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THE BOARD OF LAW EXAMINERS OF
THE STATE OF NORTH CAROLINA

Financial Statements

June 30, 2016 and 2015

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THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2016

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, 2016. 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 \$145,040, or 7.0%, primarily due to an increase in comity application fees and attorney examination fees.

The operating expenses of the Board decreased by \$15,229, or 0.7%, primarily due to a decrease in personnel costs and investigation and hearing preparation expenses, offset by increases in grading and examination expenses as well as the purchase of a Director and Officer Liability Insurance policy.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Board's 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).

Financial Statements

The 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
June 30, 2016

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

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 1,312,919	\$ 1,498,505
Capital Assets, net of depreciation	69,693	89,225
Noncurrent Assets	<u>701,742</u>	<u>374,490</u>
Total Assets	<u>2,084,354</u>	<u>1,962,220</u>
Current Liabilities	1,021,924	1,101,097
Noncurrent Liabilities	<u>33,012</u>	<u>32,862</u>
Total Liabilities	<u>1,054,936</u>	<u>1,133,959</u>
Unrestricted	959,725	739,036
Investment in Capital Assets	<u>69,693</u>	<u>89,225</u>
Total Net Position	\$ <u>1,029,418</u>	\$ <u>828,261</u>
Operating Revenues	\$ 2,216,506	\$ 2,071,466
Operating Expenses	<u>2,025,804</u>	<u>2,041,033</u>
Operating Income	190,702	30,433
Nonoperating Revenues	<u>10,455</u>	<u>10,791</u>
Change in Net Position	\$ <u>201,157</u>	\$ <u>41,224</u>

Events Affecting Future Operations

The Board expects revenues from comity applicants to remain at current levels. The Board expects revenues from examination applicants to decrease slightly from prior fiscal year 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



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

INDEPENDENT AUDITOR'S REPORT

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, as of June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the 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, 2016 and 2015, 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.

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Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 2 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Koonce, Wooten + Hayward, LLP

Raleigh, North Carolina
October 17, 2016

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 853,118	\$ 841,510
Investments--Current Portion	432,661	590,959
Notes Receivable--Current Portion	1,013	971
Prepaid Expenses	<u>26,127</u>	<u>65,065</u>
Total Current Assets	<u>1,312,919</u>	<u>1,498,505</u>
CAPITAL ASSETS, net of depreciation	<u>69,693</u>	<u>89,225</u>
NONCURRENT ASSETS:		
Investments--Noncurrent Portion	700,504	372,239
Notes Receivable--Noncurrent Portion	<u>1,238</u>	<u>2,251</u>
Total Noncurrent Assets	<u>701,742</u>	<u>374,490</u>
Total Assets	<u>\$ 2,084,354</u>	<u>\$ 1,962,220</u>
CURRENT LIABILITIES:		
Advance Exam Fees	\$ 985,550	\$ 1,040,400
Pension Contribution Payable	29,022	30,421
Accounts Payable	6,257	29,067
Payroll Taxes Withheld	82	238
Notes Payable--Current Portion	<u>1,013</u>	<u>971</u>
Total Current Liabilities	<u>1,021,924</u>	<u>1,101,097</u>
NONCURRENT LIABILITIES:		
Notes Payable--Noncurrent Portion	1,238	2,251
Accrued Compensated Absences	<u>31,774</u>	<u>30,611</u>
Total Noncurrent Liabilities	<u>33,012</u>	<u>32,862</u>
Total Liabilities	<u>\$ 1,054,936</u>	<u>\$ 1,133,959</u>
NET POSITION:		
Unrestricted	\$ 959,725	\$ 739,036
Investment in Capital Assets	<u>69,693</u>	<u>89,225</u>
Total Net Position	<u>\$ 1,029,418</u>	<u>\$ 828,261</u>

The accompanying notes are an integral part of the financial statements.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
 Statements of Revenues, Expenses, and Changes in Net Position
 For the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Non-Licensed Examination Fees	\$ 819,700	\$ 847,000
Attorney Examination Fees	348,000	288,000
Comity Fees	307,000	214,500
Supplemental Examination Fees	289,200	250,400
Late Application Fees	177,750	171,000
Laptop Fees	222,200	257,375
Miscellaneous Income	52,656	43,191
Total Operating Revenues	2,216,506	2,071,466
OPERATING EXPENSES:		
Salaries, Payroll Taxes, and Employee Benefits	759,684	821,099
Pension Plan Contributions and Expenses	75,641	95,713
Bar Examination Grading Expenses	219,568	163,061
Bar Examination Expenses	473,902	429,922
Board Meeting/Hearing Expenses	95,370	79,057
Investigation/Hearing Preparation	26,374	79,858
Bar Examination Fees Refunded	23,680	29,755
Rent--Office	95,421	92,641
Postage	51,411	46,481
Depreciation Expense	19,855	18,663
Office Equipment	2,840	3,482
Office Supplies and Expense	46,345	69,540
Printing and Engraving	17,620	23,865
Leased Equipment	36,922	34,878
Equipment Repairs and Maintenance	17,653	16,255
Telephone	5,797	5,659
Professional Association, Meetings, Fees	8,166	6,991
Professional Fees	8,500	9,000
Insurance and Bonding	34,621	4,707
Website		4,455
Publications and Subscriptions	1,926	2,439
Certification to the Supreme Court	1,101	872
Bank Fees	3,152	2,339
Miscellaneous	255	301
Total Operating Expenses	2,025,804	2,041,033
OPERATING INCOME	190,702	30,433
NONOPERATING REVENUES (EXPENSES):		
Interest Income	11,104	10,791
Loss on Sale of Assets	(649)	
Total Nonoperating Revenues (Expenses)	10,455	10,791
CHANGE IN NET POSITION	201,157	41,224
NET POSITION--Beginning of Year	828,261	787,037
NET POSITION--End of Year	\$ 1,029,418	\$ 828,261

The accompanying notes are an integral part of the financial statements.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Fees	\$ 2,161,656	\$ 2,063,691
Cash Payments to Employees for Services	(835,717)	(903,941)
Cash Payments for Operating Expenses	<u>(1,154,496)</u>	<u>(1,130,097)</u>
Net Cash Provided by Operating Activities	<u>171,443</u>	<u>29,653</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reinvestment in Certificates of Deposit	(169,967)	(30,479)
Interest Received	11,104	10,791
Purchase of Capital Assets	(1,772)	(26,762)
Proceeds from Sale of Assets	800	
Net Cash Used by Investing Activities	<u>(159,835)</u>	<u>(46,450)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Note Payable		4,000
Repayments of Note Payable	(971)	(778)
Loan to Employees		(4,000)
Repayments from Employees	971	778
Net Cash Provided (Used) by Financing Activities	<u></u>	<u></u>
NET INCREASE (DECREASE) IN CASH	11,608	(16,797)
CASH--Beginning of Year	<u>841,510</u>	<u>858,307</u>
CASH--End of Year	<u>\$ 853,118</u>	<u>\$ 841,510</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 190,702	\$ 30,433
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	19,855	18,663
Changes in Assets and Liabilities:		
Prepaid Expenses	38,938	(44,992)
Advance Exam Fees	(54,850)	(2,775)
Pension Contribution Payable	(1,399)	766
Accounts Payable	(22,810)	20,453
Payroll Taxes Withheld	(156)	
Unearned Licensing Fees		(5,000)
Accrued Compensated Absences	<u>1,163</u>	<u>12,105</u>
Net Cash Provided by Operating Activities	<u>\$ 171,443</u>	<u>\$ 29,653</u>

The accompanying notes are an integral part of the financial statements.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies

A. Description of Organization:

The Board of Law Examiners of the State of North Carolina (the "Board") is an independent State agency. It is 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.

B. 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.

C. Basis of Presentation:

The accompanying 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.

D. Basis of Accounting:

The 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 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.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

E. 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.

F. 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.

G. Capital Assets:

Capital assets are recorded at cost at the date of the 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 nonoperating revenues for the period.

H. Advance Exam Fees:

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

I. Unearned Licensing Fees:

Unearned licensing fees represent fees collected for licensing agreements which related to future periods.

J. Accrued Compensated Absences:

During the year ended June 30, 2014, the Board changed its vacation leave policy. The current policy allowed 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.

K. 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.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements
June 30, 2016 and 2015

1. Summary of Significant Accounting Policies (Concluded)

L. 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.

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, 2016 and 2015, the uninsured balances were \$39,314 and \$35,767, respectively, of which \$0 in either year 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's investments consist of certificates of deposit.

3. Capital Assets

Changes in capital assets for the year ended June 30, 2016 were as follows:

	Cost 6/30/15	Additions	Retirements	Cost 6/30/16	Accumulated Depreciation	Net Amount
Furniture/ Equipment	\$ 291,263	\$ 1,772	\$ 42,114	\$ 250,921	\$ 181,228	\$ 69,693

Changes in capital assets for the year ended June 30, 2015 were as follows:

	Cost 6/30/14	Additions	Retirements	Cost 6/30/15	Accumulated Depreciation	Net Amount
Furniture/ Equipment	\$ 265,850	\$ 26,762	\$ 1,349	\$ 291,263	\$ 202,038	\$ 89,225

4. 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 had a balance of \$2,251 and \$3,222 at June 30, 2016 and 2015, respectively.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements
June 30, 2016 and 2015

5. Note Payable and Compensated Absences

Changes in the current and noncurrent portions of liabilities for the year ended June 30, 2016 are as follows:

	Balance 6/30/15	Additions	Retirements	Balance 6/30/16	Current Portion of Balance
Note Payable	\$ 3,222	\$	\$ (971)	\$ 2,251	\$ 1,013
Compensated Absences	30,611	38,397	(37,234)	31,774	
	<u>\$ 33,833</u>	<u>\$ 38,397</u>	<u>\$ (38,205)</u>	<u>\$ 34,025</u>	<u>\$ 1,013</u>

Changes in the current and noncurrent portions of liabilities for the year ended June 30, 2015 are as follows:

	Balance 6/30/14	Additions	Retirements	Balance 6/30/15	Current Portion of Balance
Note Payable	\$	\$ 4,000	\$ (778)	\$ 3,222	\$ 971
Compensated Absences	18,506	38,666	(26,561)	30,611	
	<u>\$ 18,506</u>	<u>\$ 42,666</u>	<u>\$ (27,339)</u>	<u>\$ 33,833</u>	<u>\$ 971</u>

Annual debt service requirements to maturity for long-term obligations are as follows:

Years Ending June 30	Principal	Interest	Total
2017	\$ 1,013	\$ 76	\$ 1,089
2018	1,057	32	1,089
2019	181	1	182
	<u>\$ 2,251</u>	<u>\$ 109</u>	<u>\$ 2,360</u>

6. Leases

The Board leases office space under a five-year operating lease commencing 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, 2016 and 2015 was \$95,421 and \$92,641, 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, 2016 and 2015 was \$36,922 and \$34,878, respectively.

Future minimum lease payments at June 30, 2016 are as follows:

Years Ending June 30	Commitment
2017	\$ 103,563
2018	38,362
2019	2,640
	<u>\$ 144,565</u>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Notes to Financial Statements
June 30, 2016 and 2015

7. Retirement Plans

The Board maintains a defined contribution pension plan for its employees. Pension costs for the years ended June 30, 2016 and 2015 totaled \$75,641 and \$95,713, respectively. Employer contributions to the plan were 10% of qualified wages for eligible and participating employees for the years ended June 30, 2016 and 2015. 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.

8. Commitments

The Board entered into contracts with three hotels for use in the August 2016, March 2017, and August 2017 grading sessions. The three contracts had a total committed balance at June 30, 2016 of \$131,013.

9. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and 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. The Board has also secured Director and Liability coverage as an additional risk management measure.

10. 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.

11. Subsequent Events

Management of the Board evaluated subsequent events through October 17, 2016, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.