

THE BOARD OF LAW EXAMINERS OF
THE STATE OF NORTH CAROLINA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018



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, 2019

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, 2019. 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 two years are presented in the analysis.

Financial Highlights

The operating revenues of the Board increased by \$131,185 or 6.97% primarily due to transfer application fees totaling \$295,150 in the current year, which were new in fiscal year 2018-2019. This increase was partially offset by decreases in examination fees which continue to be impacted by the closing of a law school.

The operating expenses of the Board decreased by \$86,415, or 4.47% primarily due to decreases in bar examination expenses and bar examination grading expenses, which were partially offset by increases in personnel costs and fees related to server upgrades and bar admissions software.

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' activities.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

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:

	2019	2018	2017
Current assets	\$ 1,769,969	\$ 1,197,593	\$ 1,920,228
Capital assets - net of depreciation	134,007	84,247	57,282
Noncurrent assets	280,283	568,961	152,311
Total assets	2,184,259	1,850,801	2,129,821
Current liabilities	818,326	663,016	897,173
Noncurrent liabilities	32,436	36,732	47,549
Total liabilities	850,762	699,748	944,722
Net position:			
Unrestricted	1,199,490	1,066,806	1,127,817
Investment in capital assets	134,007	84,247	57,282
Total net position	\$ 1,333,497	\$ 1,151,053	\$ 1,185,099
Operating revenues	\$ 2,011,994	\$ 1,880,809	\$ 2,114,639
Operating expenses	1,845,471	1,931,886	1,979,089
Operating income (loss)	166,523	(51,077)	135,550
Nonoperating revenues	15,921	17,031	20,131
Changes in net position	\$ 182,444	\$ (34,046)	\$ 155,681

Events Affecting Future Operations

For fiscal year 2019-2020, the Board expects revenue from Transfer Applications to decrease from the prior year, adjusting for an initial heightened influx of these applications upon acceptance beginning June 30, 2018.

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.



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, 2019 and 2018, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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, 2019 and 2018, 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, 2019 and 2018, 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 17, 2019

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Net Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 777,949	\$ 805,928
Investments - current portion	963,852	342,421
Note receivable - current portion	5,122	5,078
Prepaid expenses	23,046	44,166
Total current assets	<u>1,769,969</u>	<u>1,197,593</u>
Capital assets - net of depreciation	<u>134,007</u>	<u>84,247</u>
Noncurrent assets:		
Investments - noncurrent portion	272,620	556,176
Note receivable - noncurrent portion	7,663	12,785
Total noncurrent assets	<u>280,283</u>	<u>568,961</u>
Total assets	<u>2,184,259</u>	<u>1,850,801</u>
LIABILITIES:		
Current liabilities:		
Advance exam fees	772,300	605,500
Pension contribution payable	28,294	27,739
Other accounts payable	5,939	22,304
Payroll liabilities	53	53
Deferred rent liability	6,618	2,342
Note payable - current portion	5,122	5,078
Total current liabilities	<u>818,326</u>	<u>663,016</u>
Noncurrent liabilities:		
Note payable - noncurrent portion	7,663	12,785
Accrued compensated absences	24,773	23,947
Total noncurrent liabilities	<u>32,436</u>	<u>36,732</u>
Total liabilities	<u>850,762</u>	<u>699,748</u>
NET POSITION:		
Invested in capital assets	134,007	84,247
Unrestricted	<u>1,199,490</u>	<u>1,066,806</u>
Total net position	<u>\$ 1,333,497</u>	<u>\$ 1,151,053</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, 2019 and 2018

	2019	2018
Revenues:		
Non-licensed examination fees	\$ 525,750	\$ 633,500
Attorney examination fees	271,200	264,000
Comity fees	384,500	377,500
Transfer application fees	295,150	-
Supplemental examination fees	189,200	249,600
Late application fees	143,500	123,500
Laptop fees	172,500	185,325
Miscellaneous	30,194	47,384
Total revenues	2,011,994	1,880,809
Expenses:		
Salaries, payroll taxes, and employee benefits	740,634	720,197
Pension plan contributions and expenses	58,648	71,753
Bar examination grading expenses	159,419	248,111
Bar examination expenses	383,313	433,748
Board meeting/hearing expenses	117,370	126,001
Investigation/hearing preparation	26,314	23,684
Bar examination fees refunded	10,755	17,690
Rent - office	108,545	103,574
Postage	38,259	33,857
Depreciation expense	29,115	16,752
Office supplies and expense	75,843	40,779
Printing and engraving	10,470	11,813
Leased equipment	37,306	37,208
Equipment repairs and maintenance	16,467	15,945
Telephone	5,090	5,462
Professional association, meetings	5,793	5,450
Professional fees	10,750	9,100
Insurance and bonding	4,493	4,732
Publications and subscriptions	2,868	1,618
Certification to the Supreme Court	845	962
Bank fees	2,868	3,128
Miscellaneous	306	322
Total expenses	1,845,471	1,931,886
Operating income (loss)	166,523	(51,077)
Non-operating revenues (expenses):		
Interest income	17,463	17,031
Loss on sale of capital assets	(1,542)	-
Total non-operating revenues	15,921	17,031
Change in net position	182,444	(34,046)
Net position - beginning of year	1,151,053	1,185,099
Net position - end of year	\$ 1,333,497	\$ 1,151,053

See Notes to Financial Statements

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from fees	\$ 2,178,794	\$ 1,629,059
Cash payments to employees for services	(797,901)	(797,718)
Cash payments for suppliers of goods and services	(807,101)	(899,797)
Cash payments for other operating expenses	(200,942)	(199,639)
Net cash provided by (used in) operating activities	372,850	(268,095)
Cash flows from financing activities:		
Repayments of note payable	(5,078)	(5,739)
Repayments from employees	5,078	5,739
Net cash provided by financing activities	-	-
Cash flows from investing activities:		
Purchase of investments	(668,351)	(1,028,004)
Sales of investments	330,476	1,323,553
Net investment income	17,463	17,031
Acquisition of capital assets	(80,417)	(43,717)
Net cash provided by (used in) investing activities	(400,829)	268,863
Increase (decrease) in cash	(27,979)	768
Cash - beginning of year	805,928	805,160
Cash - end of year	\$ 777,949	\$ 805,928
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 166,523	\$ (51,077)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	29,115	16,752
Changes in assets and liabilities:		
Prepaid expenses	21,120	5,465
Advance exam fees	166,800	(251,750)
Pension contribution payable	555	-
Accounts payable	(16,365)	15,941
Deferred rent liability	4,276	2,342
Payroll liabilities	-	(29)
Accrued compensated absences	826	(5,739)
Total adjustments	206,327	(217,018)
Net cash provided by (used in) operating activities	\$ 372,850	\$ (268,095)

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 administrative 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 may be 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.

Basis of Presentation

The accompanying basic financial statements have been prepared in accordance with GAAP 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 are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource 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.

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.

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)

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.

The Board adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, issued in March 2018 by the Governmental Accounting Standards Board and effective for reporting periods beginning after June 15, 2018. GASB 88 had no effect on the amounts previously reported or disclosed in these financial statements.

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 non-negotiable certificates of deposit with original maturities of more than three months. Certificates of deposit maturing within one year are shown as current. The certificates of deposit are reported 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 useful lives between 3 to 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.

Accrued Compensated Absences

The vacation leave 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 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.

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)

Net Position

The Board's net position is classified as follows:

Invested 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.

The following designation of net assets represents management's estimates that are subject to change based on perceived operating conditions and situations.

Litigation	<u>\$ 272,620</u>
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Use of Estimates

The preparation of financial statements in conformity with GAAP 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

The Board's deposits include cash on deposit with commercial bank accounts, money market accounts, and certificates of deposit. At June 30, 2019, deposits in commercial financial institutions, with a carrying value of \$2,014,421 and a bank balance of \$2,026,133, consist of cash and investments, as shown on the Statements of Net Position. Included in the deposits in commercial financial institutions are certificates of deposit in the amount of \$1,236,472 reported as investments in the Statements of Net Position.

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. 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, 2019 and 2018, the uninsured balances were \$22,620 and \$28,094, respectively, of which \$0 in either year related to uninsured amounts in the Board's checking or money market accounts.

There are no legal limitations on the types of investments by the Board. The Board has adopted formal investment policies to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the Board.

The Board is subject to the following risks:

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)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board manages credit risk by diversifying its investment portfolio. Investments are limited to:

- Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
- Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration and the United States Postal Service.
- Repurchase Agreements with respect to securities issued or guaranteed by the United States government or its agencies or other securities eligible for investment by this section executed by a bank or trust company or by primary or other reporting dealers to the Federal Reserve Bank of New York.
- Obligations of the State of North Carolina.
- Savings certificates issued by any savings and loan association organized under the laws of the State of North Carolina or by any federal savings and loan association having its principal office in North Carolina.
- Certificates of deposit issued by banks organized under the laws of the State of North Carolina, or by any bank having FDIC Insurance.
- Shares of or deposits in any savings and loan association organized under the laws of the State of North Carolina, or any federal savings and loan association having FDIC Insurance.
- Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service.
- Prime quality master notes, obligations of banks organized under the laws of the State of North Carolina, or any national bank having its principal office in North Carolina.
- Bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank.
- Asset backed securities (whether considered debt or equity) provided they bear the highest rating of at least one nationally recognized rating service.
- Corporate bonds and notes provided they bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service which rates the particular obligation.

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

NOTE 2 - DEPOSITS AND INVESTMENTS (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, 2019:

Investment Type	Fair Value	Properties of Debt Securities	
		Weighted Average Maturities	Ratings
Certificates of deposit	\$ 1,236,472	7 months	N/A

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

A reconciliation of deposits and investments for the Board to the basic financial statements at June 30, is as follows:

	2019	2018
Carrying amount of deposits with commercial financial institutions	\$ 93,166	\$ 99,656
Money market mutual funds	684,783	706,272
Investments in certificates of deposit	1,236,472	898,597
Total deposits and investments	<u>\$2,014,421</u>	<u>\$1,704,525</u>
Current:		
Cash	\$ 777,949	\$ 805,928
Short-term investments	963,852	342,421
Noncurrent:		
Investments	272,620	556,176
Total deposits and investments	<u>\$2,014,421</u>	<u>\$1,704,525</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost 6/30/18	Additions	Retirements	Cost 6/30/19	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$ 262,778</u>	<u>\$ 80,417</u>	<u>\$ 35,438</u>	<u>\$ 307,757</u>	<u>\$ 173,750</u>	<u>\$ 134,007</u>
	Cost 6/30/17	Additions	Retirements	Cost 6/30/18	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$ 255,923</u>	<u>\$ 43,717</u>	<u>\$ 36,862</u>	<u>\$ 262,778</u>	<u>\$ 178,531</u>	<u>\$ 84,247</u>

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

NOTE 4 - ADVANCE EXAM FEES

The Board defers revenue recognition in connection with resources that have been received, but not yet earned. Exam fees are collected in advance and recorded as unearned revenue at year-end to be recognized as revenue when the exam takes place in the next fiscal year. Advance exam fee revenue reported was \$772,300 and \$605,500 for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 - RELATED PARTY NOTE RECEIVABLE AND NOTE PAYABLE

On September 2, 2014, the Board advanced an employee \$4,000 and concurrently received proceeds from the employee's retirement account for \$4,000. The note was payable by the employee in monthly payroll deductions of \$91, 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 and related payable had a balance of \$181 at June 30, 2018 and was paid off during the year ended June 30, 2019.

On December 1, 2016, the Board advanced an employee \$25,000 and concurrently received proceeds from the employee's retirement account for \$25,000. The note was payable by the employee in monthly payroll deductions of \$466, including interest at 4.50%, and payments were remitted by the Board to the employee's retirement account on a monthly basis. The note receivable and related payable had a balance of \$12,785 and \$17,682 at June 30, 2019 and 2018, respectively.

NOTE 6 - NOTE PAYABLE AND COMPENSATED ABSENCES

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

	Balance 6/30/18	Increases	Decreases	Balance 6/30/19	Current Portion of Balance
Note payable	\$ 17,863	\$ 696	\$ (5,774)	\$ 12,785	\$ 5,122
Accrued compensated absences	23,947	43,012	(42,186)	24,773	-
Total	<u>\$ 41,810</u>	<u>\$ 43,708</u>	<u>\$ (47,960)</u>	<u>\$ 37,558</u>	<u>\$ 5,122</u>

	Balance 6/30/17	Increases	Decreases	Balance 6/30/18	Current Portion of Balance
Note payable	\$ 23,602	\$ 945	\$ (6,684)	\$ 17,863	\$ 5,078
Accrued compensated absences	29,686	42,169	(47,908)	23,947	-
Total	<u>\$ 53,288</u>	<u>\$ 43,114</u>	<u>\$ (54,592)</u>	<u>\$ 41,810</u>	<u>\$ 5,078</u>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA

Notes to Financial Statements

NOTE 7 - LEASES

The Board moved to new facilities in October 2012, and entered into a five year operating lease effective November 1, 2012. The lease was renewed on November 1, 2017 for an additional 5 years. The renewed lease agreement calls for graduated monthly lease payments of \$8,519 beginning in year one and increasing by approximately 3% per year for each of the next four years. Total rental expense charged to operations under this lease for the years ended June 30, 2019 and 2018, was \$108,545 and \$103,574, 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, 2019 and 2018, was \$37,306 and \$37,208, respectively.

Total future minimum lease commitments are as follows:

<u>Years Ending June 30:</u>	
2020	\$ 124,381
2021	116,199
2022	119,517
2023	42,536
	<u>\$ 402,633</u>

NOTE 8 - RETIREMENT PLANS

The Board maintains a defined contribution pension plan for its employees. Pension plan costs consist of employer contributions and administrative fees. Employer contributions to the plan were 10% of qualified wages for eligible and participating employees and totaled \$58,648 and \$57,590 for the years ended June 30, 2019 and 2018, respectively. Employees do not contribute to this plan. Beginning January 1, 2018, the administrative expenses for the defined contribution retirement plan will be paid from plan assets rather than by the Board.

The Board maintains a 457(b) deferred compensation plan for its employees. The Board does not contribute to the plan.

NOTE 9 - COMMITMENTS

As of June 30, 2019, the Board entered into contracts for the August 2019, March 2020, August 2020, and August 2021 grading sessions with a total committed balance of \$230,022, of which \$10,520 had been paid as of June 30, 2019.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA

Notes to Financial Statements

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. The Board also protects itself from exposures to loss through the purchase of commercial insurance, which coverage includes building and contents and commercial liability, and workers' compensation and employers' liability.

NOTE 11 - LIFE INSURANCE POLICY

Effective June 27, 2013, the Board is 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 17, 2019, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

The Board audit was conducted in approximately 90 hours at a total audit cost of \$11,300.