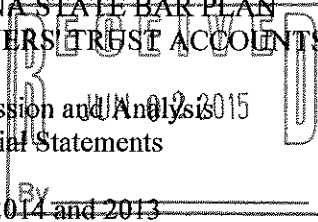


THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Management Discussion and Analysis
Audited Financial Statements

December 31, 2014 and 2013



Management Discussion and Analysis

Management Discussion and Analysis

This section of The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts' (IOLTA) financial report represents our discussion and analysis of the financial performance of IOLTA for the years ended December 31, 2014, 2013, and 2012. This information should be read in conjunction with the audited financial statements.

Financial Highlights

- IOLTA's assets exceeded its liabilities by \$327,697 (fund equity) at December 31, 2014. This is a decrease from 2013 when assets exceeded liabilities by \$840,761, and a decrease from 2012 when fund equity exceeded liabilities by \$1,053,053.
- IOLTA's total liabilities were \$2,156,852 at December 31, 2014. This is a decrease from 2013 and 2012 when total liabilities were \$2,570,687 and \$2,572,704, respectively.

Overview of the Financial Statements

The audited financial statements of IOLTA consist of three components. They are as follows:

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

IOLTA was approved by the North Carolina Supreme Court on June 23, 1983 and was implemented by the North Carolina State Bar in January 1984. Participating attorneys allow interest earned, net of service charges, on certain trust accounts to be transferred to the IOLTA program. The funds received are used for funding grants to providers of legal services for the indigent and for funding programs concerned with the improvement of the administration of justice. The Board of Trustees of IOLTA was created as a standing committee of the Council of the North Carolina State Bar ("the Bar") pursuant to Chapter 84 of the North Carolina General Statutes for the disposition of funds received by the North Carolina State Bar from interest on trust accounts. The financial activities of IOLTA are classified and accounted for as an Enterprise Fund, whereby IOLTA 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 IOLTA's entire 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 IOLTA'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 non-cash 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 IOLTA. They immediately follow the basic financial statements.

Financial Analysis of IOLTA

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 IOLTA as a whole.

IOLTA's fund equity at December 31, 2014 is \$327,697. This is a \$513,064 decrease over last year's fund equity of \$840,761. The following table provides a summary of the Plan for Interest on Lawyers' Trust Accounts' fund equity as of December 31:

	2014	2013	2012	Current Year Amount Change	Current Year % Change
Current and other assets	\$2,484,549	\$3,411,448	\$3,625,757	(\$926,899)	-27.17%
Total assets	<u>\$2,484,549</u>	<u>\$3,411,448</u>	<u>\$3,625,757</u>	<u>(\$926,899)</u>	<u>-27.17%</u>
Current liabilities	\$2,156,852	\$2,570,687	\$2,572,704	(\$413,835)	-16.10%
Total liabilities	<u>\$2,156,852</u>	<u>\$2,570,687</u>	<u>\$2,572,704</u>	<u>(\$413,835)</u>	<u>-16.10%</u>
Fund Equity	<u>\$327,697</u>	<u>\$840,761</u>	<u>\$1,053,053</u>	<u>(\$513,064)</u>	<u>-61.02%</u>

IOLTA's overall financial position decreased during 2014. Any excess cash is invested with the State Treasurer to maximize interest earnings.

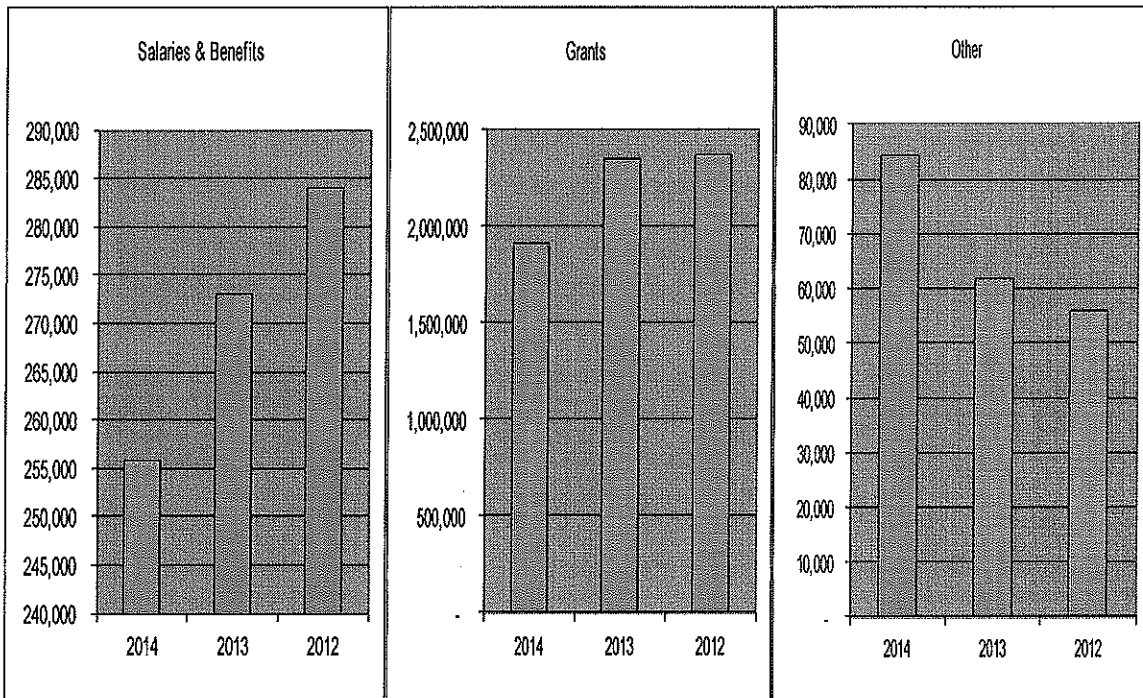
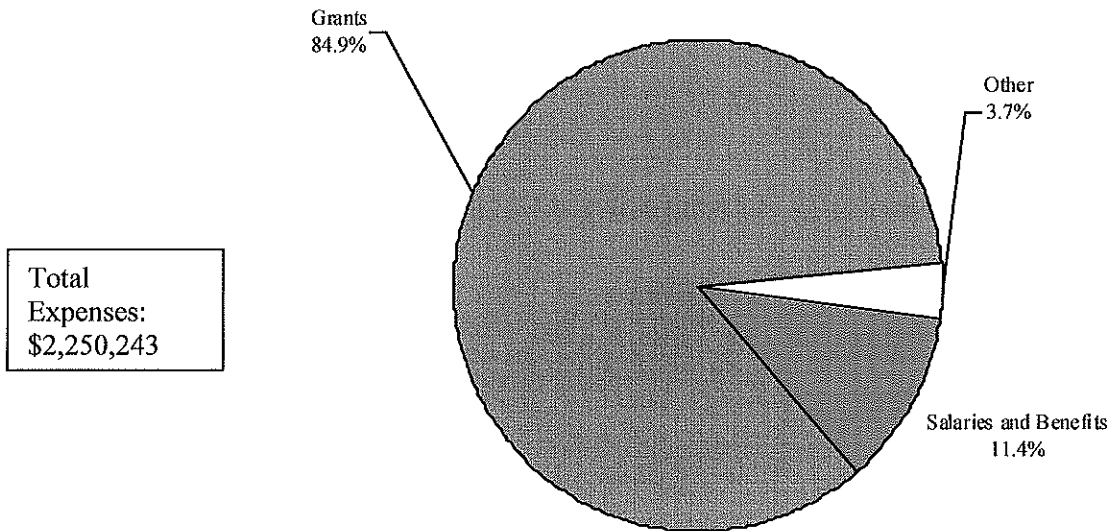
The following table provides a summary of IOLTA's changes in revenues and expenses for the years ended December 31:

	2014	2013	2012	Current Year Amount Change	Current Year % Change
Revenues IOLTA Accounts	\$1,689,792	\$1,778,424	\$1,954,699	(\$88,632)	-4.98%
Cy Pres	\$5,764	\$657,282	\$1,286,473	(\$651,518)	-99.12%
Settlement agent accounts	26,850	34,505	35,694	(\$7,655)	-22.19%
Operating expenses	2,250,243	2,691,021	2,711,263	(440,778)	-16.38%
Operating loss	(\$527,837)	(\$220,810)	\$565,603	(\$307,027)	139.05%
Miscellaneous income	9,000	-	-	\$9,000	
Interest income	5,773	8,518	9,568	(\$2,745)	-32.23%
Net (loss) income	(\$513,064)	(\$212,292)	\$575,171	(\$300,772)	141.68%

The primary revenue source for IOLTA is participant income. Participant income in 2014 decreased by 5% compared to 2013. Participant income in 2013 decreased by 9% compared to 2012. The decreases can be attributed to market conditions which include declining interest rates and reduced average balances held in IOLTA accounts. In 2014 Cy Pres funds were \$5,764 while in 2013 and 2012, IOLTA received \$657,282 and \$1,286,473, respectively from Cy Pres Awards. The 2013 funds were from residuals from three North Carolina payday lending cases that were settled in 2010 (\$527,720) and \$129,562 from a multi-state settlement agreement. The funds in 2012 were from residuals directed to IOLTA programs across the country in a Washington state class action case. IOLTA decreased grant funding for 2015 by 19.29% and used \$500,000 from reserves. IOLTA maintained grant funding for 2014 at approximately 2013 and 2012 levels by using \$215,000 from the designated (assigned) fund equity.

The balance in the designated (assigned) reserve fund equity as of December 31, 2014 was \$245,154. The purpose of this designation is so IOLTA will have the ability to maintain grant award levels in times of economic downturn. Lastly, IOLTA managed \$3,134,294 in state funds in 2014. IOLTA expenses include the cost of administering these funds as no state funds may be used for administration.

2014 OPERATING EXPENSES



As highlighted in the charts above, IOLTA's expenses decreased in 2014 by \$440,778.

Budgetary Highlights

IOLTA uses budgetary tools internally to measure and control revenues and expenses. Budget to actual variances are examined by the Finance Committee and the Board of Trustees on a monthly basis. Variances are reviewed at Board Meetings and any adjustments to budgets are approved by the IOLTA Board.

Capital Assets

IOLTA has an investment in a new grant tracking software program as of December 31, 2014.

Long Term Debt

IOLTA does not have long term debt obligations outstanding as of December 31, 2014.

Other Factors

An amendment to the Good Funds Settlement Act (N.C. Gen. Stat. 45A-9) requires that interest bearing trust or escrow accounts of settlement agents handling closing and loan funds be set up as IOLTA accounts and directed the NC State Bar to adopt rules to administer such accounts. Our reading of the legislation is that it does not require settlement agents to maintain interest bearing trust or escrow accounts but requires that, if they do maintain an interest bearing trust or escrow account, it must be set up as an IOLTA account. This requirement is in effect as of January 1, 2012. Revisions to the IOLTA rules have been approved by the NC State Bar Council and were approved by the NC Supreme Court on March 8, 2012.

Effective January 1, 2012, interest bearing trust or escrow accounts of settlement agents handling closing and loan funds must be set up as IOLTA accounts. A code has been added to IOLTA software to track accounts of "settlement agent only" accounts, defined as IOLTA accounts of settlement agents that are not associated with an attorney licensed in North Carolina. In 2014, 2013, and 2012, interest of \$26,850, \$34,505 and \$35,694 was earned, respectively.

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 Plan
for Interest on Lawyers' Trust Accounts

Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts ("IOLTA"), 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 IOLTA 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 Plan
for Interest on Lawyers' Trust Accounts

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 PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Balance Sheets

December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 2,025,021	2,971,291
Cash held in agency	216,492	213,069
Interest receivable	221,154	223,659
Other current assets	8,549	3,429
Total current assets	<u>2,471,216</u>	<u>3,411,448</u>
 Furniture, Equipment and Software, at cost:		
Furniture and equipment	6,630	6,630
Software	15,000	-
Less accumulated depreciation	<u>(8,297)</u>	<u>(6,630)</u>
	<u>13,333</u>	<u>-</u>
	<u>\$ 2,484,549</u>	<u>3,411,448</u>
 <u>Liabilities and Fund Equity</u>		
Current liabilities:		
Pension payable	\$ 19,812	20,011
Accrued vacation	7,591	6,614
Payable to the North Carolina State Bar	118	53
Accounts payable	2,699	185
Payable as agent for the State	216,492	213,069
Grants approved but unpaid	1,910,140	2,330,755
Total current liabilities	<u>2,156,852</u>	<u>2,570,687</u>
 Fund equity-retained earnings:		
Undesignated	82,543	98,959
Board-designated reserves (assigned)	<u>245,154</u>	<u>741,802</u>
Total fund equity	<u>327,697</u>	<u>840,761</u>
	<u>\$ 2,484,549</u>	<u>3,411,448</u>

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Statements of Revenues, Expenses and Changes in Fund Equity

Years Ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Interest from IOLTA participants, net	\$ 1,689,792	1,778,424
Cy pres receipts	5,764	657,282
Settlement agent accounts	26,850	34,505
Total operating revenues	1,722,406	2,470,211
Operating expenses:		
Grants	1,910,140	2,356,255
Salaries and wages	198,117	213,053
Employee benefits, primarily insurance	22,951	22,220
Pension contributions	19,812	20,011
Payroll taxes	15,096	16,239
Implementation of comparability	-	963
Board meetings	10,892	11,047
Professional fees	11,607	10,511
Rent	7,950	7,500
Software license fees and programming	9,800	9,873
Telephone	114	8,333
Depreciation	1,667	338
Travel	5,529	7,456
Office supplies, postage and printing	4,563	4,037
Miscellaneous	1,231	1,843
Coordinator Fee and Expenses	29,091	-
Dues and subscriptions	1,683	1,342
Total operating expenses	2,250,243	2,691,021
Operating loss	(527,837)	(220,810)
Nonoperating revenues:		
Interest income	5,773	8,518
Miscellaneous Income	9,000	-
Net loss	(513,064)	(212,292)
Fund equity, beginning of year	840,761	1,053,053
Fund equity, end of year	\$ 327,697	840,761

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Operating activities:		
Cash received from IOLTA participants	\$ 1,692,297	1,789,171
Cash received from cy pres	5,764	657,282
Cash received from settlement agent accounts	26,850	34,505
Cash payments to grantees and suppliers for goods and services	(2,438,707)	(2,458,902)
Cash payments to employees	(232,247)	(251,093)
Net cash used in operating activities	(946,043)	(229,037)
Investing activities:		
Interest received	5,773	8,518
Contributions for grant software	9,000	-
Net cash provided by investing activities	14,773	8,518
Capital and related financing activities:		
Purchases of furniture, equipment and software	(15,000)	-
Net cash used in capital and related financing activities	(15,000)	-
Net change in cash and cash equivalents	(946,270)	(220,519)
Cash and cash equivalents, beginning of year	2,971,291	3,191,810
Cash and cash equivalents, end of year	\$ 2,025,021	2,971,291
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (527,837)	(220,810)
Depreciation	1,667	338
Changes in operating assets and liabilities:		
Interest receivable	2,505	10,747
Other assets	(5,120)	(1,345)
Accounts payable	2,514	(1,142)
Accrued vacation	977	(706)
Payable to the North Carolina State Bar	65	(35)
Pension payable	(199)	(1,084)
Grants approved but unpaid	(420,615)	(15,000)
Net cash used in operating activities	\$ (946,043)	(229,037)

See accompanying notes to financial statements.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Notes to Financial Statements

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies

The Organization

The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts ("IOLTA") was approved by the North Carolina Supreme Court ("the Supreme Court") on June 23, 1983, and was implemented by the North Carolina State Bar ("the Bar") in January 1984. Participating attorneys allow interest earned, net of service charges, on certain trust accounts to be transferred to the IOLTA program. The funds received are used for funding grants to providers of legal services for the indigent and for funding programs concerned with the improvement of the administration of justice.

On October 11, 2007, the Supreme Court delivered an order to the Bar to implement a mandatory IOLTA program, effective January 1, 2008.

During January 2010, the Supreme Court approved and the Bar adopted the comparability rule effective July 1, 2010. The comparability rule requires lawyers to hold their IOLTA accounts only at eligible banks that agree to pay IOLTA accounts the highest rate available to that bank's other customers when the IOLTA accounts meet the same minimum balance or other account qualifications.

During 2011, the Good Funds Settlement Act (N.C. Gen. Stat. 45A-9) was amended to require interest bearing trust and escrow accounts of settlement agents handling closing and loan funds be set up as IOLTA accounts and directed the NC State Bar to adopt rules to administer such accounts. IOLTA's reading of the legislation is that it does not require settlement agents to maintain interest bearing trust or escrow accounts, but rather requires that any such account that is interest bearing be set up as an NC IOLTA account. This requirement is in effect as of January 1, 2012. Revisions to the NC IOLTA rules have been approved by the NC State Bar Council and were approved by the NC Supreme Court in March 2012.

A code has been added to IOLTA software to track accounts of "settlement agent only" accounts, defined as IOLTA accounts of settlement agents that are not associated with an attorney licensed in NC. In 2012, IOLTA added an income line item to track income separately from this source. IOLTA received \$26,850 and \$34,505 from these accounts for the years ended December 31, 2014 and 2013, respectively.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

The Board of Trustees of IOLTA was created as a standing committee by the North Carolina State Bar Council pursuant to Chapter 84 of the North Carolina General Statutes for the disposition of funds received by the North Carolina State Bar from interest on trust accounts.

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.

The IOLTA board is a standing committee of the North Carolina State Bar Council. The Bar is not a separate legal entity, but is a part of the State primary government. The financial activities of IOLTA, as presented in the accompanying financial statements, are classified and accounted for as a Proprietary (Enterprise) Fund, whereby IOLTA 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 funds apply all applicable GASB pronouncements.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Fund Equity-Retained Earnings

Fund equity is unrestricted and, as such, is available for the general operating purposes of IOLTA or as otherwise designated by its Board. The Board has designated (assigned) the following amounts to be reserved for future program awards:

<u>Years ended December 31,</u>	<u>Board</u> <u>Allocations</u>	<u>Earnings</u>	<u>Total</u>
1995	\$ 100,000	\$ 0	\$ 100,000
1996	150,000	7,950	157,950
1997	250,000	20,737	270,737
1998	500,000	30,389	530,389
1999	100,000	64,109	164,109
2000	0	74,318	74,318
2001	0	75,148	75,148
2002	0	69,257	69,257
2003	0	60,023	60,023
2004	(397,060)	44,721	(352,339)
2005	170,000	35,175	205,175
2006	150,000	55,252	205,252
2007	0	78,516	78,516
2008	650,000	84,477	734,477
2009	250,000	58,446	308,446
2009	(1,000,000)	0	(1,000,000)
2010	(1,000,000)	21,518	(978,482)
2011	100,000	6,993	106,993
2011	(364,486)	0	(364,486)
2012	0	2,235	2,235
2013	505,478	3,606	509,084
2013	(215,000)	0	(215,000)
2014	0	3,352	3,352
2014	(500,000)	0	<u>(500,000)</u>
December 31, 2014			<u>\$ 245,154</u>

The designated (assigned) fund equity may be made available for general operations with the Board's consent.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Grants

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

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

Grant awards are recognized as expense in the period of award. Grants approved but unpaid as of December 31, 2014 and 2013 are expected to be funded in the year subsequent thereto.

Grant awards subject to matching requirements are recognized upon the grantee's satisfaction of the required match. Grant awards totaling \$42,500 in 2014 are subject to matching requirements at December 31, 2014, and are expected to be recognized in 2015. Grants totaling \$42,500 that were awarded in 2013 met the matching requirements in 2014. These awards were paid in January 2015. All other 2013 grant awards were disbursed in 2014.

Cash and Cash Equivalents

IOLTA 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:

	<u>2014</u>	<u>2013</u>
Checking accounts (BB&T and Wells Fargo)	\$ 131,843	156,281
STIF account (with State Treasurer)	<u>1,893,178</u>	<u>2,815,010</u>
	<u>\$ 2,025,021</u>	<u>2,971,291</u>

Cash held in agency represents undisbursed State funds which are held in a separate STIF account. (Refer also to *Note (6) – Agency Transactions*).

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Deposits in Excess of Insured Limits

IOLTA had no deposits in excess of federally insured limits as of December 31, 2014. BB&T fully collateralizes uninsured balances on deposit, if any, by pledging securities for amounts over FDIC limits. Deposits with the North Carolina State Treasurer are insured by the State of North Carolina.

Interest Receivable

Interest receivable consists of amounts due from various financial institutions holding deposits of participating lawyers' trust accounts and is received in January following year end. Deposits and interest earned thereon are generally within federally insured limits.

Furniture, Equipment and Software

Furniture, equipment and software are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Unemployment Compensation

IOLTA recognizes its self-insured obligation for unemployment compensation in the period of the related employee termination. As required by Session Law 2013-2 that became effective July 1, 2013, IOLTA built their reserves with the NC Department of Commerce, Division of Employment Security. IOLTA was assessed 1% of their taxable wages for quarters 3 and 4 in 2013 and was assessed 1% of their taxable wages for quarters 1 and 2 in 2014.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(1) The Organization and Significant Accounting Policies, Continued

Fair Value of Financial Instruments

The carrying values of cash equivalents, receivables, and payables 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 the financial statements were available for issue.

(2) Interest from IOLTA Participants

IOLTA management is responsible for negotiating service charges assessed by financial institutions in connection with IOLTA participants' trust accounts. Certain service charges are based on a flat fee per account, while others are dependent upon the activity in the accounts. IOLTA, by law, is entitled only to the interest earned on participants' accounts, net of certain service charges. Interest income from IOLTA participants in 2014 and 2013 is reported net of reported service charges of approximately \$341,916 and \$315,686, respectively.

(3) Software License Fees

IOLTA incurred software development and license fees of \$24,800 and \$9,873 in 2014 and 2013, respectively. The 2014 figure includes \$7,800 which reflects their historic IOLTA software with a license agreement that is subject to cancellation upon 30 days written notice by IOLTA or upon 90 days written notice by the licensor. \$17,000 reflects development cost and license fees for new grant software, of which \$10,000 is for licensing, \$5,000 for development and \$2,000 for support. Either party can terminate the agreement 30 days after receiving written notice. \$15,000 of the grant software cost was capitalized in 2014.

(4) Pension Plan

IOLTA 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, IOLTA contributes 10% of such participant's annual compensation to the Plan. Total pension costs under the Plan totaled \$19,812 and \$20,011 for 2014 and 2013, respectively.

THE NORTH CAROLINA STATE BAR PLAN
FOR INTEREST ON LAWYERS' TRUST ACCOUNTS

Notes to Financial Statements, Continued

December 31, 2014 and 2013

(5) Related Party Transactions

IOLTA occupied leased offices near the old State Bar through April 2013 at which time IOLTA relocated to rented space in the new State Bar building. Rent expense was \$7,950 and \$7,500 for 2014 and 2013, respectively. Additionally, the Bar provides various support services to IOLTA including copying and postage. The Bar submits a monthly bill for services provided to IOLTA. Charges for such totaled \$4,972 and \$2,749 in 2014 and 2013, respectively. IOLTA owed the Bar \$118 and \$53 for support services and other charges as of December 31, 2014 and 2013, respectively.

(6) Agency Transactions

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

	2014	2013
Legal Aid of North Carolina, Inc. (LANC)	\$ 2,811,487	\$ 3,099,426
Pisgah Legal Services	145,516	185,400
Foreclosure Protection	35,625	71,250
Legal Services of Southern Piedmont (LSSP)	141,665	151,617
	\$ 3,134,293	\$ 3,507,693

Cash and cash equivalents totaling \$216,492 (deposited in a STIF account) and liabilities totaling \$216,492 were associated with agency funds as of December 31, 2014. Cash and cash equivalents totaling \$213,069 (deposited in a STIF account) and liabilities totaling \$213,069 were associated with agency funds as of December 31, 2013.

(7) Cy Pres Awards

Beginning in 2007, funds received and disbursed by IOLTA include "cy pres" funds for the provision of civil legal services for indigents. Per NC statute, unpaid residual funds in class action litigation (unless otherwise ordered by the court) shall be divided and sent equally to the NC State Bar for the provision of civil legal services for indigents and to the Indigent Person's Attorney Fund. The Board policy is to distribute these funds to the "established legal services programs" as defined by the Access to Civil Justice Act. Distribution of class action residual funds or funds from other court action or settlements not governed by the NC statute will be determined by the IOLTA trustees with the guidance of the appropriate court order or other documentation directing the funds to NC IOLTA. In 2014, such cy pres funds in the amount of \$5,764 were received and included in funds available for 2015 grants.