

NORTH CAROLINA STATE BAR

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NORTH CAROLINA STATE BAR

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NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2017

The following is a discussion and analysis of the financial performance of the North Carolina State Bar for the year ended December 31, 2017. The accompanying financial statements and footnotes comprise our complete set of financial information. The financial statements of the North Carolina State Bar include the net position and revenues, expenses and changes in net position of the North Carolina State Bar programs which are comprised of: North Carolina State Bar ("Bar"); the North Carolina State Bar Boards of Continuing Legal Education ("CLE"), Legal Specialization, Paralegal Certification ("Paralegal"); and the Plan for Interest on Lawyers' Trust Accounts ("IOLTA"), as of and for the year ended December 31, 2017; and the Client Security Fund of the North Carolina State Bar ("CSF") as of and for the year ended September 30, 2017, collectively "State Bar". The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current and the previous two years are presented in the analysis.

Financial Highlights

- The State Bar's net position (excluding CSF) was \$14,561,679 at December 31, 2017 compared to \$16,175,167 at December 31, 2016, a decrease of \$1,613,488 for the year ended December 31, 2017. The Client Security Fund's net position was \$1,404,809 at September 30, 2017, compared to \$542,373 at September 30, 2016, an increase of \$862,436 for the year ended September 30, 2017.

Overview of the Basic Financial Statements

The basic financial statements of the State Bar report information about the State Bar using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the State Bar.

The Statements of Net Position present the current and noncurrent portions of assets and liabilities separately.

The Statements of Revenues, Expenses and Changes in Net Position present information on how the State Bar's assets changed as a result of the year's operations.

The Statements of Cash Flows present information on how the State Bar's cash changed as a result of the year's activity.

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2017

The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2017, and CSF as of and for the year ended September 30, 2017:

	State Bar (excluding CSF)	CSF	Total
Current assets	\$ 15,192,427	\$ 1,453,462	\$ 16,645,889
Capital assets, net	15,471,698	-	15,471,698
Noncurrent assets	6,129,249	-	6,129,249
Total assets	<u>36,793,374</u>	<u>1,453,462</u>	<u>38,246,836</u>
Current liabilities	11,686,362	48,653	11,735,015
Long-term liabilities	10,545,333	-	10,545,333
Total liabilities	<u>22,231,695</u>	<u>48,653</u>	<u>22,280,348</u>
Net position:			
Net investment in capital assets	5,286,350	-	5,286,350
Restricted	5,182,831	-	5,182,831
Unrestricted	4,092,498	1,404,809	5,497,307
Total net position	<u>\$ 14,561,679</u>	<u>\$ 1,404,809</u>	<u>\$ 15,966,488</u>
Operating revenues	\$ 12,141,758	\$ 1,726,154	\$ 13,867,912
Operating expenses	13,506,904	863,855	14,370,759
Operating income (loss)	<u>(1,365,146)</u>	<u>862,299</u>	<u>(502,847)</u>
Nonoperating revenues (expenses):			
Interest income	126,295	137	126,432
Interest expense	(374,637)	-	(374,637)
Total nonoperating revenues (expenses)	<u>(248,342)</u>	<u>137</u>	<u>(248,205)</u>
Changes in net position	<u>\$ (1,613,488)</u>	<u>\$ 862,436</u>	<u>\$ (751,052)</u>

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The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2016, and CSF as of and for the year ended September 30, 2016:

	State Bar (excluding CSF)	CSF	Total
Current assets	\$ 11,027,184	\$ 602,022	\$ 11,629,206
Capital assets, net	16,266,001	-	16,266,001
Noncurrent assets	10,970,623	-	10,970,623
Total assets	<u>38,263,808</u>	<u>602,022</u>	<u>38,865,830</u>
Current liabilities	7,356,589	59,649	7,416,238
Long-term liabilities	14,732,052	-	14,732,052
Total liabilities	<u>22,088,641</u>	<u>59,649</u>	<u>22,148,290</u>
Net position:			
Net investment in capital assets	5,612,626	-	5,612,626
Restricted	6,424,101	-	6,424,101
Unrestricted	4,138,440	542,373	4,680,813
Total net position	<u>\$ 16,175,167</u>	<u>\$ 542,373</u>	<u>\$ 16,717,540</u>
Operating revenues	\$ 24,061,854	\$ 730,556	\$ 24,792,410
Operating expenses	18,055,703	1,319,154	19,374,857
Operating income (loss)	<u>6,006,151</u>	<u>(588,598)</u>	<u>5,417,553</u>
Nonoperating revenues (expenses):			
Interest income	87,234	286	87,520
Interest expense	(376,622)	-	(376,622)
Total nonoperating revenues (expenses)	<u>(289,388)</u>	<u>286</u>	<u>(289,102)</u>
Changes in net position	<u>\$ 5,716,763</u>	<u>\$ (588,312)</u>	<u>\$ 5,128,451</u>

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2017

The following presents condensed financial information for the State Bar (excluding CSF) as of and for the year ended December 31, 2015, and CSF as of and for the year ended September 30, 2015:

	State Bar (excluding CSF)	CSF	(Restated) Total
Current assets	\$ 12,204,041	\$ 1,201,890	\$ 13,405,931
Capital assets, net	17,071,692	-	17,071,692
Total assets	<u>29,275,733</u>	<u>1,201,890</u>	<u>30,477,623</u>
Current liabilities	8,163,796	71,205	8,235,001
Long-term liabilities	10,653,533	-	10,653,533
Total liabilities	<u>18,817,329</u>	<u>71,205</u>	<u>18,888,534</u>
Net position:			
Net investment in capital assets	\$ 5,967,178	\$ -	\$ 5,967,178
Restricted	421,451	-	421,451
Unrestricted	4,069,775	1,130,685	5,200,460
Total net position	<u>\$ 10,458,404</u>	<u>\$ 1,130,685</u>	<u>\$ 11,589,089</u>
Operating revenues	\$ 12,779,630	\$ 788,236	\$ 13,567,866
Operating expenses	12,206,328	709,376	12,915,704
Operating income	<u>573,302</u>	<u>78,860</u>	<u>652,162</u>
Nonoperating revenues (expenses):			
Interest income	9,399	338	9,737
Interest expense	(390,821)	-	(390,821)
Total nonoperating revenues (expenses)	<u>(381,422)</u>	<u>338</u>	<u>(381,084)</u>
Changes in net position	<u>\$ 191,880</u>	<u>\$ 79,198</u>	<u>\$ 271,078</u>

Budgetary Highlights

The North Carolina State Bar uses budgetary tools internally to measure and control revenues and expenses. Significant categorical variances are reviewed on a quarterly basis and any adjustments to the budget are approved by the State Bar's Council (board of directors) and its Finance and Audit Committee on an as-needed basis.

Long-Term Debt

With the completion of the new State Bar Headquarters in 2013, the State Bar incurred a twelve million dollar loan. The term of the loan is 10 years with amortization on a 20-year schedule. The interest rate is fixed at 3.4% for the entire term, subject to certain minimum deposit requirements. Principal and interest payments were made throughout 2017 and 2016. The total balance outstanding is presented on the accompanying statement of net position.

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2017

Events Affecting Future Operations

Affecting the State Bar:

2017 was a good year financially for the State Bar. The operational budget adopted in January 2017 projected a surplus, on the cash basis, of \$4,255. When all was said and done, income had exceeded expenses, on the cash basis, by \$71,452, or \$67,197 more than had been anticipated.

While the larger than expected surplus was pleasing in and of itself, it should also be borne in mind that it has had the salutary effect of augmenting the State Bar's not inconsiderable cash reserves. In that regard, it should also be noted that the agency has fairly ready access to more than \$1,459,000 on deposit with the State Bar Foundation, money resulting from very successful fund-raising efforts in support of the construction of the new headquarters building that was completed in 2013. That amount is expected to increase by about \$45,000 over the next couple of years as contributors finish making installment payments in fulfillment of their pledges.

Relatively conservative cash projections going forward encourage the belief that the State Bar should be able to sustain its programs, service its membership, and maintain an adequate financial cushion well into the next decade without having to seek permission from the General Assembly to raise dues. Even so, circumstances beyond mere solvency must be borne in mind. This is particularly true in regard to the required maintenance of a satisfactory "minimum debt service coverage ratio" as a condition of the mortgage loan from First Citizens Bank. In essence, that covenant requires that revenues and expenditures, as calculated and compared on the accrual basis, satisfy a one to one ratio. While the formula used to compute the ratio does allow expenses to exceed revenues within limits, deficit spending must be carefully monitored and controlled.

With further reference to the mortgage, it is noted that the balance will come due in 2021. That being the case, and understanding that there are likely to be no readily available means of discharging the remaining indebtedness other than refinancing, it is management's intention to explore all of its options well in advance of the prescribed balloon payment. Given that interest rates are still at historically low levels, it seems likely that the refinancing of the loan will be recommended sooner rather than later, perhaps within the next year. It is hoped that this can be accomplished in a way that will reduce the ongoing burden of debt service relative to the current schedule of payments.

Generally speaking, the State Bar's income has always been somewhat more predictable than its costs. On the revenue side of the State Bar's financial equation, the most significant item is, of course, "dues." Nearly ninety percent of the agency's income from year to year is derived from the annual membership fee. In recent years, dues revenue has risen by approximately 2% annually as a function of the increasing number of lawyers who are active members of the State Bar. For the purposes of 2018, the estimated increase in dues revenue is somewhat less, about 0.5%. It should be noted that although the growth of the Bar appears inexorable, with the state's law schools remaining fully subscribed even during these uncertain economic times, the State Bar is aware of predictions that membership growth may decelerate and perhaps stop altogether in the foreseeable future. Needless to say, if the number of new admittees were to fall off considerably, that could have serious implications for the financing of the State Bar's operations and the extent and character of its regulatory program. For that reason, the executive director and the Finance and Audit Committee are monitoring developments closely and are attempting to ascertain what the State Bar's response should be in regard to various scenarios.

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On the expense side of the ledger, there are several items that must be carefully monitored going forward. In recent years, the State Bar has become increasingly involved in complex litigation that has necessitated the hiring of outside legal counsel with special expertise. In 2016, approximately \$165,000 was spent for this purpose. In 2017, approximately \$316,000 was paid to independent legal counsel. In 2018, \$150,000 is budgeted and it is presently unclear whether that amount will be sufficient. In any event, this sort of cost is unpredictable, somewhat uncontrollable and likely, it seems, to be an increasingly significant category of expense for the agency. Because it is recognized that unchecked legal expenses could quickly erode the State Bar's financial position, efforts are being made to ensure that policy decisions that could give rise to litigation are consistently informed by appropriate considerations of risk management.

Another category of expense bears mentioning. The State Bar, like virtually every other employer in the country is anxious about the cost of providing health care insurance for its employees. Through careful management and with the assistance of some excellent consultants, the agency has for many years been able to provide good and affordable coverage for its staff, despite steadily rising healthcare costs and a shifting and complex regulatory environment. We suspect this is going to be an even greater challenge if and when the Affordable Care Act is repealed and replaced.

Affecting IOLTA:

IOLTA uses the accrual method of accounting and 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.

IOLTA's assets exceeded its liabilities by \$5,529,501 (net position) at December 31, 2017. This is a decrease from 2016 when assets exceeded liabilities by \$6,764,000, and an increase from 2015 when assets exceeded liabilities by \$785,056.

IOLTA's total liabilities were \$5,807,579 at December 31, 2017. This is an increase from 2016 and 2015 when total liabilities were \$6,852,732 and \$2,281,545, respectively.

The original and primary revenue source for IOLTA is interest earned on general attorney trust accounts. Other sources of income include interest from settlement agent accounts; funds from Cy Pres awards, national settlements and interest on investments.

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Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2017

The following presents condensed financial information for IOLTA as of and for the year ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	Current Year Amount Change	Current Year % Change
Current assets	\$ 5,207,831	\$ 2,642,776	\$ 3,058,268	\$ 2,565,055	97%
Capital assets, net	-	3,333	8,333	(3,333)	-100%
Noncurrent assets	6,129,249	10,970,623	-	(4,841,374)	-44%
Total assets	<u>11,337,080</u>	<u>13,616,732</u>	<u>3,066,601</u>	<u>(2,279,652)</u>	<u>-17%</u>
Current liabilities	4,963,364	2,306,210	2,281,545	2,657,154	115%
Noncurrent liabilities	844,215	4,546,522	-	(3,702,307)	-81%
Total liabilities	<u>5,807,579</u>	<u>6,852,732</u>	<u>2,281,545</u>	<u>(1,045,153)</u>	<u>-15%</u>
Net position:					
Investment in					
capital assets	-	3,333	8,333	(3,333)	-100%
Restricted	5,182,831	6,424,101	421,451	(1,241,270)	-19%
Unrestricted	346,670	336,566	355,272	10,104	3%
Total net position	<u>\$ 5,529,501</u>	<u>\$ 6,764,000</u>	<u>\$ 785,056</u>	<u>\$ (1,234,499)</u>	<u>-18%</u>
Operating revenues	\$ 1,906,706	\$ 14,039,787	\$ 2,797,811	(12,133,081)	-86%
Operating expenses	3,266,308	8,146,807	2,348,886	(4,880,499)	-60%
Operating income (loss)	(1,359,602)	5,892,980	448,925	(7,252,582)	-123%
Non-operating revenue	125,103	85,964	8,434	39,139	46%
Changes in net position	<u>\$ (1,234,499)</u>	<u>\$ 5,978,944</u>	<u>\$ 457,359</u>	<u>\$ (7,213,443)</u>	<u>-121%</u>

The original, primary revenue source for IOLTA is participant income. Participant income in 2017 increased by 2.9% compared to 2016. Participant income in 2016 decreased by 4.3% compared to 2015. The changes can be attributed to market conditions which include interest rates, average balances held in IOLTA accounts and bank mergers.

In 2017 Cy Pres funds were \$1,500 while in 2016 and 2015, IOLTA received \$96,000 and \$75,655 respectively from Cy Pres Awards.

The funds received are used for funding grants to providers of civil legal services for the indigent and for funding programs concerned with the improvement of the administration of justice. The following table provides a summary of IOLTA grant awards for the years ended December 31:

Grant Awards:	<u>2017</u>	<u>2016</u>	<u>2015</u>	Current Year Amount Change	Current Year % Change
IOLTA Funds	\$ 1,669,990	\$ 1,637,640	\$ 1,593,780	\$ 32,350	2%
BofA Funds	1,251,500	6,155,228	421,445	(4,903,728)	-80%
Grant awards	<u>\$ 2,921,490</u>	<u>\$ 7,792,868</u>	<u>\$ 2,015,225</u>	<u>\$ (4,871,378)</u>	<u>-63%</u>

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IOLTA received distributions of \$842,972 and \$12,084,737 in 2015 and 2016, respectively from the funds set aside for tax relief according to the terms in the settlement agreement effective August 2014 between the United States and Bank of America Corporation. These settlement proceeds are restricted solely for the purpose of providing funds to legal aid organizations in North Carolina for foreclosure prevention legal assistance and community redevelopment legal assistance and no portion of the surplus distribution may be used for any other purpose, including general overhead expense.

The balance in the designated unrestricted net position as of December 31, 2017 was \$346,670. The purpose of this designation is so IOLTA will have the ability to maintain grant award levels in times of economic downturn.

Lastly, IOLTA disbursed \$2,093,431 in state funds in 2017. IOLTA expenses include the cost of administering these funds as no state funds may be used for administration.

Affecting the Client Security Fund:

The Supreme Court's order establishing the Client Security Fund requires that the Fund be operated in such a way as to maintain a cash reserve of at least \$1,000,000. In 2016, valid payable claims far exceeded the amount generated by the Supreme Court's assessment of the membership at the rate of \$25 per active member, and could not be fully paid as they were approved because doing so would have reduced the Fund below the required \$1,000,000 minimum balance. In the fall of 2016, the Supreme Court entered an order increasing the annual assessment for the purposes of 2017 only to \$50 to enable the payment of all approved claims, to generate sufficient revenue to pay claims and operate the Fund in 2017, and to maintain the required minimum balance. The additional income thus generated had the desired effect, and the Court was pleased to reinstitute the \$25 annual assessment for the purposes of 2018. It is hoped that continuing assessment at that level will be adequate in the future, although the Fund's rather unpredictable claims experience will ultimately be determinative.

Affecting the Board of Continuing Legal Education:

The Continuing Legal Education program is financially self-sufficient. Its costs are fairly constant and its revenues more than sufficient to sustain its regulatory activities. Indeed, because North Carolina lawyers tend to take more CLE than is strictly required, 15 hours per year on average as opposed to the 12 hours mandated by the rules, additional revenue is generally available to subsidize the operations of the State Bar's Lawyer Assistance Program. Revenue is also boosted by the imposition and collection of substantial penalties related to noncompliance. Going forward, CLE revenues may be expected to increase as a function of the expanding population of lawyers liable to satisfy the requirements. It also seems likely that the board's expenses will be moderating in the next few years as it begins to leverage technology more effectively. This seems especially likely in regard to the electronic distribution and filing of annual report forms for the state's lawyers. As more and more of the process becomes automated and digital, printing, mailing and data processing costs should decrease.

NORTH CAROLINA STATE BAR
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2017

Affecting the Board of Legal Specialization:

The Specialization program is also financially self-sufficient with revenues that have generally exceeded expenses in recent years, albeit by relatively modest amounts. With over one thousand lawyers certified in thirteen areas of specialty, the program has become reliant not so much upon the application fees of those seeking certification, between 90 to 100 each year on average, but upon reliable sums generated each year from the imposition of an annual fee to maintain certification. This annual fee was raised in 2016 and should provide a stable income stream in support of the program's administration for many years to come. Expenses also appear to be well in hand as technology is being extensively deployed to improve and simplify the examination process.

Affecting the Board of Paralegal Certification:

The Paralegal Certification program is also financially viable. Not only does its income routinely exceed its expenses, it also maintains a very large cash reserve that was created in the program's early days when tremendous numbers of paralegals rushed to take advantage of a procedure that allowed for initial certification without the necessity of passing an examination. Like the Legal Specialization program, the Paralegal Certification program has recently implemented software that should allow examinations to be administered with greater ease and effectiveness and at a lesser cost than has heretofore been the case.

Contacting the State Bar's Financial Management

This financial report is designed to provide a general overview of the State Bar's finances and to demonstrate the State Bar's accountability for the funds it receives and expends. If you have questions or require additional information, please contact the North Carolina State Bar, 217 East Edenton Street, Raleigh, North Carolina 27601.



Independent Auditor's Report

Members of the State Bar Council
North Carolina State Bar
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Bar ("State Bar") which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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 audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State Bar's preparation and fair presentation of the basic 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 State Bar'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 basic 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 net position of the North Carolina State Bar as of December 31, 2017 and 2016 and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements are presented only for the State Bar and do not purport to and do not present fairly the financial position of the State of North Carolina as of December 31, 2017 and 2016, nor the changes in its net position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 9, 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 audit 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 sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 17, 2018

NORTH CAROLINA STATE BAR
Statements of Net Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 11,859,283	\$ 9,525,665
Restricted cash, current portion	3,848,360	1,175,482
Receivables from related entities	26,691	6,241
Dues and fees receivable, net	607,069	687,743
Other receivables	55,383	11,593
Interest receivable	216,852	204,793
Prepaid expenses	32,251	17,689
Total current assets	<u>16,645,889</u>	<u>11,629,206</u>
Capital assets, net	<u>15,471,698</u>	<u>16,266,001</u>
Noncurrent assets:		
Restricted cash, noncurrent portion	<u>6,129,249</u>	<u>10,970,623</u>
Total assets	<u>38,246,836</u>	<u>38,865,830</u>
LIABILITIES:		
Current liabilities:		
Current portion of long-term debt	484,230	467,845
Accounts payable	167,160	219,604
Other accrued expenses	140,717	115,740
Payable as Agent for the State	338,442	243,307
Accrued vacation	216,818	240,261
Pension contribution payable	554,159	566,257
Amounts held for escheatment	582,162	517,480
Grants approved and unpaid	4,597,745	2,032,335
Claims payable	27,906	32,644
Unearned revenue	4,625,676	2,980,765
Total current liabilities	<u>11,735,015</u>	<u>7,416,238</u>
Noncurrent liabilities:		
Grants approved and unpaid	844,215	4,546,522
Long-term debt	9,701,118	10,185,530
Total noncurrent liabilities	<u>10,545,333</u>	<u>14,732,052</u>
Total liabilities	<u>22,280,348</u>	<u>22,148,290</u>
NET POSITION:		
Net investment in capital assets	5,286,350	5,612,626
Restricted	5,182,831	6,424,101
Unrestricted	5,497,307	4,680,813
Total net position	<u>\$ 15,966,488</u>	<u>\$ 16,717,540</u>

NORTH CAROLINA STATE BAR
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Dues	\$ 8,449,799	\$ 8,239,550
Assessments	1,406,731	685,445
Reimbursements of claim awards	312,246	45,111
Sponsor and attendee fees	462,301	495,432
Renewal, registration and examination fees	432,465	419,810
Professional corporations	121,214	116,675
Interstate law firms	99,020	96,480
Reinstatement fees	11,000	9,000
Penalty fees	283,728	256,739
EAJC processing fees	90,713	96,770
DHC reimbursable costs and grievance fees	112,641	148,899
Foundation contributions	48,000	50,000
Bar magazine income	49,120	45,901
Interest from participants - IOLTA	1,818,133	1,767,287
Settlement proceeds - IOLTA	-	12,084,737
Cy pres receipts - IOLTA	1,500	96,000
Settlement agent accounts - IOLTA	38,510	52,763
Professional and administrative services - IOLTA	29,500	39,000
Other	101,291	46,811
Total operating revenues	<u>13,867,912</u>	<u>24,792,410</u>
Operating expenses:		
Salaries and wages	6,104,206	6,184,139
Pension plan contributions	557,162	566,721
Other employee benefits	718,203	707,961
Grant awards - IOLTA	1,669,990	1,637,640
Grants funded from settlement proceeds - IOLTA	1,251,500	6,155,228
Other grant awards	1,500	15,000
Claim awards	643,419	1,104,051
Professional fees	488,530	264,602
Council and committee meetings, including officers' travel	528,057	540,472
Publications, postage, and printing	277,038	275,574
Depreciation	874,296	875,148
Equipment rental and maintenance	214,384	231,133
Coordinator fee and expenses	5,733	3,147
Paralegal journal	15,720	15,875
Travel and automotive	131,706	124,352
Community outreach	50,933	4,139
Exam analysis	24,500	32,200
Test administration	25,668	23,012
Rent expense	27,804	26,994
Disciplinary proceedings	74,737	139,750
Building maintenance and utilities	190,332	217,590
Bank service charges	212,097	83,053
Bad debt expense	106,388	-
Other office expense	102,364	75,305
Telephone	36,602	36,535
Insurance and bonds	37,890	35,236
Total operating expenses	<u>14,370,759</u>	<u>19,374,857</u>
Net income (loss)	<u>(502,847)</u>	<u>5,417,553</u>
Nonoperating revenues (expenses):		
Interest income	126,432	87,520
Interest expense	(374,637)	(376,622)
Net nonoperating revenues (expenses)	<u>(248,205)</u>	<u>(289,102)</u>
Changes in net position	(751,052)	5,128,451
Net position - beginning of year	16,717,540	11,589,089
Net position - end of year	<u>\$ 15,966,488</u>	<u>\$ 16,717,540</u>

See Notes to Financial Statements

NORTH CAROLINA STATE BAR
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from attorneys for dues	\$ 10,100,675	\$ 7,188,150
Cash received from program participants - IOLTA	1,806,074	1,797,726
Cash received from fees	1,591,928	1,523,887
Cash received from settlement proceeds - IOLTA	-	12,084,737
Cash received from Cy Pres - IOLTA	1,500	96,000
Cash received from settlement agent accounts - IOLTA	38,510	52,763
Cash received from other services - IOLTA	48,563	39,000
Cash received from assessments and reimbursements	1,708,452	730,556
Other cash received	561,157	586,913
Payments for IOLTA grants	(3,963,252)	(3,205,409)
Payments to claimants	(648,157)	(1,121,407)
Payments to employees for services	(7,415,112)	(7,422,555)
Payments to suppliers of goods and services	(1,662,627)	(1,247,067)
Cash payments for other operating expenses	(1,206,364)	(1,217,521)
Net cash provided by operating activities	<u>961,347</u>	<u>9,885,773</u>
Cash flows from capital and related financing activities:		
Purchases of property and equipment	(79,993)	(69,457)
Interest paid	(374,637)	(376,622)
Principal payments on bank borrowings	(468,027)	(451,139)
Net cash used in capital and related financing activities	<u>(922,657)</u>	<u>(897,218)</u>
Cash flows from investing activities:		
Interest received	126,432	87,520
Net cash provided by investing activities	<u>126,432</u>	<u>87,520</u>
Net increase in cash and cash equivalents	165,122	9,076,075
Cash and cash equivalents - beginning of year	<u>21,671,770</u>	<u>12,595,695</u>
Cash and cash equivalents - end of year	<u>\$ 21,836,892</u>	<u>\$ 21,671,770</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (502,847)	\$ 5,417,553
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	874,296	875,148
Changes in assets and liabilities:		
Receivables	58,693	(30,973)
Prepaid expenses	(14,562)	6,482
Accounts payable and accrued expenses	13,350	55,481
Accrued vacation and pension	(35,541)	36,266
Grants approved and unpaid	(1,136,897)	4,563,632
Amount held for escheatment	64,682	1,250
Claims payable	(4,738)	(17,356)
Unearned revenue	1,644,911	(1,021,710)
Total adjustments	<u>1,464,194</u>	<u>4,468,220</u>
Net cash provided by operating activities	<u>\$ 961,347</u>	<u>\$ 9,885,773</u>

NORTH CAROLINA STATE BAR

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The North Carolina State Bar ("State Bar") is comprised of the following North Carolina State Bar programs: North Carolina State Bar; North Carolina State Bar Board of Continuing Legal Education; North Carolina State Bar Board of Legal Specialization; North Carolina State Bar Board of Paralegal Certification; North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts; and the Client Security Fund of the North Carolina State Bar. The State Bar's programs are organized as standing committees under the governance of the North Carolina State Bar Council (the "Council"). The Council is composed of a variable number of councilors equal to the number of judicial districts plus 16, the officers of the Bar, and each retiring president of the Bar, who is a councilor for one year from the date of the expiration of his term as president. The North Carolina State Bar is also affiliated with the Chief Justice's Commission on Professionalism; the North Carolina Equal Access to Justice Commission; and the North Carolina State Bar Foundation as further discussed in Note 15, Related Party Transactions.

- The North Carolina State Bar *program* (the "Bar") was created by the direction of the North Carolina Legislature in 1933 and is considered an agency of the State of North Carolina. All attorneys licensed to practice in North Carolina must become members of the Bar.
- 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 was given the responsibility for administering the continuing legal education program for attorneys licensed to practice law in North Carolina.
- 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.
- The North Carolina State Bar Board of Paralegal Certification ("Paralegal") was approved by the Bar and adopted by the North Carolina Supreme Court in 2004 to assist in the development of paralegal standards, raise the profile of the paralegal profession, and standardize the expectations of the public and other legal professionals.
- The North Carolina State Bar Plan for Interest on Lawyers' Trust Accounts ("IOLTA") was approved by the North Carolina Supreme Court on June 23, 1983, and was implemented by the State Bar in January 1984. Interest earned on general trust accounts, net of allowable service charges, is transferred to IOLTA. The funds received are used for funding grants to providers of civil 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 State Bar to implement a mandatory IOLTA program, effective January 1, 2008.
- The Client Security Fund of the North Carolina State Bar ("CSF" or "Client Security Fund") was created by direction of the Supreme Court in 1984 and became operational on January 1, 1985. The Supreme Court has the discretion to assess attorneys in order to provide funds which are used to reimburse clients who have been embezzled of their monies by their attorneys. These funds are segregated and administered by the CSF Board of Trustees. CSF has a fiscal year end of September 30.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the State Bar is responsible.

For financial reporting purposes, the State Bar is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR). These financial statements for the State Bar are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

Basis of Presentation

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The basic financial statements of the State Bar are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured and depreciation is recorded as a cost of operations. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows. Fees received for the various licenses are deemed earned when the license periods begin.

The State Bar classifies its revenues as operating or non-operating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the State Bar's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of membership dues and assessments, reimbursements of claim awards, CLE fees, renewal, registration and examination fees and interest from IOLTA participants. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. Non-operating revenues and expenses include activities that have characteristics of non-exchange transactions and consist primarily of investing and financing type activities.

NORTH CAROLINA STATE BAR

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the State Bar considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Dues and Fees Receivable

Dues receivable consists of Bar membership dues and CSF assessments in arrears and late fees assessed thereon. Each active member of the Bar is required to pay annual dues to support the Bar plus an assessment to support CSF. In 2017, annual dues and assessments were \$300 and \$50, respectively. In 2016, annual dues and assessments were \$300 and \$25, respectively. Dues and assessments for the calendar year are due January 1, with a \$30 late fee assessed for dues paid after June 30. Attorneys may be suspended for non-payment. Fees receivable consists of Bar Disciplinary Hearing Committee ("DHC") and grievance fees billed and unpaid as of year end and CLE attendee and sponsor fees receivable. CLE attendee fees receivable are based on fees billed in March following year end related to CLE taken in the current fiscal year. The Bar provides an allowance for doubtful accounts for amounts estimated to be uncollectible based on management's review of accounts.

Other Receivables

Other receivables consists of amounts due from advertising revenue, council meeting charges and reimbursement of conservator fees.

Interest Receivable

Interest receivable consists of amounts due from various financial institutions holding deposits of IOLTA participating lawyers' trust accounts and is received in January following year end.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The State Bar capitalizes assets that have a cost of \$5,000 or greater at the date of acquisition and an expected useful life in excess of two years. Artwork is not depreciated since it does not have a determinable useful life. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	3 - 39 years
Computer equipment and software	3 - 5 years
Furniture and office equipment	5 - 7 years
Automobiles	3 - 5 years
Artwork (not depreciable)	N/A

Payable to Client Security Fund

Netted against receivables from related entities is a payable to Client Security Fund of \$17,350 representing assessments received by the Bar on behalf of CSF in December 2017 and not remitted to CSF until the following January. Annual assessments were \$50 and \$25 per attorney for 2017 and 2016, respectively. There were no outstanding CSF assessments due from the Bar as of September 30, 2017.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenue

Unearned revenue consists of Bar dues received in advance and Paralegal renewal fees received prior to the license renewal period. Bar dues notices are mailed prior to January 1 of the year for which they are due. Amounts collected prior to January 1 represent unearned revenues as of December 31. The renewal payment period for Paralegal calendar year renewals is from October 1 through the following February 15. Amounts collected prior to January 1 represent unearned revenue as of December 31.

Payable as Agent for the State

Payable as Agent for the State consists of funds held by IOLTA acting as an agent on behalf of the State of North Carolina. These funds are included in restricted cash at December 31. See also Note 4 - Agency Transactions.

Amounts Held for Escheatment

Amounts held for escheatment represent amounts held by the Bar for the beneficiaries of attorney trust accounts assumed by the Bar. These funds are included in restricted cash in the Statements of Net Position.

Accrued Vacation

The State Bar provides for the accumulation of up to 105 hours of earned vacation leave with such leave being fully vested when earned. Sick leave is accumulated indefinitely; however, no payments are made for accrued and unused sick leave at the end of the calendar year or in the event an employee separates from employment.

Net Position

The State Bar's net position is classified as follows:

Investment in capital assets - This represents the State Bar's investment in capital assets net of related debt and accumulated depreciation.

Restricted - This represents the State Bar's portion of net position restricted externally as to use by creditors, grantors, contributors or laws or regulations of other governments, net of related liabilities.

Unrestricted net position - This represents the State Bar's portion of net position which is not subject to externally imposed stipulations pertaining to its use. Unrestricted net position is used for the general operations of the State Bar and may be used at the discretion of the governing board to meet current expenses for any purpose.

The IOLTA Board of Trustees has designated \$346,670 of its unrestricted net position at December 31, 2017 to be reserved for future program awards. The designated unrestricted net position may be made available for general operations with the Board's consent.

Revenue Recognition

- Bar revenues are generated primarily from annual membership dues which are recognized when earned.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

- CLE revenues consist primarily of fees from attorneys or providers for each approved credit hour of continuing education and are recognized in the period in which the program is held. Penalties are charged for late filing and late compliance and are recognized as income in the period to which they relate. The CLE program assessed a total of \$3.50 per credit hour in 2017 and 2016, of which \$1.25 per credit hour is earned by CLE and the remaining is distributed as follows: \$1.00 per credit hour to CJCP to provide financial support; \$1.00 per credit hour to the North Carolina Equal Access to Justice Commission ("EAJC") to provide financial support; and \$.25 per credit hour to the Bar as compensation for administering the funds distributed to the commissions. Assessments other than the \$1.25 per CLE credit hour to administer the CLE program are not included in CLE revenues or expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Position.
- Legal Specialization revenues relate primarily to certification, application and examination fees charged to attorneys who are certified legal specialists and are recognized in the period earned.
- Paralegal revenues from renewal fees are recognized when the licensing period begins, which is January 1 for calendar year renewals and July 1 for mid-year renewals. Calendar year renewal fees collected prior to January 1 are deferred and recognized as revenue in the subsequent period. Paralegal application and examination fees are recognized when earned, which is generally when received.
- IOLTA's operating revenues are comprised primarily of interest from participant accounts, cy pres receipts and settlement proceeds. Interest from participant accounts is recognized as revenue when earned. 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 is reported net of reported service charges of approximately \$257,840 and \$370,282 in 2017 and 2016, respectively. Beginning in 2007, funds received and disbursed by IOLTA include cy pres funds for the provision of civil legal services for indigents. Per North Carolina statute, unpaid residual funds in class action litigation (unless otherwise ordered by the court) shall be divided and sent equally to the 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 deemed 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 2017 and 2016, respectively, such cy pres funds in the amount of \$1,500 and \$96,000 were received and included in funds available for 2017 and 2016 grants, respectively. Included in operating revenues are settlement proceeds received in 2016 of \$12,084,737, which is restricted for purposes specified in the settlement agreements, as further discussed in Note 13 - Restricted Net Position - IOLTA.
- CSF revenues are comprised of assessments and reimbursements of claim awards. 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 \$50 per attorney was ordered for 2017 and \$25 for 2016. CSF may be entitled to reimbursements from named attorneys to the extent of the claims awarded. These reimbursements are typically recognized upon receipt or upon completion of the appeals process.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant Awards - IOLTA

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

- Providing civil legal services for indigents;
- Enhancement and improvement of grievance and disciplinary procedures to protect the public more fully from incompetent or unethical attorneys;
- 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
- 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. The current portion of grants approved but unpaid as of December 31, 2017 is expected to be funded in 2018. The noncurrent portion of grants approved but unpaid as of December 31, 2017 is expected to be funded in the years subsequent to 2018.

Grant awards subject to matching requirements are recognized upon the grantee's satisfaction of the required match. Grant awards totaling \$20,000 in 2017 are subject to matching requirements at December 31, 2017, and are expected to be recognized in 2018. Grants totaling \$20,000 that were awarded in 2016 met the matching requirements in 2017 and were paid in January 2018.

Claim Awards - CSF

Claim awards are recognized upon authorization by the Board of Trustees of the Client Security Fund ("Board"). Included in claims payable at September 30, 2017, are claims approved by the Board during fiscal 2017 that were paid in March 2018. Subsequent to yearend, in January 2018, the Board approved the payment of two claims totaling approximately \$165,000 which management believes will be paid during 2018. Effective March 6, 1997, the North Carolina Supreme Court limited CSF claim awards to \$100,000 per claim.

Income Taxes

The State Bar 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 certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 2 - DEPOSITS AND CREDIT RISK

Cash and cash equivalents consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
BB&T, checking account	\$ 2,676,966	\$ 1,912,680
BB&T, money market account	5,674,347	4,120,902
Wells Fargo, checking account	112	12,743
STIF account (with NC State Treasurer)	1,511,332	1,483,379
First Citizens Bank, money market account	1,996,526	1,995,961
	<u>\$11,859,283</u>	<u>\$ 9,525,665</u>

Custodial credit risk is the risk that the State Bar's deposits may not be returned in the event of a bank failure. The State Bar's deposits with each commercial bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits with financial institutions exceeded FDIC insured limits by approximately \$9.5 million as of December 31, 2017.

The State Bar's investment policy states that the State Bar is required to make sure uninsured balances on deposit are fully collateralized. The State Bar's primary private depositories pledge securities for all deposits in excess of FDIC coverage so that accounts are fully collateralized. These collateralized deposits are pooled with the State Treasurer. Amounts held with the State Treasurer are insured by the State of North Carolina.

NOTE 3 - RESTRICTED CASH

Restricted cash consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Bar (with First Citizen's Trust fund)	\$ 582,162	\$ 517,480
IOLTA - cash held in agency (with NC State Treasurer)	338,442	243,307
IOLTA - settlement funds (with NC State Treasurer)	9,057,005	11,385,318
	<u>\$ 9,977,609</u>	<u>\$12,146,105</u>

Bar restricted cash represents amounts held for escheatment by the Bar for the beneficiaries of attorney trust accounts assumed by the Bar. IOLTA cash held in agency represents undisbursed State funds which are held in a separate STIF account. (See Note 4 - Agency Transactions). IOLTA settlement funds represent monies received from donations on behalf of Bank of America, N.A. The donations are restricted for the sole purpose of providing funds to legal aid organizations in the State of North Carolina for foreclosure prevention, legal assistance, and community redevelopment legal assistance (see Note 13 - Restricted Net Position - IOLTA). Settlement proceeds expected to be used in 2018 are classified as current assets. Settlement proceeds expected to be used in years subsequent to 2018 are classified as noncurrent assets.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 4 - AGENCY TRANSACTIONS

In October 2004, IOLTA began receiving and disbursing certain cash awards on behalf of the State of North Carolina. These funds are not available for use by IOLTA, but instead are forwarded to the State-designated organizations upon receipt. Funds disbursed by IOLTA acting as an agent of the State for the years ended December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Legal Aid of North Carolina, Inc. (LANC)	\$ 1,804,300	\$ 2,394,207
Pisgah Legal Services	217,054	199,143
Charlotte Center for Legal Advocacy	72,077	123,284
	<u>\$ 2,093,431</u>	<u>\$ 2,716,634</u>

Funds received by IOLTA associated with these agency transactions and undisbursed at year end are included in restricted cash and payable as agent for the State in the Statements of Net Position. These funds totaled \$338,442 and \$243,307 at December 31, 2017 and 2016, respectively. Of the \$338,442 held at December 31, 2017, \$215,291 represents funds received from the State related to a portion of court fees that were repealed effective in June 2017 but were forwarded to IOLTA after the effective date of the repeal. As of the date of financial statement issuance, IOLTA is still waiting on guidance from the Attorney General to determine what to do with these remittances.

NOTE 5 - DUES AND FEES RECEIVABLE

Dues and fees receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Dues receivable:		
Bar dues	\$ 51,305	\$ 173,991
CSF assessments	7,700	6,360
	<u>59,005</u>	<u>180,351</u>
Less: Allowance for doubtful accounts	(21,780)	(97,861)
	<u>37,225</u>	<u>82,490</u>
Fees receivable:		
Bar fees from CLE	32,844	37,038
Bar DHC fees	366,204	347,610
Less: Allowance for doubtful accounts - DHC fees	(109,804)	(97,734)
	<u>289,244</u>	<u>286,914</u>
CLE fees	295,600	333,339
Less: Allowance for doubtful accounts	(15,000)	(15,000)
	<u>280,600</u>	<u>318,339</u>
Total dues and fees receivable, net	<u>\$ 607,069</u>	<u>\$ 687,743</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 6 - CLE ASSESSMENTS

CLE collected and disbursed assessments as follows for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Chief Justice's Commission on Professionalism	\$ 377,526	\$ 374,126
North Carolina Equal Access to Justice Commission	375,904	313,923
North Carolina State Bar	94,869	94,202
	<u>\$ 848,299</u>	<u>\$ 782,251</u>

These amounts are not included in CLE revenues and expenses but are passed on to the respective agencies. The Bar assessments are included in EAJC processing fees in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

NOTE 7 - CAPITAL ASSETS

Changes in capital assets are as follows for the year ended December 31, 2017:

	Cost <u>12/31/2016</u>	Additions	Retirements	Cost <u>12/31/2017</u>
Building costs	\$17,216,773	\$ -	\$ -	\$17,216,773
Computer equipment and software	1,705,529	72,493	(969,137)	808,885
Artwork	393,365	7,500	-	400,865
Furniture and office equipment	1,604,154	-	(41,567)	1,562,587
Automobile	37,431	-	-	37,431
Total cost	<u>20,957,252</u>	<u>79,993</u>	<u>(1,010,704)</u>	<u>20,026,541</u>
Less accumulated depreciation:				
Building costs	(2,258,221)	(609,032)	-	(2,867,253)
Computer equipment and software	(1,617,205)	(56,037)	978,531	(694,711)
Furniture and office equipment	(784,541)	(205,344)	32,173	(957,712)
Automobile	(31,284)	(3,883)	-	(35,167)
Total depreciation	<u>(4,691,251)</u>	<u>(874,296)</u>	<u>1,010,704</u>	<u>(4,554,843)</u>
Total capital assets, net	<u>\$16,266,001</u>	<u>\$ (794,303)</u>	<u>\$ -</u>	<u>\$15,471,698</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 7 - CAPITAL ASSETS (Continued)

Changes in capital assets are as follows for the year ended December 31, 2016:

	Cost 12/31/2015	Additions	Retirements	Cost 12/31/2016
Building costs	\$17,213,041	\$ 3,732	\$ -	\$17,216,773
Computer equipment and software	1,639,804	65,725	-	1,705,529
Artwork	393,365	-	-	393,365
Furniture and office equipment	1,604,154	-	-	1,604,154
Automobiles	37,431	-	-	37,431
Total cost	<u>20,887,795</u>	<u>69,457</u>	<u>-</u>	<u>20,957,252</u>
Less accumulated depreciation:				
Building costs	(1,647,935)	(610,286)	-	(2,258,221)
Computer equipment and software	(1,561,568)	(55,637)	-	(1,617,205)
Furniture and office equipment	(579,197)	(205,344)	-	(784,541)
Automobiles	(27,403)	(3,881)	-	(31,284)
	<u>(3,816,103)</u>	<u>(875,148)</u>	<u>-</u>	<u>(4,691,251)</u>
Total capital assets, net	<u>\$17,071,692</u>	<u>\$ (805,691)</u>	<u>\$ -</u>	<u>\$16,266,001</u>

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2017:

A mortgage loan (First Citizens Bank) for \$12,000,000, used for the construction of the State Bar headquarters, payable in 24 monthly payments of interest only beginning December 18, 2011, and then 95 monthly payments of principal and interest beginning December 18, 2013, with payments amortized over 20 years at a fixed interest rate of 3.4%. A balloon payment is due on December 18, 2021.

\$10,185,348

Less current portion	<u>(484,230)</u>
Long-term debt	<u>\$ 9,701,118</u>

Principal maturities and interest payments of long-term debt are as follows at December 31, 2017:

	Principal	Interest
2018	\$ 484,230	\$ 343,496
2019	501,225	326,536
2020	517,896	309,866
2021	8,681,997	290,844
	<u>\$10,185,348</u>	<u>\$ 1,270,742</u>

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 8 - LONG-TERM DEBT (Continued)

The loan agreement provides for a 2.5% increase in the interest rate if the State Bar fails to maintain deposits with the bank of at least \$1,200,000 on an aggregate average during each fiscal year. At December 31, 2017, the State Bar had approximately \$1,700,000 on deposit with First Citizens Bank. In addition, specific debt to equity and debt service ratios must be maintained and yearly submittal of the audited financial statements is required. The loan is secured by the building. Management is aware of no violations of these commitments as of December 31, 2017 or subsequent thereto.

NOTE 9 - CHANGE IN LONG-TERM LIABILITIES

The change in long-term liabilities is as follows at December 31, 2017:

	Balance 12/31/2016	Increases	Decreases	Balance 12/31/2017	Current Portion of Balance
Grants approved and unpaid	\$ 6,578,857	\$ 2,921,490	\$ (4,058,387)	\$ 5,441,960	\$ 4,597,745
Note payable	\$ 10,653,375	\$ -	\$ (468,027)	\$ 10,185,348	\$ 484,230

The change in long-term liabilities is as follows at December 31, 2016:

	Balance 12/31/2015	Increases	Decreases	Balance 12/31/2016	Current Portion of Balance
Grants approved and unpaid	\$ 2,015,225	\$ 4,563,632	\$ -	\$ 6,578,857	\$ 2,032,335
Note payable	\$ 11,104,514	\$ -	\$ (451,139)	\$ 10,653,375	\$ 467,845

NOTE 10 - PENSION PLAN

Employees who have completed a year of service and attained age eighteen are eligible to participate in the State 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. There were no forfeitures in 2017 or 2016. On behalf of each participant eligible to share in allocations, the State Bar contributes 10% of such participant's annual compensation to the Plan. Pension costs under the Plan totaled \$557,162 and \$566,721 in 2017 and 2016, respectively.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 11 - LAWYERS' ASSISTANCE PROGRAM

Lawyers' Assistance Program ("LAP") is a program sponsored by the Bar that provides help to lawyers in need of assistance in dealing with substance abuse or mental health issues. LAP program expenses of \$735,437 and \$715,598 in 2017 and 2016, respectively, are reported in the accompanying Statements of Revenues, Expenses and Changes in Net Position by natural category. The majority of program expenses pertain to salaries and benefits. Program expenses also include travel, computer support, and other administrative costs.

NOTE 12 - LEASES

Lessee

Facilities

The Bar leases facilities for its Lawyers' Assistance Program in Charlotte, North Carolina. The lease agreement expires July 1, 2018 with an option to renew for one additional term of three years. Monthly rent expense under the lease agreement will increase by 3% per year. The Bar's lease expense for the leased LAP office space was \$27,804 and \$26,994 for 2017 and 2016, respectively.

Equipment

The Bar leases office equipment under operating leases with varying expirations through 2022. Lease expense for office equipment was approximately \$23,000 for 2017 and 2016.

The minimum lease payments required under operating leases having an initial term of more than one year are as follows at December 31, 2016:

2018	\$	29,856
2019		16,260
2020		16,260
2021		13,765
2022		3,735
	\$	<u>79,876</u>

NOTE 13 - RESTRICTED NET POSITION - IOLTA

IOLTA received \$12,084,737 and \$842,972 in 2016 and 2015, respectively, in accordance with the terms in a settlement agreement ("Settlement Agreement") between the United States and Bank of America Corporation ("the Bank"), whereby the Bank was required to distribute \$30 million to IOLTA programs nationwide from the funds set aside for consumer relief. These settlement proceeds are restricted for the purpose of providing funds to legal aid organizations in the State of North Carolina for foreclosure prevention legal assistance and community redevelopment legal assistance. No portion of the surplus distribution may be used for any other purpose, including for its general overhead expenses. Unspent funds of \$5,172,601 and \$6,424,101 were included in IOLTA's restricted net position as of December 31, 2017 and 2016, respectively.

In February 2017, IOLTA received \$12,000 in accordance with the terms of a leadership grant related to research and awareness about the role of civil legal aid. Unspent funds of \$10,230 are included in restricted net position at December 31, 2017.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 14 - INTER-PROGRAM TRANSACTIONS

The State Bar's programs entered into the following transactions which have been eliminated in the accompanying Statements of Net Position and Statement of Revenues, Expenses and Changes in Net Position:

LAP Support Provided by CLE

CLE annually pays the Bar an amount from its excess revenues to subsidize the Lawyer's Assistance Program. The subsidy is based on actual expenses incurred by CLE and the transfer involves only those funds in excess of a cash reserve of \$200,000. The Bar recognized related support from CLE in 2017 of \$250,610 of which \$39,248 was received in 2018. The Bar recognized support from CLE in 2016 of \$213,638 of which \$88,637 was received in 2017.

Bar Overhead, Computer Usage and Copier Charges

The Bar charges its affiliates an overhead fee for various costs incurred by the Bar in support of its affiliates. These costs include human resources, accounting and reception services. The annual charge is based on the number of people employed by the respective affiliates. The Bar also charges its affiliates for other support services including staffing and use of the Bar's computer, postage meter, copy machine and fax machine. These charges are as follows for the year ended December 31, 2017:

	<u>Overhead</u>	<u>Computer</u>	<u>Copying</u>	<u>Total</u>
CLE	\$ 36,800	\$ 17,724	\$ 1,589	\$ 56,113
Legal Specialization	16,300	-	1,835	18,135
Paralegal	16,300	5,905	928	23,133
IOLTA	-	-	311	311
CSF	17,220	-	1,124	18,344
Total	<u>\$ 86,620</u>	<u>\$ 23,629</u>	<u>\$ 5,787</u>	<u>\$ 116,036</u>

These charges are as follows for the year ended December 31, 2016:

	<u>Overhead</u>	<u>Computer</u>	<u>Copying</u>	<u>Total</u>
CLE	\$ 36,800	\$ 16,776	\$ 5,947	\$ 59,523
Legal Specialization	16,300	-	1,143	17,443
Paralegal	16,300	5,905	1,583	23,788
IOLTA	-	-	362	362
CSF	17,220	-	1,260	18,480
Total	<u>\$ 86,620</u>	<u>\$ 22,681</u>	<u>\$ 10,295</u>	<u>\$ 119,596</u>

Rent

The Bar leases office space to CLE, Legal Specialization, Paralegal, and IOLTA. These leases operate on a month-to-month basis. Inter-program rental income recognized by the Bar for 2017 and 2016 totaled \$28,335 and \$26,859, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

The Chief Justice's Commission on Professionalism and The North Carolina Equal Access to Justice Commission

The Chief Justice's Commission on Professionalism ("CJCP"), was created by order of the Supreme Court of North Carolina on September 22, 1998, to enhance professionalism among North Carolina's lawyers. The North Carolina Equal Access to Justice Commission ("EAJC"), was created by order of the Supreme Court of North Carolina on November 3, 2005, to expand access to civil legal representation for people of low income and modest means in North Carolina. Attorneys and CLE program sponsors pay fees to the Bar for each hour of CLE credit taken by North Carolina's attorneys to support the administration of the CLE program. Portions of these fees charged are allocated to CJCP and EAJC to support these commissions and a portion is allocated to the Bar to cover the cost of administering these funds for the commissions (see Note 6 - CLE Assessments). CJCP and EAJC are independent entities separate from the State Bar and are not included in this report.

The North Carolina State Bar Foundation

In December 2009, the North Carolina State Bar Foundation ("Foundation"), was established to raise money to assist in the construction and maintenance of a new office building for the State Bar which was erected on state-owned property leased to the State Bar. The Foundation is a 501(c)(3) tax exempt entity with a separate Board of Trustees and is autonomous from the State Bar. In March 2012, the Bar transferred \$500,124 of restricted cash to the Foundation. These funds were previously donated by Paralegal and were restricted for use in construction of the State Bar's new building. The Foundation provided assistance to the Bar in 2013 and 2014 by purchasing capital assets with an aggregate cost of approximately \$1,024,000, intended for the State Bar's use. The Foundation also made contributions to the Bar in 2017 and 2016 of \$48,000 and \$50,000, respectively, to cover certain building-related costs.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Severance Payments and Benefits

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

Legal Proceedings

The State Bar is subject to various legal proceedings, claims and litigation. The State Bar incurred legal fees to outside counsel totaling approximately \$316,000 and \$165,000 during 2017 and 2016, respectively. The outcome of these matters is currently not determinable by management; therefore, an accrual for potential future losses related to these ongoing cases has not been made in the accompanying financial statements.

NORTH CAROLINA STATE BAR
Notes to Financial Statements

NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)

Risk Management

The State Bar is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of State Bar Council members are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the State Bar under the State's public officers' and employees' liability insurance contract with a private insurance company. The State Bar also protects itself from exposures to loss through the purchase of commercial insurance.

Contract

Ground Lease with the State of North Carolina

In January 2009, the Council approved the State Bar's acquisition by lease of property owned by the State of North Carolina. The parcel of land of approximately 22,000 square feet is located at the intersection of Blount and Edenton Streets in the State Government Complex in the City of Raleigh. The leased property accommodates a "Class A" office building that was constructed to house the State Bar. The lease was executed on May 17, 2012 for a term of ninety-nine (99) years, commencing on the first day of July 2012 and expiring on July 1, 2110 for the consideration of one (\$1) dollar. In addition, parking facilities currently located on the leased land and the adjacent areas were relocated and reengineered at a cost of \$203,279 paid by the Bar. At the end of the lease, all improvements to the land become property of the State of North Carolina. After thirty (30) years and prior to ninety-eight (98) years into the lease, the State of North Carolina has the right to terminate the lease provided that any outstanding mortgage is paid off by the State of North Carolina and adequate compensation is paid to the Bar for its equity in the building and improvements. The Bar must be given one year's notice prior to termination.

NOTE 17 - RECLASSIFICATION OF PRIOR YEAR PRESENTATION

Certain prior year amounts have been reclassified to conform with the current period presentation. These reclassifications had no effect on the reported results of operations.

NOTE 18 - SUBSEQUENT EVENTS

Management of the State Bar evaluated subsequent events through April 17, 2018 which is the date the financial statements were available to be issued. They discovered no subsequent events that should be

The audit was conducted in approximately 445 hours at a cost of \$57,000.

SUPPLEMENTARY INFORMATION



**Independent Auditor's Report
on the Supplementary Information**

Members of the State Bar Council
North Carolina State Bar

We have audited the financial statements of the North Carolina State Bar as of and for the years ended December 31, 2017 and 2016 and have issued our report thereon dated April 17, 2018, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Net Position - State Bar Programs, Schedules of Revenues, Expenses and Changes in Net Position - State Bar Programs and Schedules of Cash Flows - State Bar Programs as of and for the years ended December 31, 2017 and 2016 are presented for the purposes of additional analyses and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 17, 2018

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2017

ASSETS:

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Current assets:				
Cash and cash equivalents	\$ 7,858,566	\$ 239,248	\$ 164,785	\$ 424,871
Restricted cash, current portion	582,162	-	-	-
Receivables from related entities	66,230	-	-	-
Dues and fees receivable, net	321,619	280,600	-	-
Other receivables	55,383	-	-	-
Interest receivable	-	-	-	-
Prepaid expenses	30,671	-	-	-
Total current assets	<u>8,914,631</u>	<u>519,848</u>	<u>164,785</u>	<u>424,871</u>
Capital assets:				
Property and equipment	19,724,032	142,381	60,609	27,003
Less accumulated depreciation	(4,263,322)	(138,649)	(57,107)	(23,249)
Total capital assets	<u>15,460,710</u>	<u>3,732</u>	<u>3,502</u>	<u>3,754</u>
Noncurrent assets:				
Restricted cash, noncurrent portion	-	-	-	-
Total assets	<u>24,375,341</u>	<u>523,580</u>	<u>168,287</u>	<u>428,625</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	484,230	-	-	-
Accounts payable	33,829	131,529	-	-
Other accrued expenses	140,717	-	-	-
Payable to the Bar	-	39,352	-	-
Payable as Agent for the State	-	-	-	-
Accrued vacation	187,840	10,830	3,959	3,985
Pension contribution payable	474,051	25,199	8,195	10,983
Amounts held for escheatment	582,162	-	-	-
Grants approved but unpaid	-	-	-	-
Claims payable	-	-	-	-
Unearned revenue	4,574,751	-	-	50,925
Total current liabilities	<u>6,477,580</u>	<u>206,910</u>	<u>12,154</u>	<u>65,893</u>
Noncurrent liabilities:				
Grants approved but unpaid	-	-	-	-
Long-term debt	9,701,118	-	-	-
Total noncurrent liabilities	<u>9,701,118</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>16,178,698</u>	<u>206,910</u>	<u>12,154</u>	<u>65,893</u>

NET POSITION:

Net investment in capital assets	5,275,362	3,732	3,502	3,754
Restricted	-	-	-	-
Unrestricted	<u>2,921,281</u>	<u>312,938</u>	<u>152,631</u>	<u>358,978</u>
Total net position	<u>\$ 8,196,643</u>	<u>\$ 316,670</u>	<u>\$ 156,133</u>	<u>\$ 362,732</u>

Continued on next page

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs (Continued)
December 31, 2017

Continued from previous page

ASSETS:

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Current assets:				
Cash and cash equivalents	\$ 1,723,201	\$ 1,448,612	\$ -	\$ 11,859,283
Restricted cash, current portion	3,266,198	-	-	3,848,360
Receivables from related entities	-	-	(39,539)	26,691
Dues and fees receivable, net	-	4,850	-	607,069
Other receivables	-	-	-	55,383
Interest receivable	216,852	-	-	216,852
Prepaid expenses	1,580	-	-	32,251
Total current assets	<u>5,207,831</u>	<u>1,453,462</u>	<u>(39,539)</u>	<u>16,645,889</u>
Capital assets:				
Property and equipment	21,630	50,886	-	20,026,541
Less accumulated depreciation	(21,630)	(50,886)	-	(4,554,843)
Total capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,471,698</u>
Noncurrent assets:				
Restricted cash, noncurrent portion	6,129,249	-	-	6,129,249
Total assets	<u>11,337,080</u>	<u>1,453,462</u>	<u>(39,539)</u>	<u>38,246,836</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	-	-	-	484,230
Accounts payable	1,802	-	-	167,160
Other accrued expenses	-	-	-	140,717
Payable to the Bar	187	-	(39,539)	-
Payable as Agent for the State	338,442	-	-	338,442
Accrued vacation	4,075	6,129	-	216,818
Pension contribution payable	21,113	14,618	-	554,159
Amounts held for escheatment	-	-	-	582,162
Grants approved but unpaid	4,597,745	-	-	4,597,745
Claims payable	-	27,906	-	27,906
Unearned revenue	-	-	-	4,625,676
Total current liabilities	<u>4,963,364</u>	<u>48,653</u>	<u>(39,539)</u>	<u>11,735,015</u>
Noncurrent liabilities:				
Grants approved but unpaid	844,215	-	-	844,215
Long-term debt	-	-	-	9,701,118
Total noncurrent liabilities	<u>844,215</u>	<u>-</u>	<u>-</u>	<u>10,545,333</u>
Total liabilities	<u>5,807,579</u>	<u>48,653</u>	<u>(39,539)</u>	<u>22,280,348</u>

NET POSITION:

Net investment in capital assets	-	-	-	5,286,350
Restricted	5,182,831	-	-	5,182,831
Unrestricted	346,670	1,404,809	-	5,497,307
Total net position	<u>\$ 5,529,501</u>	<u>\$ 1,404,809</u>	<u>\$ -</u>	<u>\$ 15,966,488</u>

NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2017

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Operating revenues:				
Dues	\$ 8,449,799	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Reimbursements of claim awards	-	-	-	-
Sponsor and attendee fees	-	462,301	-	-
Renewal, registration and examination fees	-	-	183,500	248,965
Professional corporations	121,214	-	-	-
Interstate law firms	99,020	-	-	-
Reinstatement fees	11,000	-	-	-
Penalty fees	29,205	245,793	1,035	7,695
EAJC processing fees	90,713	-	-	-
DHC reimbursable costs and grievance fees	112,641	-	-	-
Foundation contributions	48,000	-	-	-
Support from Continuing Legal Education	250,610	-	-	-
Bar magazine income	49,120	-	-	-
State Bar overhead and computer usage and copier charges	116,036	-	-	-
Rental income	28,335	-	-	-
Other	75,051	-	-	-
Interest from participants - IOLTA	-	-	-	-
Settlement proceeds - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	-	-	-	-
Settlement agent accounts - IOLTA	-	-	-	-
Professional and administrative services - IOLTA	-	-	-	-
Total operating revenues	<u>9,480,744</u>	<u>708,094</u>	<u>184,535</u>	<u>256,660</u>
Operating expenses:				
Salaries and wages	5,244,948	273,261	87,042	117,569
Pension plan contributions	474,079	25,199	9,436	12,716
Other employee benefits	615,938	37,496	11,416	19,113
Grant awards - IOLTA	-	-	-	-
Grants funded from settlement proceeds - IOLTA	-	-	-	-
Other grant awards	-	-	-	1,500
Claim awards	-	-	-	-
Professional fees	454,300	8,095	3,142	5,742
Council and committee meetings	472,710	4,679	14,580	10,321
Publications, postage, and printing	220,430	39,386	7,662	8,151
Depreciation	859,040	5,661	3,333	2,929
Equipment rental and maintenance	202,144	-	-	-
LAP support provided by CLE	-	250,610	-	-
State Bar overhead, computer usage and copier charges	-	56,113	18,135	23,133
Coordinator fee and expenses	-	-	-	-
Paralegal journal	-	-	-	15,720
Travel and automotive	126,083	2,934	1,422	-
Community outreach	-	-	25,933	25,000
Exam analysis	-	-	6,500	18,000
Test administration	-	-	5,636	20,032
Rent expense	27,804	14,400	2,880	2,880
Disciplinary proceedings	73,750	-	-	-
Building maintenance and utilities	190,332	-	-	-
Bank service charges	202,141	9,956	-	-
Bad debt expense	100,713	-	-	-
Other office expense	78,950	3,741	7,271	1,501
Telephone	34,052	1,492	493	412
Insurance and bonds	29,642	3,540	1,179	1,179
Total operating expenses	<u>9,407,056</u>	<u>736,563</u>	<u>206,060</u>	<u>285,898</u>
Operating income (loss)	<u>73,688</u>	<u>(28,469)</u>	<u>(21,525)</u>	<u>(29,238)</u>
Nonoperating revenues (expenses):				
Interest income	1,192	-	-	-
Interest expense	(374,637)	-	-	-
Total nonoperating revenues (expenses)	<u>(373,445)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	(299,757)	(28,469)	(21,525)	(29,238)
Net position - beginning of year	8,496,400	345,139	177,658	391,970
Net position - end of year	<u>\$ 8,196,643</u>	<u>\$ 316,670</u>	<u>\$ 156,133</u>	<u>\$ 362,732</u>

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NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs (Continued)
Year Ended December 31, 2017

Continued from previous page

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Operating revenues:				
Dues	\$ -	\$ -	\$ -	\$ 8,449,799
Assessments	-	1,406,731	-	1,406,731
Reimbursements of claim awards	-	312,246	-	312,246
Sponsor and attendee fees	-	-	-	462,301
Renewal, registration and examination fees	-	-	-	432,465
Professional corporations	-	-	-	121,214
Interstate law firms	-	-	-	99,020
Reinstatement fees	-	-	-	11,000
Penalty fees	-	-	-	283,728
EAJC processing fees	-	-	-	90,713
DHC reimbursable costs and grievance fees	-	-	-	112,641
Foundation contributions	-	-	-	48,000
Support from Continuing Legal Education	-	-	(250,610)	-
Bar magazine income	-	-	-	49,120
State Bar overhead and computer usage and copier charges	-	-	(116,036)	-
Rental income	-	-	(28,335)	-
Other	19,063	7,177	-	101,291
Interest from participants - IOLTA	1,818,133	-	-	1,818,133
Settlement proceeds - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	1,500	-	-	1,500
Settlement agent accounts - IOLTA	38,510	-	-	38,510
Professional and administrative services - IOLTA	29,500	-	-	29,500
Total operating revenues	<u>1,906,706</u>	<u>1,726,154</u>	<u>(394,981)</u>	<u>13,867,912</u>
Operating expenses:				
Salaries and wages	224,819	156,567	-	6,104,206
Pension plan contributions	21,114	14,618	-	557,162
Other employee benefits	28,477	5,763	-	718,203
Grant awards - IOLTA	1,669,990	-	-	1,669,990
Grants funded from settlement proceeds - IOLTA	1,251,500	-	-	1,251,500
Other grant awards	-	-	-	1,500
Claim awards	-	643,419	-	643,419
Professional fees	12,350	4,901	-	488,530
Council and committee meetings	17,999	7,768	-	528,057
Publications, postage, and printing	-	1,409	-	277,038
Depreciation	3,333	-	-	874,296
Equipment rental and maintenance	12,240	-	-	214,384
LAP support provided by CLE	-	-	(250,610)	-
State Bar overhead, computer usage and copier charges	311	18,344	(116,036)	-
Coordinator fee and expenses	4,827	906	-	5,733
Paralegal journal	-	-	-	15,720
Travel and automotive	1,267	-	-	131,706
Community outreach	-	-	-	50,933
Exam analysis	-	-	-	24,500
Test administration	-	-	-	25,668
Rent expense	8,175	-	(28,335)	27,804
Disciplinary proceedings	-	987	-	74,737
Building maintenance and utilities	-	-	-	190,332
Bank service charges	-	-	-	212,097
Bad debt expense	-	5,675	-	106,388
Other office expense	9,862	1,039	-	102,364
Telephone	44	109	-	36,602
Insurance and bonds	-	2,350	-	37,890
Total operating expenses	<u>3,266,308</u>	<u>863,855</u>	<u>(394,981)</u>	<u>14,370,759</u>
Operating income (loss)	<u>(1,359,602)</u>	<u>862,299</u>	<u>-</u>	<u>(502,847)</u>
Nonoperating revenues (expenses):				
Interest income	125,103	137	-	126,432
Interest expense	-	-	-	(374,637)
Total nonoperating revenues (expenses)	<u>125,103</u>	<u>137</u>	<u>-</u>	<u>(248,205)</u>
Changes in net position	<u>(1,234,499)</u>	<u>862,436</u>	<u>-</u>	<u>(751,052)</u>
Net position - beginning of year	<u>6,764,000</u>	<u>542,373</u>	<u>-</u>	<u>16,717,540</u>
Net position - end of year	<u>\$ 5,529,501</u>	<u>\$ 1,404,809</u>	<u>\$ -</u>	<u>\$ 15,966,488</u>

See Independent Auditor's Report on the Supplementary Information

NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2017

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Cash flows from operating activities:				
Receipts from attorneys for dues	\$ 10,100,675	\$ -	\$ -	\$ -
Cash received from program participants - IOLTA	-	-	-	-
Cash received from fees	410,865	745,833	184,535	250,695
Cash received from settlement proceeds - IOLTA	-	-	-	-
Cash received from Cy Pres - IOLTA	-	-	-	-
Cash received from settlement agent accounts - IOLTA	-	-	-	-
Cash received from other services - IOLTA	-	-	-	-
Cash received from assessments and reimbursements	-	-	-	-
Other cash received	553,980	-	-	-
Payments for IOLTA grants	-	-	-	-
Payments to claimants	-	-	-	-
Payments to employees for services	(6,375,280)	(332,673)	(104,511)	(146,308)
Payments to suppliers of goods and services	(1,394,769)	(98,927)	(25,383)	(73,617)
Cash payments for other operating expenses	(672,543)	(363,622)	(70,550)	(64,033)
Net cash provided by (used in) operating activities	<u>2,622,928</u>	<u>(49,389)</u>	<u>(15,909)</u>	<u>(33,263)</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(79,993)	-	-	-
Interest paid	(374,637)	-	-	-
Principal payments on bank borrowings	(468,027)	-	-	-
Net cash used in capital and related financing activities	<u>(922,657)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	1,192	-	-	-
Net cash provided by investing activities	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,701,463	(49,389)	(15,909)	(33,263)
Cash and cash equivalents - beginning of year	6,739,265	288,637	180,694	458,134
Cash and cash equivalents - end of year	<u>\$ 8,440,728</u>	<u>\$ 239,248</u>	<u>\$ 164,785</u>	<u>\$ 424,871</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 73,688	\$ (28,469)	\$ (21,525)	\$ (29,238)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	859,040	5,661	3,333	2,929
Changes in assets and liabilities:				
Receivables	34,613	37,739	-	-
Prepaid expenses	(16,320)	1,000	-	-
Accounts payable and accrued expenses	(3,336)	(68,603)	(1,100)	(4,079)
Accrued vacation and pension	(40,315)	3,283	3,383	3,090
Grants approved and unpaid	-	-	-	-
Amount held for escheatment	64,682	-	-	-
Claims payable	-	-	-	-
Unearned revenue	1,650,876	-	-	(5,965)
Total adjustments	<u>2,549,240</u>	<u>(20,920)</u>	<u>5,616</u>	<u>(4,025)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,622,928</u>	<u>\$ (49,389)</u>	<u>\$ (15,909)</u>	<u>\$ (33,263)</u>

Continued on next page

NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs (Continued)
Year Ended December 31, 2017

Continued from previous page

	IOLTA	Client Security Fund	Total State Bar
Cash flows from operating activities:			
Receipts from attorneys for dues	\$ -	\$ -	\$ 10,100,675
Cash received from program participants - IOLTA	1,806,074	-	1,806,074
Cash received from fees	-	-	1,591,928
Cash received from settlement proceeds - IOLTA	-	-	-
Cash received from Cy Pres - IOLTA	1,500	-	1,500
Cash received from settlement agent accounts - IOLTA	38,510	-	38,510
Cash received from other services - IOLTA	48,563	-	48,563
Cash received from assessments and reimbursements	-	1,708,452	1,708,452
Other cash received	-	7,177	561,157
Payments for IOLTA grants	(3,963,252)	-	(3,963,252)
Payments to claimants	-	(648,157)	(648,157)
Payments to employees for services	(279,512)	(176,828)	(7,415,112)
Payments to suppliers of goods and services	(41,779)	(28,152)	(1,662,627)
Cash payments for other operating expenses	(19,577)	(16,039)	(1,206,364)
Net cash provided by (used in) operating activities	<u>(2,409,473)</u>	<u>846,453</u>	<u>961,347</u>
Cash flows from capital and related financing activities:			
Purchases of property and equipment	-	-	(79,993)
Interest paid	-	-	(374,637)
Principal payments on bank borrowings	-	-	(468,027)
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>(922,657)</u>
Cash flows from investing activities:			
Interest received	125,103	137	126,432
Net cash provided by investing activities	<u>125,103</u>	<u>137</u>	<u>126,432</u>
Net increase (decrease) in cash and cash equivalents	(2,284,370)	846,590	165,122
Cash and cash equivalents - beginning of year	13,403,018	602,022	21,671,770
Cash and cash equivalents - end of year	<u>\$ 11,118,648</u>	<u>\$ 1,448,612</u>	<u>\$ 21,836,892</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (1,359,602)	\$ 862,299	\$ (502,847)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,333	-	874,296
Changes in assets and liabilities:			
Receivables	(8,809)	(4,850)	58,693
Prepaid expenses	758	-	(14,562)
Accounts payable and accrued expenses	96,846	(6,378)	13,350
Accrued vacation and pension	(5,102)	120	(35,541)
Grants approved and unpaid	(1,136,897)	-	(1,136,897)
Amount held for escheatment	-	-	64,682
Claims payable	-	(4,738)	(4,738)
Unearned revenue	-	-	1,644,911
Total adjustments	<u>(1,049,871)</u>	<u>(15,846)</u>	<u>1,464,194</u>
Net cash provided by (used in) operating activities	<u>\$ (2,409,473)</u>	<u>\$ 846,453</u>	<u>\$ 961,347</u>

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs
December 31, 2016

ASSETS:

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Current assets:				
Cash and cash equivalents	\$ 6,221,785	\$ 288,637	\$ 180,694	\$ 458,134
Restricted cash, current portion	517,480	-	-	-
Receivables from related entities	100,098	-	-	-
Dues and fees receivable, net	369,404	318,339	-	-
Other receivables	8,343	-	-	-
Interest receivable	-	-	-	-
Prepaid expenses	14,351	1,000	-	-
Total current assets	<u>7,231,461</u>	<u>607,976</u>	<u>180,694</u>	<u>458,134</u>
Capital assets:				
Property and equipment	20,113,125	615,578	60,609	95,424
Less accumulated depreciation	<u>(3,873,368)</u>	<u>(606,185)</u>	<u>(53,774)</u>	<u>(88,741)</u>
Total capital assets	<u>16,239,757</u>	<u>9,393</u>	<u>6,835</u>	<u>6,683</u>
Noncurrent assets:				
Restricted cash, noncurrent portion	-	-	-	-
Total assets	<u>23,471,218</u>	<u>617,369</u>	<u>187,529</u>	<u>464,817</u>

LIABILITIES:

Current liabilities:				
Current portion of long-term debt	467,845	-	-	-
Accounts payable	68,520	150,846	-	-
Other accrued expenses	109,362	-	-	-
Payable to the Bar	-	88,638	1,100	4,079
Payable as Agent for the State	-	-	-	-
Accrued vacation	209,465	9,099	3,319	3,620
Pension contribution payable	492,741	23,647	5,452	8,258
Amounts held for escheatment	517,480	-	-	-
Grants approved but unpaid	-	-	-	-
Claims payable	-	-	-	-
Unearned revenue	2,923,875	-	-	56,890
Total current liabilities	<u>4,789,288</u>	<u>272,230</u>	<u>9,871</u>	<u>72,847</u>
Noncurrent liabilities:				
Grants approved but unpaid	-	-	-	-
Long-term debt	10,185,530	-	-	-
Total noncurrent liabilities	<u>10,185,530</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>14,974,818</u>	<u>272,230</u>	<u>9,871</u>	<u>72,847</u>

NET POSITION:

Net investment in capital assets	5,586,382	9,393	6,835	6,683
Restricted	-	-	-	-
Unrestricted	<u>2,910,018</u>	<u>335,746</u>	<u>170,823</u>	<u>385,287</u>
Total net position	<u>\$ 8,496,400</u>	<u>\$ 345,139</u>	<u>\$ 177,658</u>	<u>\$ 391,970</u>

Continued on next page

NORTH CAROLINA STATE BAR
Schedule of Net Position - State Bar Programs (Continued)
December 31, 2016

Continued from previous page

ASSETS:

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Current assets:				
Cash and cash equivalents	\$ 1,774,393	\$ 602,022	\$ -	\$ 9,525,665
Restricted cash, current portion	658,002	-	-	1,175,482
Receivables from related entities	-	-	(93,857)	6,241
Dues and fees receivable, net	-	-	-	687,743
Other receivables	3,250	-	-	11,593
Interest receivable	204,793	-	-	204,793
Prepaid expenses	2,338	-	-	17,689
Total current assets	2,642,776	602,022	(93,857)	11,629,206
Capital assets:				
Property and equipment	21,630	50,886	-	20,957,252
Less accumulated depreciation	(18,297)	(50,886)	-	(4,691,251)
Total capital assets	3,333	-	-	16,266,001
Noncurrent assets:				
Restricted cash, noncurrent portion	10,970,623	-	-	10,970,623
Total assets	13,616,732	602,022	(93,857)	38,865,830

LIABILITIES:

Current liabilities:

Current portion of long-term debt	-	-	-	467,845
Accounts payable	238	-	-	219,604
Other accrued expenses	-	6,378	-	115,740
Payable to the Bar	40	-	(93,857)	-
Payable as Agent for the State	243,307	-	-	243,307
Accrued vacation	8,541	6,217	-	240,261
Pension contribution payable	21,749	14,410	-	566,257
Amounts held for escheatment	-	-	-	517,480
Grants approved but unpaid	2,032,335	-	-	2,032,335
Claims payable	-	32,644	-	32,644
Unearned revenue	-	-	-	2,980,765
Total current liabilities	2,306,210	59,649	(93,857)	7,416,238

Noncurrent liabilities:

Grants approved but unpaid	4,546,522	-	-	4,546,522
Long-term debt	-	-	-	10,185,530
Total noncurrent liabilities	4,546,522	-	-	14,732,052
Total liabilities	6,852,732	59,649	(93,857)	22,148,290

NET POSITION:

Net investment in capital assets	3,333	-	-	5,612,626
Restricted	6,424,101	-	-	6,424,101
Unrestricted	336,566	542,373	-	4,680,813
Total net position	\$ 6,764,000	\$ 542,373	\$ -	\$ 16,717,540

NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs
Year Ended December 31, 2016

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Operating revenues:				
Dues	\$ 8,239,550	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Reimbursements of claim awards	-	-	-	-
Sponsor and attendee fees	-	495,432	-	-
Renewal, registration and examination fees	-	-	178,450	241,360
Professional corporations	116,675	-	-	-
Interstate law firms	96,480	-	-	-
Reinstatement fees	9,000	-	-	-
Penalty fees	25,953	214,516	850	15,420
EAJC processing fees	96,770	-	-	-
DHC reimbursable costs and grievance fees	148,899	-	-	-
Foundation contributions	50,000	-	-	-
Support from Continuing Legal Education	213,638	-	-	-
Bar magazine income	45,901	-	-	-
State Bar overhead and computer usage and copier charges	119,596	-	-	-
Rental income	26,859	-	-	-
Other	46,811	-	-	-
Interest from participants - IOLTA	-	-	-	-
Settlement proceeds - IOLTA	-	-	-	-
Cy pres receipts - IOLTA	-	-	-	-
Settlement agent accounts - IOLTA	-	-	-	-
Professional and administrative services - IOLTA	-	-	-	-
Total operating revenues	<u>9,236,132</u>	<u>709,948</u>	<u>179,300</u>	<u>256,780</u>
Operating expenses:				
Salaries and wages	5,322,433	274,352	84,288	115,741
Pension plan contributions	489,089	27,492	5,722	8,259
Other employee benefits	612,790	31,294	9,713	17,707
Grant awards - IOLTA	-	-	-	-
Grants funded from settlement proceeds - IOLTA	-	-	-	-
Other grant awards	-	-	-	15,000
Claim awards	-	-	-	-
Professional fees	216,049	11,864	6,510	6,510
Council and committee meetings	489,505	3,607	18,016	10,230
Publications, postage, and printing	227,271	35,606	6,504	4,977
Depreciation	859,777	5,376	2,890	2,105
Equipment rental and maintenance	216,433	-	-	-
LAP support provided by CLE	-	213,638	-	-
State Bar overhead, computer usage and copier charges	-	59,523	17,443	23,788
Coordinator fee and expenses	-	-	-	-
Paralegal journal	-	-	-	15,875
Travel and automotive	113,711	2,700	4,375	-
Community outreach	-	-	4,139	-
Exam analysis	-	-	12,198	20,002
Test administration	-	-	5,069	17,943
Rent expense	26,994	13,629	2,880	2,400
Disciplinary proceedings	138,230	-	-	-
Building maintenance and utilities	217,590	-	-	-
Bank service charges	75,520	7,533	-	-
Bad debt expense	-	-	-	-
Other office expense	56,651	5,576	1,448	3,654
Telephone	33,445	1,697	719	504
Insurance and bonds	27,403	3,362	1,120	1,120
Total operating expenses	<u>9,122,891</u>	<u>697,249</u>	<u>183,034</u>	<u>265,815</u>
Operating income (loss)	<u>113,241</u>	<u>12,699</u>	<u>(3,734)</u>	<u>(9,035)</u>
Nonoperating revenues (expenses):				
Interest income	1,251	4	2	13
Interest expense	(376,622)	-	-	-
Total nonoperating revenues (expenses)	<u>(375,371)</u>	<u>4</u>	<u>2</u>	<u>13</u>
Changes in net position	(262,130)	12,703	(3,732)	(9,022)
Net position - beginning of year	<u>8,758,530</u>	<u>332,436</u>	<u>181,390</u>	<u>400,992</u>
Net position - end of year	<u>\$ 8,496,400</u>	<u>\$ 345,139</u>	<u>\$ 177,658</u>	<u>\$ 391,970</u>

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NORTH CAROLINA STATE BAR
Schedule of Revenues, Expenses and Changes in Net Position - State Bar Programs (Continued)
Year Ended December 31, 2016

Continued from previous page

	IOLTA	Client Security Fund	Eliminating Entries	Total State Bar
Operating revenues:				
Dues	\$ -	\$ -	\$ -	\$ 8,239,550
Assessments	-	685,445	-	685,445
Reimbursements of claim awards	-	45,111	-	45,111
Sponsor and attendee fees	-	-	-	495,432
Renewal, registration and examination fees	-	-	-	419,810
Professional corporations	-	-	-	116,675
Interstate law firms	-	-	-	96,480
Reinstatement fees	-	-	-	9,000
Penalty fees	-	-	-	256,739
EAJC processing fees	-	-	-	96,770
DHC reimbursable costs and grievance fees	-	-	-	148,899
Foundation contributions	-	-	-	50,000
Support from Continuing Legal Education	-	-	(213,638)	-
Bar magazine income	-	-	-	45,901
State Bar overhead and computer usage and copier charges	-	-	(119,596)	-
Rental income	-	-	(26,859)	-
Other	-	-	-	46,811
Interest from participants - IOLTA	1,767,287	-	-	1,767,287
Settlement proceeds - IOLTA	12,084,737	-	-	12,084,737
Cy pres receipts - IOLTA	96,000	-	-	96,000
Settlement agent accounts - IOLTA	52,763	-	-	52,763
Professional and administrative services - IOLTA	39,000	-	-	39,000
Total operating revenues	<u>14,039,787</u>	<u>730,556</u>	<u>(360,093)</u>	<u>24,792,410</u>
Operating expenses:				
Salaries and wages	233,352	153,973	-	6,184,139
Pension plan contributions	21,749	14,410	-	566,721
Other employee benefits	31,198	5,259	-	707,961
Grant awards - IOLTA	1,637,640	-	-	1,637,640
Grants funded from settlement proceeds - IOLTA	6,155,228	-	-	6,155,228
Other grant awards	-	-	-	15,000
Claim awards	-	1,104,051	-	1,104,051
Professional fees	15,903	7,766	-	264,602
Council and committee meetings	10,469	8,645	-	540,472
Publications, postage, and printing	-	1,216	-	275,574
Depreciation	5,000	-	-	875,148
Equipment rental and maintenance	14,700	-	-	231,133
LAP support provided by CLE	-	-	(213,638)	-
State Bar overhead, computer usage and copier charges	362	18,480	(119,596)	-
Coordinator fee and expenses	2,243	904	-	3,147
Paralegal journal	-	-	-	15,875
Travel and automotive	3,566	-	-	124,352
Community outreach	-	-	-	4,139
Exam analysis	-	-	-	32,200
Test administration	-	-	-	23,012
Rent expense	7,950	-	(26,859)	26,994
Disciplinary proceedings	-	1,520	-	139,750
Building maintenance and utilities	-	-	-	217,590
Bank service charges	-	-	-	83,053
Bad debt expense	-	-	-	-
Other office expense	7,391	585	-	75,305
Telephone	56	114	-	36,535
Insurance and bonds	-	2,231	-	35,236
Total operating expenses	<u>8,146,807</u>	<u>1,319,154</u>	<u>(360,093)</u>	<u>19,374,857</u>
Operating income (loss)	<u>5,892,980</u>	<u>(588,598)</u>	<u>-</u>	<u>5,417,553</u>
Nonoperating revenues (expenses):				
Interest income	85,964	286	-	87,520
Interest expense	-	-	-	(376,622)
Total nonoperating revenues (expenses)	<u>85,964</u>	<u>286</u>	<u>-</u>	<u>(289,102)</u>
Changes in net position	5,978,944	(588,312)	-	5,128,451
Net position - beginning of year	<u>785,056</u>	<u>1,130,685</u>	<u>-</u>	<u>11,589,089</u>
Net position - end of year	<u>\$ 6,764,000</u>	<u>\$ 542,373</u>	<u>\$ -</u>	<u>\$ 16,717,540</u>

See Independent Auditor's Report on the Supplementary Information

NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs
Year Ended December 31, 2016

	Bar	Continuing Legal Education	Legal Specialization	Paralegal
Cash flows from operating activities:				
Receipts from attorneys for dues	\$ 7,188,150	\$ -	\$ -	\$ -
Cash received from program participants - IOLTA	-	-	-	-
Cash received from fees	448,171	609,946	179,300	286,470
Cash received from settlement proceeds - IOLTA	-	-	-	-
Cash received from Cy Pres - IOLTA	-	-	-	-
Cash received from settlement agent accounts - IOLTA	-	-	-	-
Cash received from other services - IOLTA	-	-	-	-
Cash received from assessments and reimbursements	-	-	-	-
Other cash received	586,913	-	-	-
Payments for IOLTA grants	-	-	-	-
Payments to claimants	-	-	-	-
Payments to employees for services	(6,395,916)	(331,323)	(100,175)	(140,746)
Payments to suppliers of goods and services	(1,047,357)	2,497	(20,370)	(78,740)
Cash payments for other operating expenses	(741,446)	(347,788)	(59,051)	(49,018)
Net cash provided by (used in) operating activities	<u>38,515</u>	<u>(66,668)</u>	<u>(296)</u>	<u>17,966</u>
Cash flows from capital and related financing activities:				
Purchases of property and equipment	(51,329)	(4,832)	(4,508)	(8,788)
Interest paid	(376,622)	-	-	-
Principal payments on bank borrowings	(451,139)	-	-	-
Net cash used in capital and related financing activities	<u>(879,090)</u>	<u>(4,832)</u>	<u>(4,508)</u>	<u>(8,788)</u>
Cash flows from investing activities:				
Interest received	1,251	4	2	13
Net cash provided by investing activities	<u>1,251</u>	<u>4</u>	<u>2</u>	<u>13</u>
Net increase (decrease) in cash and cash equivalents	(839,324)	(71,496)	(4,802)	9,191
Cash and cash equivalents - beginning of year	7,578,589	360,133	185,496	448,943
Cash and cash equivalents - end of year	<u>\$ 6,739,265</u>	<u>\$ 288,637</u>	<u>\$ 180,694</u>	<u>\$ 458,134</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 113,241	\$ 12,699	\$ (3,734)	\$ (9,035)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	859,777	5,376	2,890	2,105
Changes in assets and liabilities:				
Receivables	38,502	(100,002)	-	-
Prepaid expenses	10,766	(1,000)	-	-
Accounts payable and accrued expenses	37,983	14,444	1,000	(5,755)
Accrued vacation and pension	28,396	1,815	(452)	961
Grants approved and unpaid	-	-	-	-
Amount held for escheatment	1,250	-	-	-
Claims payable	-	-	-	-
Unearned revenue	(1,051,400)	-	-	29,690
Total adjustments	<u>(74,726)</u>	<u>(79,367)</u>	<u>3,438</u>	<u>27,001</u>
Net cash provided by (used in) operating activities	<u>\$ 38,515</u>	<u>\$ (66,668)</u>	<u>\$ (296)</u>	<u>\$ 17,966</u>

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NORTH CAROLINA STATE BAR
Schedule of Cash Flows - State Bar Programs (Continued)
Year Ended December 31, 2016

Continued from previous page

	IOLTA	Client Security Fund	Total State Bar
Cash flows from operating activities:			
Receipts from attorneys for dues	\$ -	\$ -	\$ 7,188,150
Cash received from program participants - IOLTA	1,797,726	-	1,797,726
Cash received from fees	-	-	1,523,887
Cash received from settlement proceeds - IOLTA	12,084,737	-	12,084,737
Cash received from Cy Pres - IOLTA	96,000	-	96,000
Cash received from settlement agent accounts - IOLTA	52,763	-	52,763
Cash received from other services - IOLTA	39,000	-	39,000
Cash received from assessments and reimbursements	-	730,556	730,556
Other cash received	-	-	586,913
Payments for IOLTA grants	(3,205,409)	-	(3,205,409)
Payments to claimants	-	(1,121,407)	(1,121,407)
Payments to employees for services	(281,305)	(173,090)	(7,422,555)
Payments to suppliers of goods and services	(72,705)	(30,392)	(1,247,067)
Cash payments for other operating expenses	(14,397)	(5,821)	(1,217,521)
Net cash provided by (used in) operating activities	<u>10,496,410</u>	<u>(600,154)</u>	<u>9,885,773</u>
Cash flows from capital and related financing activities:			
Purchases of property and equipment	-	-	(69,457)
Interest paid	-	-	(376,622)
Principal payments on bank borrowings	-	-	(451,139)
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>(897,218)</u>
Cash flows from investing activities:			
Interest received	85,964	286	87,520
Net cash provided by investing activities	<u>85,964</u>	<u>286</u>	<u>87,520</u>
Net increase (decrease) in cash and cash equivalents	10,582,374	(599,868)	9,076,075
Cash and cash equivalents - beginning of year	<u>2,820,644</u>	<u>1,201,890</u>	<u>12,595,695</u>
Cash and cash equivalents - end of year	<u>\$ 13,403,018</u>	<u>\$ 602,022</u>	<u>\$ 21,671,770</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 5,892,980	\$ (588,598)	\$ 5,417,553
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	5,000	-	875,148
Changes in assets and liabilities:			
Receivables	30,527	-	(30,973)
Prepaid expenses	(3,284)	-	6,482
Accounts payable and accrued expenses	2,561	5,248	55,481
Accrued vacation and pension	4,994	552	36,266
Grants approved and unpaid	4,563,632	-	4,563,632
Amount held for escheatment	-	-	1,250
Claims payable	-	(17,356)	(17,356)
Unearned revenue	-	-	(1,021,710)
Total adjustments	<u>4,603,430</u>	<u>(11,556)</u>	<u>4,468,220</u>
Net cash provided by (used in) operating activities	<u>\$ 10,496,410</u>	<u>\$ (600,154)</u>	<u>\$ 9,885,773</u>