



The Board of Law Examiners
of The
State of North Carolina

October 27, 2020

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CONCORD, NC

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GREENSBORO, NC

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RALEIGH, NC

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RALEIGH, NC

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Ms. Virginia Barlow

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 Ms. Barlow:

Please find enclosed the Annual Report for the year ending
December 31, 2019, and the 2019-2020 Financial Report/Audit, including
financial statements, for the Board of Law Examiners of the State of
North Carolina.

As the Board has no jurisdiction over the supervision or discipline
of attorneys, items (1a), (7a), (7b), 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: Kimberly A. Herrick

THE BOARD OF LAW EXAMINERS
ANNUAL REPORT

ANNUAL REPORT for the year ending December 31, 2019.

- 1) Board of Law Examiners of the State of North Carolina
5510 Six Forks Road, Suite 300
Raleigh, North Carolina 27609

Names of Board members: See Attachment A

Officers of Board:

Kimberly Anne Herrick, 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>1443</u>
*	(3)	Number who were refused examination	<u>9</u>
*	(4)	Number who took the examination	<u>1303</u>
**	(5)	Number to whom initial licenses were issued	<u>852</u>
	(5a)	Number who failed the examination	<u>399</u>
	(6)	Number who applied for licenses by reciprocity or comity	<u>145</u>
	(6a)	Number who applied for licenses by transfer of a Uniform Bar examination score	<u>190</u>
***	(7)	Number who were granted licenses by reciprocity or comity or transfer of Uniform Bar Exam Score.	<u>359</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>
	(9a)	The number of applicants for license	<u>1778</u>
		of that number, the number granted a license	<u>1211</u>
*****	(9b)	The number of applicants with a conviction record,	<u>18</u>
		of that number, the number granted a license,	<u>0</u>
		the number denied a license for any reason,	<u>1</u>
		and denied a license because of a conviction.	<u>1</u>

- | | | |
|------|--|--|
| (9c) | The number of applicants with military training,
the number granted a license
the number denied a license for any reason
and summary of the reasons for denial.
The information provided in accordance with this subdivision
shall not disclose any identifying information of any applicant. | <u>36</u>
<u>17</u>
<u>0</u>
<u>N/A</u> |
| (9d) | The number of applicants who are military spouses,
the number granted a license,
the number denied a license for any reason
Summary of reasons for denial | <u>3</u>
<u>3</u>
<u>0</u>
<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 | <u>None</u> |

Respectfully,

Date: 10/27/2020


Executive Director

* See Attachment B

** Some applicants who were successful on the examination were not licensed in 2019 as they had not yet completed all requirements as of December 31, 2019.

*** Some of those applicants who were issued licenses applied in 2018 but were not approved by the Board until 2019.

**** 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.

***** 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.

***** Some of these applicants submitted application in 2019, but did not sit for examination until 2020 and therefore were not licensed as of December 31, 2019.

ATTACHMENT A

(1a) Members of the Board as of December 31, 2019.

Ms. Kimberly Anne Herrick (Chair)

Mr. D. Clark Smith Jr.

Mr. Roger A. Askew

Judge W. Erwin Spainhour

Mr. Ronald G. Baker, Sr.

Mr. G. Robert Hicks, III

Judge Ned W. Mangum

Judge Calvin E. Murphy

Judge Sherri W. Elliott

Mr. Michael J. Greene

Ms. Shelley Read Curran

ATTACHMENT B

	<u>Feb. 2019</u>	<u>July 2019</u>	<u>Other*</u>
(2) Number of persons who applied to Board for examination:	577	866	
(3) Number who were refused examination:	1	8	
(4) Number who took the examination:	520	783	
(5) Number to whom initial licenses were issued:	328	524	
(5)(a) Number who failed the examination:	184	215	

February 2019 North Carolina Bar Examination:

Of the 577 applicants who made initial application, 56 withdrew, failed to appear or did not finish the examination and 1 applicant's application was returned due to a dishonored check for application fees.

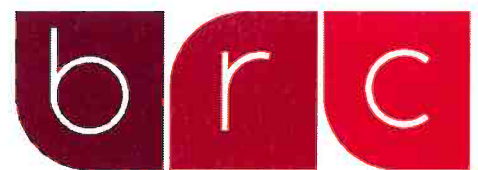
July 2019 North Carolina Bar Examination:

Of the 866 applicants who made initial application, 75 withdrew, failed to appear or did not finish the examination and 8 applicants' applications were returned due to a dishonored check for application fees.

THE BOARD OF LAW EXAMINERS OF
THE STATE OF NORTH CAROLINA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019



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, 2020

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, 2020. 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 \$100,580 or 5%, due to decreases in all revenue streams with the exception of non-licensed examination fees.

The operating expenses of the Board increased by \$147,427, or 7.99%, primarily due to increases in bar examination expenses, Electronic Bar Admissions Solution software fees and personnel costs.

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, 2020

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>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 1,979,274	\$ 1,769,969	\$ 1,197,593
Capital assets - net of depreciation	93,013	134,007	84,247
Noncurrent assets	1,600	280,283	568,961
Total assets	<u>2,073,887</u>	<u>2,184,259</u>	<u>1,850,801</u>
Current liabilities	768,444	818,326	663,016
Noncurrent liabilities	25,282	32,436	36,732
Total liabilities	<u>793,726</u>	<u>850,762</u>	<u>699,748</u>
Net position:			
Unrestricted	1,187,148	1,199,490	1,066,806
Investment in capital assets	93,013	134,007	84,247
Total net position	<u>\$ 1,280,161</u>	<u>\$ 1,333,497</u>	<u>\$ 1,151,053</u>
Operating revenues	\$ 1,911,414	\$ 2,011,994	\$ 1,880,809
Operating expenses	1,992,898	1,845,471	1,931,886
Operating income (loss)	(81,484)	166,523	(51,077)
Nonoperating revenues	28,148	15,921	17,031
Changes in net position	<u>\$ (53,336)</u>	<u>\$ 182,444</u>	<u>\$ (34,046)</u>

Events Affecting Future Operations

For fiscal year 2020-2021 the Board expects revenue to remain at or near 2019-2020 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.



Bernard Robinson & Company, L.L.P.

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, nor the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 1 – 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
October 14, 2020

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 805,568	\$ 777,949
Investments - current portion	1,155,696	963,852
Note receivable - current portion	355	5,122
Prepaid expenses	17,655	23,046
Total current assets	<u>1,979,274</u>	<u>1,769,969</u>
Capital assets - net of depreciation	<u>93,013</u>	<u>134,007</u>
Noncurrent assets:		
Investments - noncurrent portion	-	272,620
Note receivable - noncurrent portion	1,600	7,663
Total noncurrent assets	<u>1,600</u>	<u>280,283</u>
Total assets	<u>2,073,887</u>	<u>2,184,259</u>
LIABILITIES:		
Current liabilities:		
Advance exam fees	715,650	772,300
Pension contribution payable	24,695	28,294
Other accounts payable	21,373	5,939
Payroll liabilities	148	53
Deferred rent liability	6,223	6,618
Note payable - current portion	355	5,122
Total current liabilities	<u>768,444</u>	<u>818,326</u>
Noncurrent liabilities:		
Note payable - noncurrent portion	1,600	7,663
Accrued compensated absences	23,682	24,773
Total noncurrent liabilities	<u>25,282</u>	<u>32,436</u>
Total liabilities	<u>793,726</u>	<u>850,762</u>
NET POSITION:		
Invested in capital assets	93,013	134,007
Unrestricted	<u>1,187,148</u>	<u>1,199,490</u>
Total net position	<u>\$ 1,280,161</u>	<u>\$ 1,333,497</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, 2020 and 2019

	2020	2019
Revenues:		
Non-licensed examination fees	\$ 704,650	\$ 525,750
Attorney examination fees	231,000	271,200
Comity fees	289,500	384,500
Transfer application fees	248,700	295,150
Supplemental examination fees	136,000	189,200
Late application fees	110,250	143,500
Laptop fees	170,400	172,500
Miscellaneous	20,914	30,194
Total revenues	<u>1,911,414</u>	<u>2,011,994</u>
Expenses:		
Salaries, payroll taxes, and employee benefits	768,988	740,634
Pension plan contributions and expenses	54,446	58,648
Bar examination grading expenses	183,127	159,419
Bar examination expenses	416,653	383,313
Board meeting/hearing expenses	127,399	117,370
Investigation/hearing preparation	22,216	26,314
Bar examination fees refunded	9,940	10,755
Rent - office	108,545	108,545
Postage	31,410	38,259
Depreciation expense	40,994	29,115
Office supplies and expense	112,164	75,843
Printing and engraving	30,578	10,470
Leased equipment	38,523	37,306
Equipment repairs and maintenance	13,698	16,467
Telephone	6,018	5,090
Professional association, meetings	4,521	5,793
Professional fees	11,300	10,750
Insurance and bonding	4,651	4,493
Publications and subscriptions	3,071	2,868
Certification to the Supreme Court	1,172	845
Bank fees	2,914	2,868
Miscellaneous	570	306
Total expenses	<u>1,992,898</u>	<u>1,845,471</u>
Operating income (loss)	<u>(81,484)</u>	<u>166,523</u>
Non-operating revenues (expenses):		
Interest income	28,148	17,463
Loss on sale of capital assets	-	(1,542)
Total non-operating revenues	<u>28,148</u>	<u>15,921</u>
Change in net position	(53,336)	182,444
Net position - beginning of year	<u>1,333,497</u>	<u>1,151,053</u>
Net position - end of year	<u>\$ 1,280,161</u>	<u>\$ 1,333,497</u>

See Notes to Financial Statements

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from fees	\$ 1,854,764	\$ 2,178,794
Cash payments to employees for services	(828,029)	(797,901)
Cash payments for suppliers of goods and services	(890,498)	(807,101)
Cash payments for other operating expenses	(217,542)	(200,942)
Net cash provided by (used in) operating activities	<u>(81,305)</u>	<u>372,850</u>
Cash flows from financing activities:		
Repayments of note payable	(10,830)	(5,078)
Repayments from employees	10,830	5,078
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Purchase of investments	(872,656)	(668,351)
Sales of investments	953,432	330,476
Net investment income	28,148	17,463
Acquisition of capital assets	-	(80,417)
Net cash provided by (used in) investing activities	<u>108,924</u>	<u>(400,829)</u>
Increase (decrease) in cash	27,619	(27,979)
Cash - beginning of year	<u>777,949</u>	<u>805,928</u>
Cash - end of year	<u>\$ 805,568</u>	<u>\$ 777,949</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (81,484)	\$ 166,523
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	40,994	29,115
Changes in assets and liabilities:		
Prepaid expenses	5,391	21,120
Advance exam fees	(56,650)	166,800
Pension contribution payable	(3,599)	555
Accounts payable	15,434	(16,365)
Deferred rent liability	(395)	4,276
Payroll liabilities	95	-
Accrued compensated absences	(1,091)	826
Total adjustments	<u>179</u>	<u>206,327</u>
Net cash provided by (used in) operating activities	<u>\$ (81,305)</u>	<u>\$ 372,850</u>

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

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Board of Law Examiners of the State of North Carolina (the "Board") is an 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 (U.S. 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 U.S. 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 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 U.S. 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, 2020, deposits in commercial financial institutions, with a carrying value of \$1,961,264 and a bank balance of \$1,979,476, 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 \$1,155,696 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, 2020 and 2019, the uninsured balances were \$24,573 and \$22,620, respectively, of which \$761 and \$0 related to uninsured amounts in the Board's checking or money market accounts as of June 30, 2020 and 2019, respectively.

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, 2020:

Investment Type	Fair Value	Properties of Debt Securities	
		Weighted Average Maturities	Ratings
Certificates of deposit	\$1,155,696	4.7 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:

	2020	2019
Carrying amount of deposits with commercial financial institutions	\$ 68,433	\$ 93,166
Money market mutual funds	737,135	684,783
Investments in certificates of deposit	1,155,696	1,236,472
Total deposits and investments	<u>\$1,961,264</u>	<u>\$2,014,421</u>
Current:		
Cash	\$ 805,568	\$ 777,949
Short-term investments	1,155,696	963,852
Noncurrent:		
Investments	-	272,620
Total deposits and investments	<u>\$1,961,264</u>	<u>\$2,014,421</u>

NOTE 3 - CAPITAL ASSETS

Capital assets are comprised of the following:

	Cost 6/30/19	Additions	Retirements	Cost 6/30/20	Accumulated Depreciation	Net Amount
Furniture/ equipment	<u>\$ 307,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 307,757</u>	<u>\$ 214,744</u>	<u>\$ 93,013</u>
	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>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
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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 \$715,650 and \$772,300 for the years ended June 30, 2020 and 2019, respectively.

NOTE 5 - RELATED PARTY NOTE RECEIVABLE AND NOTE PAYABLE

On July 31, 2019, the Board advanced an employee \$1,200 and concurrently received proceeds from the employee's retirement account for \$1,200. The note was payable by the employee in monthly payroll deductions of \$124, including interest at 6.5%, and payments were remitted by the Board to the employee's retirement account on a monthly basis. The note receivable and related payable balance was paid off during the year ended June 30, 2020.

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. During the year ended June 30, 2020, the employee left the Board and the related note receivable and payable was written off as of June 30, 2020.

On November 26, 2019, the Board advanced an employee \$2,000 and concurrently received proceeds from the employee's retirement account for \$2,000. The note was payable by the employee in monthly payroll deductions of \$39, including interest at 6.25%, 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 \$1,955 at June 30, 2020.

NOTE 6 - NOTE PAYABLE AND COMPENSATED ABSENCES

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

	Balance 6/30/19	Increases	Decreases	Balance 6/30/20	Current Portion of Balance
Note payable	\$ 12,785	\$ 3,200	\$ (14,030)	\$ 1,955	\$ 355
Accrued compensated absences	24,773	42,613	(43,704)	23,682	-
Total	<u>\$ 37,558</u>	<u>\$ 45,813</u>	<u>\$ (57,734)</u>	<u>\$ 25,637</u>	<u>\$ 355</u>

	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>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
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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 was \$108,545 for the years ended June 30, 2020 and 2019.

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, 2020 and 2019, was \$38,523 and \$37,306, respectively.

Total future minimum lease commitments are as follows:

<u>Years Ending June 30:</u>	
2021	\$ 150,039
2022	153,589
2023	55,315
2024	4,185
	<u>\$ 363,128</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 \$54,446 and \$58,648 for the years ended June 30, 2020 and 2019, respectively. Employees do not contribute to this plan. The administrative expenses for the defined contribution retirement plan are 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, 2020, the Board entered into contracts for the August 2020, March 2021, and August 2021 grading sessions with a total committed balance of \$153,958, of which \$5,260 had been paid as of June 30, 2020.

The Board entered into a software licensing and services agreement effective in April 2019 for three years. Under the agreement, a one-time software licensing fee of \$60,000 was paid and capitalized over the life of the contract during the year ended June 30, 2019. Other costs related to server hosting and maintenance and software maintenance and support are expensed as incurred. As of June 30, 2020 remaining fees payable under the agreement are as follows: \$4,000 per month through June 30, 2021, and \$4,500 per month from July 1, 2021 through the end of the contract.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA
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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 14, 2020, which is the date the financial statements were available to be issued. The Board's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (Covid-19) which has been declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain; however it may result in a material adverse impact on the Board's financial position, operations and cash flows. Management discovered no additional subsequent events that should be disclosed.

The Board audit was conducted in approximately 85 hours at a total audit cost of \$11,750.