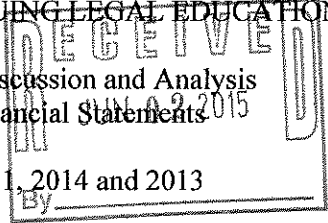


THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

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 Continuing Legal Education's financial report represents our discussion and analysis of the financial performance of the Board of Continuing Legal Education 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 \$383,555 (fund equity) for the year ended December 31, 2014. In 2013 and 2012, fund equity was \$344,046 and \$366,041 respectively.
- The Board's total liabilities were \$114,007 at December 31, 2014. This was a decrease from 2013 by \$2,815 and an increase of \$44,487 from 2012. The latter increase was primarily due to the new calculation of the Lawyer's Assistance Program contribution which began in 2012.

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

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

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

The North Carolina State Bar Board of Continuing Legal Education was established by order of the North Carolina Supreme Court on October 7, 1987. 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 Board of Continuing Legal Education began operations on January 1, 1988 and was given the responsibility for administering the mandatory continuing legal education program for attorneys licensed to practice law in North Carolina. The financial activities of Board of Continuing Legal Education are classified and accounted for as an Enterprise Fund, whereby the Board 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 Board of Continuing Legal Education. They immediately follow the basic financial statements.

**Financial Analysis of the Board of Continuing Legal Education**

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 Board of Continuing Legal Education as a whole.

The Board's fund equity at December 31, 2014 was \$383,555. This was a \$39,509 increase from 2013 and a \$17,514 increase from 2012. The following table provides a summary of the Board of Continuing Legal Education's fund equity as of December 31:

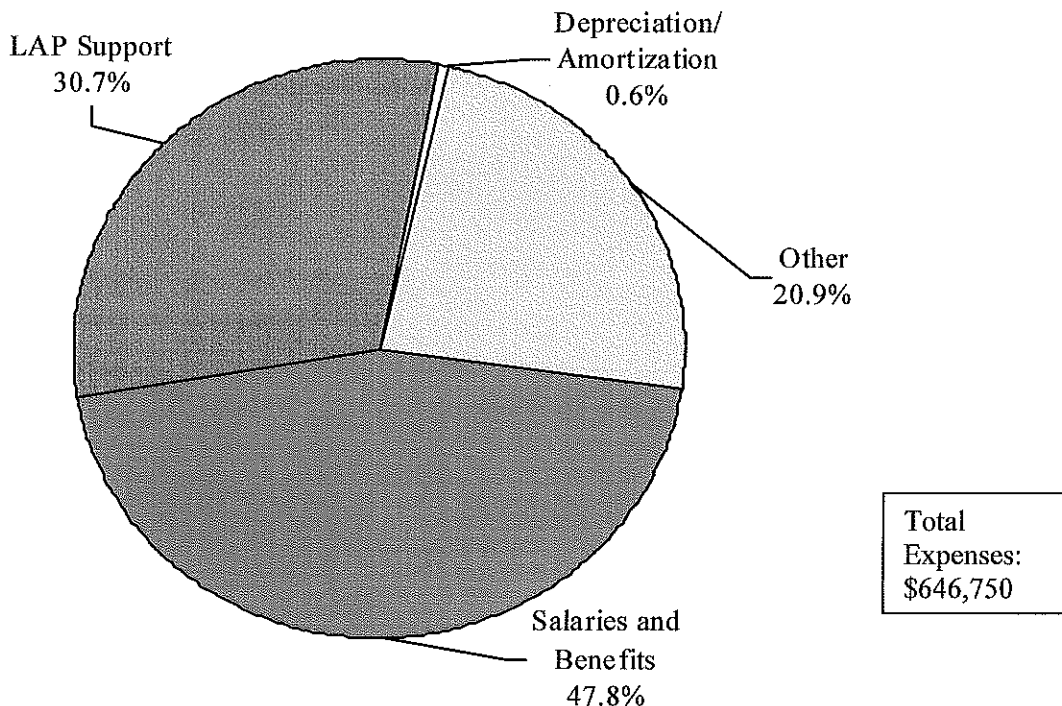
	2014	2013	2012	Current Year Amount Change	Current Year % Change
Current and other assets	\$488,792	\$457,556	\$413,516	\$31,236	6.83%
Capital assets	\$8,770	\$3,312	\$22,045	\$5,458	164.79%
Total assets	\$497,562	\$460,868	\$435,561	\$36,694	7.96%
Current liabilities	\$114,007	\$116,822	\$69,520	(\$2,815)	-2.41%
Total liabilities	\$114,007	\$116,822	\$69,520	(\$2,815)	-2.41%
Fund Equity	\$383,555	\$344,046	\$366,041	\$39,509	11.48%

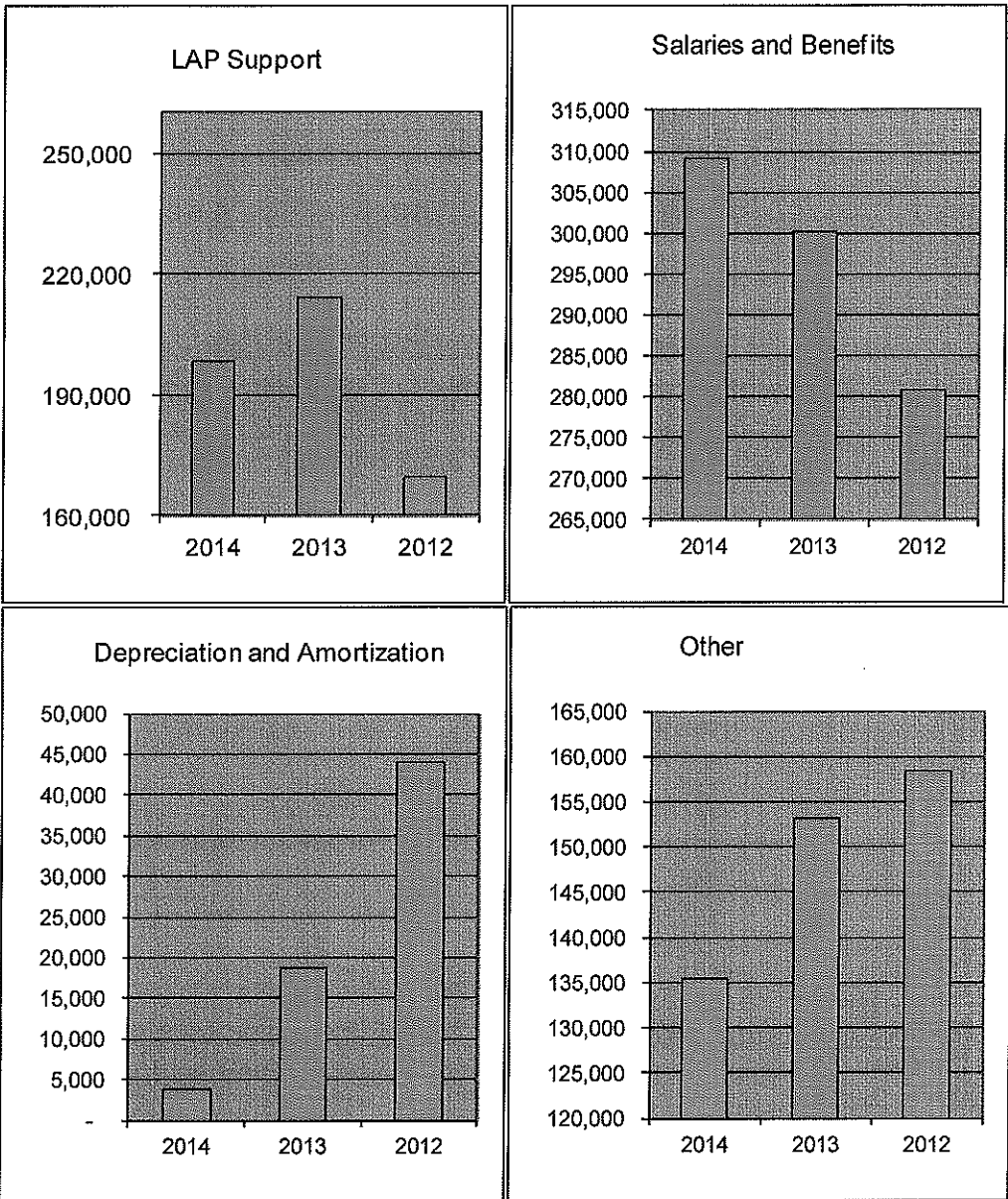
The following table provides a summary of the Board of Continuing Legal Education's changes in revenues and expenses for the year ended December 31:

	2014	2013	2012	Current Year Amount Change	Current Year % Change
Revenues	\$686,253	\$664,397	\$646,041	\$21,856	3.29%
Operating expenses	\$646,750	\$686,423	\$652,845	(\$39,673)	-5.78%
Operating income (loss)	\$39,503	(\$22,026)	(\$6,804)	\$61,529	-279.35%
Interest income	\$6	\$31	\$154	(\$25)	-80.65%
Loss on disposal of fixed asset	\$0	\$0	(\$554)	\$0	
Net income (loss)	\$39,509	(\$21,995)	(\$7,204)	\$61,504	-279.63%

As shown in the tables above, the primary revenue sources for the Board of Continuing Legal Education are sponsor and attendee fees, as well as penalties. Lawyers who attend approved CLE events are required to pay a fee of \$1.25 per credit hour to the Board to support its administration of the program. In most instances, sponsors of the CLE events collect and transmit these sums to the Board as "sponsor fees." Historically, this fee structure, along with substantial revenue derived from "penalties" assessed against lawyers who belatedly comply with their CLE obligations, have contributed to the generation of considerable annual surpluses. These surpluses have been used to maintain operating reserves and to subsidize the operation of the State Bar's Lawyer Assistance Program.

### 2014 OPERATING EXPENSES





The Board's total operating expenses in 2014 decreased relative to 2013's and 2012's.

**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 of Continuing Legal Education's investment in capital assets as of December 31, 2014 totaled \$8,770 (net of accumulated depreciation and amortization).

### **Long Term Debt**

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

### **Other Factors**

The Board of Continuing Legal Education is in good condition financially. Given that the membership of the North Carolina State Bar is expected to grow at between three and four percent a year indefinitely, the Board's primary revenue stream appears secure and likely to increase.

On the expense side, the Board's operational costs decreased in 2014, and appear to be well in hand. In 2012, the Board of Continued Legal Education changed the timing and calculation for the Lawyers' Assistance Program (LAP) subsidy to be based on actual expenses incurred by CLE (rather than budgeted expenses) and to transfer only those funds in excess of a cash reserve of \$200,000. This change in the timing and formula for the LAP subsidy will enable the Board to better control cash flow and predict the effect of the subsidy on its financial standing.

**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 Continuing Legal Education

#### **Report on the Financial Statements**

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

### 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 CONTINUING LEGAL EDUCATION

Balance Sheets

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 279,922	287,066
Fees receivable, net	208,870	170,490
Total current assets	<u>488,792</u>	<u>457,556</u>
Property and equipment, net	<u>8,770</u>	<u>3,312</u>
	<u>\$ 497,562</u>	<u>460,868</u>
<u>Liabilities and Fund Equity</u>		
Current liabilities:		
Payable to the North Carolina State Bar	\$ 81,732	87,066
Other payables	34	(35)
Accrued vacation	8,465	7,734
Pension contribution payable	23,776	22,057
Total current liabilities	<u>114,007</u>	<u>116,822</u>
Fund equity - retained earnings	<u>383,555</u>	<u>344,046</u>
	<u>\$ 497,562</u>	<u>460,868</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

Statements of Revenues, Expenses and Changes in Fund Equity

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Sponsor and attendee fees	\$ 467,231	422,578
Penalty income	219,022	241,819
Total operating revenues	<u>686,253</u>	<u>664,397</u>
Operating expenses:		
Support provided the North Carolina State Bar (LAP)	198,242	214,191
Salaries	245,485	241,894
State Bar overhead charge	36,800	36,800
Depreciation	3,787	18,733
Postage	14,991	26,076
Employee benefits	22,509	21,690
Pension contributions	23,776	22,057
Bulk mailing	22,061	26,335
Miscellaneous	6,295	9,190
Computer use charges	17,724	17,724
Rent	14,400	14,400
Payroll taxes	17,452	14,623
Audit and professional services	10,690	8,300
Parking	984	2,816
General insurance	3,407	3,389
Office equipment	-	746
Staff travel	1,942	857
Printing	3,035	4,043
Telephone	1,393	1,440
Office supplies	1,777	1,119
Total operating expenses	<u>646,750</u>	<u>686,423</u>
Operating income (loss)	39,503	(22,026)
Nonoperating revenues (expenses):		
Interest income	<u>6</u>	<u>31</u>
Net income (loss)	39,509	(21,995)
Fund equity, beginning of year	<u>344,046</u>	<u>366,041</u>
Fund equity, end of year	<u>\$ 383,555</u>	<u>344,046</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating activities:</b>		
Cash received from program participants	\$ 647,873	663,715
Cash payments to the Bar and suppliers	(339,006)	(324,103)
Cash payments to employees	<u>(306,772)</u>	<u>(296,285)</u>
Net cash provided by operating activities	<u>2,095</u>	<u>43,327</u>
<b>Capital and related financing activities:</b>		
Purchases of property and equipment	(9,245)	-
<b>Investing activities - interest received</b>		
	<u>6</u>	<u>31</u>
Net change in cash and cash equivalents	(7,144)	43,358
Cash and cash equivalents, beginning of year	<u>287,066</u>	<u>243,708</u>
Cash and cash equivalents, end of year	<u>\$ 279,922</u>	<u>287,066</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 39,503	(22,026)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	3,787	18,733
Changes in operating assets and liabilities:		
Fees receivable	(38,380)	(682)
Accounts payable and accrued expenses	<u>(2,815)</u>	<u>47,302</u>
Net cash provided by operating activities	<u>\$ 2,095</u>	<u>43,327</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

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 Continuing Legal Education ("CLE") was established by order of the North Carolina Supreme Court on October 7, 1987. CLE is a standing committee of the Council to the North Carolina State Bar ("the Bar"), which is an agency of the State of North Carolina. CLE began operations on January 1, 1987, and was given the responsibility for administering the continuing legal education program for attorneys licensed to practice law in 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 Continuing Legal Education 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 CLE, as presented in the accompanying financial statements, are classified and accounted for as an Enterprise Fund, whereby CLE 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 CONTINUING LEGAL EDUCATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Cash and Cash Equivalents

CLE 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:

	<u>2014</u>	<u>2013</u>
Checking accounts (BB&T)	\$ 191,730	94,616
BB&T money market account	<u>88,192</u>	<u>192,450</u>
	<u>\$ 279,922</u>	<u>287,066</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.

Fees Receivable

Fees receivable are estimated based on fees billed in March following year end. CLE provides an allowance for uncollectible accounts based on management's review of all outstanding receivables. The allowance totaled \$3,000 as of December 31, 2014 and 2013.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, ranging from three to seven 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. Fully-depreciated fixed assets having

THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

an aggregate cost of \$0 and \$26,773 were written-off in 2014 and 2013, respectively, based on management's identification of assets no longer used by CLE. Disposed assets are sent to the State surplus.

Revenue Recognition

Revenue consists primarily of fees from attorneys or providers for each approved credit hour of continuing education and is recognized in the period in which the program is held. Penalties are charged for late filing and late compliance. Income from penalties is recognized in the period of collection. The CLE program assesses an additional \$1 per CLE credit hour (for a total of \$3.00 per credit hour) to provide financial support to the Chief Justice's Commission on Professionalism. In 2014 and 2013, the CLE program assessed an additional \$.75 per CLE credit hour to provide financial support to the North Carolina Equal Access to Justice Commission (\$.50) and to compensate the State Bar (\$.25) for administering the funds distributed to the commissions. CLE collected and disbursed assessments as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Chief Justice's Commission on Professionalism	\$ 330,172	\$ 327,547
North Carolina Equal Access to Justice Commission	179,062	175,524
North Carolina State Bar	80,306	79,290

Assessments other than the \$1.25 per CLE credit hour to administer the CLE program are not included in revenues or expenses in the accompanying financial statements.

Unemployment Compensation

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



THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Income Taxes

CLE 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 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.

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:

	<u>2014</u>	<u>2013</u>
Computer equipment and software	\$ 565,736	556,491
Furniture and office equipment	<u>40,177</u> 605,913	<u>40,177</u> 596,668
Less accumulated depreciation and amortization	<u>(597,143)</u>	<u>(593,356)</u>
	<u>\$ 8,770</u>	<u>3,312</u>

THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(2) Property and Equipment, Continued

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$3,787 and \$18,733, respectively.

(3) Pension Plan

CLE 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, CLE contributes 10% of such participant's annual compensation to the Plan. Total pension costs under the Plan totaled \$23,776 and \$22,057 for 2014 and 2013, respectively.

(4) Related Party Transactions

In April 1998, CLE's Board resolved that, retroactive to January 1, 1998, \$150,000 or fifty percent of the total budgeted expenses for the current year, whichever amount is greater, shall be held by the CLE Board in a reserve fund and that the surplus shall be given to the Council of The North Carolina State Bar to be used for the Lawyers Assistance Program (LAP).

In 2012, the CLE's Board revised the calculation of the Lawyers Assistance Program (LAP) contribution in that the CLE Board would at all times retain a cash reserve of \$200,000 and the remaining cash surplus will be the contribution to the Lawyer's Assistance Program. This leads to an estimated donation during the year with a final payment of surplus cash made in the first quarter of the subsequent year. In 2014, the CLE program gave \$118,320 to LAP and will give an additional contribution of \$79,922, in the first quarter of 2015. In 2013, the CLE program gave \$127,125 to LAP and an additional contribution of \$87,066 in the first quarter of 2014.

The Bar provides various support to CLE including staff time, use of the Bar's computer, postage meter, copy machine, and fax machine. The Bar submits a monthly bill for various services to CLE. Charges for such totaled \$36,493 and \$41,874 in 2014 and 2013, respectively. CLE did not owe the Bar as of December 31, 2014 and 2013, for support services.

THE NORTH CAROLINA STATE BAR  
BOARD OF CONTINUING LEGAL EDUCATION

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(4) Related Party Transactions, Continued

CLE rents office space in the Bar's headquarters. Rent expense was \$14,400 for both 2014 and 2013. In addition, 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 Board. The overhead fee for Continuing Legal Education was \$36,800 for 2014 and 2013.

CLE provides various support services to the Chief Justice's Commission on Professionalism and charges the Commission for these services equal to the amount of interest earned on the Commission's investments. This totaled \$6 and \$31 in 2014 and 2013, respectively.