



The Board of Law Examiners
of The
State of North Carolina

October 29, 2018

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FAYETTEVILLE, NC

LEE A. VLAHOS
EXECUTIVE DIRECTOR
5510 SIX FORKS RD.,
SUITE 300
RALEIGH, N.C. 27609

EMERITUS MEMBERS

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JAMES R. VAN CAMP, PINEHURST

Mr. Harrison Moore
Joint Legislative Administrative Procedure Oversight Committee
North Carolina General Assembly Research Division
300 N. Salisbury Street, Room Suite 545
Raleigh, NC 27603-5925

Re: Annual Report and Financial Report for the North Carolina
Board of Law Examiners

Dear Mr. Moore:

Please find enclosed the Annual Report for the year ending
December 31, 2017, and the 2017-2018 Financial Report/Audit, including
financial statements, for the Board of Law Examiners of the State of
North Carolina.

The Rules Governing Admission to Practice of Law in the 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.

As the Board has no jurisdiction over the supervision or discipline
of attorneys, items 1(a), 7(a), 7(b), 8 and 9 are inapplicable to the Board;
the information requested by these items will need to be furnished by the
North Carolina State Bar.

With best wishes, I am,

Very truly yours,

Lee A. Vlahos
Executive Director

LAV/apb
Enclosures
cc: Beth R. Fleishman

THE BOARD OF LAW EXAMINERS
ANNUAL REPORT
* * * * *

ANNUAL REPORT, filed pursuant to the requirements of North Carolina General Statutes, §93B-2, for the year ending December 31, 2017.

- 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 of Board members: See Attachment A

Officers of Board:

Beth R. Fleishman Chair
Lee A. Vlahos, Executive Director

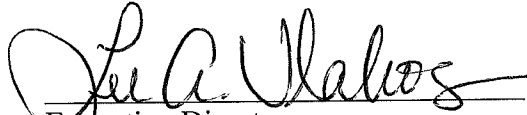
*****	(1a)	The total number of licensees supervised by the Board.	<u>N/A</u>
*	(2)	Number of persons who applied to Board for examination	<u>1866</u>
*	(3)	Number who were refused examination	<u>10</u>
*	(4)	Number who took the examination	<u>1642</u>
**	(5)	Number to whom initial licenses were issued	<u>878</u>
	(5a)	Number who failed the examination	<u>781</u>
***	(6)	Number who applied for licenses by reciprocity or comity	<u>188</u>
****	(7)	Number who were granted licenses by reciprocity or comity	<u>178</u>
*****	(7a)	Number of official complaints received involving licensed and unlicensed activities	<u>N/A</u>
*****	(7b)	The number of disciplinary actions taken against licensees, or other actions taken against nonlicensees, including injunctive relief	<u>N/A</u>
*****	(8)	Number of licenses suspended or revoked	<u>N/A</u>
*****	(9)	Number of licenses terminated for any reason other than failure to pay the required renewal fee	<u>N/A</u>
	(10)	Substance of any anticipated request by the occupational licensing board to the General Assembly to amend statutes related to the occupational licensing board	<u>NONE</u>

- (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

See Attachment C

Respectfully,

Date: 10.29.2018


Executive Director

- * See Attachment B
- ** Some of those applicants who were issued licenses took an examination in 2016, but were not approved by the Board until 2017.
- *** 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 2016, but were not approved by the Board until 2017.
- ***** 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 license suspension, revocations and 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 as of December 31, 2017.

Ms. Beth R. Fleishman (Chair)

Ms. Jaye P. Meyer

Mr. Randel E. Phillips

Judge A. Leon Stanback, Jr.

Ms. Kimberly Anne Herrick

Mr. D. Clark Smith Jr.

Mr. Roger A. Askew

Judge W. Erwin Spainhour

Mr. Ronald G. Baker, Sr.

Mr. Ronald L. Gibson

Mr. G. Robert Hicks, III

ATTACHMENT B

	<u>Feb. 2017</u>	<u>July 2017</u>	<u>Other*</u>
(2) Number of persons who applied to Board for examination:	740	1126	
(3) Number who were refused examination:	6	4	
(4) Number who took the examination:	620	1022	
(5) Number to whom initial licenses were issued:	229	629	
(5)(a) Number who failed the examination:	391	390	

February 2017 North Carolina Bar Examination:

Of the 740 applicants who made initial application, 114 withdrew, failed to appear or did not finish the examination.

July 2017 North Carolina Bar Examination:

Of the 1126 applicants who made initial application, 103 withdrew, failed to appear or did not finish the examination.

ATTACHMENT C

Question 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.

At its October 2017 meeting, the Board approved an amendment to Rule .0501(8) of the Rules Governing Admission to Practice Law in the State of North Carolina.

This amendment provides the time period within which a General Applicant will be required to successfully complete the North Carolina state-specific component licensure requirement. Rule .0501(8) as amended would require General Applicants to successfully complete the State-Specific Component within the twenty-four (24) month period next preceding the beginning day of the written bar examination which applicant passes as prescribed above, or within the twelve (12) month period thereafter; the time limits are tolled for a period not exceeding four (4) years for any applicant who is a service member as defined in the Service Members Civil Relief Act, 50 U.S.C. Appx. § 511, while engaged in active service as defined in 10 U.S.C. § 101, and who provides a letter or other communication from the service member's commanding officer stating that the service member's current military duty prevents the service member from completing the State-Specific Component within the twenty-four (24) month period next preceding the beginning day of the written bar examination which applicant passes as prescribed above, or within the twelve (12) month period thereafter.

This amendment was presented to the North Carolina State Bar Council for approval.

**THE BOARD OF LAW EXAMINERS OF
THE STATE OF NORTH CAROLINA**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Table of Contents

	<u>Page No.</u>
Management's Discussion and Analysis	1 - 2
Independent Auditor's Report	3 - 4
<i>Financial Statements</i>	
Statements of Net Position	5
Statements of Revenues, Expenses, and Changes in Net Position	6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 15

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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, 2018. 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 decreased by \$233,830 or 11.06% primarily due to a decrease in examination fees related to the closing of a law school.

The operating expenses of the Board decreased by \$47,203, or 2.39% primarily due to decreases in personnel costs, bar examination expenses, and insurance expenses, partially offset by an increase in bar examination grading expenses.

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, 2018

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:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,197,593	\$ 1,920,228	\$ 1,312,919
Capital assets - net of depreciation	84,247	57,282	69,693
Noncurrent assets	<u>568,961</u>	<u>152,311</u>	<u>701,742</u>
Total assets	<u>1,850,801</u>	<u>2,129,821</u>	<u>2,084,354</u>
Current liabilities	663,016	897,173	1,021,924
Noncurrent liabilities	<u>36,732</u>	<u>47,549</u>	<u>33,012</u>
Total liabilities	<u>699,748</u>	<u>944,722</u>	<u>1,054,936</u>
Unrestricted	1,066,806	1,127,817	959,725
Investment in capital assets	84,247	57,282	69,693
Total net position	<u>\$ 1,151,053</u>	<u>\$ 1,185,099</u>	<u>\$ 1,029,418</u>
Operating revenues	\$ 1,880,809	\$ 2,114,639	\$ 2,216,506
Operating expenses	<u>1,931,886</u>	<u>1,979,089</u>	<u>2,025,804</u>
Operating income (loss)	(51,077)	135,550	190,702
Nonoperating revenues	<u>17,031</u>	<u>20,131</u>	<u>10,455</u>
Changes in net position	<u>\$ (34,046)</u>	<u>\$ 155,681</u>	<u>\$ 201,157</u>

Events Affecting Future Operations

The Board expects revenues from comity applicants to decline slightly. The Board expects overall revenues to increase, due to the addition of a new type of application to practice law in North Carolina, the UBE Transfer Application.

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, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year 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, 2018 and its changes in financial position and cash flows for the year 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, 2018 nor the changes in its financial position and its cash flows thereof for the year 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.

Prior Period Financial Statements

The financials statements of The Board of Law Examiners of the State of North Carolina as of June 30, 2017, were audited by other auditors whose report, dated October 10, 2017, expressed an unmodified opinion on those statements.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
October 18, 2018

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 805,928	\$ 805,160
Investments - current portion	342,421	1,059,698
Note receivable - current portion	5,078	5,739
Prepaid expenses	44,166	49,631
Total current assets	<u>1,197,593</u>	<u>1,920,228</u>
Capital assets - net of depreciation	<u>84,247</u>	<u>57,282</u>
Noncurrent assets:		
Investments - noncurrent portion	556,176	134,448
Note receivable - noncurrent portion	12,785	17,863
Total noncurrent assets	<u>568,961</u>	<u>152,311</u>
Total assets	<u>1,850,801</u>	<u>2,129,821</u>
LIABILITIES:		
Current liabilities:		
Advance exam fees	605,500	857,250
Pension contribution payable	27,739	27,739
Other accounts payable	22,304	6,363
Payroll liabilities	53	82
Deferred rent liability	2,342	-
Note payable - current portion	5,078	5,739
Total current liabilities	<u>663,016</u>	<u>897,173</u>
Noncurrent liabilities:		
Note payable - noncurrent portion	12,785	17,863
Accrued compensated absences	23,947	29,686
Total noncurrent liabilities	<u>36,732</u>	<u>47,549</u>
Total liabilities	<u>699,748</u>	<u>944,722</u>
NET POSITION:		
Invested in capital assets	84,247	57,282
Unrestricted	<u>1,066,806</u>	<u>1,127,817</u>
Total net position	<u>\$ 1,151,053</u>	<u>\$ 1,185,099</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Non-licensed examination fees	\$ 633,500	\$ 742,700
Attorney examination fees	264,000	298,500
Comity fees	377,500	343,000
Supplemental examination fees	249,600	298,400
Late application fees	123,500	164,750
Laptop fees	185,325	206,175
Miscellaneous	47,384	61,114
Total revenues	<u>1,880,809</u>	<u>2,114,639</u>
Expenses:		
Salaries, payroll taxes, and employee benefits	720,197	766,143
Pension plan contributions and expenses	71,753	68,319
Bar examination grading expenses	248,111	193,657
Bar examination expenses	433,748	467,410
Board meeting/hearing expenses	126,001	89,061
Investigation/hearing preparation	23,684	29,380
Bar examination fees refunded	17,690	19,400
Rent - office	103,574	98,283
Postage	33,857	45,904
Depreciation expense	16,752	17,413
Office supplies and expense	40,779	47,628
Printing and engraving	11,813	21,262
Leased equipment	37,208	37,261
Equipment repairs and maintenance	15,945	16,994
Telephone	5,462	4,898
Professional association, meetings	5,450	6,397
Professional fees	9,100	8,800
Insurance and bonding	4,732	34,572
Publications and subscriptions	1,618	1,523
Certification to the Supreme Court	962	1,030
Bank fees	3,128	3,446
Miscellaneous	322	308
Total expenses	<u>1,931,886</u>	<u>1,979,089</u>
Operating income (loss)	(51,077)	135,550
Nonoperating revenues:		
Interest income	<u>17,031</u>	<u>20,131</u>
Change in net position	(34,046)	155,681
Net position - beginning of year	<u>1,185,099</u>	<u>1,029,418</u>
Net position - end of year	<u>\$ 1,151,053</u>	<u>\$ 1,185,099</u>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from fees	\$ 1,629,059	\$ 1,986,339
Cash payments to employees for services	(797,718)	(837,833)
Cash payments for suppliers of goods and services	(899,797)	(979,131)
Cash payments for other operating expenses	(199,639)	(171,481)
Net cash used in operating activities	(268,095)	(2,106)
Cash flows from financing activities:		
Proceeds from note payable	-	25,000
Repayments of note payable	(5,739)	(3,649)
Loan to employee	-	(25,000)
Repayments from employees	5,739	3,649
Net cash provided by financing activities	-	-
Cash flows from investing activities:		
Purchase of investments	(1,028,004)	(60,981)
Sales of investments	1,323,553	-
Net investment income	17,031	20,131
Acquisition of capital assets	(43,717)	(5,002)
Net cash provided by (used in) investing activities	268,863	(45,852)
Increase (decrease) in cash	768	(47,958)
Cash - beginning of year	805,160	853,118
Cash - end of year	\$ 805,928	\$ 805,160
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (51,077)	\$ 135,550
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	16,752	17,413
Changes in assets and liabilities:		
Prepaid expenses	5,465	(23,504)
Advance exam fees	(251,750)	(128,300)
Pension contribution payable	-	(1,283)
Accounts payable	15,941	106
Deferred rent liability	2,342	-
Payroll liabilities	(29)	-
Accrued compensated absences	(5,739)	(2,088)
Total adjustments	(217,018)	(137,656)
Net cash used in operating activities	\$ (268,095)	\$ (2,106)

See Notes to Financial Statements

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.

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 the following useful lives:

Furniture and equipment	5 - 10 years
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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 designations of net assets represent management's estimates that are subject to change based on perceived operating conditions and situations.

Litigation	<u>\$276,729</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, 2018, deposits in commercial financial institutions, with a carrying value of \$1,704,525 and a bank balance of \$1,712,185, consists 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 \$898,597 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, 2018 and 2017, the uninsured balances were \$28,094 and \$48,888, 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, 2018:

Investment Type	Fair Value	Properties of Debt Securities	
		Weighted Average Maturities	Ratings
Certificates of deposit	<u>\$898,597</u>	11 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:

	2018	2017
Carrying amount of deposits with commercial financial institutions	\$ 347,747	\$ 427,616
Money market mutual funds	458,181	377,544
Investments in certificates of deposit	<u>898,597</u>	<u>1,194,146</u>
Total deposits and investments	<u>\$1,704,525</u>	<u>\$1,999,306</u>
Current:		
Cash	\$ 805,928	\$ 805,160
Short-term investments	342,421	1,059,698
Noncurrent:		
Investments	<u>556,176</u>	<u>134,448</u>
Total deposits and investments	<u>\$1,704,525</u>	<u>\$1,999,306</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	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>
	Cost 6/30/16	Additions	Retirements	Cost 6/30/17	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$ 250,921</u>	<u>\$ 5,002</u>	<u>\$ -</u>	<u>\$ 255,923</u>	<u>\$ 198,641</u>	<u>\$ 57,282</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 \$605,500 and \$857,250 for the years ended June 30, 2018 and 2017, 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 and \$1,238 at June 30, 2018 and 2017, respectively.

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 \$17,682 and \$22,364 at June 30, 2018 and 2017, respectively.

NOTE 6 - NOTE PAYABLE AND COMPENSATED ABSENCES

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

	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>

	Balance 6/30/16	Increases	Decreases	Balance 6/30/17	Current Portion of Balance
Note payable	\$ 2,251	\$ 25,000	\$ (3,649)	\$ 23,602	\$ 5,739
Accrued compensated absences	31,774	40,919	(43,007)	29,686	-
Total	<u>\$ 34,025</u>	<u>\$ 65,919</u>	<u>\$ (46,656)</u>	<u>\$ 53,288</u>	<u>\$ 5,739</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, 2018 and 2017, was \$103,574 and \$98,283, 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, 2018 and 2017, was \$37,208 and \$37,261, respectively.

Total future minimum lease commitments are as follows:

<u>Years Ending June 30:</u>	
2019	\$ 141,121
2020	118,801
2021	110,619
2022	113,937
2023	38,351
	<u>\$ 522,829</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 \$57,590 and \$55,789 for the years ended June 30, 2018 and 2017, 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, 2018, the Board entered into contracts for the August 2018, March 2019, and August 2019 grading sessions with a total committed balance of \$168,494, of which \$33,191 had been paid as of June 30, 2018.

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

NOTE 12 - RECLASSIFICATIONS

Certain amounts in the 2017 financial statements were reclassified to conform with the 2018 presentation.

NOTE 13 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through October 18, 2018, 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 \$10,750.