

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	8
Notes to the Financial Statements	9
SUPPLEMENTARY INFORMATION	
Schedule I: Schedule of Program Activities	20

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of State Bar Association of North Dakota and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Association changed its method of accounting for leases in 2022 due to the adoption of FASB ASC 842 effective January 1, 2022, using the modified retrospective approach by recognizing a cumulative effect adjustment at the beginning of the period of adoption.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about State Bar Association of North Dakota's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 State Bar Association of North Dakota's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about State Bar Association of North Dakota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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 12, 2023

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FINANCIAL POSTITION
DECEMBER 31, 2022 WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 2,001,912	\$ 1,980,691
Certificates of deposit	259,972	254,650
Accounts receivable	29,282	44,825
Prepaid expense	46,949	35,262
Inventory	7,847	11,156
Accrued interest receivable	<u>4,741</u>	<u>5,337</u>
Total current assets	<u>2,350,703</u>	<u>2,331,921</u>
Noncurrent assets:		
Certificates of deposit	267,350	259,585
Bonds	219,224	264,387
Equipment at cost, net of accumulated depreciation of \$129,098 and \$137,719 in 2022 and 2021, respectively	22,000	13,879
Website development costs, net of accumulated amortization of \$7,600 and \$6,460 in 2022 and 2021, respectively	-	1,140
Finance lease right-of-use assets, net	4,616	-
Operating lease right-of-use assets	<u>110,743</u>	<u>-</u>
Total noncurrent assets	<u>623,933</u>	<u>538,991</u>
Total assets	<u><u>\$ 2,974,636</u></u>	<u><u>\$ 2,870,912</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 48,436	\$ 55,161
Accrued expenses	57,773	56,402
Current portion of finance lease obligation	2,434	1,980
Current portion of operating lease obligation	<u>54,902</u>	<u>-</u>
Total current liabilities	<u>163,545</u>	<u>113,543</u>
Noncurrent liabilities:		
Finance lease obligation, net of current portion	2,580	4,934
Operating lease obligation, net of current portion	<u>55,842</u>	<u>-</u>
Total noncurrent liabilities	<u>58,422</u>	<u>4,934</u>
Total liabilities	<u>221,967</u>	<u>118,477</u>
Net assets:		
Without donor restrictions	1,288,035	1,324,752
With donor restrictions	<u>1,464,634</u>	<u>1,427,683</u>
Total net assets	<u>2,752,669</u>	<u>2,752,435</u>
Total liabilities and net assets	<u><u>\$ 2,974,636</u></u>	<u><u>\$ 2,870,912</u></u>

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021 (Memorandum only)
Revenue:				
License fees	\$ 758,318	\$ -	\$ 758,318	\$ 756,476
Disciplinary fees	-	256,875	256,875	255,225
Continuing legal education	108,531	-	108,531	110,602
Publications	4,347	-	4,347	9,608
Newsletter	18,974	-	18,974	19,509
Web page income	2,000	-	2,000	2,064
Service income	987	-	987	250
Annual meeting	124,409	-	124,409	86,530
Interest income	11,206	5,022	16,228	20,736
CLE Commission	-	102,260	102,260	101,910
Sections income	-	22,217	22,217	28,039
Client protection fund	-	49,633	49,633	49,394
Realized and unrealized gain (loss) on investment	(45,162)	-	(45,162)	(10,074)
Miscellaneous income	69,764	-	69,764	50,700
Revenue before net assets released	1,053,374	436,007	1,489,381	1,480,969
Net assets released from restrictions	399,056	(399,056)	-	-
Total revenue	1,452,430	36,951	1,489,381	1,480,969
Expenses and losses:				
Sections fund	14,279	-	14,279	17,563
CLE - commission	98,731	-	98,731	92,660
IOLTA - volunteer lawyers	41,052	-	41,052	42,305
Law related education	14,327	-	14,327	1,556
Disciplinary board	258,113	-	258,113	198,020
Client protection fund	6,302	-	6,302	1,369
Lawyer assistance program	21,631	-	21,631	23,628
General and administrative	1,034,712	-	1,034,712	941,227
Total expenses	1,489,147	-	1,489,147	1,318,328
Change in net assets	(36,717)	36,951	234	162,641
Net assets - beginning of period	1,324,752	1,427,683	2,752,435	2,589,794
Net assets - end of period	\$ 1,288,035	\$ 1,464,634	\$ 2,752,669	\$ 2,752,435

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

	Sections Fund	CLE Commissions	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board/ Committee	Client Protection Fund	Lawyer Assistance Program	Total Program Costs	General and Admin.	Total 2022	Total 2021 (Memorandum only)
Salaries	\$ -	\$ 49,500	\$ 22,594	\$ -	\$ 3,118	\$ 949	\$ 12,214	\$ 88,375	\$ 338,685	\$ 427,060	\$ 404,676
Payroll taxes	-	-	1,728	-	-	-	-	1,728	28,042	29,770	28,159
Employee Benefits	-	3,878	1,127	-	-	-	-	5,005	17,129	22,134	22,574
Depreciation and amortization	-	-	-	-	-	-	-	-	8,124	8,124	9,717
Staff expense	-	-	-	-	-	-	-	-	22,352	22,352	11,792
Officers' expenses	-	-	-	-	-	-	-	-	32,774	32,774	10,954
Disciplinary expenses	-	-	-	-	251,250	-	-	251,250	3,117	254,367	195,731
Law review	-	-	-	-	-	-	-	-	22,000	22,000	22,000
Contract services	-	2,000	780	-	-	-	-	2,780	53,327	56,107	48,694
Advertising	-	-	-	500	-	-	-	500	-	500	89
Operating lease expense	-	18,700	5,400	-	-	-	-	24,100	46,445	70,545	64,214
Utilities	-	4,200	-	-	-	-	-	4,200	-	4,200	4,000
Maintenance	-	-	-	-	-	-	-	-	-	-	500
Telephone	-	1,500	540	-	-	300	-	2,340	4,297	6,637	6,728
Supplies	786	-	361	10,979	-	180	-	12,306	1,931	14,237	7,080
Travel / education	-	-	-	-	-	-	-	-	5,956	5,956	6,288
Annual meeting	-	10,000	-	-	213	-	-	10,213	116,635	126,848	106,375
Committee meetings	5,574	-	-	-	-	-	-	5,574	-	5,574	3,123
Web page expenses	-	-	625	-	-	-	-	625	17,636	18,261	19,134
CLE production	-	-	-	-	-	-	-	-	75,965	75,965	73,535

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

	Sections Fund	CLE Commissions	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board/ Committee	Client Protection Fund	Lawyer Assistance Program	Total Program Costs	General and Admin.	Total 2022	Total 2021 (Memorandum only)
Newsletter expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,617	\$ 68,617	\$ 57,230
Committee expenses	-	-	-	-	3,117	-	-	3,117	4,969	8,086	7,076
Insurance	-	-	6,970	-	-	-	-	6,970	77,128	84,098	80,373
Contingency	-	-	210	-	-	-	-	210	4,815	5,025	9,599
Audit	-	-	-	-	-	-	-	-	13,759	13,759	13,025
Lawyer referral	-	-	-	-	-	-	-	-	10,748	10,748	11,247
Publication	-	-	-	-	-	-	-	-	3,917	3,917	3,547
Dues	-	-	-	-	-	-	-	-	16,456	16,456	4,507
Bank charges	-	-	-	-	-	-	-	-	5,608	5,608	5,893
Casemaker	-	-	-	-	-	-	-	-	16,807	16,807	14,750
Computer expense	-	6,000	-	-	-	-	-	6,000	-	6,000	5,750
Claims	-	-	-	-	-	4,550	-	4,550	-	4,550	40
Contributions	-	1,703	-	-	-	-	-	1,703	-	1,703	8,157
Leadership forum contribution	7,919	-	-	-	-	-	-	7,919	-	7,919	7,643
Rural justice support	-	-	-	-	-	-	-	-	12,000	12,000	12,000
Lobbying	-	-	-	-	-	-	-	-	-	-	6,440
Administrative	-	-	-	2,848	-	200	8,391	11,439	88	11,527	16,269
Postage / copies	-	1,250	518	-	415	123	1,026	3,332	4,656	7,988	8,174
Interest expense	-	-	199	-	-	-	-	199	729	928	1,245
Totals	\$ 14,279	\$ 98,731	\$ 41,052	\$ 14,327	\$ 258,113	\$ 6,302	\$ 21,631	\$ 454,435	\$ 1,034,712	\$ 1,489,147	\$ 1,318,328

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 234	\$ 162,641
Adjustments to reconcile changes in net assets to cash from operating activities:		
Depreciation and amortization	8,124	9,717
Realized and unrealized (gain) loss on investment	45,162	10,074
Effects on operating cash flows due to changes in:		
Accounts receivable	15,543	(26,651)
Accrued interest receivable	596	1,601
Prepaid expenses	(11,687)	(13,686)
Inventory	3,309	2,615
Accounts payable	(6,723)	14,862
Accrued expenses	<u>1,371</u>	<u>3,543</u>
Cash provided (used) by operating activities	<u>55,929</u>	<u>164,716</u>
Cash flows from investing activities:		
Purchase of property and equipment	(19,531)	-
Purchase of investments	(268,739)	(319,014)
Sale of investments	<u>255,652</u>	<u>444,787</u>
Cash provided (used) by investing activities	<u>(32,618)</u>	<u>125,773</u>
Cash flows (used) by financing activities:		
Payments on finance lease obligation	<u>(2,090)</u>	<u>(1,636)</u>
Net change in cash and cash equivalents	21,221	288,853
Cash and cash equivalents balance - beginning of year	<u>1,980,691</u>	<u>1,691,838</u>
Cash and cash equivalents balance - end of year	<u><u>\$2,001,912</u></u>	<u><u>\$1,980,691</u></u>
Supplemental disclosures of cash flow information:		
Interest paid for the year	\$ 928	\$ 1,245

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 68% 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 Association 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 financial statements for the year ended December 31, 2021, from which the summarized information was derived.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Certificates of Deposit

The Association holds various certificates of deposit with financial institutions. Certificates are reported at cost, which approximates fair value. Interest income is accrued at year end.

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, 2022, no allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. Receivables from contracts with customers are reported as accounts receivable in the accompanying statement of financial position.

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.

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.

Leases

The Association leases equipment under a finance lease with a term of 5 years and building space under an operating lease with a term of 5 years. The determination of whether an arrangement contains a lease is made at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Association obtains substantially all of the economic benefits from and have the ability to direct the use of the asset. Operating and finance lease right-of-use ("ROU") assets and liabilities for leases with an initial lease term of more than 12 months, or that contain an option to purchase that the Association is reasonably certain to exercise, are recognized based on the present value of lease payments over the lease term discounted using the interest rate implicit in the lease. In cases where the implicit rate is not readily determinable, the Association has made an accounting policy election to use a risk-free rate based on the US Treasury T-bill rate as of the lease commencement.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

The Association has elected the practical expedient to account for lease agreements with lease and non-lease components together as a single lease component for building underlying classes of assets.

The Association has elected to not recognize ROU assets and lease liabilities for short-term leases. Short-term leases have a term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Association is reasonably certain to exercise. The Association continues to record rent expense for short-term leases on a straight-line basis over the lease term.

The depreciable life of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain to exercise.

Variable payments are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. The Association recognizes variable lease payments in the period in which the obligation for those payments is incurred.

The Association's lease agreements do not include any material residual value guarantees or restrictive covenants.

Operating Leases

Operating lease assets represent the Association's right to use an underlying asset for the lease term and ROU lease liabilities represent the Association's obligation to make lease payments arising from the lease. Operating lease agreements may contain tenant improvement allowances, rent holidays, rent escalation clauses and/or contingent rent provisions. The ROU lease asset includes any required base rent payments and excludes lease incentives and variable operating expenses. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Finance Leases

For finance leases, the Association recognizes interest expense on ROU lease liabilities using the effective interest method and amortizes the ROU assets on a straight-line basis over the lease term.

Intangible Assets

Intangible assets consist of costs 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.

Revenue and Support With and Without Donor Restriction

The Association recognizes revenue from licensing and membership fees over the license period or membership period, which is generally one year. Licensing and membership fees are accounted for fully as exchange transactions. The performance obligation of delivering licensing and membership services and benefits is simultaneously received and consumed by the members; therefore, the revenue is recognized ratably over the course of the calendar year.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Revenues derived from continuing education and the Association's annual meeting is recognized once the continuing education or annual meeting takes place. Continuing education and annual meeting fees paid in advance are deferred to the period in which the class or event takes place. Due to the nature and timing of the performance and/or transfer of services, substantially all contact liabilities at December 31 of each year are recognized in the following year.

Revenues derived from CLE Commission income includes an administrative fee for ensuring compliance with the Supreme Court's continuing education rules along with fees for transcripts and sponsoring agencies CLE applications. The Association recognizes revenue from the administrative fee during the period in which the related services are provided. The Association recognizes revenue from transcript and application fees when the transcript is provided and sponsoring agency CLE application is received.

Contributions are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Depending on the existence and/or nature of any restrictions, contributions received are recorded as support with donor restrictions or support without donor restrictions.

All 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.

Net assets with donor restriction consist of funds received for Client Protection Services, Disciplinary Board, CLE Commissions, Lawyer Assistance Program, and Sections activities.

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described below:

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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Following is a description of the valuation methodology used for assets and liabilities measured at fair value. There has been no change in the methodology used at December 31, 2022.

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.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement 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. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort and occupancy costs, which are allocated on the basis of square footage.

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 ended December 31, 2022.

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.

Implementation of New Accounting Pronouncements

Effective January 1, 2022, the Association adopted FASB ASC 842, Leases. The Association determines if an arrangement contains a lease at inception based on whether the Association has the right to control the asset during the contract period and other facts and circumstances. The Association elected the package of practical expedients permitted under the transition guidance

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use assets, net of prepaid lease payments and lease incentives, of \$7,025 and finance lease liabilities of \$8,153 as well as operating right-of-use assets, net of prepaid lease payments and lease incentives, of \$161,830 and operating lease liabilities of \$161,830 as of January 1, 2022. Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with the Association's historical accounting treatment. The adoption of FASB ASC 842 did not have a material impact on the Association's results of operations, cash flows or debt covenants.

NOTE 2 CERTIFICATES OF DEPOSIT

Certificates of deposit are recorded at cost and consist of the following as of December 31, 2022:

Financial Institution	Amount	Rate	Maturity Date
Morgan Stanley Bk N A Salt	\$ 44,000	2.37%	07/05/24
State Bank of India	14,000	2.90%	03/29/23
Morgan Stanley Bk N A Salt	14,000	2.30%	07/05/24
State Bank of India	14,000	0.65%	03/16/26
Sallie Mae Bank	12,000	2.65%	01/24/23
Wells Fargo Bk N A Sioux Falls	14,000	2.05%	10/17/24
State Bank of India	19,000	1.60%	04/29/25
State Bank of India	22,000	0.65%	03/16/26
Discover Bk Greenwood Del	16,000	2.75%	07/12/23
Capital One Natl Assn McLean VA	17,000	3.45%	07/07/27
Capital One Natl Assn McLean VA	14,000	3.45%	07/07/27
Discover Bk Greenwood Del	13,000	3.25%	07/14/25
Capital One Natl Assn McLean VA	13,000	3.45%	07/07/27
BNC - 12-23 Months CD	32,058	0.85%	02/05/24
BNC - 36 - 59 Months CD	51,291	0.75%	06/26/26
BNC - 2-Year Non-Personal CD	107,133	0.50%	12/21/23
Cornerstone Bank 12 Month CD	110,840	0.25%	02/22/23
Total certificates of deposit	<u>\$ 527,322</u>		

NOTE 3 CREDIT RISK

The Association maintains its cash, cash equivalents and certificates of deposit on deposit with various financial institutions which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC). The Association maintains their cash, cash equivalents and certificates of deposits in large, well-capitalized financial institutions. The Association also maintains certificates of deposit on deposit with a local brokerage firm which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investors Protection Corporation (SIPC). The Association has not experienced any losses in such accounts nor does the Association believe it is exposed to any significant credit risk on its cash, cash equivalents and certificates of deposit.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 4 FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of December 31, 2022 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	\$ 38,187	\$ -	\$ 38,187	\$ -
Corporate-Fixed	181,037	-	181,037	-
Total	<u>\$ 219,224</u>	<u>\$ -</u>	<u>\$ 219,224</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, 2022 was \$3,549. The accumulated amortization at December 31, 2022 related to the website was \$7,600.

NOTE 6 LEASES

The Association leases equipment under a finance lease and building space under an operating lease. The Association included in the determination of the right-of-use assets and liabilities any renewal or termination options that were reasonably certain to be exercised.

Total lease costs for the year ended December 31, 2022 were as follows:

Lease expense	12/31/22
Finance lease expense	
Amortization of ROU assets	\$ 2,409
Interest on lease liabilities	1,128
Operating lease expense	54,751
Short-term lease expense	15,794
Total	<u><u>\$ 74,082</u></u>

The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases (i.e. Interest)	\$ 1,049
Financing cash flows from finance leases (i.e. principal portion)	2,090
Operating cash flows from operating leases	55,436
ROU assets obtained in exchange for new finance lease liabilities	7,025
ROU assets obtained in exchange for new operating lease liabilities	164,747

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted-average remaining lease term in years for finance leases	1.92
Weighted-average remaining lease term in years for operating leases	2.00
Weighted-average discount rate for finance leases	19.21%
Weighted-average discount rate for operating leases	1.67%

The future minimum lease payments under noncancelable finance and operating leases with terms greater than one year are listed below as of December 31, 2022:

	Finance	Operating
2023	\$ 3,140	\$ 56,268
2024	2,782	57,112
Total undiscounted cash flows	5,922	113,380
Less: present value discount	(908)	(1,801)
Total lease liabilities	<u>\$ 5,014</u>	<u>\$ 111,579</u>

NOTE 7 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. The Foundation paid \$25,127 for these services along with reimbursement of expenses paid on their behalf for the year ended December 31, 2022. This amount is included in accounts receivable on the statement of financial position and miscellaneous income on the statement of activities.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 8 ADVERTISING EXPENSE

The Association expenses all advertising costs as they are incurred. Total advertising costs for the year ended December 31, 2022 was \$500.

NOTE 9 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 \$18,573 for the year ended December 31, 2022.

NOTE 10 BOARD DESIGNATED

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.

NOTE 11 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 12 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2022:

Subject to expenditure for specified purpose:	
Sections program expenses	\$ 224,230
CLE Commission expenses	183,256
Lawyer Assistance Program	48,998
Disciplinary Board Committee expenses	380,636
Client Protection Fund program expenses	627,514
	<u>\$ 1,464,634</u>

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

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, 2022:

Purpose restrictions accomplished:	
Sections	\$ 14,279
CLE Commission	98,731
Disciplinary Board Committee	258,113
Client Protection Fund	6,302
Lawyer Assistance Program	21,631
	<u>\$ 399,056</u>

NOTE 13 LIQUIDITY AND AVAILABILITY

The following reflects the Association's financial assets as of December 31, 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year end:	
Cash and cash equivalents	\$2,001,912
Certificates of deposit	527,322
Accounts receivable	29,282
Accrued interest receivable	4,741
Bonds	219,224
Total financial assets	<u>2,782,481</u>
Less amounts not available to be used within one year:	
Board designated - emergency expenditures	400,000
Net assets with donor restrictions	<u>1,464,634</u>
	<u>1,864,634</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 917,847</u>

The Association structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Association invests cash in excess of daily requirements in marketable securities and certificates of deposit. See Note 10 for a description of the Association's reserve fund policy.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2022

NOTE 14 REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounts receivable from contracts with customers were as follows:

Beginning of year	\$ 44,825
End of year	29,282

The following table provides information about significant changes in the continuing legal education fees paid in advance for the year ended December 31, 2022:

Continuing legal education paid in advance, beginning of year	\$ 2,750
Revenue recognized that was included in continuing legal education at the beginning of year	(2,750)
Increase in continuing legal education fees due to cash received during the period	-
Continuing legal education paid in advance, end of year	<u><u>\$ -</u></u>

NOTE 15 COMMITMENTS AND CONTINGENCIES

In December 2022, the Association entered into an agreement for the production of four publications of The Gavel magazine. The total cost of the contract is \$33,990, to be paid in 12 equal installments of \$2,833. As of December 31, 2022, payments totaling \$2,833 have been paid on the contract. Additionally, the Association agreed to reimburse the production company any travel and lodging, photography, mileage expense, registration fees and any other agreed upon related expenses incurred for production.

NOTE 16 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Association's year end. Subsequent events have been evaluated through June 12, 2023, 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, 2022 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

	Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Lawyer Assistance Program	Total 2022	Total 2021
Revenues:									
License fees	\$ -	\$ -	\$ -	\$ -	\$ 256,875	\$ -	\$ -	\$ 256,875	\$ 255,225
CLE commission	-	102,260	-	-	-	-	-	102,260	101,910
Section income	22,217	-	-	-	-	-	-	22,217	28,039
Client protection fund	-	-	-	-	-	49,633	-	49,633	49,394
Interest income	-	-	-	-	2,002	2,480	540	5,022	5,465
Total revenue	22,217	102,260	-	-	258,877	52,113	540	436,007	440,033
Expenditures:									
Salaries	-	49,500	22,594	-	3,118	949	12,214	88,375	81,193
Payroll taxes	-	-	1,728	-	-	-	-	1,728	1,774
Retirement expenses	-	3,878	1,127	-	-	-	-	5,005	5,178
Disciplinary expenses	-	-	-	-	251,250	-	-	251,250	193,464
Contract services	-	2,000	780	-	-	-	-	2,780	2,580
Advertising	-	-	-	500	-	-	-	500	89
Operating lease expense	-	18,700	5,400	-	-	-	-	24,100	18,600
Utilities	-	4,200	-	-	-	-	-	4,200	4,000
Maintenance	-	-	-	-	-	-	-	-	500
Telephone	-	1,500	540	-	-	300	-	2,340	2,340
Administrative	-	-	-	2,848	-	200	8,391	11,439	16,151
Postage / copies	-	1,250	518	-	415	123	1,026	3,332	3,572
Supplies	786	-	361	10,979	-	180	-	12,306	1,014
Annual meeting	-	10,000	-	-	213	-	-	10,213	5,000
Committee meetings	5,574	-	-	-	-	-	-	5,574	3,123
Web page expenses	-	-	625	-	-	-	-	625	625

STATE BAR ASSOCIATION OF NORTH DAKOTA
SCHEDULE OF PROGRAM ACTIVITIES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

	Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Lawyer Assistance Program	Total 2022	Total 2021
Committee expenses	\$ -	\$ -	\$ -	\$ -	\$ 3,117	\$ -	\$ -	\$ 3,117	\$ 2,267
Insurance	-	-	6,970	-	-	-	-	6,970	7,342
Contingency	-	-	210	-	-	-	-	210	-
Computer expense	-	6,000	-	-	-	-	-	6,000	5,750
Lobbying	-	-	-	-	-	-	-	-	6,440
Claims	-	-	-	-	-	4,550	-	4,550	40
Contributions	-	1,703	-	-	-	-	-	1,703	8,157
Leadership forum contribution	7,919	-	-	-	-	-	-	7,919	7,643
Interest expense	-	-	199	-	-	-	-	199	259
Total expenditures	14,279	98,731	41,052	14,327	258,113	6,302	21,631	454,435	377,101
Excess revenue over expenditures	\$ 7,938	\$ 3,529	\$ (41,052)	\$ (14,327)	\$ 764	\$ 45,811	\$ (21,091)	\$ (18,428)	\$ 62,932