

Board of Tax Examiners of The
State of North Carolina
5510 Six Forks Road, Suite 300
Raleigh, North Carolina 27609



7011 1570 0000 5767 3066

REC'D

10-28-14

Mr. Joseph H. Moore, Jr.
Legislative Research Assistant
Research Division
300 N. Salisbury Street
Raleigh, NC 27603



The Board of Law Examiners
of The
State of North Carolina

MEMBERS

October 27, 2014

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RALEIGH, N.C. 27609

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Mr. Joseph H. Moore, Jr.
Legislative Research Assistant
Research Division
300 N. Salisbury Street
Raleigh, NC 27603

Re: Annual Report for the Board of Law Examiners

Dear Mr. Moore:

Please find enclosed the 2013 Annual Report and the 2013-2014 Audit, including financial statements, for the Board of Law Examiners of the State of North Carolina.

The Rules Governing Admission to the Practice of Law in State of North Carolina provide that comity applicants are not considered until they have been filed in this office for six months. Therefore, some applicants who file in one calendar year are not considered until the next calendar year.

Since the Board has no jurisdiction over discipline, items 1(a), 7(a), 7(b), 8 and 9 are information that would need to be furnished by the State Bar.

With best wishes, I am,

Very truly yours,

Lee A. Vlahos
Executive Director

LAV/jtr

Enclosures

cc: Randel E. phillips

TO THE SECRETARY OF STATE OF NORTH CAROLINA

ANNUAL REPORT, filed pursuant to the requirements of Chapter 1377, Session Law 1957, for the year ending December 31, 2013.

- 1) Board of Law Examiners of the State of North Carolina
(Occupational Licensing Board)

5510 Six Forks Road, Suite 300
(Address)

Raleigh, North Carolina 27609
(City, State and Zip Code)

Names and addresses of Board members: See Attachment A

Officers of Board:

Randel E. Phillips, Chairman
Lee A. Vlahos, Executive Director

*****	(a) The total number of licenses supervised by the Board.	_____
*	(2) Number of persons who applied to Board for examination	<u>1992</u>
*	(3) Number who were refused examination	<u>6</u>
*	(4) Number who took the examination	<u>1814</u>
**	(5) Number to whom initial licenses were issued	<u>1012</u>
	(a) Number who failed the examination	<u>745</u>
***	(6) Number who applied for licenses by reciprocity or comity	<u>122</u>
****	(7) Number who were granted licenses by reciprocity or comity	<u>92</u>
*****	(7a) Number of official complaints received involving licensed and unlicensed activities	
*****	(7b) The number of disciplinary actions taken against licensees, or other actions taken against nonlicensees, including injunctive relief	
*****	(8) Number of licenses suspended or revoked	
*****	(9) Number of licenses terminated for any reason other than failure to pay the required renewal fee	
	(10) Substance of any anticipated request by the occupational licensing board to the General Assembly to amend statutes related to the occupational licensing board	

- (11) Substance of any anticipated change in rules adopted by the occupational licensing board or the substance of any anticipated adoption of new rules by the occupational licensing board

COPY OF ANNUAL FINANCIAL REPORT IS ATTACHED.

Respectfully,

Date: 10.27.2014


Executive Director

- * See Attachment B
- ** Some of those applicants who were issued licenses took an examination in 2012, but were not approved by the Board until 2013.
- *** Some of these applicants have not been yet been considered because their applications have not been completed.
- **** Some of those applicants who were issued licenses applied in 2012, but were not approved by the Board until 2013.
- ***** The North Carolina Board of Law Examiners' authority ends at licensure; as such, the board does not supervise licensees nor handle complaints involving licensed and unlicensed activities. Complaints involving licensed and unlicensed activities fall within the purview of the North Carolina State Bar. Information in that regard will need to be furnished by the North Carolina State Bar.
- ***** The North Carolina Board of Law Examiners' authority ends at licensure; as such, the board does not handle disciplinary actions against licensees, or other actions taken against non licensees, including injunctive relief. Disciplinary actions fall within the purview of the North Carolina State Bar. Information in that regard will need to be furnished by The North Carolina State Bar.

ATTACHMENT A

(1) (a) Members of the Board and their addresses as of December 31, 2013.

Mr. Randel E. Phillips
Moore & Van Allen, PLLC
Bank of America Building
100 N. Tryon Street, Suite 4700
Charlotte, NC 28202-4003

Mr. William K. Davis
Bell Davis & Pitt, PA
PO Box 21029
Winston-Salem, NC 27120-1029

Mr. Roy W. Davis, Jr.
P.O. Box 7376
Asheville, NC 28802

Mr. Samuel S. Woodley, Jr.
Battle, Winslow, Scott & Wiley, P.A.
P.O. Box 7100
Rocky Mount, NC 27804-0100

Mr. James R. Van Camp
P.O. Box 1389
Pinehurst, NC 28370

Judge A. Leon Stanback, Jr.
4011 Crown Hill Drive
Durham, N. C. 27707

Ms. Jaye P. Meyer
Tharrington, Smith, LLP
P.O. Box 1151
Raleigh, NC 27602-1151

Ms. Beth R. Fleishman
Cranfill, Sumner & Hartzog
P.O. Box 27808
Raleigh, NC 27611-7808

Ms. Elizabeth C. Bunting
700 Sampson St.
Raleigh, NC 27609

Ms. Kimberly Anne Herrick
P.O. Box 542
Concord, NC 28026

D. Clark Smith Jr.
Smith Moore Leatherwood
300 N. Greene Street
Suite 1400
Greensboro, NC 27401

ATTACHMENT B

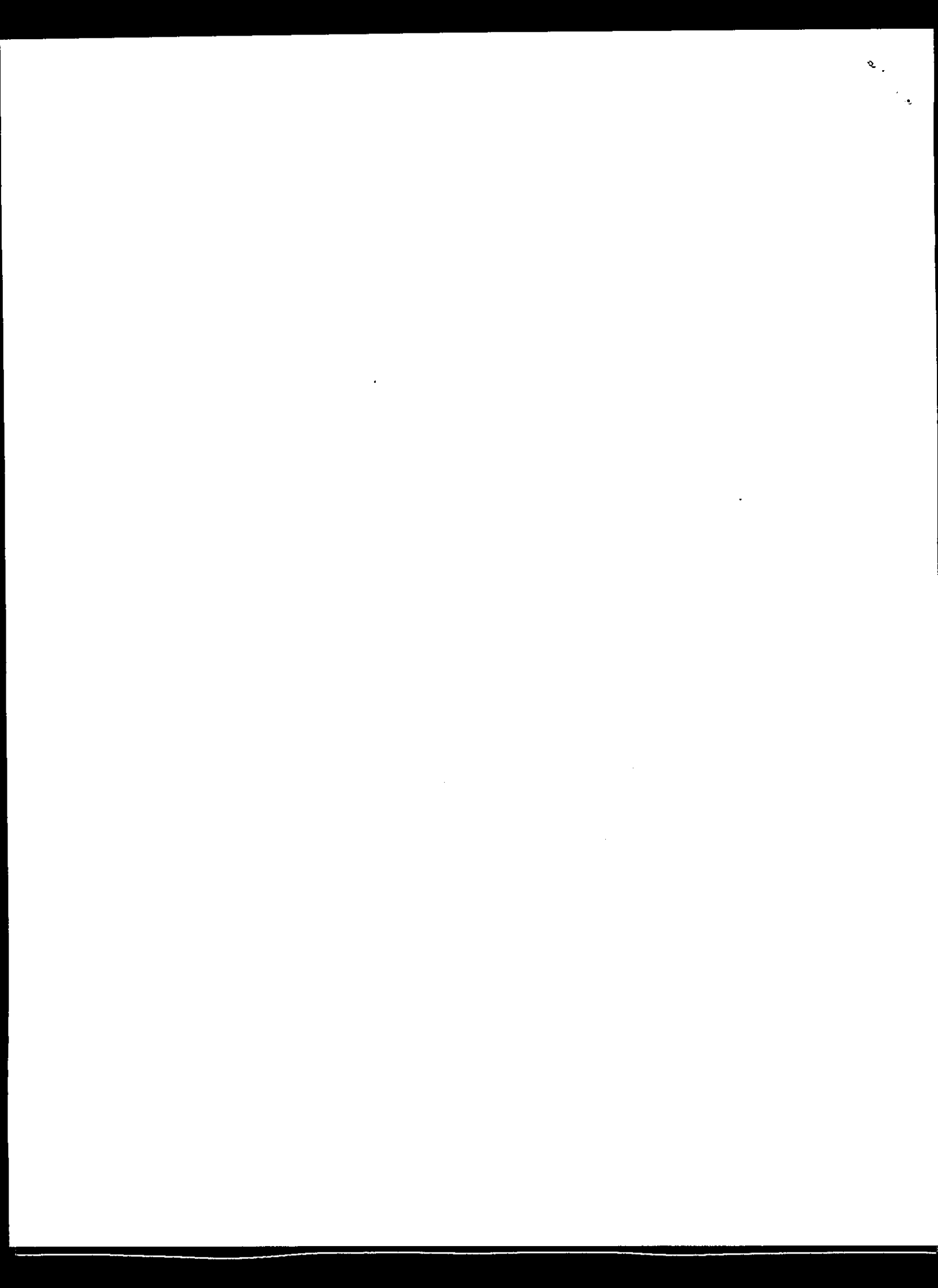
	<u>Feb. 2013</u>	<u>July 2013</u>	<u>Other*</u>
(2) Number of persons who applied to Board for examination:	619	1273	
(3) Number who were refused examination:	1	5	
(4) Number who took the examination:	545	1269	
(5) Number to whom initial licenses were issued:	249	795	
(5)(a) Number who failed the examination:	277	468	

February 2013 North Carolina Bar Examination:

Of the 619 applicants who made initial application, 73 withdrew, failed to appear or did not finish the examination.

July 2013 North Carolina Bar Examination:

Of the 1273 applicants who made initial application, 98 withdrew, failed to appear or did not finish the examination.



THE BOARD OF LAW EXAMINERS OF
THE STATE OF NORTH CAROLINA

FINANCIAL STATEMENTS

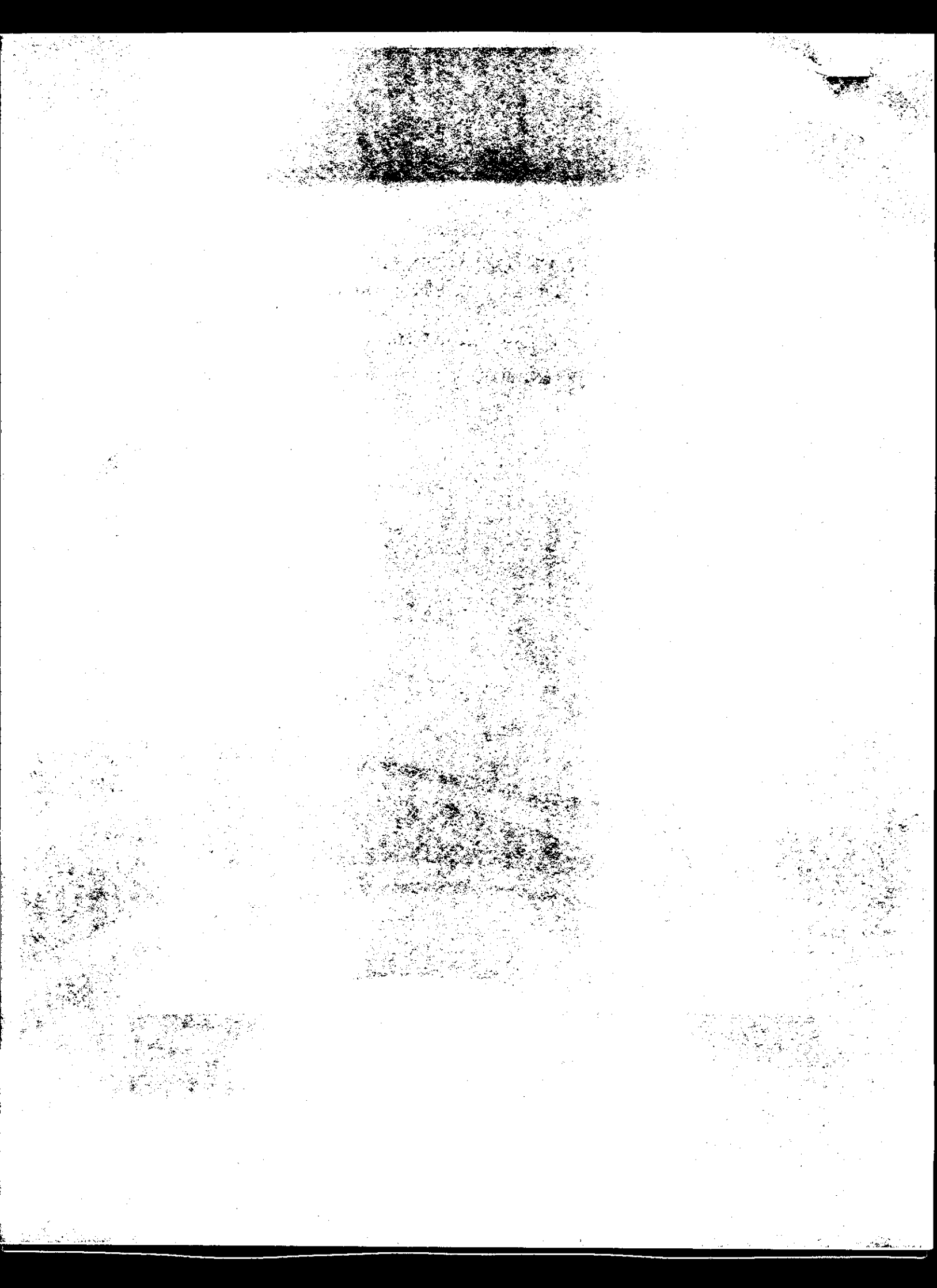
YEARS ENDED JUNE 30, 2014 AND 2013



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THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
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THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The following is a discussion and analysis of The Board of Law Examiners of the State of North Carolina's (the "Board") financial statements for the fiscal year ended June 30, 2014. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous years are presented in the analysis.

Financial Highlights

The operating revenues of the Board increased by approximately \$100,000, or 4.9% primarily due to an increase in applicant numbers.

The operating expenses of the Board decreased by approximately \$27,000, or 1.4% primarily due to a decrease in personnel costs and to the fact that the prior fiscal year included expenses associated with moving the Board's offices.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of the following components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to Financial Statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

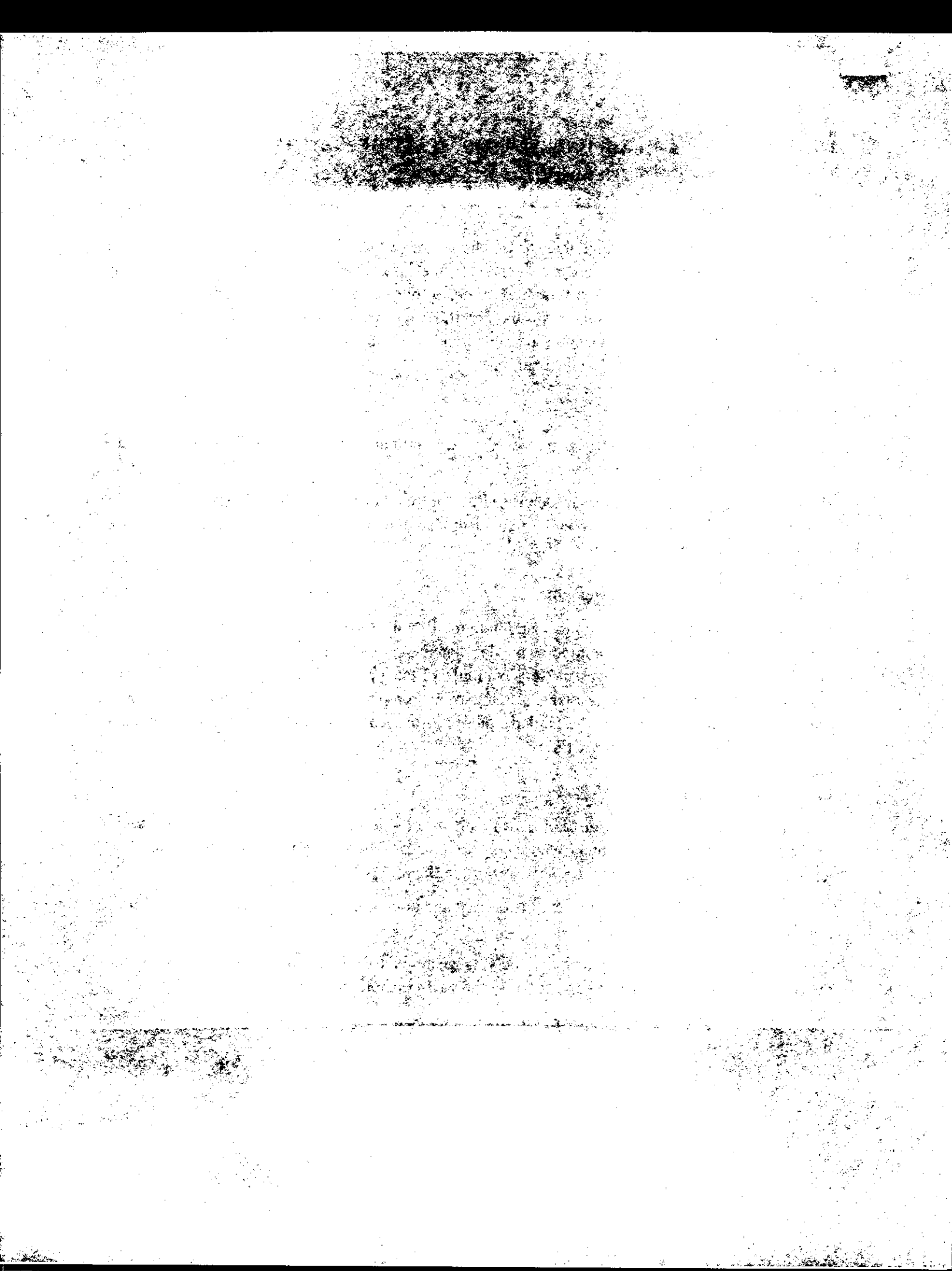
Basic Financial Statements

The basic financial statements of the Board report information about the Board 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 Board.

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 Board's net position changed as a result of the years' operations.

The Statements of Cash Flows present information on how the Board's cash changed as a result of the years' activity.



THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Basic Financial Statements (Continued)

The following presents condensed financial information on the operations of the Board as of and for the year ended June 30:

	2014	2013	2012
Current assets	\$ 1,675,989	\$ 765,902	\$ 1,477,569
Capital assets - net of depreciation	81,126	105,789	47,399
Noncurrent assets	135,110	867,577	108,981
Total assets	1,892,225	1,739,268	1,633,949
Current liabilities	1,086,682	1,140,426	1,162,305
Noncurrent liabilities	18,506	54,906	47,086
Total liabilities	1,105,188	1,195,332	1,209,391
Unrestricted	705,911	438,147	377,159
Investment in capital assets	81,126	105,789	47,399
Total net position	\$ 787,037	\$ 543,936	424,558
Operating revenues	\$ 2,139,861	\$ 2,039,827	\$ 1,773,842
Operating expenses	1,905,196	1,932,298	1,789,635
Operating income	234,665	107,529	(15,793)
Nonoperating revenues	8,436	11,849	18,445
Changes in net position	\$ 243,101	\$ 119,378	\$ 2,652

Events Affecting Future Operations

The Board expects revenues next year to remain at current levels.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives and expends. If you have any questions about this report or need additional information, contact: The Board of Law Examiners of the State of North Carolina, 5510 Six Forks Road, Suite 300, Raleigh, NC 27609.



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Certified Public Accountants and Advisors Since 1947

Independent Auditor's Report

Members of the Board
The Board of Law Examiners of the State of North Carolina
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The Board of Law Examiners of the State of North Carolina (the "Board"), an enterprise fund of the State of North Carolina, which comprise the statements of net position as of June 30, 2014 and 2013, 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 Board'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 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 Board'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 Board'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 basic financial statements referred to above present fairly, in all material respects, the financial position of The Board of Law Examiners of the State of North Carolina as of June 30, 2014 and 2013, and its changes in financial 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 Board of Law Examiners of the State of North Carolina and do not purport to and do not present fairly the financial position of the State of North Carolina as of June 30, 2014 and 2013, nor the changes in its financial 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 Matters

Required Supplementary Information

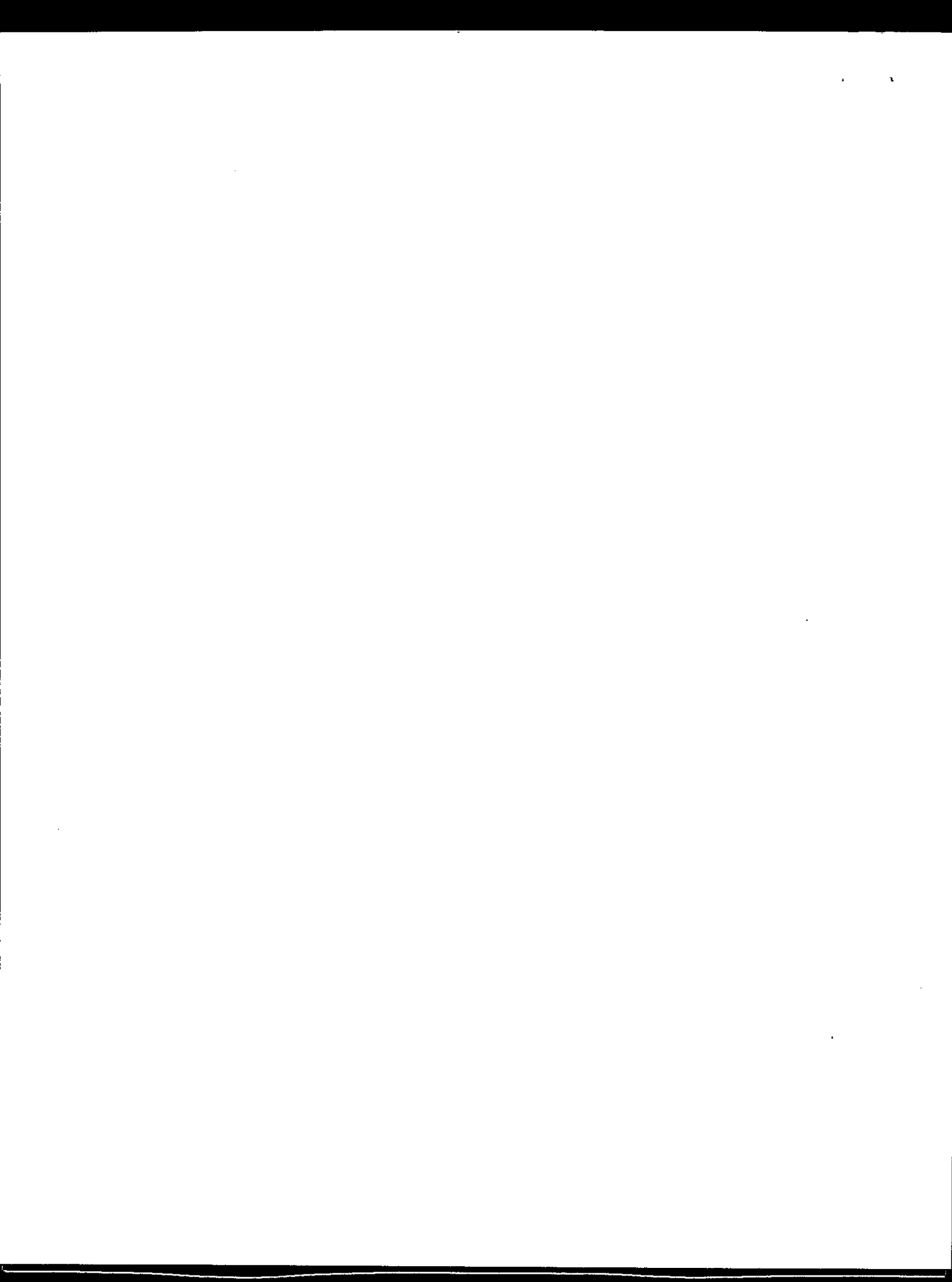
Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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
October 14, 2014

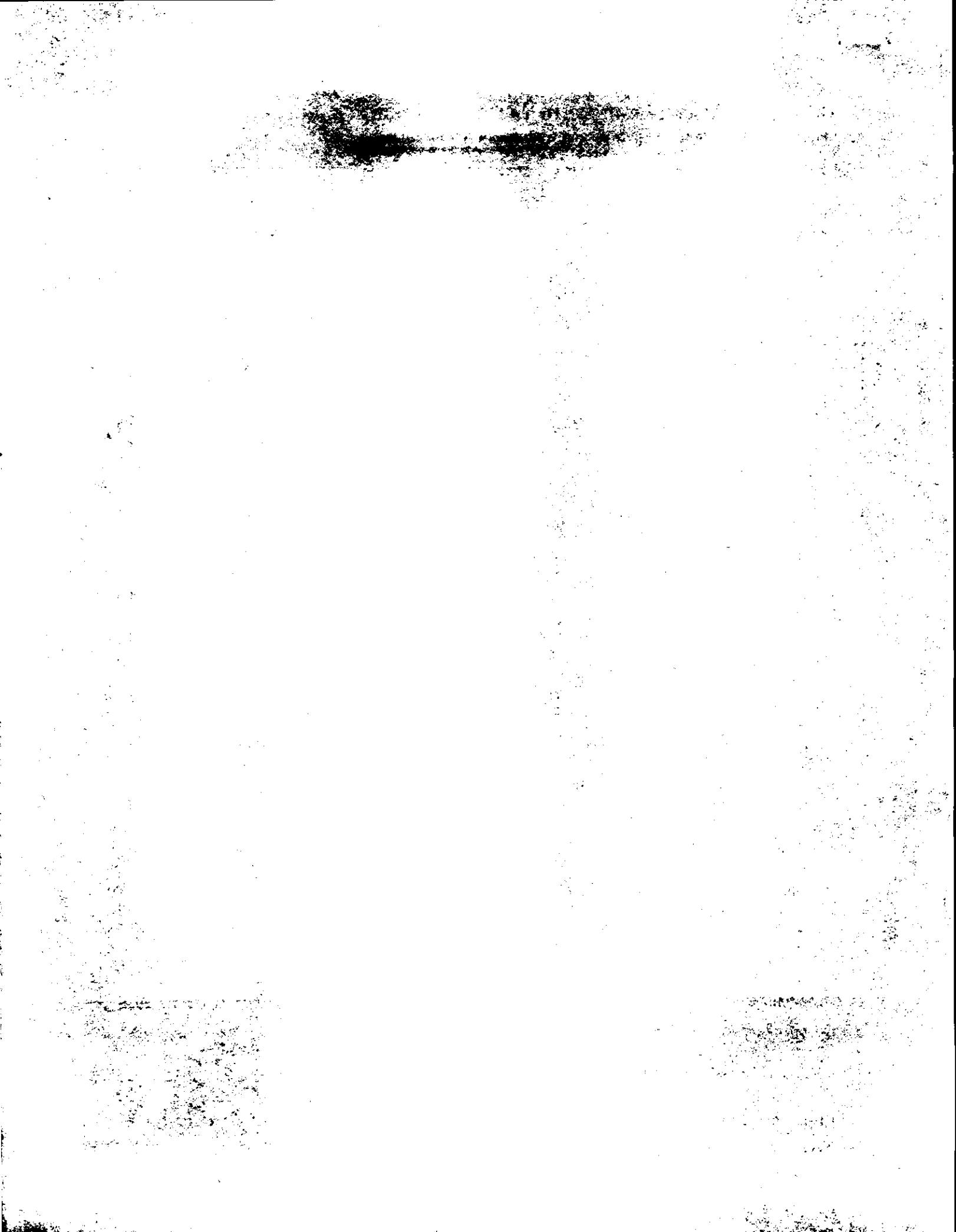
THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
 Statements of Net Position
 June 30, 2014 and 2013

	2014	2013
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 858,307	\$ 636,138
Investments - current portion	797,609	60,097
Note receivable - current portion	-	3,124
Prepaid expenses	20,073	66,543
Total current assets	<u>1,675,989</u>	<u>765,902</u>
Capital assets - net of depreciation:	<u>81,126</u>	<u>105,789</u>
Noncurrent assets:		
Investments - noncurrent portion	135,110	864,317
Note receivable - noncurrent portion	-	3,260
Total noncurrent assets	<u>135,110</u>	<u>867,577</u>
Total assets	<u>1,892,225</u>	<u>1,739,268</u>
LIABILITIES:		
Current liabilities:		
Advance exam fees	1,043,175	1,092,250
Pension contribution payable	29,655	37,915
Other accounts payable	8,614	1,900
Payroll taxes withheld	238	237
Unearned licensing fees	5,000	5,000
Note payable - current portion	-	3,124
Total current liabilities	<u>1,086,682</u>	<u>1,140,426</u>
Noncurrent liabilities:		
Note payable - noncurrent portion	-	3,260
Unearned licensing fees	-	5,000
Accrued compensated absences	18,506	46,646
Total noncurrent liabilities	<u>18,506</u>	<u>54,906</u>
Total liabilities	<u>1,105,188</u>	<u>1,195,332</u>
NET POSITION:		
Unrestricted	705,911	438,147
Investment in capital assets	<u>81,126</u>	<u>105,789</u>
Total net position	<u>\$ 787,037</u>	<u>\$ 543,936</u>



THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Revenues:		
Non-licensed examination fees	\$ 870,800	\$ 846,300
Attorney examination fees	337,500	319,500
Comity fees	249,000	235,500
Supplemental examination fees	250,400	203,600
Late application fees	176,000	197,000
Laptop fees	210,750	188,750
Miscellaneous income	45,411	49,177
Total revenues	<u>2,139,861</u>	<u>2,039,827</u>
Expenses:		
Salaries, payroll taxes, and employee benefits	775,032	833,042
Pension plan contributions and expenses	74,982	88,223
Bar examination grading expenses	186,755	178,854
Bar examination expenses	408,772	356,755
Board meeting/hearing expenses	83,242	74,653
Investigation/hearing preparation	21,265	20,100
Bar examination fees refunded	26,910	19,530
Rent - office	89,943	85,535
Postage	48,748	44,686
Depreciation expense	28,140	22,068
Office equipment	1,262	28,407
Moving expenses	-	6,871
Office supplies and expense	45,588	55,128
Printing and engraving	26,405	14,269
Leased equipment	38,313	38,266
Equipment repairs and maintenance	14,567	14,265
Telephone	6,117	8,165
Professional association, meetings, fees	6,345	21,017
Professional fees	9,055	8,500
Rent - parking	-	4,400
Insurance and bonding	4,834	4,984
Website	4,455	-
Publications and subscriptions	1,693	901
Certification to the Supreme Court	1,275	1,161
Bank fees	1,248	1,768
Miscellaneous	250	750
Total expenses	<u>1,905,196</u>	<u>1,932,298</u>
Operating income	<u>234,665</u>	<u>107,529</u>
Nonoperating revenues (expenses):		
Interest income	8,436	13,042
Loss on disposal of fixed assets	-	(1,193)
Total nonoperating revenues, net	<u>8,436</u>	<u>11,849</u>
Change in net position	243,101	119,378
Net position - beginning of year	543,936	424,558
Net position - end of year	<u>\$ 787,037</u>	<u>\$ 543,936</u>



THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from fees	\$ 2,085,786	\$ 2,074,302
Cash payments to employees for services	(886,413)	(910,035)
Cash payments for operating expenses	(973,858)	(1,044,296)
Net cash provided by operating activities	<u>225,515</u>	<u>119,971</u>
Cash flows from investing activities:		
Reinvestment in certificates of deposit	(8,305)	(12,433)
Interest received	8,436	13,042
Purchase of capital assets	(3,477)	(81,651)
Net cash used in investing activities	<u>(3,346)</u>	<u>(81,042)</u>
Cash flows from financing activities:		
Repayments of note payable	(6,384)	(5,243)
Repayments from employees	6,384	2,995
Net cash used in financing activities	<u>-</u>	<u>(2,248)</u>
Increase in cash	222,169	36,681
Cash - beginning of year	<u>636,138</u>	<u>599,457</u>
Cash - end of year	<u>\$ 858,307</u>	<u>\$ 636,138</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 234,665	\$ 107,529
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	28,140	22,068
Changes in assets and liabilities:		
Prepaid expenses	46,470	(810)
Advance exam fees	(49,075)	24,475
Accounts and per diems payable	6,714	(54,521)
Pension contribution payable	(8,260)	2,944
Payroll taxes withheld	1	94
Deferred licensing fees	(5,000)	10,000
Accrued compensated absences	(28,140)	8,192
Total adjustments	<u>(9,150)</u>	<u>12,442</u>
Net cash provided by operating activities	<u>\$ 225,515</u>	<u>\$ 119,971</u>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Board of Law Examiners of the State of North Carolina (the "Board") is an independent State agency. It is an occupational licensing board authorized by Chapter 84 of the *North Carolina General Statutes*. The Board was created for the purpose of examining applicants and providing rules and regulations for admission to the Bar, including the issuance of licenses.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

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 Board is responsible.

For financial reporting purposes, the Board 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 Board 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.

The accompanying financial statements present all funds and activities for which the Board is responsible.

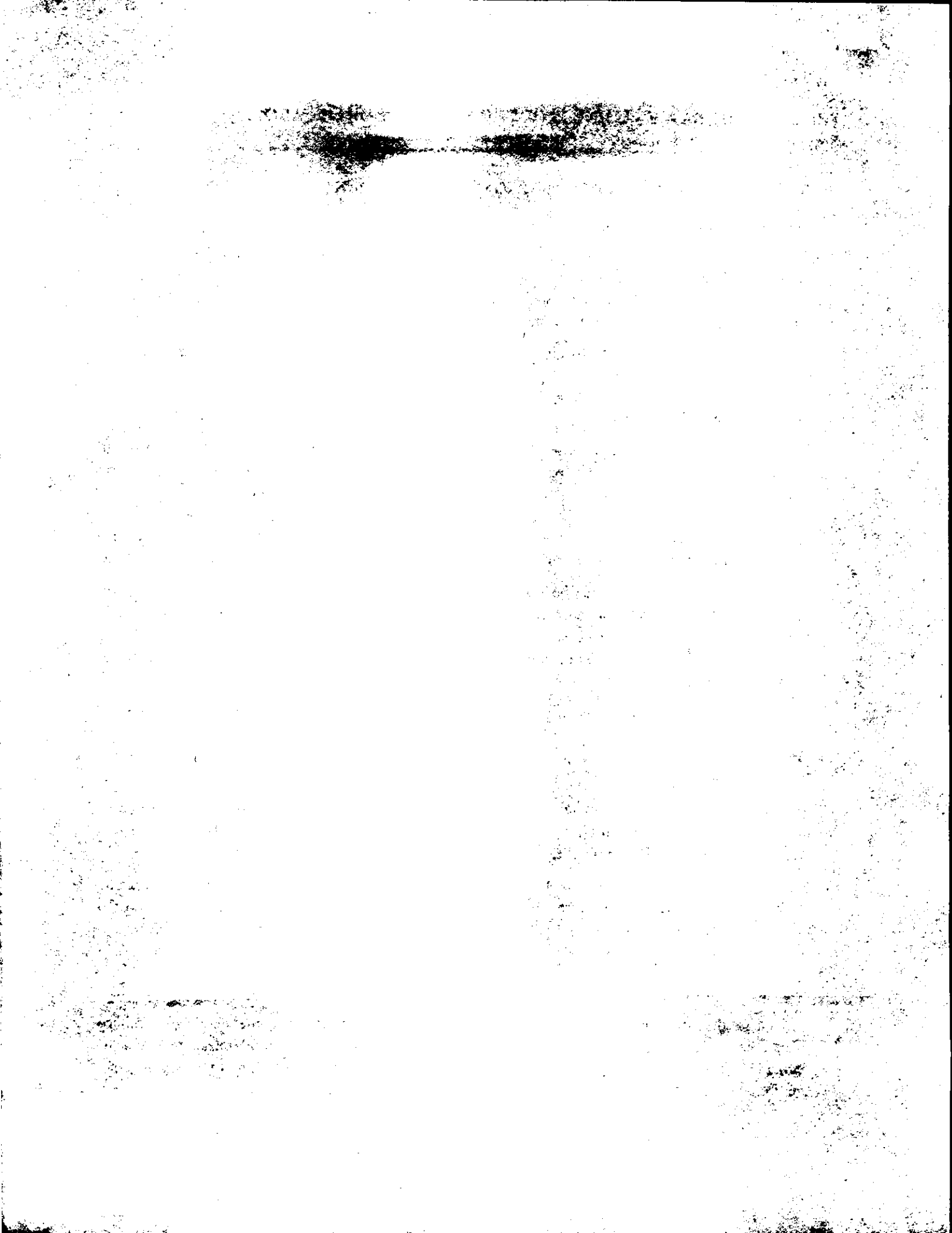
Basis of Presentation

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by 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 Board have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of the cash flows.



THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements

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

Basis of Accounting (Continued)

The Board classifies its revenues and expenses as operating or nonoperating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of fees charged for the North Carolina Bar Examination. Operating expenses are all expense transactions other than those related to capital and noncapital 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*.

Nonoperating revenues and expenses include activities that have characteristics of nonexchange transactions and consist primarily of investment activities.

Cash and Cash Equivalents

This classification includes cash on deposit and money market accounts with financial institutions. For purposes of the statements of cash flows, the Board considers all investments with a maturity of three months or less when purchased as cash equivalents.

Investments

Investments consist of certificates of deposit with original maturities of more than three months. Investments are recorded at fair market value which is cost plus accrued interest to date.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Board capitalizes assets that have a cost of \$2,000 or greater at the date of acquisition and an expected useful life in excess of one year. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and equipment	5 - 10 years
-------------------------	--------------

When a capital asset is disposed of, the cost and the related accumulated depreciation are removed from the financial records. Any gain or loss on disposition is reflected in non-operating revenues for the period.

Advance Exam Fees

Advance exam fees represents examination fees collected in current periods for exams to be given in the next fiscal year.

Unearned Licensing Fees

Unearned licensing fees represents fees collected for licensing agreements which relate to future periods.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements

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

Accrued Compensated Absences

During the year ended June 30, 2014, the Board changed its vacation leave policy. The current policy allows employees to carry over a maximum of 13 days of paid vacation leave into the next calendar year. Upon separation from employment due to resignation, dismissal or death, an employee may be paid for accumulated vacation leave up to 26 days. The previous policy provided for the accumulation of up to 30 days earned vacation leave. The sick leave policy states that unlimited sick time may be accumulated with no loss of hours at year end. Accumulated sick leave is not recorded as a liability as it is not paid should the employee leave employment.

Net Position

The Board's net position is classified as follows:

Investment in Capital Assets - This represents the Board's total investment in capital assets, net of accumulated depreciation.

Unrestricted - This represents assets with no external restriction as to use or purpose. Unrestricted net assets can be employed for any purpose designated by the governing board, as distinguished from funds restricted externally for specific purposes.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

Cash and Certificates of Deposit

The Board's deposits include cash on deposit with financial institutions, money market accounts and certificates of deposit.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board's deposits at each commercial bank are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. As of June 30, 2014, the uninsured balance was \$602,192, of which \$477,447 related to uninsured amounts in the Board's checking account.

Interest rate risk: Interest rate risk is the risk that the Board may face should interest rate variances affect the fair value of investments. The Board minimizes this risk by investing only in certificates of deposit.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Cash and Certificates of Deposit (Continued)

The Board's investments consist of certificates of deposit. The following table presents the fair value of investments subject to interest rate risk and credit risk at June 30, 2014:

Investment	Fair Value	Properties of Debt Securities	
		Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$932,719</u>	3 months	N/A

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost 6/30/13	Additions	Retirements	Cost 6/30/14	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$ 278,731</u>	<u>\$ 3,477</u>	<u>\$ 16,358</u>	<u>\$ 265,850</u>	<u>\$ 184,724</u>	<u>\$ 81,126</u>

	Cost 6/30/12	Additions	Retirements	Cost 6/30/13	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$ 232,707</u>	<u>\$ 81,651</u>	<u>\$ 35,627</u>	<u>\$ 278,731</u>	<u>\$ 172,942</u>	<u>\$ 105,789</u>

NOTE 4 - NOTE RECEIVABLE AND NOTE PAYABLE

On June 9, 2010, the Board advanced an employee \$15,000 and concurrently received proceeds from the employee's retirement account for \$15,000. The note was payable by the employee in monthly payroll deductions of \$278, including interest at 4.25%, and payments were remitted by the Board to the employee's retirement account on a monthly basis. The note receivable balance at June 30, 2013 of \$6,384 was paid off during the fiscal year ended June 30, 2014.

NOTE 5 - NOTE PAYABLE AND COMPENSATED ABSENCES

Changes in the current and noncurrent portions of liabilities are as follows:

	Balance 6/30/13	Increases	Decreases	Balance 6/30/14	Current Portion of Balance
Note payable	<u>\$ 6,384</u>	<u>\$ -</u>	<u>\$ (6,384)</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued compensated absences	<u>46,646</u>	<u>34,858</u>	<u>(62,998)</u>	<u>18,506</u>	<u>-</u>
Total	<u>\$ 53,030</u>	<u>\$ 34,858</u>	<u>\$ (69,382)</u>	<u>\$ 18,506</u>	<u>\$ -</u>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements

NOTE 5 - NOTE PAYABLE AND COMPENSATED ABSENCES (Continued)

	Balance 6/30/12	Increases	Decreases	Balance 6/30/13	Current Portion of Balance
Note payable	\$ 11,627	\$ -	\$ (5,243)	\$ 6,384	\$ 3,124
Accrued compensated absences	38,454	41,990	(33,798)	46,646	-
Total	<u>\$ 50,081</u>	<u>\$ 41,990</u>	<u>\$ (39,041)</u>	<u>\$ 53,030</u>	<u>\$ 3,124</u>

NOTE 6 - LEASES

The Board moved to new facilities in October 2012, and entered into a five year operating lease effective November 1, 2012. The lease agreement calls for graduated monthly lease payments of \$7,348 beginning in year one and increasing by approximately 3% per year for each of the next four years. The Board has an option to renew the lease for an additional five years. Total rental expense charged to operations under this lease for the years ended June 30, 2014 and 2013, was \$89,943 and \$85,535, respectively.

The Board also leases certain office equipment under operating leases. Total equipment rental expense charged to operations under these arrangements for the years ended June 30, 2014 and 2013, was \$38,313 and \$38,266, respectively.

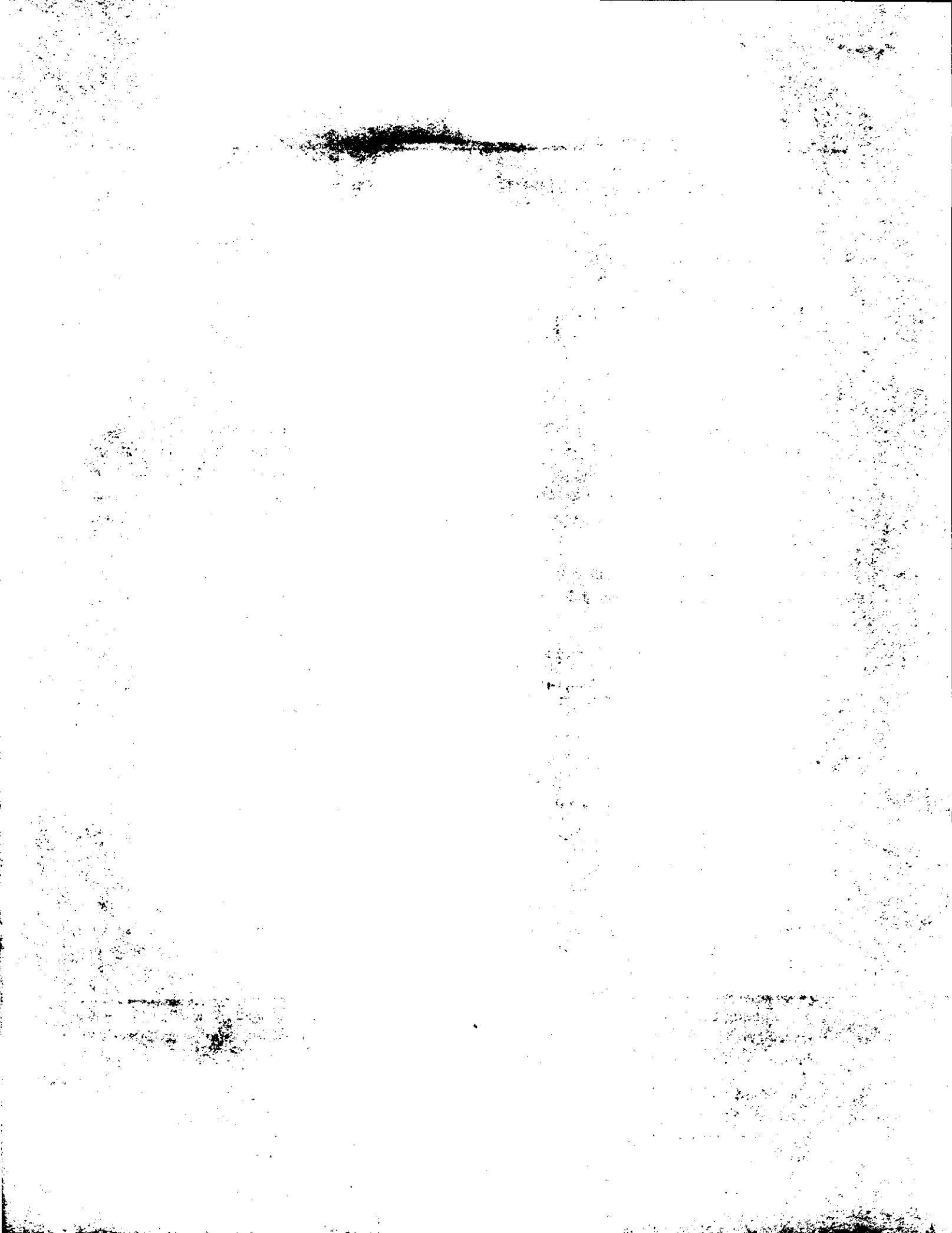
Total future minimum lease commitments are as follows:

Years Ending June 30:	
2015	\$130,844
2016	127,824
2017	130,688
2018	33,084
Total	<u>\$422,440</u>

NOTE 7 - RETIREMENT PLANS

The Board maintains a defined contribution pension plan for its employees. Pension costs for the years ended June 30, 2014 and 2013, totaled \$74,982 and \$88,223, respectively, which consists of employer contributions and administrative costs of \$67,375 and \$7,607, respectively, for the year ended June 30, 2014, and \$77,838 and \$10,385, respectively, for the year ended June 30, 2013. Employer contributions to the plan were reduced from 12% of qualified wages for eligible and participating employees for the fiscal year ended June 30, 2013 and the period July 1, 2013 through December 31, 2013, to 10% of qualified wages for eligible and participating employees effective January 1, 2014. Employees do not contribute to this plan.

The Board maintained a 401(k) plan for employees which was terminated in December 2013 and replaced with a 457(b) deferred compensation plan. The Board does not contribute to the plan. Employee contributions to these plans totaled \$12,750 and \$8,050 for the years ended June 30, 2014 and 2013, respectively.



THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements

NOTE 8 - COMMITMENTS

The Board entered into a contract for web design services during the year ending June 30, 2014 for a total cost of \$8,910, of which \$4,055 was paid in May 2014, and the remainder is due upon completion of the work, which is expected to be in September 2014.

The Board submitted a work order in June 2014 for enhancements to its current database with an estimated project cost of \$9,860 plus out of pocket expenses, due upon completion of service, which is expected to be during the fiscal year ending June 30, 2015.

NOTE 9 - CONTINGENCY

In August 2014, the Board received a demand letter from an applicant who was initially denied, requesting the Board reimburse legal and other costs of up to \$49,200. As of the date of this report, the Board was unable to estimate the amount of loss it may incur related to this case. Therefore, no accrual has been made related to this contingency in the Statement of Net Position as of June 30, 2014.

NOTE 10 - RISK MANAGEMENT

The Board 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 Board members up to \$1,000,000 are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the Board under the State's public officers' and employees' liability insurance contract with a private insurance company.

NOTE 11 - LIFE INSURANCE POLICY

Effective June 27, 2013, the Board was the beneficiary of a new term life insurance policy in the amount of \$150,000 on the Executive Director.

NOTE 12 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through October 14, 2014, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed other than the contingency discussed in Note 9.

The Board audit was conducted in approximately 65 hours at a total audit cost of \$9,000.

