



# The Board of Law Examiners

of The

## State of North Carolina

October 25, 2021

### MEMBERS

D. CLARK SMITH JR., CHAIR  
LEXINGTON, NC

KIMBERLY A. HERRICK  
CONCORD, NC

ROGER A. ASKEW  
RALEIGH, NC

RONALD G. BAKER, SR.  
KITTY HAWK, NC

G. ROBERT HICKS, III  
FAYETTEVILLE, NC

JUDGE NED W. MANGUM  
RALEIGH, NC

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CHARLOTTE, NC

JUDGE SHERRI W. ELLIOTT  
NEWTON, NC

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CHARLOTTE, NC

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RALEIGH, NC

RONALD L. GIBSON  
CHARLOTTE, NC

LEE A. VLAHOS  
EXECUTIVE DIRECTOR  
RALEIGH, NC

### EMERITUS MEMBERS

JOHN D. WARLICK, JR., JACKSONVILLE

ERIC C. MICHAUX, DURHAM

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HON. LINDA M. MCGEE, COROLLA

RICHARD S. JONES, JR., FRANKLIN

LILLIAN B. JORDAN, RANDLEMAN

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JOE L. WEBSTER, PITTSBORO

GERALD R. COLLINS, JR., MURPHY

HON. KARL ADKINS, CHARLOTTE

ROBIN TATUM, RALEIGH

SUSAN FREYA OLIVE, DURHAM

CATHERINE E. THOMPSON, CHARLOTTE

GAIL C. ARNEKE, ROCKY MOUNT

EMIL F. KRATT, CHARLOTTE

WILLIAM K. DAVIS, WINSTON-SALEM

SAMUEL S. WOODLEY, JR., ROCKY MOUNT

JAMES R. VAN CAMP, PINEHURST

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JAYE P. MEYER, RALEIGH

RANDEL E. PHILLIPS, CHARLOTTE

BETH R. FLEISHMAN, RALEIGH

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, 2020, and the 2020-2021 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/dmk

Enclosures

cc: Mr. D. Clark Smith Jr., Chair

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

**ANNUAL REPORT** for the year ending December 31, 2020.

- 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>1315</u>
*	(3)	Number who were refused examination	<u>5</u>
*	(4)	Number who took the examination	<u>1069</u>
**	(5)	Number to whom initial licenses were issued	<u>721</u>
	(5a)	Number who failed the examination	<u>310</u>
	(6)	Number who applied for licenses by reciprocity or comity	<u>135</u>
	(6a)	Number who applied for licenses by transfer of a Uniform Bar examination score	<u>247</u>
***	(7)	Number who were granted licenses by reciprocity or comity or transfer of Uniform Bar Exam Score.	<u>401</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 of that number, the number granted a license	<u>1697</u> <u>1149</u>
*****	(9b)	The number of applicants with a conviction record, of that number, the number granted a license, the number denied a license for any reason, and denied a license because of a conviction.	<u>42</u> <u>27</u> <u>0</u> <u>0</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>76</u> <u>40</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>4</u> <u>1</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: 10/24/2021

  
Executive Director

\* See Attachment B

\*\* Some applicants who were successful on the examination were not licensed in 2020 as they had not yet completed all requirements as of December 31, 2020.

\*\*\* Some of those applicants who were issued licenses applied in 2019 but were not approved by the Board until 2020.

\*\*\*\* 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 an application in 2020 but did not sit for examination until 2021, or had not completed all requirements as of December 31, 2020, and therefore were not licensed as of December 31, 2020.

## ATTACHMENT A

(1a) Members of the Board as of December 31, 2020.

Ms. Kimberly Anne Herrick (Chair)

Mr. D. Clark Smith Jr.

Mr. Roger A. Askew

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

Mr. Ronald L. Gibson

## ATTACHMENT B

	<u>Feb. 2020</u>	<u>July 2020</u>	<u>Other*</u>
(2) Number of persons who applied to Board for examination:	472	843	
(3) Number who were refused examination:	3	2	
(4) Number who took the examination:	401	668	
(5) Number to whom initial licenses were issued:	187	534	
(5)(a) Number who failed the examination:	197	113	

### **February 2020 North Carolina Bar Examination:**

Of the 472 applicants who made initial application, 68 withdrew, failed to appear, or did not finish the examination and 3 applicants' applications were returned due to a dishonored check for application fees.

### **July 2020 North Carolina Bar Examination:**

Of the 843 applicants who made initial application, 173 withdrew, failed to appear, or did not finish the examination and 2 applicants' applications were returned due to a dishonored check for application fees.

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THE BOARD OF LAW EXAMINERS OF  
THE STATE OF NORTH CAROLINA

Financial Statements

June 30, 2021 and 2020

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## TABLE OF CONTENTS

	<u>Pages</u>
Management's Discussion and Analysis	1-2
Independent Auditor's Report	3-4
Financial Statements:	
Statements of Net Position	5
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	7
Notes to Financial Statements	8-12

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Management's Discussion and Analysis  
June 30, 2021

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, 2021. 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 \$42,808, or 2.2%, primarily due to an increase in non-licensed examination application fees and comity fees, offset by a decrease in supplemental examination fees.

The operating expenses of the Board decreased by \$33,901, or 1.7%, primarily due to decreases in bar examination grading expenses and printing. These expenses decreased due to reduced venue and travel expenses for exam graders and reduced bar exam printing costs due to fewer applicants sitting for the exam..

### **Overview of the Financial Statements**

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

### **Basic Financial Statements**

The basic financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statements of Net Position present the current and noncurrent portions of assets and liabilities separately.

The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's net position changed as a result of the years' operations.

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



THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Management's Discussion and Analysis  
June 30, 2021

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

	2021	2020	2019
Current assets	\$ 2,080,393	\$ 1,979,274	\$ 1,769,969
Capital assets - net of depreciation	56,731	93,013	134,007
Non current assets	1,223	1,600	280,283
Total assets	<u>2,138,347</u>	<u>2,073,887</u>	<u>2,184,259</u>
Current liabilities	813,334	768,444	818,326
Non-current liabilities	35,154	25,282	32,436
Total liabilities	<u>848,488</u>	<u>793,726</u>	<u>850,762</u>
Net position:			
Unrestricted	1,233,128	1,187,148	1,199,490
Investment in capital assets	56,731	93,013	134,007
Total net position	<u>\$ 1,289,859</u>	<u>\$ 1,280,161</u>	<u>\$ 1,333,497</u>
Operating revenues	\$ 1,954,222	\$ 1,911,414	\$ 2,011,994
Operating expenses	1,958,997	1,992,898	1,845,471
Operating income (loss)	<u>(4,775)</u>	<u>(81,484)</u>	<u>166,523</u>
Non-operating revenues	14,473	28,148	15,921
Change in net position	<u>\$ 9,698</u>	<u>\$ (53,336)</u>	<u>\$ 182,444</u>

#### Events Affecting Future Operations

Due to the ongoing pandemic, and fee transfers from the July 2021 examination to the February 2022 examination, the Board has conservatively projected a decrease in revenue in fiscal year 2021-2022.

#### 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



**Koonce, Wooten & Haywood, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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, which comprise the statements of net position as of June 30, 2021 and 2020, 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. The financial statements of the Board of Law examiners of the State of North Carolina as of June 30, 2020 and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion in this report dated October 14, 2020.

### *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 opinions.

### *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, 2021 and 2020, 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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**Smithfield**  
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Smithfield, North Carolina 27577

919 934 1121  
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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 basic 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 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.

Koonce, Wooten & Haywood, LLP

Raleigh, North Carolina  
October 12, 2021

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Statements of Net Position  
June 30, 2021 and 2020

	2021	2020
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 1,253,723	\$ 805,568
Investments	787,902	1,155,696
Notes Receivable--Current Portion	377	355
Prepaid Expenses	38,391	17,655
Total Current Assets	<u>2,080,393</u>	<u>1,979,274</u>
<b>CAPITAL ASSETS, net of depreciation</b>	<u>56,731</u>	<u>93,013</u>
<b>NONCURRENT ASSETS:</b>		
Notes Receivable--Noncurrent Portion	<u>1,223</u>	<u>1,600</u>
Total Noncurrent Assets	<u>1,223</u>	<u>1,600</u>
Total Assets	<u>\$ 2,138,347</u>	<u>\$ 2,073,887</u>
<b>CURRENT LIABILITIES:</b>		
Advance Exam Fees	\$ 762,500	\$ 715,650
Pension Contribution Payable	24,809	24,695
Accounts Payable	18,033	21,373
Payroll Taxes Withheld	52	148
Deferred Rent Liability	7,563	6,223
Notes Payable--Current Portion	377	355
Total Current Liabilities	<u>813,334</u>	<u>768,444</u>
<b>NONCURRENT LIABILITIES:</b>		
Notes Payable--Noncurrent Portion	1,223	1,600
Accrued Compensated Absences	33,931	23,682
Total Noncurrent Liabilities	<u>35,154</u>	<u>25,282</u>
Total Liabilities	<u>\$ 848,488</u>	<u>\$ 793,726</u>
<b>NET POSITION:</b>		
Unrestricted	\$ 1,233,128	\$ 1,187,148
Investment in Capital Assets	<u>56,731</u>	<u>93,013</u>
Total Net Position	<u>\$ 1,289,859</u>	<u>\$ 1,280,161</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, 2021 and 2020

	2021	2020
OPERATING REVENUES:		
Non-Licensed Examination Fees	\$ 737,800	\$ 704,650
Attorney Examination Fees	178,200	231,000
Comity Fees	383,500	289,500
Transfer Application Fees	272,250	248,700
Supplemental Examination Fees	94,800	136,000
Late Application Fees	109,250	110,250
Laptop Fees	166,200	170,400
Miscellaneous Income	12,222	20,914
Total Operating Revenues	<u>1,954,222</u>	<u>1,911,414</u>
OPERATING EXPENSES:		
Salaries, Payroll Taxes, and Employee Benefits	772,239	768,988
Pension Plan Contributions and Expenses	51,464	54,446
Bar Examination Grading Expenses	156,336	183,127
Bar Examination Expenses	419,969	416,653
Board Meeting/Hearing Expenses	139,001	127,399
Investigation/Hearing Preparation	24,388	22,216
Bar Examination Fees Refunded	5,995	9,940
Rent--Office	111,958	108,545
Postage	26,473	31,410
Depreciation Expense	40,167	40,994
Office Supplies and Expense	110,177	112,164
Printing and Engraving	16,135	30,578
Leased Equipment	34,863	38,523
Equipment Repairs and Maintenance	16,425	13,698
Telephone	7,358	6,018
Professional Association, Meetings, Fees	2,657	4,521
Professional Fees	11,750	11,300
Insurance and Bonding	4,763	4,651
Publications and Subscriptions	2,468	3,071
Certification to the Supreme Court	1,197	1,172
Bank Fees	3,163	2,914
Miscellaneous	51	570
Total Operating Expenses	<u>1,958,997</u>	<u>1,992,898</u>
OPERATING LOSS	(4,775)	(81,484)
NONOPERATING REVENUES:		
Interest Income	<u>14,473</u>	<u>28,148</u>
CHANGE IN NET POSITION	9,698	(53,336)
NET POSITION--Beginning of Year	<u>1,280,161</u>	<u>1,333,497</u>
NET POSITION--End of Year	<u>\$ 1,289,859</u>	<u>\$ 1,280,161</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 Cash Flows  
For the Years Ended June 30, 2021 and 2020

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Fees	\$ 2,002,412	\$ 1,854,764
Cash Payments to Employees for Services	(813,436)	(828,029)
Cash Payments for Operating Expenses	(1,119,203)	(1,108,040)
Net Cash Provided (Used) by Operating Activities	<u>69,773</u>	<u>(81,305)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	(784,057)	(872,656)
Sales of Investments	1,151,851	953,432
Interest Received	14,473	28,148
Purchase of Capital Assets	(3,885)	
Net Cash Provided by Investing Activities	<u>378,382</u>	<u>108,924</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of Note Payable	(355)	(10,830)
Repayments from Employees	355	10,830
Net Cash Provided (Used) by Financing Activities	<u></u>	<u></u>
<b>NET INCREASE IN CASH</b>	448,155	27,619
<b>CASH--Beginning of Year</b>	<u>805,568</u>	<u>777,949</u>
<b>CASH--End of Year</b>	<u>\$ 1,253,723</u>	<u>\$ 805,568</u>
<b>RECONCILIATION OF OPERATING LOSS TO</b>		
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (4,775)	\$ (81,484)
Adjustments to Reconcile Operating Loss to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation	40,167	40,994
Changes in Assets and Liabilities:		
Prepaid Expenses	(20,736)	5,391
Advance Exam Fees	46,850	(56,650)
Pension Contribution Payable	114	(3,599)
Accounts Payable	(3,340)	15,434
Deferred Rent Liability	1,340	(395)
Payroll Taxes Withheld	(96)	95
Accrued Compensated Absences	10,249	(1,091)
Net Cash Provided (Used) by Operating Activities	<u>\$ 69,773</u>	<u>\$ (81,305)</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, 2021 and 2020

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 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.

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 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. 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*.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Notes to Financial Statements  
June 30, 2021 and 2020

1. Summary of Significant Accounting Policies (Continued)

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

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 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.

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 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 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. 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.

J. 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.

K. 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.



THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Notes to Financial Statements  
June 30, 2021 and 2020

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, 2021, deposits in commercial financial institutions, with a carrying value of \$2,041,625 and a bank balance of \$2,048,469, 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 \$887,936 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, 2021 and 2020, the uninsured balances were \$33,856 and \$24,573, respectively, of which \$1,582 and \$761 related to uninsured amounts in the Board's checking or money market accounts as of June 30, 2021 and 2020, 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.

*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.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Notes to Financial Statements  
June 30, 2021 and 2020

2. Deposits and Investments (Continued)

- 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'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, 2021:

Investment Type	Fair Value	Properties of Debt Securities	
		Weighted Average Maturities	Ratings
Certificates of Deposit	\$ 787,902	4.0 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:

	2021	2020
Carrying amount of deposits		
with commercial financial institutions	\$ 65,499	\$ 68,433
Money market mutual funds	1,188,224	737,135
Investments in certificates of deposit	787,902	1,155,696
Total deposits and investments	<u>\$ 2,041,625</u>	<u>\$ 1,961,264</u>
Current:		
Cash	\$ 1,253,723	\$ 805,568
Short-term investments	787,902	1,155,696
Noncurrent:		
Investments	-	-
Total deposits and investments	<u>\$ 2,041,625</u>	<u>\$ 1,961,264</u>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Notes to Financial Statements  
June 30, 2021 and 2020

3. Capital Assets

Changes in capital assets for the year ended June 30, 2021 were as follows:

	Cost 6/30/20	Additions	Retirements	Cost 6/30/21	Accumulated Depreciation	Net Amount
Furniture/ Equipment	\$ 307,757	\$ 3,885	\$ -	\$ 311,642	\$ 254,911	\$ 56,731

Changes in capital assets for the year ended June 30, 2020 were as follows:

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

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 \$762,500 and \$715,650 for the years ended June 30, 2021 and 2020, respectively.

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 \$1,600 and \$1,955 at June 30, 2021 and 2020, respectively.

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Notes to Financial Statements  
June 30, 2021 and 2020

6. Note Payable and Compensated Absences

Changes in the current and noncurrent portions of liabilities for the year ended June 30, 2021 are as follows:

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion of Balance
Note payable	\$ 1,955	\$	\$ (355)	\$ 1,600	\$ 377
Compensated absences	23,682	43,513	(33,264)	33,931	
Total	<u>\$ 25,637</u>	<u>\$ 43,513</u>	<u>\$ (33,619)</u>	<u>\$ 35,531</u>	<u>\$ 377</u>

Changes in the current and noncurrent portions of liabilities for the year ended June 30, 2020 are as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Current Portion of Balance
Note payable	\$ 12,785	\$ 3,200	\$ (14,030)	\$ 1,955	\$ 355
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>

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

Years Ending June 30	Principal	Interest	Total
2022	\$ 378	\$ 89	\$ 467
2023	402	65	467
2024	428	39	467
2025	392	12	404
	<u>\$ 1,600</u>	<u>\$ 205</u>	<u>\$ 1,805</u>

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 \$111,958 and \$108,545 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020 was \$34,863 and \$38,523, respectively.

Future minimum lease payments at June 30, 2021 are as follows:

Years Ending June 30	
2022	\$ 153,213
2023	56,576
	<u>\$ 209,789</u>

THE BOARD OF LAW EXAMINERS OF THE STATE OF NORTH CAROLINA  
Notes to Financial Statements  
June 30, 2021 and 2020

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 \$51,464 and \$54,446 for the years ended June 30, 2021 and 2020, 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.

9. Commitments

As of June 30, 2021, the Board entered into contracts for the August 2021 grading session with a total committed balance of \$71,856.

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.

10. 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. 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.

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.

12. Subsequent Events

Management of the Board evaluated subsequent events through October 12, 2021, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

13. Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform with the 2021 presentation. Such reclassifications had no effect on the changes in net assets or cash flows as previously reported.

The Board audit was conducted in approximately 85 hours at a total audit cost of \$11,000.