

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

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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, 2023, 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, 2023, 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.

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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 6, 2024

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023 WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 1,508,776	\$ 2,001,912
Certificates of deposit	375,005	259,972
Accounts receivable	28,424	29,282
Prepaid expense	55,391	46,949
Inventory	6,938	7,847
Accrued interest receivable	<u>8,574</u>	<u>4,741</u>
Total current assets	<u>1,983,108</u>	<u>2,350,703</u>
Noncurrent assets:		
Certificates of deposit	165,000	267,350
Bonds	756,364	219,224
Equipment at cost, net of accumulated depreciation of \$129,128 and \$122,571 in 2023 and 2022, respectively	15,442	22,000
Finance lease right-of-use assets, net	2,580	4,616
Operating lease right-of-use assets	<u>55,838</u>	<u>110,743</u>
Total noncurrent assets	<u>995,224</u>	<u>623,933</u>
Total assets	<u><u>\$ 2,978,332</u></u>	<u><u>\$ 2,974,636</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 63,467	\$ 48,436
Accrued expenses	49,269	57,773
Current portion of finance lease obligation	2,580	2,434
Current portion of operating lease obligation	<u>55,838</u>	<u>54,902</u>
Total current liabilities	<u>171,154</u>	<u>163,545</u>
Noncurrent liabilities:		
Finance lease obligation, net of current portion	-	2,580
Operating lease obligation, net of current portion	<u>-</u>	<u>55,842</u>
Total noncurrent liabilities	<u>-</u>	<u>58,422</u>
Total liabilities	<u>171,154</u>	<u>221,967</u>
Net assets:		
Without donor restrictions	1,309,661	1,288,035
With donor restrictions	<u>1,497,517</u>	<u>1,464,634</u>
Total net assets	<u>2,807,178</u>	<u>2,752,669</u>
Total liabilities and net assets	<u><u>\$ 2,978,332</u></u>	<u><u>\$ 2,974,636</u></u>

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Total 2022 (Memorandum only)
Revenue:				
License fees	\$ 773,745	\$ -	\$ 773,745	\$ 758,318
Disciplinary fees	-	260,742	260,742	256,875
Continuing legal education	115,850	-	115,850	108,531
Publications	12,392	-	12,392	4,347
Newsletter	27,879	-	27,879	18,974
Web page income	1,789	-	1,789	2,000
Service income	1,000	-	1,000	987
Annual meeting	99,086	-	99,086	124,409
Interest income	28,810	14,354	43,164	16,228
CLE Commission	-	93,541	93,541	102,260
Sections income	-	19,953	19,953	22,217
Client protection fund	-	49,136	49,136	49,633
Realized and unrealized gain (loss) on investment	52,057	-	52,057	(45,162)
Miscellaneous income	62,982	-	62,982	69,764
Revenue before net assets released	1,175,590	437,726	1,613,316	1,489,381
Net assets released from restrictions	404,843	(404,843)	-	-
Total revenue	1,580,433	32,883	1,613,316	1,489,381
Expenses and losses:				
Sections fund	24,321	-	24,321	14,279
CLE - commission	94,694	-	94,694	98,731
IOLTA - volunteer lawyers	34,102	-	34,102	41,052
Law related education	4,342	-	4,342	14,327
Disciplinary board	227,236	-	227,236	258,113
Client protection fund	36,073	-	36,073	6,302
Lawyer assistance program	22,519	-	22,519	21,631
General and administrative	1,115,520	-	1,115,520	1,034,712
Total expenses	1,558,807	-	1,558,807	1,489,147
Change in net assets	21,626	32,883	54,509	234
Net assets - beginning of period	1,288,035	1,464,634	2,752,669	2,752,435
Net assets - end of period	\$ 1,309,661	\$ 1,497,517	\$ 2,807,178	\$ 2,752,669

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022

	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 2023	Total 2022 (Memorandum only)
Salaries	\$ -	\$ 49,500	\$ 16,817	\$ -	\$ 1,793	\$ 1,174	\$ 6,484	\$ 75,768	\$ 340,589	\$ 416,357	\$ 427,060
Payroll taxes	-	-	1,287	-	-	-	-	1,287	29,227	30,514	29,770
Employee Benefits	-	3,878	1,108	-	-	-	-	4,986	17,648	22,634	22,134
Depreciation and amortization	-	-	-	-	-	-	-	-	8,594	8,594	8,124
Staff expense	-	-	-	-	-	-	-	-	28,372	28,372	22,352
Officers' expenses	-	-	-	-	-	-	-	-	28,090	28,090	32,774
Disciplinary expenses	-	-	-	-	221,712	-	-	221,712	2,841	224,553	254,367
Law review	-	-	-	-	-	-	-	-	22,000	22,000	22,000
Contract services	-	2,000	780	-	-	-	-	2,780	74,199	76,979	56,107
Advertising	-	-	-	-	-	-	-	-	-	-	500
Operating lease expense	-	18,700	5,400	-	-	-	-	24,100	46,990	71,090	70,545
Utilities	-	4,200	-	-	-	-	-	4,200	-	4,200	4,200
Telephone	-	1,500	540	-	-	300	-	2,340	5,113	7,453	6,637
Supplies	815	-	304	-	-	180	-	1,299	12,026	13,325	14,237
Travel / education	-	-	360	-	-	-	152	512	21,568	22,080	5,956
Annual meeting	-	5,000	-	-	-	-	-	5,000	102,733	107,733	126,848
Committee meetings	3,715	-	-	850	-	-	-	4,565	-	4,565	5,574
Web page expenses	-	-	625	-	-	-	-	625	16,015	16,640	18,261
CLE production	-	-	-	-	-	-	-	-	81,681	81,681	75,965

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022

	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 2023	Total 2022 (Memorandum only)
Newsletter expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,155	\$ 68,155	\$ 68,617
Committee expenses	-	-	-	-	2,841	-	-	2,841	22,622	25,463	8,086
Insurance	-	-	6,401	-	-	-	-	6,401	81,268	87,669	84,098
Contingency	-	-	-	-	-	-	-	-	14,536	14,536	5,025
Audit	-	-	-	-	-	-	-	-	15,220	15,220	13,759
Lawyer referral	-	-	-	-	-	-	-	-	11,353	11,353	10,748
Publication	-	-	-	-	-	-	-	-	6,971	6,971	3,917
Dues	-	-	-	-	-	-	-	-	20,792	20,792	16,456
Bank charges	-	-	-	-	-	-	-	-	5,499	5,499	5,608
Casemaker	-	-	-	-	-	-	-	-	14,750	14,750	16,807
Computer expense	-	6,000	-	-	-	-	-	6,000	-	6,000	6,000
Claims	-	-	-	-	-	34,278	-	34,278	-	34,278	4,550
Contributions	-	2,666	-	-	-	-	-	2,666	-	2,666	1,703
Leadership forum contribution	1,386	-	-	-	-	-	-	1,386	-	1,386	7,919
Rural justice support	-	-	-	-	-	-	-	-	12,000	12,000	12,000
Lobbying	10,175	-	-	-	-	-	-	10,175	-	10,175	-
Administrative	7,900	-	-	3,492	-	-	13,122	24,514	138	24,652	11,527
District Representative	330	-	-	-	-	-	-	330	-	330	-
Postage / copies	-	1,250	352	-	890	141	2,761	5,394	4,080	9,474	7,988
Interest expense	-	-	128	-	-	-	-	128	450	578	928
Totals	\$ 24,321	\$ 94,694	\$ 34,102	\$ 4,342	\$ 227,236	\$ 36,073	\$ 22,519	\$ 443,287	\$ 1,115,520	\$ 1,558,807	\$ 1,489,147

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 54,509	\$ 234
Adjustments to reconcile changes in net assets to cash from operating activities:		
Depreciation and amortization	8,594	8,124
Realized and unrealized (gain) loss on investment	(52,057)	45,162
Effects on operating cash flows due to changes in:		
Accounts receivable	858	15,543
Accrued interest receivable	(3,833)	596
Prepaid expenses	(8,442)	(11,687)
Inventory	909	3,309
Accounts payable	15,031	(6,723)
Accrued expenses	<u>(8,504)</u>	<u>1,371</u>
Cash provided (used) by operating activities	<u>7,065</u>	<u>55,929</u>
Cash flows from investing activities:		
Purchase of property and equipment	-	(19,531)
Purchase of investments	(783,523)	(268,739)
Sale of investments	<u>285,756</u>	<u>255,652</u>
Cash provided (used) by investing activities	<u>(497,767)</u>	<u>(32,618)</u>
Cash flows (used) by financing activities:		
Payments on finance lease obligation	<u>(2,434)</u>	<u>(2,090)</u>
Net change in cash and cash equivalents	(493,136)	21,221
Cash and cash equivalents balance - beginning of year	<u>2,001,912</u>	<u>1,980,691</u>
Cash and cash equivalents balance - end of year	<u><u>\$ 1,508,776</u></u>	<u><u>\$ 2,001,912</u></u>
Supplemental disclosures of cash flow information:		
Interest paid for the year	\$ 577	\$ 928

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 64% 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, 2022, from which the summarized information was derived.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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 and Allowance for Credit Losses

Accounts receivable are recorded at the invoice amount, less an allowance for credit losses, which represents the amount expected to be collected as of the statement of financial position date. Credit is extended on a short-term basis; thus receivables do not bear interest, although a finance charge may be applied to such receivables that are more than 30 days past due.

The allowance for credit losses is based on management's expectation of the credit losses expected to arise over the life of the asset as of the statement of financial position date (including consideration of prepayments), and is updated to reflect any changes in credit risk as of each subsequent reporting date. The Association estimates its allowance for credit losses starting with an evaluation of historical credit loss write-offs, applied to an analysis of outstanding aged receivables, and updated for current economic conditions, and reasonable and supportable forecasted economic conditions. No significant adjustments to the allowance calculations for current or forecasted economic conditions were made during the current year. Receivables with unusual credit risk characteristics are evaluated individually. All other receivables are considered similar and are evaluated as one portfolio segment. Management's estimate of the allowance for credit losses, as well as the separate amounts of write-offs and recoveries were immaterial with respect to the financial statements as a whole as of December 31, 2023.

Receivables are written off as a reduction in the allowance for credit losses when deemed uncollectible. Recoveries of accounts previously written off (if any) will be recognized in income.

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.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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.

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.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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.

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.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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.

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, 2023.

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.

Mutual funds and exchange traded funds

Valued at the daily closing price as reported by the fund. Funds held by the Association are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The mutual funds and exchange traded funds held by the Association are deemed to be actively traded.

The methods 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, 2023.

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.

Implementation of New Accounting Pronouncements

The Association adopted FASB ASC 326 effective January 1, 2023. The impact of the adoption was not considered material to the financial statements, and no adjustment to beginning net assets was recorded. The new standard primarily resulted in enhanced disclosures only.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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.

NOTE 2 CERTIFICATES OF DEPOSIT

Certificates of deposit are recorded at cost and consist of the following as of December 31, 2023:

Financial Institution	Amount	Rate	Maturity Date
Morgan Stanley Bk N A Salt	\$ 44,000	2.37%	07/05/24
Morgan Stanley Bk N A Salt	14,000	2.30%	07/05/24
Sallie Mae Bank Salt Lake City UT	8,000	5.05%	08/04/25
UBS BK USA Salt Lake City UT	8,000	4.65%	08/02/27
UBS BK USA Salt Lake City UT	8,000	4.50%	08/02/28
State Bank of India	14,000	0.65%	03/16/26
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
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
City Natl Bk Los Angeles Calif	13,000	5.00%	03/31/28
City Natl Bk Los Angeles Calif	16,000	5.00%	03/31/28
Cornerstone Bank 18 Month CD - matures 8/9/2	111,117	3.75%	08/09/24
BNC - 9 Month CD -matures 7/12/2024	84,235	4.25%	07/12/24
BNC - 12 Month CD -matures 12/21/2024	107,653	4.50%	12/21/24
Total certificates of deposit	<u>\$ 540,005</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 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, 2023

NOTE 4 FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of December 31, 2023 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	\$ 39,716	\$ -	\$ 39,716	\$ -
Corporate-Fixed	188,192	-	188,192	-
Fixed Income Mutual Funds	182,044	182,044	-	-
Exchange Traded Funds	<u>346,412</u>	<u>346,412</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 756,364</u>	<u>\$ 528,456</u>	<u>\$ 227,908</u>	<u>\$ -</u>

NOTE 5 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, 2023 were as follows:

Lease expense	2023
Finance lease expense	
Amortization of ROU assets	\$ 2,036
Interest on lease liabilities	706
Operating lease expense	56,272
Short-term lease expense	14,818
Total	<u>\$ 73,832</u>

The following table summarizes the supplemental cash flow information for the year ended December 31, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases (i.e. Interest)	\$ 744
Financing cash flows from finance leases (i.e. principal portion)	2,434
Operating cash flows from operating leases	56,268

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

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

Weighted-average remaining lease term in years for finance leases	0.92
Weighted-average remaining lease term in years for operating leases	1.00
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, 2023:

	Finance	Operating
2024	\$ 2,782	\$ 56,273
Total undiscounted cash flows	2,782	56,273
Less: present value discount	(202)	(435)
Total lease liabilities	<u>\$ 2,580</u>	<u>\$ 55,838</u>

NOTE 6 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 \$20,020 for these services along with reimbursement of expenses paid on their behalf for the year ended December 31, 2023. This amount is included in accounts receivable on the statement of financial position and miscellaneous income on the statement of activities.

The Association owes the North Dakota Bar Foundation \$13,699 as of December 31, 2023 for contributions and silent auction receipts collected on their behalf and also an overpayment of expenses. This amount is included in accounts payable on the statement of financial position.

NOTE 7 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 \$19,074 for the year ended December 31, 2023.

NOTE 8 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.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 9 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 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2023:

Subject to expenditure for specified purpose:

Sections program expenses	\$ 219,862
CLE Commission expenses	182,103
Lawyer Assistance Program	71,168
Disciplinary Board Committee expenses	375,974
Client Protection Fund program expenses	648,410
Total	<u>\$ 1,497,517</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, 2023:

Purpose restrictions accomplished:

Sections	\$ 24,321
CLE Commission	94,694
Disciplinary Board Committee	227,236
Client Protection Fund	36,073
Lawyer Assistance Program	22,519
Total	<u>\$ 404,843</u>

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 11 LIQUIDITY AND AVAILABILITY

The following reflects the Association's financial assets as of December 31, 2023, 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	\$ 1,508,776
Certificates of deposit	540,005
Accounts receivable	28,424
Accrued interest receivable	8,574
Bonds	756,364
Total financial assets	<u>2,842,143</u>
Less amounts not available to be used within one year:	
Board designated - emergency expenditures	400,000
Net assets with donor restrictions	<u>1,497,517</u>
	<u>1,897,517</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 944,626</u></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 9 for a description of the Association's reserve fund policy.

NOTE 12 REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounts receivable from contracts with customers were as follows:

Beginning of year	\$ 29,282
End of year	28,424

The following table provides information about significant changes in the continuing legal education fees paid in advance for the year ended December 31, 2023:

Continuing legal education paid in advance, beginning of year	\$ -
Revenue recognized that was included in continuing legal education at the beginning of year	-
Increase in continuing legal education fees due to cash received during the period	<u>2,810</u>
Continuing legal education paid in advance, end of year	<u><u>\$ 2,810</u></u>

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2023

NOTE 13 COMMITMENTS AND CONTINGENCIES

In December 2023, the Association entered into an agreement for the production of four publications of The Gavel magazine. The total cost of the contract is \$35,350, to be paid in 12 equal installments of \$2,946. As of December 31, 2023, payments totaling \$2,946 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 14 SUBSEQUENT EVENTS

No significant events occurred subsequent to the Association's year end. Subsequent events have been evaluated through June 6, 2024, 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, 2023 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022

	Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Lawyer Assistance Program	Total 2023	Total 2022
Revenues:									
Disciplinary fees	\$ -	\$ -	\$ -	\$ -	\$ 260,742	\$ -	\$ -	\$ 260,742	\$ 256,875
CLE commission	-	93,541	-	-	-	-	-	93,541	102,260
Section income	19,953	-	-	-	-	-	-	19,953	22,217
Client protection fund	-	-	-	-	-	49,136	-	49,136	49,633
Interest income	-	-	-	-	5,981	7,833	540	14,354	5,022
Total revenue	19,953	93,541	-	-	266,723	56,969	540	437,726	436,007
Expenditures:									
Salaries	-	49,500	16,817	-	1,793	1,174	6,484	75,768	88,375
Payroll taxes	-	-	1,287	-	-	-	-	1,287	1,728
Retirement expenses	-	3,878	1,108	-	-	-	-	4,986	5,005
Disciplinary expenses	-	-	-	-	221,712	-	-	221,712	251,250
Contract services	-	2,000	780	-	-	-	-	2,780	2,780
Advertising	-	-	-	-	-	-	-	-	500
Operating lease expense	-	18,700	5,400	-	-	-	-	24,100	24,100
Utilities	-	4,200	-	-	-	-	-	4,200	4,200
Telephone	-	1,500	540	-	-	300	-	2,340	2,340
Administrative	7,900	-	-	3,492	-	-	13,122	24,514	11,439
Postage / copies	-	1,250	352	-	890	141	2,761	5,394	3,332
Supplies	815	-	304	-	-	180	-	1,299	12,306
Travel / education	-	-	360	-	-	-	152	512	-
Annual meeting	-	5,000	-	-	-	-	-	5,000	10,213
Committee meetings	3,715	-	-	850	-	-	-	4,565	5,574
Web page expenses	-	-	625	-	-	-	-	625	625

STATE BAR ASSOCIATION OF NORTH DAKOTA
SCHEDULE OF PROGRAM ACTIVITIES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2023 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022

	Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Lawyer Assistance Program	Total 2023	Total 2022
Committee expenses	\$ -	\$ -	\$ -	\$ -	\$ 2,841	\$ -	\$ -	\$ 2,841	\$ 3,117
Insurance	-	-	6,401	-	-	-	-	6,401	6,970
Contingency	-	-	-	-	-	-	-	-	210
District representative	330	-	-	-	-	-	-	330	-
Computer expense	-	6,000	-	-	-	-	-	6,000	6,000
Lobbying	10,175	-	-	-	-	-	-	10,175	-
Claims	-	-	-	-	-	34,278	-	34,278	4,550
Contributions	-	2,666	-	-	-	-	-	2,666	1,703
Leadership forum contribution	1,386	-	-	-	-	-	-	1,386	7,919
Interest expense	-	-	128	-	-	-	-	128	199
Total expenditures	<u>24,321</u>	<u>94,694</u>	<u>34,102</u>	<u>4,342</u>	<u>227,236</u>	<u>36,073</u>	<u>22,519</u>	<u>443,287</u>	<u>454,435</u>
Excess revenue over expenditures	<u>\$ (4,368)</u>	<u>\$ (1,153)</u>	<u>\$ (34,102)</u>	<u>\$ (4,342)</u>	<u>\$ 39,487</u>	<u>\$ 20,896</u>	<u>\$ (21,979)</u>	<u>\$ (5,561)</u>	<u>\$ (18,428)</u>