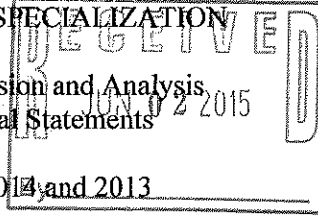


THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Management Discussion and Analysis  
Audited Financial Statements

December 31, 2014, and 2013



## Management Discussion and Analysis

## **Management Discussion and Analysis**

This section of the Board of Legal Specialization's financial report represents our discussion and analysis of the financial performance of the Board of Legal Specialization for the years ended December 31, 2014, 2013 and 2012. This information should be read in conjunction with the audited financial statements.

### **Financial Highlights**

- The Board's assets exceeded its liabilities by \$179,805 (fund equity) for the year ended December 31, 2014. This compares favorably to 2013 and 2012 when assets exceeded liabilities by \$176,840 and \$172,960, respectively.
- Total liabilities of the Board of Legal Specialization decreased in 2014 to \$10,257. Liabilities were higher in 2013 at \$15,059, as compared to more normal levels in 2012 at \$8,162.

### **Overview of the Financial Statements**

The audited financial statements of The Board of Legal Specialization consist of three components. They are as follows:

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

The Board of Legal Specialization was established in 1987 to administer a program to certify attorneys as legal specialists. The Board is a standing committee of the Council of the North Carolina State Bar ("the Bar"), which is an agency of the State of North Carolina. The financial activities of the Board are classified and accounted for as an Enterprise Fund, whereby it 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 Board'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 Board's revenues and expenses for the current year. The statement of cash flows helps readers to assess the enterprise's ability to generate positive future net cash flows and to meet its obligations. It also helps readers understand the effects on the enterprise'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 operation of the legal specialization program. They immediately follow the basic financial statements.

### **Financial Analysis of the Board of Legal Specialization**

Since financial information is accumulated on a consistent basis year to year, changes in fund equity can be analyzed to determine the Board's changing financial position.

The Board's fund equity at December 31, 2014 was \$179,805. This was a \$2,965 increase over 2013 which had a \$3,880 increase over 2012's fund equity of \$172,960. The following table provides a summary of the Board's fund equity as of December 31:

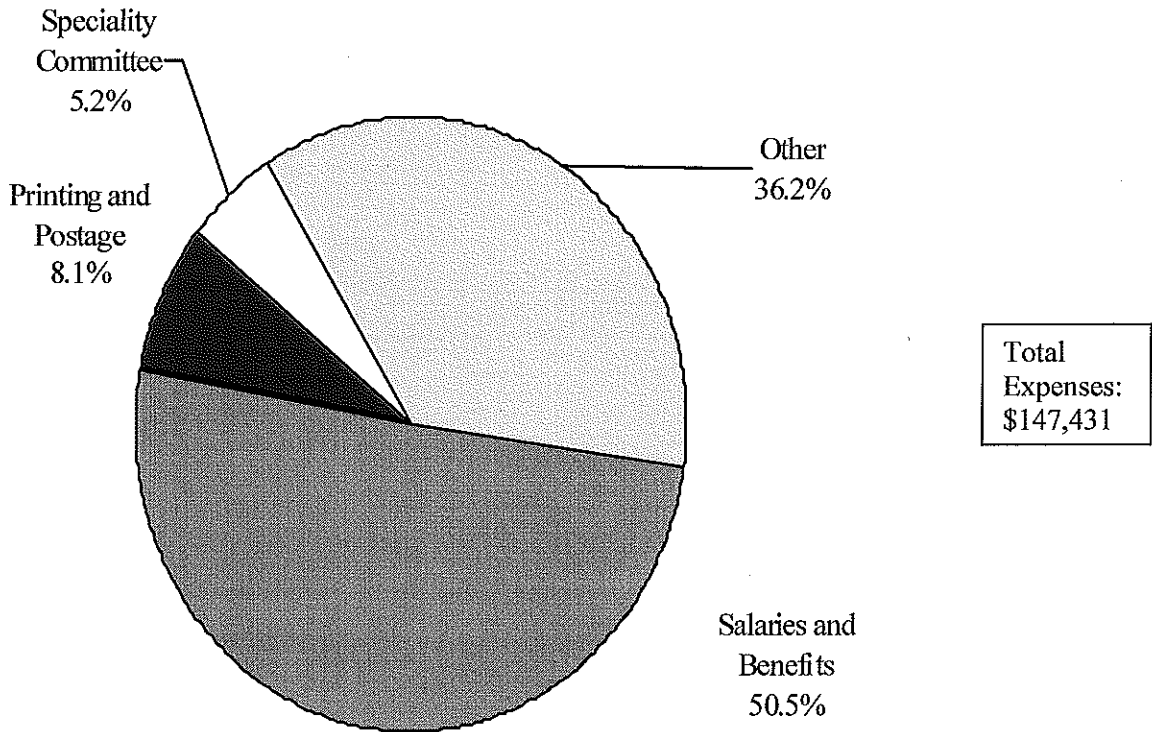
	2014	2013	2012	Current Year Amount Change	Current Year % Change
Current and other assets	\$190,062	\$191,899	\$181,122	(\$1,837)	-0.96%
Total assets	<u>\$190,062</u>	<u>\$191,899</u>	<u>\$181,122</u>	<u>(\$1,837)</u>	<u>-0.96%</u>
Current liabilities	\$10,257	\$15,059	\$8,162	(\$4,802)	-31.89%
Total liabilities	<u>\$10,257</u>	<u>\$15,059</u>	<u>\$8,162</u>	<u>(\$4,802)</u>	<u>-31.89%</u>
Fund Equity	<u>\$179,805</u>	<u>\$176,840</u>	<u>\$172,960</u>	<u>\$2,965</u>	<u>1.68%</u>

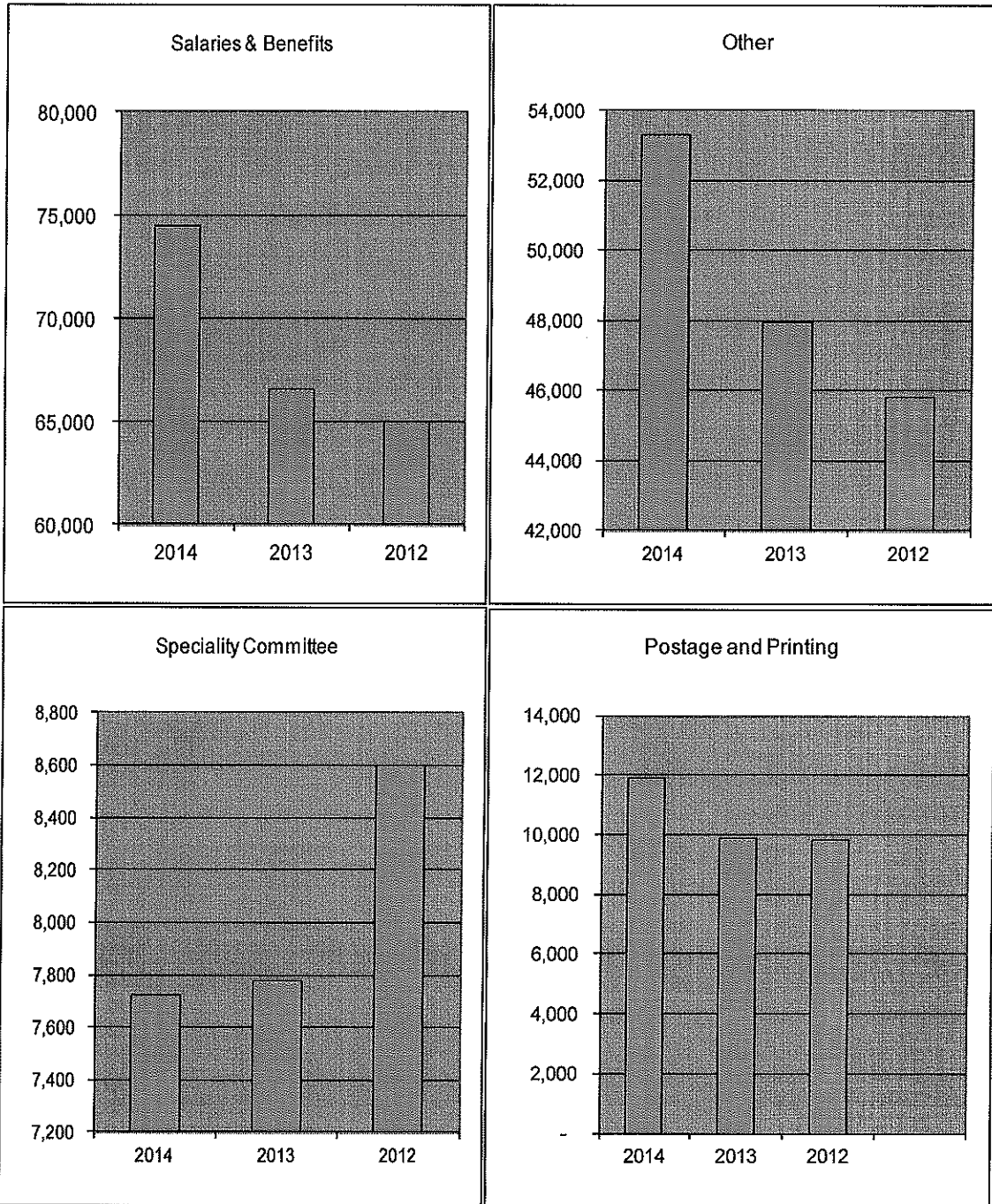
The following table provides a summary of the Board of Legal Specialization's changes in revenues and expenses for the year ended December 31:

	2014	2013	2012	Current Year Amount Change	Current Year % Change
Revenues	\$150,323	\$136,050	\$134,018	\$14,273	10.49%
Operating expenses	\$147,431	\$132,164	\$129,244	\$15,267	11.55%
Operating income	\$2,892	\$3,886	\$4,774	(\$994)	-25.58%
Interest income	\$73	(\$6)	\$89	\$79	-1316.67%
Net income	<u>\$2,965</u>	<u>\$3,880</u>	<u>\$4,863</u>	<u>(\$915)</u>	<u>-23.58%</u>

As shown in the tables above, the primary revenue sources for the Board of Legal Specialization are application fees for those seeking initial certification, examination fees for those qualified to sit for the examination, recertification fees for those seeking to renew their credentials every five years, and annual participation fees. The application fee was \$250. The examination fee was \$150. The recertification fee was \$250 and the annual fee was \$100. In the three year period of 2014 through 2012, all these revenue categories increased modestly. This may be in part, due to the addition of a new specialty in 2013.

### 2014 OPERATING EXPENSES





As highlighted in the charts above, Legal Specialization’s expenses increased in its three main categories (salaries and benefits; specialty committees and other) over the three year period from 2012-2014.

### **Budgetary Highlights**

The Board 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 Board on an as needed basis.

### **Capital Assets**

The Board's had fully-depreciated capital assets having a historical cost of \$50,609 as of December 31, 2014.

### **Long Term Debt**

The Board did not have long term debt obligations outstanding as of December 31, 2014.

### **Other Factors**

The Board has been self-sufficient financially for many years. It receives no subsidy from the general revenues of the North Carolina State Bar. The number of applications for specialty certification has increased each year for the last three years and, because of the value of certification, existing specialists generally seek recertification unless retiring from the practice of law. Therefore, continued growth in the total number of specialists is anticipated. The Board continues to research appropriate areas for new specialties; however, none are currently in development.

**Audited Financial Statements**





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

### Independent Auditors' Report

The Board of Trustees  
The North Carolina State Bar  
Board of Legal Specialization

#### Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina State Bar Board of Legal Specialization, 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 Board of Legal Specialization 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.

## Independent Auditors' Report, Continued

The Board of Trustees  
The North Carolina State Bar  
Board of Legal Specialization

### 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

THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Balance Sheets

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets - cash and cash equivalents	\$ 190,062	191,899
Property and equipment, net	<u>-</u>	<u>-</u>
	<u>\$ 190,062</u>	<u>191,899</u>
<u>Liabilities and Fund Equity</u>		
Current liabilities:		
Payable to Paralegal Certification	\$ -	7,050
Payable to State Bar	454	(2)
Pension contribution payable	5,586	5,603
Accrued vacation	<u>4,217</u>	<u>2,408</u>
Total current liabilities	10,257	15,059
Fund equity - retained earnings	<u>179,805</u>	<u>176,840</u>
	<u>\$ 190,062</u>	<u>191,899</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Statements of Revenue, Expenses and Changes in Fund Equity

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues - specialization fees	\$ <u>150,323</u>	<u>136,050</u>
Operating expenses:		
Salaries	57,656	55,564
Postage and printing	11,904	9,863
State Bar overhead charge	12,225	12,225
Specialty committee	7,721	7,780
Board meetings	7,539	6,430
Community outreach	3,717	6,083
Staff travel	3,730	3,745
Depreciation	-	728
Test administration	6,171	2,680
Rent	2,880	2,880
Payroll taxes	2,924	3,606
Copying	1,155	1,082
Professional fees	2,673	2,075
Chairman's travel	3,324	1,108
Pension contributions	5,585	5,612
Employee benefits and parking	8,327	1,765
Insurance	1,137	1,146
Telephone	534	614
Exam analysis	6,600	6,702
Other	1,629	476
Total operating expenses	<u>147,431</u>	<u>132,164</u>
Operating income	2,892	3,886
Nonoperating revenues (expenses):		
Interest income	<u>73</u>	<u>(6)</u>
Net income	2,965	3,880
Fund equity, beginning of year	<u>176,840</u>	<u>172,960</u>
Fund equity, end of year	<u>\$ 179,805</u>	<u>176,840</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating activities:		
Cash receipts from fees	\$ 150,323	136,050
Payments to employees	(72,700)	(66,806)
Payments to suppliers	<u>(79,533)</u>	<u>(57,733)</u>
Net cash (used in) provided by operating activities	<u>(1,910)</u>	<u>11,511</u>
Investing activities - interest received	<u>73</u>	<u>(6)</u>
Net change in cash and cash equivalents	(1,837)	11,505
Cash and cash equivalents, beginning of year	<u>191,899</u>	<u>180,394</u>
Cash and cash equivalents, end of year	<u>\$ 190,062</u>	<u>191,899</u>
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating income	\$ 2,892	3,886
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Depreciation expense	-	728
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	<u>(4,802)</u>	<u>6,897</u>
Net cash (used in) provided by operating activities	<u>\$ (1,910)</u>	<u>11,511</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Notes to Financial Statements

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies

The Organization

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. Legal Specialization is a standing committee of the Council of the North Carolina State Bar ("the Bar"), which is an agency of the State of North Carolina.

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 Legal Specialization 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 Legal Specialization, as presented in the accompanying financial statements, are classified and accounted for as an Enterprise Fund, whereby Legal Specialization 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.

THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

	<u>2014</u>	<u>2013</u>
BB&T money market account	\$ <u>190,062</u>	<u>191,899</u>
	\$ <u>190,062</u>	<u>191,899</u>

Branch Banking & Trust (BB&T) has pledged securities to secure balances, if any, in excess of federally insured limits. Deposits with the North Carolina State Treasurer, if any, are insured by the State of North Carolina.

Property and Equipment

Property and equipment at December 31, 2014 and 2013, consist primarily of fully-depreciated software having a historical cost of \$50,609. Certain other fixed assets used by Legal Specialization are owned by the Bar.

Fees

Fees are recognized in the period earned, which is usually the period in which the fees are paid.

Unemployment Compensation

Legal Specialization recognizes its self-insured obligation for unemployment compensation in the period of the related employee termination.

Income Taxes

Legal Specialization is a governmental agency whose net income is exempt from federal income taxes under the Internal Revenue Code.

THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

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, accounts payable and accrued liabilities approximate the respective fair values based on the short maturities of those financial instruments.

Subsequent Events

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

(2) Pension Plan

Legal Specialization 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, Legal Specialization contributes 10% of such participant's annual compensation to the Plan. Total pension costs under the Plan totaled \$5,585 and \$5,612 for 2014 and 2013, respectively.



THE NORTH CAROLINA STATE BAR  
BOARD OF LEGAL SPECIALIZATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(3) Transactions with The North Carolina State Bar

The Bar provides various support to Legal Specialization including staffing and use of the Bar's computer, postage meter, copy machine, and fax machine. The Bar submits a monthly bill for various services to Legal Specialization. Charges for such totaled \$6,378 and \$4,469 in 2014 and 2013, respectively. Legal Specialization owed the Bar \$454 and \$(2) for support services and other charges as of December 31, 2014 and 2013, respectively.

Legal Specialization rents office space in the Bar's headquarters. Rent expense was \$2,880 in 2014 and 2013. In addition, Legal Specialization is charged an overhead fee for various costs incurred by the State Bar in support of Legal Specialization. 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 Legal Specialization was \$12,225 for 2014 and 2013.