

**STATE BAR ASSOCIATION OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors and Management
State Bar Association of North Dakota
Bismarck, North Dakota

We have audited the accompanying financial statements of State Bar Association of North Dakota (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the 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 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Bar Association of North Dakota as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, State Bar Association of North Dakota adopted the provisions of FASB Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*, in 2018. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Program Activities is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited State Bar Association of North Dakota's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

June 1, 2019

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017 (Memorandum only)
Revenue:				
License fees	\$ 749,680	\$ -	\$ 749,680	\$ 748,978
Disciplinary fees	-	254,925	254,925	257,175
Continuing legal education	139,080	-	139,080	116,677
Publications	27,680	-	27,680	6,432
Lawyer referral	390	-	390	2,790
Newsletter	22,793	-	22,793	15,562
Web page income	639	-	639	930
Service income	1,181	-	1,181	825
Annual meeting	115,425	-	115,425	104,067
Interest income	13,953	7,002	20,955	18,237
Grants	-	-	-	742
CLE Commission	-	96,600	96,600	90,660
Sections income	-	63,860	63,860	26,083
Client protection fund	-	64,318	64,318	63,214
Realized and unrealized gain (loss) on investment	(6,443)	270	(6,173)	1,138
Miscellaneous income	59,550	-	59,550	52,099
Revenue before net assets released	1,123,928	486,975	1,610,903	1,505,609
Net assets released from restrictions	519,209	(519,209)	-	-
Total revenue	1,643,137	(32,234)	1,610,903	1,505,609
Expenses and losses:				
Sections fund	42,810	-	42,810	29,848
CLE - commission	105,262	-	105,262	79,076
IOLTA - volunteer lawyers	24,897	-	24,897	24,078
Law related education	793	-	793	1,638
Disciplinary board	266,813	-	266,813	211,851
Client protection fund	85,473	-	85,473	8,399
Graduating into adult world	4,754	-	4,754	-
Lawyer assistance program	18,851	-	18,851	25,340
General and administrative	1,074,994	-	1,074,994	1,014,664
Total expenses	1,624,647	-	1,624,647	1,394,894
Change in net assets	18,490	(32,234)	(13,744)	110,715
Net assets - beginning of period	1,181,975	1,242,936	2,424,911	2,314,196
Net assets - end of period	\$ 1,200,465	\$ 1,210,702	\$ 2,411,167	\$ 2,424,911

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	Sections Fund	CLE Commissions	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board/ Committee	Client Protection Fund	Graduating into Adult World	Lawyer Assistance Program	Total Program Costs	General and Admin.	Total 2018	Total 2017 (Memorandum only)
Salaries	\$ -	\$ 41,317	\$ 9,547	\$ -	\$ 1,971	\$ 5,217	\$ -	\$ 5,877	\$ 63,929	\$ 320,035	\$ 383,964	\$ 343,058
Payroll taxes	-	-	730	-	-	-	-	-	730	25,899	26,629	24,671
Retirement expenses	-	3,561	460	-	-	-	-	-	4,021	10,997	15,018	17,764
Depreciation and amortization	-	-	-	-	-	-	-	-	-	13,862	13,862	12,516
Staff expense	-	-	-	-	-	-	-	-	-	22,639	22,639	23,059
Officers' expenses	-	-	-	-	-	-	-	-	-	25,864	25,864	34,873
Disciplinary expenses	-	-	-	-	251,844	-	-	-	251,844	12,261	264,105	209,666
Law review	-	-	-	-	-	-	-	-	-	22,000	22,000	22,000
Contract services	-	16,140	780	-	-	-	-	-	16,920	39,531	56,451	37,169
Advertising	-	-	736	-	-	-	-	-	736	-	736	999
Attorney expense	-	-	112	-	-	-	-	-	112	48,943	49,055	15,837
Rent	-	11,940	5,400	-	-	-	-	-	17,340	43,271	60,611	58,160
Utilities	-	4,000	-	-	-	-	-	-	4,000	-	4,000	-
Telephone	-	1,224	540	-	-	329	-	-	2,093	5,642	7,735	7,430
Administrative	3,000	-	-	793	-	-	-	11,627	15,420	117	15,537	35,029
Postage / copies	-	1,206	907	-	737	337	-	1,347	4,534	9,076	13,610	12,929
Supplies	7,004	2,000	1,712	-	-	180	4,754	-	15,650	9,445	25,095	5,801
Travel / education	1,976	-	-	-	-	-	-	-	1,976	15,212	17,188	27,250
Annual meeting	-	5,500	-	-	-	-	-	-	5,500	103,835	109,335	126,554
Committee meetings	20,717	-	-	-	-	-	-	-	20,717	-	20,717	13,270
Web page expenses	-	-	625	-	-	-	-	-	625	23,128	23,753	27,542
CLE production	-	-	-	-	-	-	-	-	-	94,086	94,086	82,240

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

Sections	Fund	CLE Commissions	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board/ Committee	Client Protection Fund	Graduating into Adult World	Lawyer Assistance Program	Total Program Costs	General and Admin.	Total 2018	Total 2017 (Memorandum only)
Newsletter expense	-	-	-	-	-	-	-	-	-	58,770	58,770	54,419
Committee expenses	-	-	-	-	-	-	-	-	12,261	3,271	15,532	20,551
Insurance	-	-	3,275	-	12,261	-	-	-	3,275	52,950	56,225	56,748
Contingency	-	-	-	-	-	-	-	-	-	17,453	17,453	17,189
Audit	-	-	-	-	-	-	-	-	-	11,275	11,275	10,725
Lawyer referral	-	-	-	-	-	-	-	-	-	8,544	8,544	9,161
Publication	-	-	-	-	-	-	-	-	-	6,628	6,628	6,962
Dues	-	-	-	-	-	-	-	-	-	5,005	5,005	9,258
Bank charges	-	-	-	-	-	-	-	-	-	5,828	5,828	3,358
Casemaker	-	-	-	-	-	-	-	-	-	21,804	21,804	21,336
Computer expense	-	2,580	-	-	-	-	-	-	2,580	-	2,580	11,500
Claims	-	-	-	-	-	79,410	-	-	79,410	-	79,410	6,000
Contributions	-	15,794	-	-	-	-	-	-	15,794	-	15,794	9,001
Leadership forum contribution	10,113	-	-	-	-	-	-	-	10,113	-	10,113	7,143
Rural justice support	-	-	-	-	-	-	-	-	-	12,000	12,000	12,000
Interest expense	-	-	73	-	-	-	-	-	73	326	399	662
Jack Rabbit Bar	-	-	-	-	-	-	-	-	-	25,297	25,297	1,084
Totals	\$ 42,810	\$ 105,262	\$ 24,897	\$ 793	\$ 266,813	\$ 85,473	\$ 4,754	\$ 18,851	\$ 549,653	\$ 1,074,994	\$ 1,624,647	\$ 1,394,894

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (13,744)	\$ 110,715
Adjustments to reconcile changes in net assets to cash from operating activities:		
Depreciation and amortization	13,862	12,516
Realized and unrealized (gain) loss on investment	6,173	(1,138)
Effects on operating cash flows due to changes in:		
Accounts receivable	22,445	(21,714)
Accrued interest receivable	451	(630)
Prepaid expenses	(8,138)	6,272
Inventory	8,364	(10,698)
Accounts payable	(11,715)	14,746
Accrued expenses	(4,572)	15,560
	<u>13,126</u>	<u>125,629</u>
Cash provided (used) by operating activities		
Cash flows from investing activities:		
Purchase of investments	(314,904)	(198,238)
Sale of investments	263,725	177,433
Purchase of equipment	-	(10,035)
	<u>(51,179)</u>	<u>(30,840)</u>
Cash provided (used) by investing activities		
Cash flows (used) by financing activities:		
Payments on capital lease payable	(3,018)	(2,715)
	<u>(3,018)</u>	<u>(2,715)</u>
Cash flows (used) by financing activities		
Net change in cash and cash equivalents	(41,071)	92,074
Cash and cash equivalents balance - beginning of year	<u>1,729,962</u>	<u>1,637,888</u>
Cash and cash equivalents balance - end of year	<u>\$1,688,891</u>	<u>\$1,729,962</u>
Supplemental disclosures of cash flow information:		
Interest paid for the year	<u>\$ 399</u>	<u>\$ 662</u>

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

The State Bar Association of North Dakota is the professional association of members of the legal profession licensed to practice law in the State of North Dakota and of attorneys who, by virtue of holding judicial or other public office, are exempt from such licensing. These licensing and disciplinary fees account for approximately 62% of the Association's revenue. The Association was created by statute and is administered by a Board of Governors elected from its membership. The objectives of the Association are to improve professional competence, promote the administration of justice, uphold the honor of the profession of law and encourage cordial relations among members of the State Bar.

The objectives of the Association are accomplished by the offering of a Continuing Legal Education program to its membership; organizing committees to study and act upon matters that affect the membership; and representing the membership in legislative activities.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as codified by the Financial Accounting Standards Board.

Financial statement presentation follows the recommendations of the Accounting Standards Codification Topic 958, Accounting for Not-for-Profit Entities. The codification requires the Organization to report information regarding its financial position and activities according to two classes of net assets: without donor restriction and with donor restriction.

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for a board designated purpose.

Net Assets with Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Revenue Recognition

The Association recognizes revenue under the accrual basis of accounting. As a result, revenue is recognized in the period that services are provided and licensing fees are earned and expenses are reported in the period incurred.

Revenue and Support Without and With Donor Restriction

Contributions received are recorded as without donor restriction or with donor restriction, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the Statement of Activities as net assets released from restrictions. Federal grant awards are classified as refundable advances until expended for the purposes of the grants since they are conditional promises to give.

Net assets with donor restriction consist of grants and funds received for IOLTA Volunteer Lawyers Program, Law Related Education, Client Protection Services, Disciplinary Board, CLE Commissions, Lawyer Assistance Program, and Sections activities.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

As of December 31, 2018, no allowance for uncollectible accounts has been provided since management considers all accounts to be collectible.

Cash and Cash Equivalents

The Association includes money market and savings accounts as cash equivalents.

Inventory

Inventory consists of continuing education materials and is valued at lower of cost or net realizable value on a first-in, first-out basis.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Equipment

Equipment is stated at cost, less accumulated depreciation. The Association capitalizes those items with a cost greater than \$1,000 and a useful life longer than two years. Depreciation is computed by the straight-line method using estimated useful lives of 5 to 10 years.

Expenditures for major additions and improvement that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Intangible Assets

Intangible assets consist of cost incurred for the development of the Association's website. Costs incurred during planning and for the continuing operation of the website are expensed as incurred. The Association amortizes the intangible assets using the straight-line method over a period of 5 years.

Fair Value Measurements

The Association has determined the fair value of certain assets and liabilities in accordance with the provisions of Codification Topic 820, Fair Value Measurements which provides a framework for measuring fair value under generally accepted accounting principles.

Codification Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Codification Topic 820 required that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. Codification Topic 820 also established a fair value hierarchy, which prioritizes the valuation inputs into three broad levels:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Bonds

The fair value is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Income Taxes

The Association is exempt from income tax under Section 501(c)(6) of the Internal Revenue Code, but is subject to unrelated business income tax for its advertising and supplies sales. There was no material taxable income for the year ending December 31, 2018.

The Association's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

Use of Estimates

The presentation 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 14).

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 2 CERTIFICATE OF DEPOSIT

Certificates of deposit are recorded at cost and consist of the following as of December 31, 2018:

Financial Institution	Amount	Rate	Maturity Date
GE Capital Retail Bank	\$ 34,000	1.95%	02/28/19
Capital One Bank USA	24,000	2.20%	10/21/20
Goldman Sachs Bank USA	13,000	1.80%	03/02/21
Capital One Bank USA	25,000	1.70%	10/05/21
State Bank of India	25,000	2.30%	02/24/22
State Bank of India	12,000	2.15%	09/11/19
American Express Centurian Bank	18,000	2.05%	05/20/20
Goldman Sachs Bank USA	21,000	1.80%	03/02/21
Wells Fargo Bank Na	12,000	2.55%	01/31/22
Sallie Mae Bank	12,000	2.65%	01/24/23
BMW Bank of North America	11,000	1.90%	05/16/19
Goldman Sachs Bank USA	11,000	1.80%	03/02/21
Wells Fargo Bank	13,000	1.75%	06/17/21
State Bank of India	25,000	2.30%	02/09/22
State Bank of India	14,000	2.90%	03/29/23
BNC - 12-23 Months CD	30,602	1.70%	11/05/19
BNC - Month Step up CD	47,230	2.00%	04/06/22
BNC - CDARS	103,455	1.25%	12/26/19
Bremer Bank CD	105,518	1.60%	02/17/21
Total certificates of deposit	\$ 556,805		

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 3 CREDIT RISK

On December 31, 2018, the Association had \$761,212 of cash, cash equivalents and certificates of deposit on deposit with various financial institutions, which are insured up to \$250,000 of FDIC at each institution. The amounts were fully covered by FDIC on December 31, 2018.

The Association had \$433,335 of investments with a local brokerage firm on December 31, 2018, of which \$263,787 were certificates of deposit covered by FDIC up to \$250,000 and \$159,460 were securities covered by SIPC. The remaining \$10,089 is uninsured, neither covered by FDIC nor SIPC.

NOTE 4 FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of December 31, 2018 are summarized as follows:

Description	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds:				
Municipal-Fixed	\$ 70,879	\$ -	\$ 70,879	\$ -
Corporate-Fixed	88,581	-	88,581	-
Total	<u>\$ 159,460</u>	<u>\$ -</u>	<u>\$ 159,460</u>	<u>\$ -</u>

NOTE 5 INTANGIBLE ASSETS

Intangible assets consist of costs incurred for the creation of the Association's website, the portion of which that is eligible for capitalization totaled \$7,600. Amortization expense for the year ended December 31, 2018 was \$1,520. The accumulated amortization at December 31, 2018 related to the website was \$1,900.

NOTE 6 LEASE COMMITMENTS

The Association has a lease on its office space until December 31, 2019. The rental commitments for the year ending December 31, 2018 is \$53,015.

The Association paid \$60,611 in rent in for the year ended December 31, 2018.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 7 CAPITAL LEASE

The Association has a lease on a copier under a capital lease agreement with monthly payments of \$291 including interest through October 2019. Equipment capitalized under the agreement and accumulated depreciation is \$13,506 and \$10,735, respectively, for the year ended December 31, 2018.

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2018.

Net minimum lease payments - 2019	\$ 2,908
Less amount representing interest	<u>137</u>
Present value of net minimum lease payments	<u>\$ 2,771</u>

NOTE 8 RELATED PARTY

The North Dakota Bar Foundation (Foundation) is a separate not-for-profit foundation formed to operate within the meaning of IRS Code Section 501(c)(3). The Foundation's Board of Directors consists of directors who are elected by the membership and those who are appointed by the State Bar Association. In addition, the Association maintains the records of the Foundation and employees of the Association perform various duties for the Foundation as of December 31, 2018. The Foundation paid the Association \$29,655 for these services, for the year ending December 31, 2018. This amount is included in miscellaneous income.

As of December 31, 2018 the Association recorded \$16,107 in accounts receivable due from the Foundation and recorded \$560 in accounts payable due to the Foundation.

NOTE 9 ADVERTISING EXPENSE

The Association expenses all advertising costs as they are incurred. Total advertising costs for the year ended December 31, 2018 was \$736

NOTE 10 PENSION PLAN

The Association adopted a 401(k) profit sharing plan. All full-time employees are eligible to participate in the plan as long as they are at least 21 years of age and have completed one year of employment. Employer contributions to this plan totaled \$15,018 for the year ended December 31, 2018.

NOTE 11 RESERVE FUND POLICY

The Association will maintain a reserve fund of not less than \$400,000 for emergency expenditures, and will strive to maintain a reserve fund of 60% of the previous year's total expenses plus \$100,000. Reserves in excess of \$400,000 may be used for non-emergency expenditures, including the possibility of a dues refund if approved by the Board of Governors. The available reserve is computed by subtracting the book value of equipment from the total unrestricted net assets. This policy will be reviewed annually by the board.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 12 INCOME TAXES

It is the opinion of management that the Association has no significant uncertain tax positions that would be subject to change upon examination. The federal and state income tax returns of the Association are subject to examination by the IRS and state tax authorities, generally for three years after they were filed, all filings are current.

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2018:

Subject to expenditure for specified purpose:

Sections program expenses	\$ 188,817
CLE Commission expenses	153,614
Disciplinary Board Committee expenses	334,816
Client Protection Fund program expenses	509,224
Lawyer Assistance Program expenses	<u>24,231</u>
	<u>\$1,210,702</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the year ended December 31, 2018:

Purpose restrictions accomplished:

Sections	\$ 42,810
CLE Commission	105,262
Disciplinary Board Committee	266,813
Client Protection Fund	85,473
Lawyer Assistance Program	<u>18,851</u>
	<u>\$ 519,209</u>

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 14 LIQUIDITY AND AVAILABILITY

The following reflects the Association's financial assets as of December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at year end:	
Cash and cash equivalents	\$ 1,688,891
Certificates of deposit	191,057
Accounts receivable	24,621
Accrued interest receivable	5,757
Total financial assets	<u>1,910,326</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>1,210,702</u>
	<u>1,210,702</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 699,624</u>

NOTE 15 FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated based on the actual direct expenditures and cost allocations based on estimates made by management.

NOTE 16 NEW ACCOUNTING PRONOUNCEMENTS

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

During 2014, the FASB issued a new standard related to revenue recognition. ASU2014-09, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be effective for the Company for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

ASU 2016-02, Leases (Topic 842)

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-02 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force)

To reduce diversity in practice, this ASU provides guidance on how eight specific types of cash receipts and cash flows are presented in the statement of cash flows. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

ASU 2018-08, Contributions Received and Contributions made (Topic 958)

During 2018, the FASB issued an accounting standard update intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made, primarily by not-for-profit organizations. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU is effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

Management has not yet determined what effect these pronouncements will have on the Organization's financial statements.

With the exception of the new standards discussed above, we have not identified any other new accounting pronouncements that have potential significance to the Organization's Financial Statements.

NOTE 17 COMMITMENTS AND CONTINGENCIES

In November 2018, the Association entered into an agreement for the production of four publications of The Gavel magazine. The total cost of the contract is \$31,500, to be paid in 12 equal installments of \$2,625. As of December 31, 2018, no payments have been made on the contract. Additionally, the Association agreed to reimburse the production company any travel and lodging, photography, and mileage expense incurred for production.

As of December 31, 2018, the Association has outstanding complaints filed against it. The remaining outstanding claims on one of these complaints are the violation of the alleged right to affirmatively consent to non-chargeable expenditures and the unconstitutionality of a mandatory bar association. The case was granted certiorari by the U.S. Supreme Court on December 3, 2018 and was remanded back to the Eight Circuit Court of Appeals for further consideration, where the case is still pending, oral arguments are scheduled for June 13, 2019. Other than

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

attorney's fees, the plaintiff has not requested recovery of monetary damages. As the case is still pending, the amount of loss and potential impact on the Association, if any, is undeterminable as of the date of this report.

The other outstanding claim is a complaint regarding an open records violation alleged to have been committed by the Association. This case was in settlement discussions as of December 31, 2018, including participation by the ND Insurance Reserve Fund, the self-insurance pool for the Association. Under North Dakota's open records law, the maximum financial exposure for the Association in this case is for payment of the plaintiff's attorney fees and costs. If the plaintiff can prove a known violation of open records laws by the Association, a payment of an additional \$1,000 will need to be made.

NOTE 18 SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2018, the outstanding claim in regards to an open records violation was settled for \$15,000 of which half will be paid by the ND Insurance Reserve Fund and the other half is the responsibility of the Association.

No other significant events occurred subsequent to the Association's year end. Subsequent events have been evaluated through June 1, 2019, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

STATE BAR ASSOCIATION OF NORTH DAKOTA

SCHEDULE OF PROGRAM ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Graduating into Adult World	Lawyer Assistance Program	Total 2018	Total 2017
Revenues:										
License fees	\$ -	\$ -	\$ -	\$ -	\$ 254,925	\$ -	\$ -	\$ -	\$ 254,925	\$ 257,175
Grants	-	-	-	-	-	-	-	-	-	742
CLE commission	-	96,600	-	-	-	-	-	-	96,600	90,660
Section income	63,860	-	-	-	-	-	-	-	63,860	26,083
Client protection income	-	-	-	-	-	64,318	-	-	64,318	63,214
Interest income	-	-	-	-	3,144	3,401	-	457	7,002	4,893
Total revenue	63,860	96,600	-	-	258,069	67,719	-	457	486,705	442,767
Expenditures:										
Salaries	-	41,317	9,547	-	1,971	5,217	-	5,877	63,929	58,447
Payroll taxes	-	-	730	-	-	-	-	-	730	735
Retirement expenses	-	3,561	460	-	-	-	-	-	4,021	4,253
Disciplinary expenses	-	-	-	-	251,844	-	-	-	251,844	197,018
Contract services	-	16,140	780	-	-	-	-	-	16,920	1,920
Advertising	-	-	736	-	-	-	-	-	736	999
Attorney expense	-	-	112	-	-	-	-	-	112	1,472
Rent	-	11,940	5,400	-	-	-	-	-	17,340	16,895
Utilities	-	4,000	-	-	-	-	-	-	4,000	-
Telephone	-	1,224	540	-	-	329	-	-	2,093	2,094
Administrative	3,000	-	-	793	-	-	-	11,627	15,420	15,082
Postage / copies	-	1,206	907	-	737	337	-	1,347	4,534	4,807
Supplies	7,004	2,000	1,712	-	-	180	4,754	-	15,650	1,184
Travel / education	1,976	-	-	-	-	-	-	-	1,976	10,210
Annual meeting	-	5,500	-	-	-	-	-	-	5,500	-
Committee meetings	20,717	-	-	-	-	-	-	-	20,717	13,270
Web page expenses	-	-	625	-	-	-	-	-	625	625

STATE BAR ASSOCIATION OF NORTH DAKOTA
SCHEDULE OF PROGRAM ACTIVITIES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Graduating into Adult World	Lawyer Assistance Program	Total 2018	Total 2017
Committee expenses	-	-	-	12,261	-	-	-	12,261	12,648
Insurance	-	-	-	-	-	-	-	3,275	3,743
Computer expense	-	3,275	-	-	-	-	-	2,580	11,500
Claims	2,580	-	-	-	-	-	-	79,410	6,000
Contributions	-	-	-	-	79,410	-	-	15,794	9,001
Leadership forum contribution	15,794	-	-	-	-	-	-	10,113	7,143
Interest expense	-	-	-	-	-	-	-	73	120
District representative	-	73	-	-	-	-	-	-	1,064
Total expenditures	42,810	105,262	24,897	793	266,813	85,473	18,851	549,653	380,230
Excess revenue over expenditures	\$ 21,050	\$ (8,662)	\$ (24,897)	\$ (793)	\$ (8,744)	\$ (17,754)	\$ (18,394)	\$ (62,948)	\$ 62,537