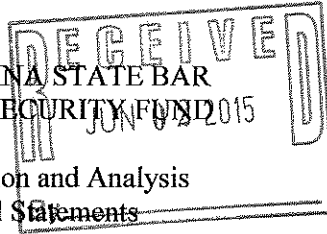


THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND



Management Discussion and Analysis
Audited Financial Statements

September 30, 2014 and 2013

Management Discussion and Analysis

Management Discussion and Analysis

This section of the Client Security Fund's financial report represents our discussion and analysis of the financial performance of the Board of Trustees of the Client Security Fund of the North Carolina State Bar for the years ended September 30, 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 \$1,051,487 (fund equity) for the year ended September 30, 2014. This was a decrease from the previous year when assets exceeded liabilities by \$1,370,018. In 2012, assets exceeded liabilities by \$1,650,261.
- The Board's total liabilities were \$17,951 at September 30, 2014. This was a decrease from 2013 when liabilities were at \$20,269 and very similar to 2012 at \$17,662.

Overview of the Financial Statements

The audited financial statements of the Board of Trustees of the Client Security Fund consist of three components. They are as follows:

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

The Client Security Fund of the North Carolina State Bar ("the Fund") was created by direction of the North Carolina Supreme Court in 1984 and became operational on January 1, 1985. The Fund's Board of Trustees 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. Funds collected and administered by the Board are segregated and are used to reimburse clients who have been victimized by the dishonest conduct of their attorneys. The financial activities of the Board 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 Fund'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 Fund'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 Fund. They immediately follow the basic financial statements.

Financial Analysis of the Board of Trustees of the Client Security Fund

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 Fund.

The Fund's fund equity at September 30, 2014 was \$1,051,487. This was a \$318,531 decrease over last year's fund equity of \$1,370,018, as well as a decrease of \$598,774 from 2012. The following table provides a summary of the Fund's fund equity as of September 30:

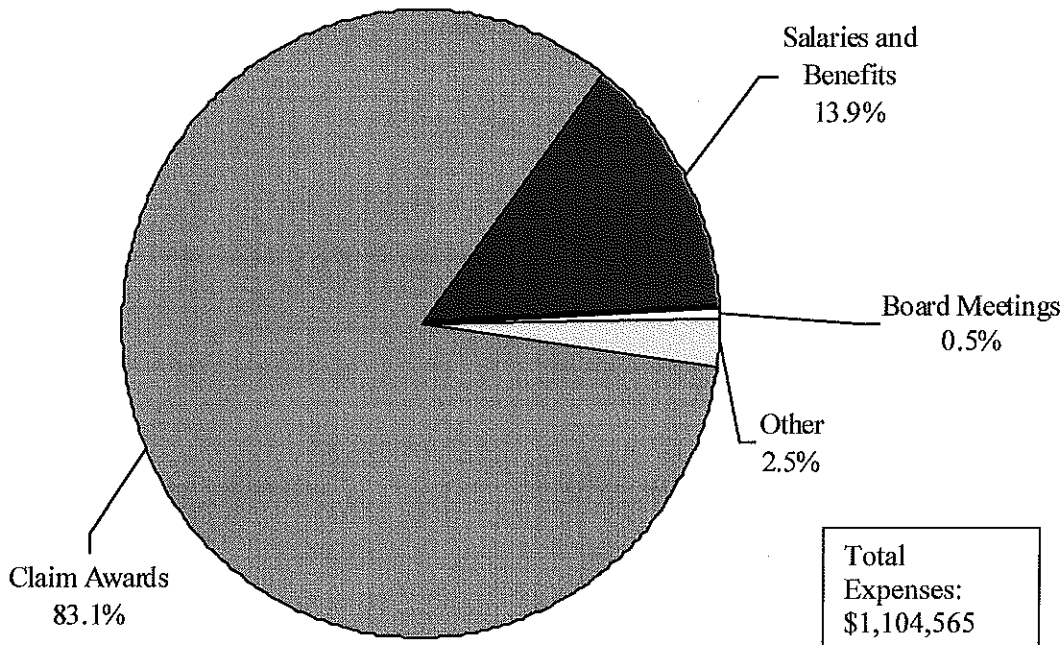
	2014	2013	2012	Current Year Amount Change	Current Year % Change
Current and other assets	\$1,069,438	\$1,390,287	\$1,667,923	(\$320,849)	-23.08%
Total assets	<u>\$1,069,438</u>	<u>\$1,390,287</u>	<u>\$1,667,923</u>	<u>(\$320,849)</u>	<u>-23.08%</u>
Current liabilities	\$17,951	\$20,269	\$17,662	(\$2,318)	-11.44%
Total liabilities	<u>\$17,951</u>	<u>\$20,269</u>	<u>\$17,662</u>	<u>(\$2,318)</u>	<u>-11.44%</u>
Fund Equity	<u>\$1,051,487</u>	<u>\$1,370,018</u>	<u>\$1,650,261</u>	<u>(\$318,531)</u>	<u>-23.25%</u>

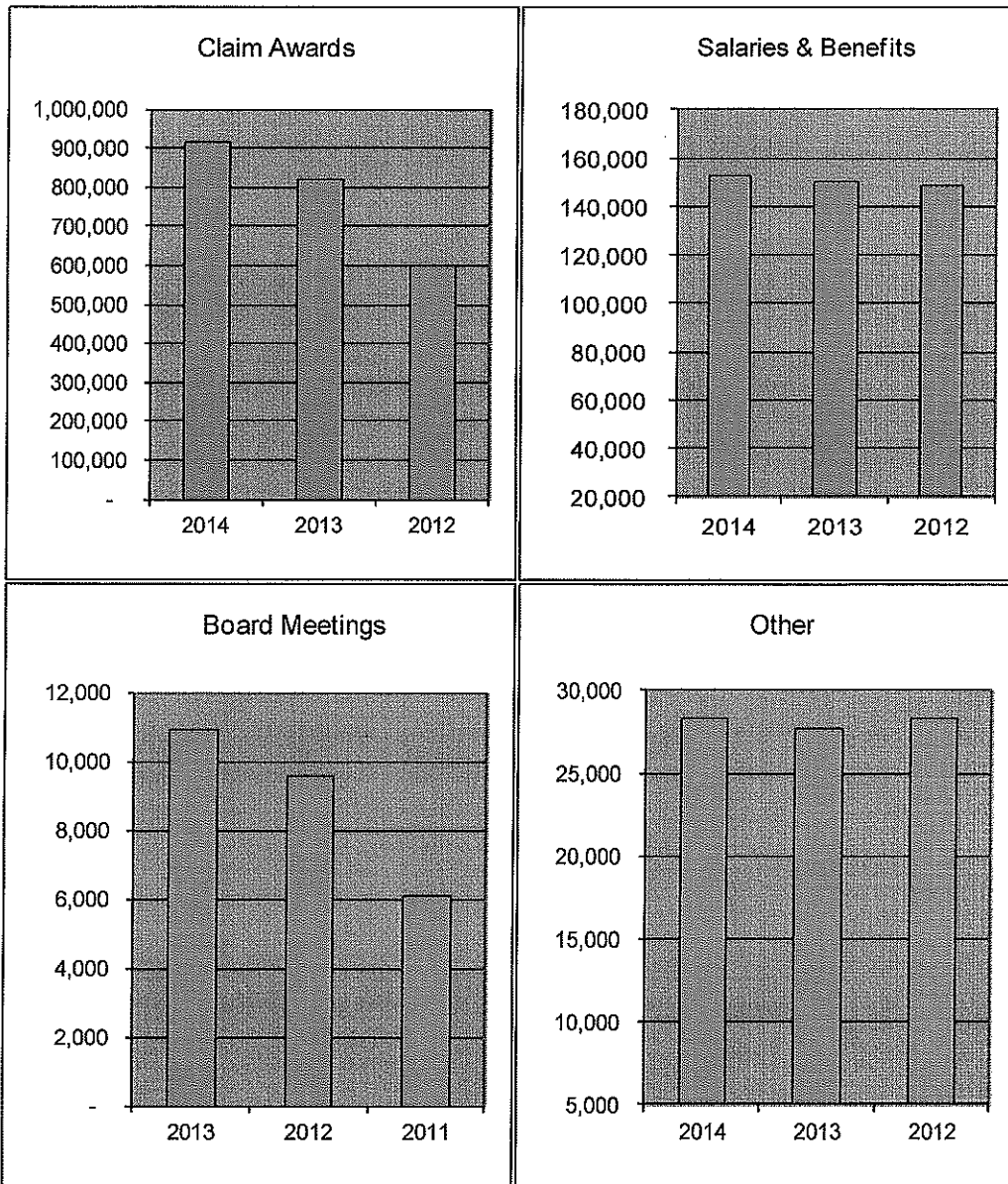
The following table provides a summary of the Fund's changes in revenues and expenses for the years ended September 30:

	2014	2013	2012	Current Year Amount Change	Current Year % Change
Revenues	\$785,346	\$728,173	\$741,424	\$57,173	7.85%
Operating expenses	\$1,104,565	\$1,009,786	\$783,750	\$94,779	9.39%
Operating loss	<u>(\$319,219)</u>	<u>(\$281,613)</u>	<u>(\$42,326)</u>	<u>(\$37,606)</u>	<u>13.35%</u>
Interest income	\$688	\$1,370	\$3,098	(\$682)	-49.78%
Net loss	<u>(\$318,531)</u>	<u>(\$280,243)</u>	<u>(\$39,228)</u>	<u>(\$38,288)</u>	<u>13.66%</u>

The Fund's overall financial position decreased during 2014 and 2013. Both years were affected by an increase in the number of claims awarded. As shown in the tables above, the Fund's primary revenue source is an annual assessment of the State Bar's active membership ordered by the North Carolina Supreme Court. In 2014-2011, the amount of the assessment was \$25.00. Since 1985 the assessment has varied between \$0.00 and \$50.00, depending mainly on the Fund's claims experience, and the number and size of pending and anticipated claims. The magnitude of each year's assessment is also a function of the Supreme Court's intention that there be maintained at all times a reserve of at least \$1,000,000.

2014 OPERATING EXPENSES





As highlighted in the charts above, the Fund's expenses increased in 2014 by \$94,779, following a larger increase in 2013 and a small increase in 2012. This was due mainly to fluctuations in claims paid. The Fund's administrative expenses were in line with expectations throughout all three years.

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 Client Security Fund's had fully-depreciated capital assets having a historical cost of \$50,886 as of September 30, 2014.

Long Term Debt

The Board of Client Security Fund does not have long term debt obligations outstanding as of September 30, 2014.

Other Factors

The assessments described above have historically been sufficient to enable the Client Security Fund to pay virtually all legitimate claims related to the acts of dishonest lawyers and to maintain an adequate reserve. This satisfactory state of affairs continues. Although the Client Security Fund paid more claims in 2014 than in the previous years, the fund balance was still sufficient to allow the Supreme Court to maintain the amount of the assessment for 2015 at \$25.00 per active member for the eighth consecutive year. The annual assessment will remain at that level by Court order until such time as it appears necessary to make an adjustment. This is indicative of the Fund's stability and the Board of Trustees' responsible management.

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 Client Security Fund

Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina State Bar Board of Client Security Fund, which comprise the balance sheets as of September 30, 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 North Carolina State Bar Board of Client Security Fund as of September 30, 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 Client Security Fund

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 35 hours at a cost of \$3,659.

THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND

Balance Sheets

September 30, 2014 and 2013

	2014	2013
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,069,103	1,390,739
Assessments receivable	335	(790)
Total current assets	1,069,438	1,389,949
Property and equipment, net	-	338
	\$ 1,069,438	1,390,287
<u>Liabilities and Fund Equity</u>		
Current liabilities:		
Accounts payable to the North Carolina State Bar	\$ -	3,199
Pension contribution payable	13,728	12,494
Accrued vacation	4,223	4,576
Total current liabilities	17,951	20,269
Fund equity - retained earnings	1,051,487	1,370,018
	\$ 1,069,438	1,390,287

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND

Statements of Revenues, Expenses and Changes in Fund Equity

Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Assessments	\$ 658,510	631,715
Reimbursements of claim awards	<u>126,836</u>	<u>96,458</u>
Total operating revenues	<u>785,346</u>	<u>728,173</u>
Operating expenses:		
Claim awards	917,844	820,634
Salaries	125,395	124,698
Pension contributions	13,728	12,494
Payroll taxes	9,026	8,148
Board meetings	5,423	10,934
State Bar overhead charge	17,220	17,220
Employee benefits	4,862	5,188
Postage and copying	2,660	2,353
Miscellaneous	3,534	2,976
Parking	726	830
Professional fees	2,451	2,266
Staff travel	138	740
Court fees	1,220	720
Depreciation	338	585
Total operating expenses	<u>1,104,565</u>	<u>1,009,786</u>
Operating loss	(319,219)	(281,613)
Nonoperating revenues - interest income	<u>688</u>	<u>1,370</u>
Net loss	(318,531)	(280,243)
Fund equity, beginning of year	<u>1,370,018</u>	<u>1,650,261</u>
Fund equity, end of year	<u>\$ 1,051,487</u>	<u>1,370,018</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND

Statements of Cash Flows

Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating activities:		
Cash receipts from assessments and reimbursements	\$ 784,221	727,593
Payments to employees	(153,011)	(150,528)
Payments to claimants and others	<u>(953,534)</u>	<u>(856,065)</u>
Net cash used in operating activities	<u>(322,324)</u>	<u>(279,000)</u>
Investing activities - interest received	<u>688</u>	<u>1,370</u>
Net change in cash and cash equivalents	(321,636)	(277,630)
Cash and cash equivalents, beginning of year	<u>1,390,739</u>	<u>1,668,369</u>
Cash and cash equivalents, end of year	<u>\$ 1,069,103</u>	<u>1,390,739</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (319,219)	(281,613)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	338	585
Changes in operating assets and liabilities:		
Assessments receivable	(1,125)	(580)
Accounts payable and accrued expenses	<u>(2,318)</u>	<u>2,608</u>
Net cash used in operating activities	<u>\$ (322,324)</u>	<u>(279,000)</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND

Notes to Financial Statements

September 30, 2014 and 2013

(1) The Organization and Significant Accounting Policies

The Organization

The North Carolina State Bar Board of Client Security Fund ("CSF") was created by direction of the North Carolina Supreme Court in 1984 and became operational on January 1, 1985. CSF 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. These funds are segregated and are used to reimburse clients who have been embezzled of their monies by their attorneys.

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 CSF 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 CSF, as presented in the accompanying financial statements, are classified and accounted for as an Enterprise Fund, whereby CSF 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 CLIENT SECURITY FUND

Notes to Financial Statements, Continued

September 30, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Cash and Cash Equivalents

CSF 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 September 30:

	<u>2014</u>	<u>2013</u>
Checking account (BB&T)	\$ 129,241	101,564
BB&T money market account	236,872	136,841
First Citizens' investment account	<u>702,990</u>	<u>1,152,334</u>
	<u>\$ 1,069,103</u>	<u>1,390,739</u>

BB&T and First Citizens have 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 are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to five years. Certain fixed assets used by CSF are owned by the Bar.

Claim Awards

Claim awards are recognized upon authorization by CSF. Effective June 2, 1994, the North Carolina Supreme Court limited all CSF claim awards to \$60,000 per claim or \$100,000 per attorney. Effective March 6, 1997, the North Carolina Supreme Court eliminated the per lawyer cap and increased the per claim cap to \$100,000.

THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND

Notes to Financial Statements, Continued

September 30, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Revenue Recognition

Annual assessments to attorneys are made when the Board determines the reserves are low. Revenues are recognized in the period for which the assessments are due. An assessment of \$25 per attorney was ordered for 2014 and 2013.

Reimbursements of Claim Awards

CSF may be entitled to reimbursements from named attorneys to the extent of claims awarded. These reimbursements are typically recognized upon receipt or upon completion of the appeals process.

Unemployment Compensation

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

Income Taxes

CSF 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.

THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND

Notes to Financial Statements, Continued

September 30, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

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 September 30:

	<u>2014</u>	<u>2013</u>
Computer equipment and software	\$ 44,753	44,753
Furniture and office equipment	<u>6,133</u>	<u>6,133</u>
	50,886	50,886
Less accumulated depreciation	<u>(50,886)</u>	<u>(50,548)</u>
	<u>\$ 0</u>	<u>338</u>

Depreciation expense for the years ended September 30, 2014 and 2013 was \$338 and \$585, respectively.

(3) Pension Plan

CSF 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, CSF contributes 10% of such participant's annual compensation to the Plan. Total pension costs under the Plan totaled \$13,728 and \$12,494 for 2014 and 2013, respectively.

THE NORTH CAROLINA STATE BAR
BOARD OF CLIENT SECURITY FUND

Notes to Financial Statements, Continued

September 30, 2014 and 2013

(4) Related Party Transactions

The Bar provides administrative support to CSF including staffing and use of the Bar's computer, postage meter, copy machine, and fax machine. The Bar submits monthly bills to CSF for these services. Charges for such totaled \$\$4,573 and \$2,608 in 2014 and 2013, respectively. CSF owed the Bar \$0 and \$3,199 for support services and other charges as of September 30, 2014 and 2013, respectively. In addition, CSF is charged an overhead fee for various costs incurred by the State Bar in support of CSF. 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 CSF in 2014 and 2013 was \$17,220.