0	25,786	-80.98%
Net (loss) income	($42,248)	$484,368	$1,638,606	(526,616)	-108.72%

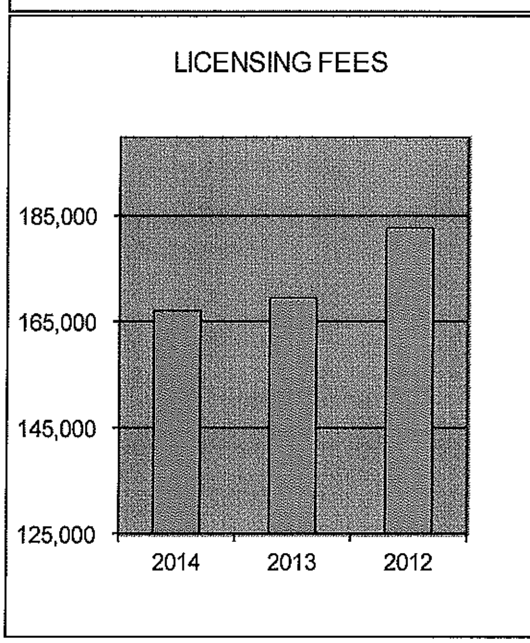
As highlighted in the graphs below, the primary revenue source for the State Bar is the annual membership fee, or "dues." Each active member of the State Bar is required to pay dues to support the agency. The State Bar receives no money from the general revenue of the State of North Carolina for its administration. The amount of the membership fee is set annually by the State Bar's governing body, which is known as the Council. For 2014, 2013 and 2012, the amount of the fee was $300, which is the existing statutory maximum. The increase in dues income, which was largely responsible for the increase in revenue, was a function of an increase in the number of lawyers liable to pay the annual membership fee. In recent years, membership growth has averaged approximately two and a half percent (2.5%) per year.

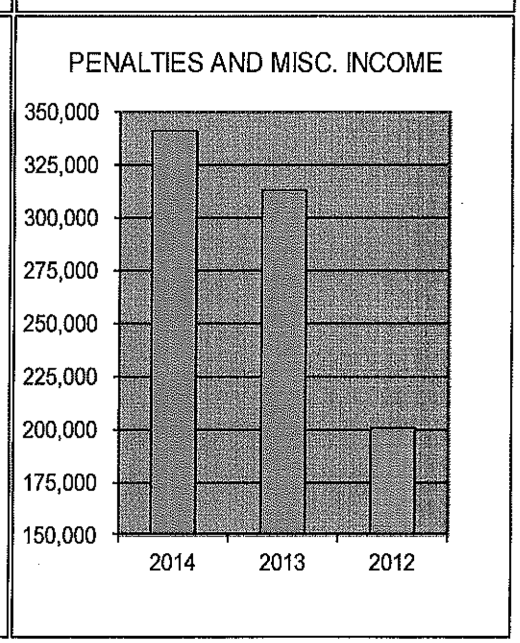


Additional revenues for the Bar include a substantial annual subsidy from the Board of Continuing Legal Education's surplus cash. In 2012, the Board of Continuing Legal Education revised its formula for determining surplus cash. The application of this new formula to its cash reserves results in varying levels of payments to the Bar. In 2014, it was $198,242. In 2013, the subsidy was $214,191 and in 2012, it was $169,575. It is anticipated that the amount of the subsidy in future years will be comparable to the amount paid in 2014. Board Services Income includes fees received from the State Bar's related boards for rent, overhead, copying and postage, and fees for processing collections for the Equal Access to Justice Commission. These items totaled $209,616 in 2014. In 2013, these fees totaled $213,561, and in 2012 the total was $200,485.

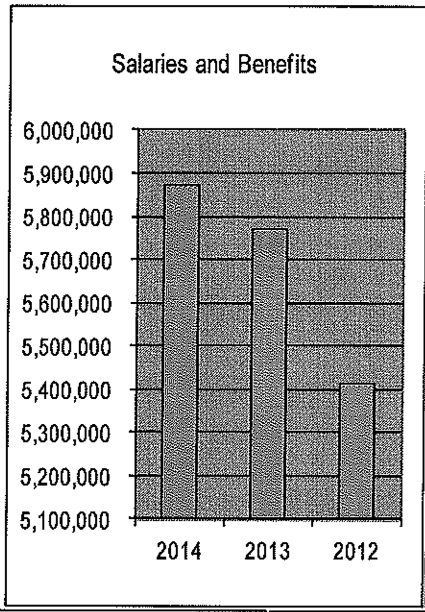


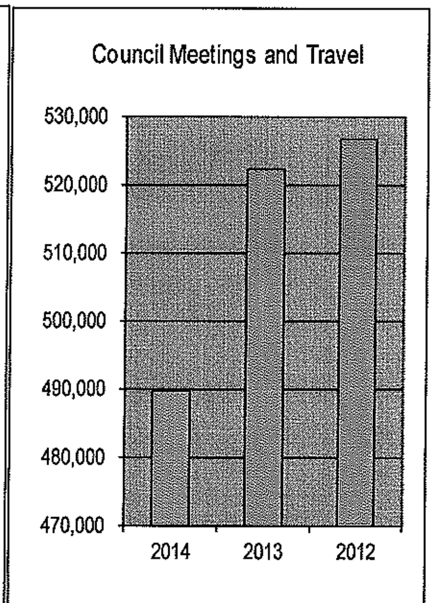


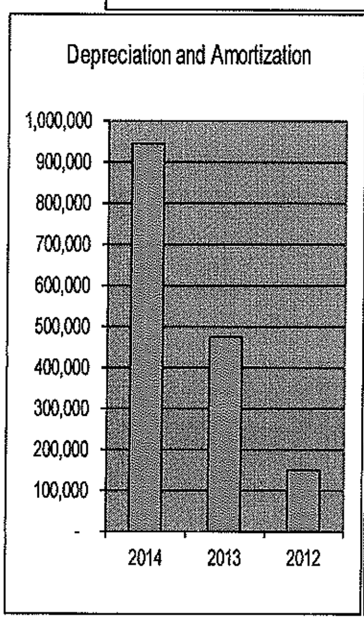


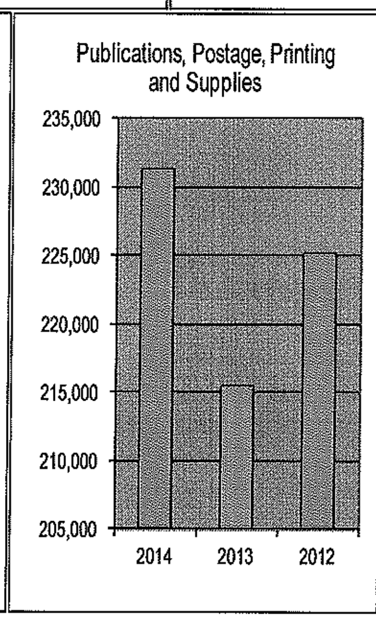


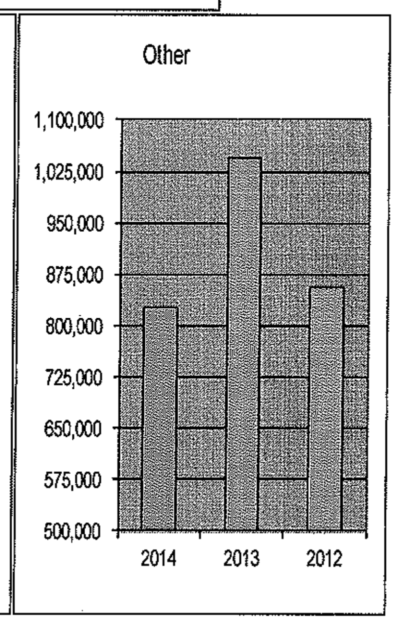
The State Bar also receives significant income from licensing fees as shown above. Licensing fees for professional and interstate corporations were $167,302 in 2014, $169,432 in 2013 and $182,564 in 2012. Fluctuations from year to year in interstate dues collections appear to be primarily responsible for variations in total receipts. The remaining income included penalties and other miscellaneous revenue items and ranged from $340,607 in 2014, $312,751 in 2013 and $200,480 in 2012.











2014's total operating expenses increased a modest 4% over 2013. 2013's total operating expenses increased overall by approximately 12% when compared to 2012. The main categorical increases were in salaries and benefits including new positions and a general increase in compensation of 2.5% for the staff. Also in 2013, "rent expense" reflects the successful sale of the State Bar's office building at 208 Fayetteville Street in August 2012 and the resulting obligation to pay rent through the end of April 2013 pursuant to an agreement to lease back the property. Use of outside legal counsel was also a major line expense for 2013. Depreciation in 2014 and 2013 increased dramatically with the use of the new State Bar headquarters. Savings in 2012 were achieved through less depreciation expense, lower building maintenance costs and economies in various other line items relating to office administration, for a total savings of nearly $90,000.

Budgetary Highlights

The 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 budgets are approved by the State Bar's Council (board of directors) and its Finance and Audit Committee on an as-needed basis.

Capital Assets

The State Bar's investment in capital assets as of December 31, 2014 net of accumulated depreciation and amortization totaled $16,863,396. The following is a summary of the capital assets, net of depreciation at December 31:

	2014	2013	2012
Computer equipment and software	$ 820,364	$ 1,170,393	$ 1,177,749
Artwork	389,715	208,924	-
Furniture and office equipment	1,184,192	1,211,834	276,025
New building costs	16,518,636	16,605,292	13,422,159
Automobiles	37,431	37,431	38,575
	$ 18,950,338	$ 19,233,874	$ 14,914,508
Less accumulated depreciation and amortization	(2,086,942)	(1,542,858)	(1,308,332)
Total Capital Assets	$ 16,863,396	$ 17,691,016	$ 13,606,176

Long Term Debt

The construction of the new State Bar headquarters was completed in the third quarter of 2013. In 2011, the State Bar was granted a twelve million dollar loan to build the new State Bar headquarters. The proceeds of the loan were drawn upon as needed during the construction project. 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. Advances from the mortgage line at First Citizens totaled $7,063,518 at the end of 2012 and $11,964,055 at December 31, 2013. Principal and interest payments were made throughout 2014. Total balance outstanding is outlined on the following balance sheets. Further information is located in *Note 8 – Commitments and Contingencies* to the financial statements. It is also noted that during 2012, the State

Bar's pre-existing mortgage debt was paid off with proceeds from the sale of its building at 208 Fayetteville Street.

Other Factors

The State Bar's primary source of revenue is the membership fee paid by each of its active members. For the past several years, membership has tended to increase annually by approximately 2.5%. Not surprisingly, the State Bar's revenues tend to increase as a function of membership growth, as do its expenses. Unfortunately, experience has shown that the growing population of dues-paying members cannot be expected to fully support the sort of comprehensive regulatory programs maintained by the agency without occasional dues increases. Fortunately, the legislature has seen fit to raise the "ceiling" on the annual membership fee from time to time, and this farsighted action has generally provided the Council with the flexibility required to maintain the competence and integrity of the Bar while operating the agency in a fiscally responsible fashion. In 2012-2014 dues remained at the statutory maximum, $300. It is believed that dues at this level, in combination with existing cash reserves, should be sufficient to defray ordinary operating costs for the next several years and to pay the increased debt service associated with the borrowing that was necessary to finance the new headquarters. This assumes, of course, that the population of lawyers will continue to increase in accordance with recent experience.

On the expense side, neither the Bar's leadership nor its management envisions dramatic programmatic expansion in the near future. Those being the case, operating costs are likely to remain fairly stable. It is noted, however, that the Bar in recent years has occasionally found it necessary to incur unexpected legal fees. In 2013, for instance, unforeseen legal fees exceeded $140,000, and it seems certain that the appropriation for such services in 2015 will also be overspent. This is a trend that seems likely to continue, particularly in regard to matters relating to the statutory prohibition against the unauthorized practice of law, which the State Bar is obligated to enforce. Because it is recognized that such costs could quickly erode the State Bar's financial position, efforts are being made to ensure that policy decisions that could give rise to litigation are consistently informed by appropriate considerations of risk management.

Several years ago, the State Bar determined that the agency had outgrown its facility at 208 Fayetteville Street in downtown Raleigh. Accordingly, a new building was designed and constructed on a site within the State Government Complex at the intersection of Blount and Edenton Streets. In accordance with statutory requirements, the State Bar's acquisition of this property by long-term lease from the State of North Carolina was approved by the Council of State. The term of the lease is ninety-nine years and the rent is nominal. Occupancy occurred in May 2013, although the building was not completely finished until September 2013. All contractors, designers and the owner's representative have since been paid in full. The cost of the building was approximately $18,000,000. A portion of that cost was funded from the proceeds of sale of the State Bar's building at 208 Fayetteville Street. The balance was financed through the loan referenced above, the application of cash reserves and certain assistance from a tax-exempt foundation established under Section 501(c)(3) of the Internal Revenue Code (the North Carolina State Bar Foundation, Inc.) for the purpose of raising money to assist the Bar in constructing and maintaining the building. At the end of 2014, pledges and cash donations raised by the foundation totaled approximately $3 million dollars, with approximately $800,000 of that sum being unencumbered and on deposit, and a like amount being payable within two years. The Bar's indebtedness will be serviced through current cash receipts, primarily dues revenue. In this regard it is worth noting that a condition of the loan is the maintenance of a minimum debt service coverage ratio of 1.10 to 1.00, the comparison being of net cash flow to the current portion of long-term liabilities. The State Bar's financial projections suggest that absent a dues increase, significant reduction in recurring expenses or infusion of cash from an independent source, it is likely that the State Bar will fail to meet this condition at some point prior to the end of the loan's term in 2021. To forestall such an event, the ratio could be renegotiated with the lender or, failing that, cash from the foundation (an independent source of funds) described above could be transferred to the State Bar's treasury.

Audited Financial Statements

ROMEO, WIGGINS & COMPANY, L.L.P. *Certified Public Accountants*

Geoffrey E. Wiggins
Jeffrey S. Romeo
Angela B. Goodwin
J. Kelly Lanier
Joseph L. Hill, Jr.

Independent Auditors' Report

The Council
The North Carolina State Bar

Report on the Financial Statements
We have audited the accompanying financial statements of The North Carolina State Bar, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The North Carolina State Bar as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Independent Auditors' Report, Continued

The Council
The North Carolina State Bar

Report on Required Supplementary Information
The Governmental Accounting Standards Board requires that Management's Discussion and Analysis (on the preceding pages) 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 audits 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 evidence sufficient to express an opinion or provide any assurance.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
April 16, 2015

This audit required 183 hours at a cost of $19,131.

THE NORTH CAROLINA STATE BAR

Balance Sheets

December 31, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 6,587,568	6,207,886
Cash-restricted to building costs	148,250	340,526
Total cash and cash equivalents	6,735,818	6,548,412
Receivables from related entities	88,321	87,292
Other receivables, net of allowance	210,951	233,342
Prepaid expenses	22,504	8,836
Total current assets	7,057,594	6,877,882
Property and equipment, net	16,863,396	17,691,016
	$ 23,920,990	24,568,898
Liabilities and Fund Equity		
Current liabilities:		
Current portion of long-term debt	$ 442,496	426,365
Accounts payable	22,604	48,064
Pension contribution payable	433,761	431,283
Dues collected in advance	3,217,400	3,152,075
Accrued vacation	173,127	165,066
Amounts held for escheatment	436,879	439,776
Accrued expenses-new construction	-	235,753
Other accrued expenses	(41,146)	(54,622)
Total current liabilities	4,685,121	4,843,760
Long-term debt	11,098,958	11,537,690
LAP/PALS loan fund	-	8,289
Total liabilities	15,784,079	16,389,739
Fund Equity:		
Fund equity - retained earnings	8,136,911	8,179,159
Total fund equity	8,136,911	8,179,159
	$ 23,920,990	24,568,898

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR

Statements of Revenues, Expenses and Changes in Fund Equity

Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Dues	$ 7,880,063	7,631,961
Support from Continuing Legal Education	198,242	214,191
Penalty fees	30,218	28,575
Bar magazine income	45,680	63,256
State Bar overhead charges	78,465	78,465
Professional corporations	24,081	46,805
Rental income	29,185	25,035
Other	441,832	453,608
Total operating revenues	8,727,766	8,541,896
Operating expenses:		
Salaries and wages	4,594,117	4,541,086
Employee benefits, including pension plan contributions and payroll taxes	1,259,920	1,230,625
Council and committee meetings, including officers' travel	489,612	522,306
Publications, postage, and printing	232,460	215,506
Depreciation and amortization	938,516	472,528
Equipment rental and maintenance	171,302	163,406
Travel and automobile	114,781	131,013
Rent expense	18,200	142,782
Disciplinary proceedings	133,282	85,995
Building maintenance	84,650	42,759
Bank service charges	62,547	64,566
Utilities	83,788	101,431
Bad debt expense	-	8,135
Other office expense	43,347	78,342
Telephone	37,241	37,784
Professional fees	68,397	169,432
Insurance and bond	27,694	19,657
Total operating expenses	8,359,854	8,027,353
Operating income	367,912	514,543
Nonoperating (expenses) revenues :		
Interest income	1,057	1,667
Interest expense	(405,161)	-
Loss on disposal of fixed assets	(6,056)	(31,842)
Net nonoperating(expenses) revenues	(410,160)	(30,175)
Net (loss) income	(42,248)	484,368
Fund equity, beginning of year	8,179,159	7,694,791
Fund equity, end of year	$ 8,136,911	8,179,159

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

		2014	2013
Operating activities:			
Receipts from attorneys and others	$	8,814,453	7,746,257
Payments to employees		(5,843,498)	(5,734,886)
Payments to suppliers		(1,604,139)	(1,649,662)
Net cash provided by operating activities		1,366,816	361,709
Capital and related financing activities:			
Purchases of property and equipment		(352,706)	(5,509,142)
Interest paid on bank borrowings , capitalized in 2013		(405,161)	(363,040)
Proceeds from long-term bank borrowings		-	4,936,482
Principal payments on bank borrowings		(422,600)	(35,945)
Net cash used in capital and related financing activities		(1,180,467)	(971,645)
Investing activities:			
Interest received		1,057	1,667
Net cash provided by investing activities		1,057	1,667
Net change in cash and cash equivalents		187,406	(608,269)
Cash and cash equivalents, beginning of year		6,548,412	7,156,681
Cash and cash equivalents, end of year	$	6,735,818	6,548,412
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	367,912	514,543
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation of fixed assets		938,516	472,528
Changes in operating assets and liabilities:			
Receivables		21,362	(99,124)
Prepaid expenses		(13,668)	69,906
Accounts payable and accrued expenses		(12,631)	100,371
Dues collected in advance		65,325	(696,515)
Net cash provided by operating activities	$	1,366,816	361,709
Noncash capital and related financing activities:			
Additions to property and equipment	$	-	(235,753)
Accrued expenses-new construction		-	235,753
Loss on disposal of fixed assets		6,056	31,842

See accompanying notes to financial statements.

(1) The Organization and Significant Accounting Policies

The Organization

The North Carolina State Bar ("the Bar/State Bar") was created by the direction of the North Carolina Legislature in 1933. All attorneys licensed to practice in North Carolina must become members of the Bar. The Bar is affiliated with The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts ("IOLTA"), The North Carolina State Bar Board of Legal Specialization ("Legal Specialization"), The North Carolina State Bar Board of Client Security Fund ("Client Security Fund"), The North Carolina State Bar Board of Continuing Legal Education ("Continuing Legal Education"), the Chief Justice's Commission on Professionalism ("Commission on Professionalism") and The North Carolina State Bar Board of Paralegal Certification ("Paralegal Certification") as further discussed in *Note 7, Related Party Transactions*. The Bar is considered an agency of the State of North Carolina for financial reporting purposes.

Basis of Accounting

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), and in accordance with Statewide accounting policies established by the Office of the State Controller. Because the State Bar is not a separate legal entity (is a part of the State primary government), this financial report does not include certain other supplementary information.

The financial activities of the Bar, as presented in the accompanying financial statements, are accounted for as an Enterprise Fund, whereby the Bar uses the economic resources measurement focus and the accrual basis of accounting. All acquisitions of fixed assets in excess of $1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Proprietary activities apply all applicable GASB pronouncements.

(1) The Organization and Significant Accounting Policies, Continued

Cash and Cash Equivalents

The Bar considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of the following at December 31:

	2014	2013
Checking account (BB&T)	$ 819,418	1,664,586
BB&T money market account	4,225,295	3,005,766
STIF account (with North Carolina State Treasurer)	228	1,966
First Citizens	1,542,627	1,535,568
First Citizens (restricted)	148,250	340,526
	$ 6,735,818	6,548,412

Deposits with financial institutions as of December 31, 2014, exceeded FDIC insured limits by approximately $6,278,000. BB&T and First Citizens fully collateralize uninsured balances on deposit by pledging securities for amounts over FDIC limits. Amounts held with the State Treasurer are insured by the State of North Carolina.

Restricted Cash (including a subsequent event)

As of December 31, 2014, restricted cash of $148,250 remains of the $340,526 that was advanced to the North Carolina State Bar by First Citizens Bank from the proceeds of the loan described in Note 8 to assist with construction costs of the Bar's new building. These funds are restricted by First Citizen Bank for the final payment to the general contractor for the construction of the new North Carolina State Bar building once all outstanding construction issues have been resolved.

Subsequent Event

As of February 1, 2015, the $148,250 of cash at First Citizens is no longer a restricted amount.

Receivables

Each active member of the Bar is required to pay annual dues to support the agency. Dues for the calendar year are due January 1, with a $30 late fee assessed for dues paid after June 30. *Other receivables* at December 31 consist primarily of dues in arrears and late fees assessed thereon. Attorneys may be suspended for non-payment. The Bar provides an allowance for doubtful accounts for amounts estimated to be uncollectible based on management's review of all accounts. *Other receivables* are recorded net of

(1) The Organization and Significant Accounting Policies, Continued

an allowance of $148,410 in 2014 and 2013. Receivables are primarily unsecured.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to thirty-nine years.

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to dispose. Assets having aggregate costs of $400,488 and $269,844 and a net book value of $6,056 and $31,842 were disposed of in 2014 and 2013, respectively. Disposed assets were sent to the State surplus.

Dues Collected in Advance

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.

Amounts Held in Agency -- Campaign Financing/Voter Guide

In recent years, the Bar has collected a statutorily imposed judicial surcharge from its members annually, with amounts collected remitted to the N.C. Board of Elections at least monthly. These surcharges are not included in revenues or expenses of the Bar in the accompanying financial statements. The Bar received and disbursed $639,635 in 2013 in its role as agent for the collection and distribution of these funds. During 2013, legislation repealed the statute imposing the judicial surcharge. Thus the Bar did not collect and distribute any amount of these funds.

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.

(1) The Organization and Significant Accounting Policies, Continued

Unemployment Compensation

The Bar recognizes its self-insured obligation to provide unemployment compensation. As required by Session Law 2013-2 that became effective July 1, 2013, the Bar will build the prescribed reserves with the NC Department of Commerce, Division of Employment Security. The State Bar was assessed 1% of its employees' taxable wages for quarters 3 and 4 in 2013, and was assessed 1% of taxable wages for quarters 1 and 2 in 2014.

Income Taxes

The Bar is a governmental agency whose net income is exempt from 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying values of cash equivalents, receivables, accounts payable and accrued liabilities approximate the respective fair values based on the short maturities of those financial instruments. The Bar estimates that the fair value of its long-term borrowings approximates the carrying value based upon the current borrowing rate for debt with similar terms and remaining maturities.

Subsequent Events

Management has evaluated subsequent events through April 16, 2015, the date on which financial statements were available for issue.

(2) Property and Equipment

Property and equipment consist of the following at December 31:

	2014	2013
New building costs	$ 16,518,636	$ 16,605,292*
Computer equipment and software	820,364	1,170,393
Artwork (not depreciable)	389,715	208,924
Furniture and office equipment	1,184,192	1,211,834
Automobiles	37,431	37,431
	18,950,338	19,233,874
Less accumulated depreciation	(2,086,942)	(1,542,858)
	$ 16,863,396	$ 17,691,016

*including construction period interest of approximately $363,000 in 2013.

Depreciation expense for the years ended December 31, 2014 and 2013 was $938,516 and $472,528, respectively.

(3) Long-Term Debt

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

	2014	2013
$12,000,000 mortgage loan (First Citizens) used in construction of the new State Bar headquarters, payable in 24 monthly payments of interest only beginning December 18, 2011, and 95 monthly payments of principal and interest beginning December 18, 2013, with payments amortized over twenty years at an interest rate of 3.4%. A balloon payment is due on December 18, 2021. Certain prepayment penalties apply if the note is paid in full prior to November 18, 2016.	$ 11,541,454	$ 11,964,055
Less current portion	(442,496)	(426,365)
	$ 11,098,958	$ 11,537,690

(3) Long-Term Debt, Continued

Principal maturities of long-term debt are as follows at December 31, 2014:

2015	$	442,496
2016		456,725
2017		473,551
2018		489,905
2019		506,824
Thereafter		9,171,953
	$	11,541,454

Debt Covenants: The Bar is required to maintain certain financial commitments in connection with its bank borrowings. Management is aware of no violations of these commitments as of December 31, 2014 or subsequent thereto.

(4) Pension Plan

Employees who have completed a Year of Service and attained age twenty-one are eligible to participate in the 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 Bar contributes 10% of such participant's annual compensation to the Plan. Total pension costs under the Plan totaled $433,761 and $431,283 for 2014 and 2013, respectively.

(5) Lawyers' Assistance Program (including a subsequent event)

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 $657,439 and $646,070 in 2014 and 2013, respectively, are reported in the accompanying financial statements by natural category. The majority of program expenses pertain to salaries and benefits. Program expenses also include travel, computer support, and other administrative costs. LAP owed the Bar nothing for support services and other charges as of December 31, 2014 and 2013.

(5) Lawyers' Assistance Program (including a subsequent event), Continued

In 1992, a one-time grant of $25,000 was awarded PALS, now known as LAP, by IOLTA for the purpose of establishing a revolving loan fund for indigent attorneys with substance abuse problems. The funds were available only to provide impaired lawyers with counseling, rehabilitation, and treatment. Support from this grant was recognized in the periods in which outstanding loans were determined to be uncollectible. In 2013, this grant was reviewed for collection impairment. Due to many factors, it was decided that only three loans were still collectible. This led to a reduction in the outstanding loan fund of $24,253. In 2014, it was decided that the remaining three loans were no longer collectible. This resulted in the closing of this revolving loan fund. In the State Bar 2014 budget, $10,000 was appropriated to establish a new revolving loan fund for this purpose.

(6) Leases

Lessee

Facilities: The Bar leases two offices for its Lawyers' Assistance Program in Charlotte, North Carolina, with leases expiring in 2014. Both these leases were extended at the same rate for one additional year. LAP also leased an office in Raleigh until May 2013 incurring $3,320 in rent expense. Charlotte's lease expense for LAP office space in 2014 and 2013 was $18,200 and $15,900, respectively.

Equipment: The State Bar leases office equipment under operating leases with varying expirations through 2017. Lease expense for office equipment approximated $25,130 and $28,828 in 2014 and 2013, respectively.

(6) Leases, Continued

The minimum lease payments required under operating leases having an initial term of more than one year are as follows at December 31, 2014:

2015	$ 20,551
2016	7,956
2017	6,630
Total	$ 35,137

Lessor

The Bar leases office space to The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts ("IOLTA"), The North Carolina State Bar Board of Paralegal Certification ("Paralegal Certification"), The North Carolina State Bar Board of Continuing Legal Education ("Continuing Legal Education"), The North Carolina State Bar Board of Legal Specialization ("Legal Specialization"). These leases operate on a month-to-month basis. Rental income approximated $29,000 in 2014 and $25,000 in 2013.

(7) Related Party Transactions

IOLTA

The IOLTA program was approved by the N.C. Supreme Court in June 1983, and implemented by the North Carolina State Bar in January 1984. Participating attorneys allow interest earned on certain trust accounts to be transferred to IOLTA. On October 11, 2007, the Supreme Court delivered an order to the Bar to implement a mandatory IOLTA program, effective January 1, 2008. The funds are administered by a separate Board of Trustees and are not included in this report. The purpose of IOLTA is to fund programs concerned with improving access to justice and the administration of justice. IOLTA paid rent of $7,950 and $7,500 in 2014 and 2013, respectively. In addition, support for internet services, telephone, other support services is also provided by the Bar. Reimbursable costs of $4,972 and $2,749 were incurred in 2014 and 2013, respectively. As of December 31, 2014 and 2013, IOLTA owed the Bar $118 and $53 for such support.

(7) Related Party Transactions, Continued

Legal Specialization

The Board of Legal Specialization program was established in 1987 to certify attorneys as legal specialists. These funds are administered by a separate Board and are not included in this report. The Bar provides various support services to the Board of Legal Specialization including staffing and use of the Bar's computer, postage meter, copy machine, and fax machine. Legal Specialization reimburses the Bar for such services. Reimbursable costs of $6,378 and $4,469 were incurred in 2014 and 2013, respectively. Legal Specialization also leases office space in the Bar's building. Yearly rent expense was $2,880 for 2014 and 2013. Legal Specialization owed the Bar $454 and $(2) for support services and other charges as of December 31, 2014 and 2013, respectively.

In addition, the Board of Legal Specialization is charged an overhead fee for various costs incurred by the State Bar in support of the Legal Specialization program. These costs include but are not limited to human resources, accounting and reception services. The annual charge is based on the number of people employed by the Board. The overhead fee for the Board of Legal Specialization was $12,225 in 2014 and 2013.

Client Security Fund

Since 1985, the Supreme Court has had discretion to assess attorneys in support of a Client Security Fund. Funds from these assessments are deposited in a separate bank account and are used to reimburse clients who have been victimized by dishonest attorneys. These funds are administered by a separate Board of Trustees and are not included in this report. As of December 31, 2014, and 2013, $335 and $(790) was due the Client Security Fund for assessments collected by the Bar. The Bar provides various support services to Client Security Fund including staffing and use of the Bar's computer, postage meter, copy machine, and fax machine. The Client Security Fund reimburses the Bar for such services. Reimbursable costs of

$4,573 and $2,608 were incurred in 2014 and 2013, respectively, related to support services provided by the Bar. The Client Security Fund owed the Bar $0 and $3,199 as of September 30, 2014 and 2013, respectively. In addition, the Client Security Fund is charged an overhead fee for various costs incurred by the State Bar in support of the Client Security Fund. These costs include but are not limited to human

(7) Related Party Transactions, Continued

resources, accounting and reception services. The annual charge is based on the number of people employed by the Board. The overhead fee for Client Security Fund was $17,220 for both 2014 and 2013.

Continuing Legal Education and Commissions

The Board of Continuing Legal Education was established by the North Carolina Supreme Court on October 7, 1987, to administer a mandatory continuing legal education program for attorneys licensed to practice law in North Carolina. The Chief Justice's Commission on Professionalism 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 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 by the Board of Continuing Legal Education. Portions of these fees charged are allocated to the two commissions, with a portion also designated for the Bar to cover the cost of administering these funds. The Bar recognized revenues of $80,306 and $79,290 in 2014 and 2013, respectively, from these fees. Funds of the Commissions are administered by separate boards of trustees and are not included in this report.

The Bar provides various support services to the Board of Continuing Legal Education including staffing and use of the Bar's computer, postage meter, copy machine, and fax machine. The Board of Continuing Legal Education reimburses the Bar for such services. Reimbursable costs of $36,493 and $41,874 were incurred in 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Board of Continuing Legal Education owed the Bar $0 for support services provided by the Bar. The Board of Continuing Legal Education also leases office space in the Bar's building. Yearly rent expense totaled $14,400 for 2014 and 2013. In addition, the Board of Continuing Legal Education is charged an overhead fee for various costs incurred by the State Bar in support of Continuing Legal Education. These costs include but are not limited to human resources, accounting and reception services. The annual charge is based on the number of people employed by the CLE Board. The overhead fee for Continuing Legal Education was $36,800 in 2014 and 2013.

(7) Related Party Transactions, Continued

The Board of Continuing Legal Education annually pays the State Bar an amount from its excess revenues to subsidize the Lawyer's Assistance Program. In 2012, the Board of Continuing Legal Education changed the formula for and the timing of the calculation of that subsidy. The Board decided that the subsidy should be based on actual expenses incurred by CLE (rather than budgeted expenses) and that the transfer should involve only those funds in excess of a cash reserve of $200,000. The Bar recognized related support from the Board of Continuing Legal Education of $198,242 in 2014, of which $79,922 will be received in 2015. The Bar recognized related support from the Board of Continuing Legal Education of $214,191 in 2013, of which $87,066 was received in 2014.

Paralegal Certification

The Board of Paralegal Certification was created by the Bar 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 concerning paralegals. These funds are administered by a separate Board and are not included in this report. The Bar provides various support services to the Board of Paralegal Certification including staffing and use of the Bar's computer, postage meter, copy machine, and fax machine. Reimbursable costs of $4,770 were incurred in 2014 and $6,809 in 2013. As of December 31, 2014 and 2013, the Board of Paralegal Certification owed the Bar $5,827 and $0, respectively, for support services provided by the Bar. The Board of Paralegal Certification also leases office space in the Bar's building. Yearly rent expense totaled $2,880 for 2014 and 2013. In addition, the Board of Paralegal Certification is charged an overhead fee for various costs incurred by the State Bar in support of the Board of Paralegal Certification. These costs include but are not limited to human resources, accounting and reception services. The annual charge is based on the number of people employed by the Board. The yearly overhead fee for Board of Paralegal Certification was $12,220 in 2014 and 2013.

The North Carolina State Bar Foundation

In December 2009, a foundation was established to raise money to assist in the construction and maintenance of a new North Carolina State Bar Office Building to be erected on state-owned property leased to the North Carolina State Bar. The North Carolina State Bar Foundation ("the Foundation") is a

(7) Related Party Transactions, Continued

501(c) (3) tax exempt entity (per Internal Revenue Service notification dated September 28, 2012) with a separate Board of Trustees and is autonomous from the North Carolina State Bar. In March 2012, the State Bar transferred $500,124 of restricted cash to the Foundation. These funds were previously donated by Paralegal Certification and were restricted for use in construction of the State Bar's new building. The Foundation provided assistance to the State Bar in 2013 by purchasing capital assets having an aggregate cost of approximately $933,000, intended for the State Bar's use. The Foundation also made contributions of $70,064 to the State Bar in 2014 to cover certain building-related costs. At December 31, 2014 and 2013, the Foundation reported net assets of approximately $1,909,000 and $1,519,000, respectively, consisting of cash deposits and capital assets.

(8) Commitments and Contingencies

Severance Payments and Benefits

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

Legal Proceedings

The Bar is subject to several legal proceedings, claims and litigation. While the outcome of these matters is currently not determinable, the Bar does not expect that the ultimate costs to resolve these matters will have a significant impact on the Bar's financial position.

(8) Commitments and Contingencies, Continued

Contracts

Ground Lease with 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 North Carolina 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 North Carolina State 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 as any outstanding mortgage is paid off the State of North Carolina and adequate compensation is paid to the North Carolina State Bar for its equity in the building and improvements. The State Bar must be given one year's notice prior to termination.

First Citizen's Loan to The North Carolina State Bar

In conjunction with the construction of the new State Bar Headquarters, First Citizens Bank & Trust Company ("First Citizens") has granted a twelve million ($12,000,000) loan to the North Carolina State Bar. The term of the loan is ten years (10) with a fixed interest rate of 3.4 percent. The first two years of the loan were interest-only during construction. The remaining eight years will include principal and interest payments determined by a 20-year amortization schedule. After 10 years, the remaining loan balance will have to be paid or refinanced. The loan provides for a 2.5 percent 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, 2014, the State Bar and the Client Security Fund had approximately $1,690,877 and $703,070, respectively, on deposit with First Citizens. At December 31, 2013, the State Bar and the Client Security Fund had approximately $1,876,094 and $902,561, respectively, on deposit with First Citizens. In addition, there are debt to equity and debt service ratios

(9) Commitments and Contingencies, Continued

that must be maintained. Yearly submittal of the audited financial statements of the State Bar is also required. The loan is secured by the building. At the end of December 2013, the entire proceeds had been disbursed from the loan, with approximately $340,256 of proceeds held as cash restricted to building costs. At December 31, 2014, the remaining funds restricted for construction costs were $148,250. The funding of this $18,000,000 project was provided by First Citizen's loan, the sale of the State Bar's former headquarters of 208 Fayetteville Street in Raleigh, current cash reserves and contributions from the NCSB Foundation.

Sale of the Former North Carolina State Bar Building

The North Carolina State Bar sold its former building on August 30, 2012. The total price for the building was $2,700,000 less a six (6) percent commission for realtor assistance.

Leaseback of The North Carolina State Bar Former Building

Upon the sale of the North Carolina State Bar's former building, the Bar entered into a leaseback agreement with the new owners. The term of the lease was from date of closing (August 30, 2012) to February 28, 2013. Monthly lease costs were $31,040 and the North Carolina State Bar retained the responsibility for major repairs. Because of construction delays, it was necessary for the Bar to holdover beyond February 28, 2013 until May 2, 2013. Rent during the holdover period was 125% of the contracted rate. The State Bar spent $142,783 on leaseback payments in 2013.