



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

April 1, 2015

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

We have audited the financial statements of State Bar Association of North Dakota for the year ended December 31, 2014, and have issued our report thereon dated April 1, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 12, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by State Bar Association of North Dakota are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the fair value of the investments is based on significant other observable inputs. We evaluated the key factors and assumptions used to develop the fair value of the investments in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 1, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Governors, and management of State Bar Association of North Dakota and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*Brady, Martz*

**Brady Martz & Associates, PC**  
**Bismarck, North Dakota**

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

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Governors  
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, 2014, 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 of 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, 2014, 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.

### **Other Matter**

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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 19, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Brady, Martz*

**BRADY, MARTZ & ASSOCIATES, P.C.**

**BISMARCK, NORTH DAKOTA**

April 1, 2015

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**STATEMENT OF FINANCIAL POSTITION**  
DECEMBER 31, 2014 WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2013

**ASSETS**

|                                                                                                                | <u>2014</u>                | <u>2013</u>                |
|----------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Current assets:                                                                                                |                            |                            |
| Cash and cash equivalents                                                                                      | \$ 1,135,063               | \$ 1,046,524               |
| Certificates of deposit                                                                                        | 235,843                    | 288,875                    |
| Accounts receivable                                                                                            | 34,789                     | 40,477                     |
| Prepaid expense                                                                                                | 22,157                     | 19,289                     |
| Inventory                                                                                                      | 3,810                      | 795                        |
| Accrued interest receivable                                                                                    | <u>4,265</u>               | <u>3,972</u>               |
| Total current assets                                                                                           | <u>1,435,927</u>           | <u>1,399,932</u>           |
| Noncurrent assets:                                                                                             |                            |                            |
| Certificates of deposit                                                                                        | 294,545                    | 251,005                    |
| Bonds                                                                                                          | 166,065                    | 140,804                    |
| Equipment at cost, net of accumulated depreciation<br>of \$20,008 and \$123,147 in 2014 and 2013, respectively | 59,806                     | 29,514                     |
| Software at cost, net of accumulated depreciation<br>of \$31,320 and \$20,880 in 2014 and 2013, respectively   | <u>20,880</u>              | <u>31,320</u>              |
| Total noncurrent assets                                                                                        | <u>541,296</u>             | <u>452,643</u>             |
| Total assets                                                                                                   | <u><u>\$ 1,977,223</u></u> | <u><u>\$ 1,852,575</u></u> |

**LIABILITIES AND NET ASSETS**

|                                           |                            |                            |
|-------------------------------------------|----------------------------|----------------------------|
| Current liabilities:                      |                            |                            |
| Accounts payable                          | \$ 55,650                  | \$ 57,667                  |
| Accrued expenses                          | 24,248                     | 18,681                     |
| Capital lease payable-due within one year | <u>1,846</u>               | <u>4,888</u>               |
| Total current liabilities                 | <u>81,744</u>              | <u>81,236</u>              |
| Noncurrent liabilities:                   |                            |                            |
| Capital lease payable                     | <u>10,945</u>              | <u>1,793</u>               |
| Total liabilities                         | <u>92,689</u>              | <u>83,029</u>              |
| Net assets:                               |                            |                            |
| Unrestricted                              | 908,022                    | 901,374                    |
| Temporarily restricted                    | <u>976,512</u>             | <u>868,172</u>             |
| Total net assets                          | <u>1,884,534</u>           | <u>1,769,546</u>           |
| Total liabilities and net assets          | <u><u>\$ 1,977,223</u></u> | <u><u>\$ 1,852,575</u></u> |

See Notes to the Financial Statements

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014 WITH COMPARATIVE TOTALS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

|                                                   | Unrestricted      | Temporarily<br>Restricted | Total<br>2014       | Total<br>2013       |
|---------------------------------------------------|-------------------|---------------------------|---------------------|---------------------|
| Revenue:                                          |                   |                           |                     |                     |
| License fees                                      | \$ 696,908        | \$ -                      | \$ 696,908          | \$ 645,682          |
| Disciplinary fees                                 | -                 | 241,800                   | 241,800             | 224,775             |
| Continuing legal education                        | 116,391           | -                         | 116,391             | 139,238             |
| Publications                                      | 9,857             | -                         | 9,857               | 26,508              |
| Lawyer referral                                   | 6,600             | -                         | 6,600               | 10,995              |
| Newsletter                                        | 18,797            | -                         | 18,797              | 17,283              |
| Web page income                                   | 962               | -                         | 962                 | 1,292               |
| Service income                                    | 2,795             | -                         | 2,795               | 1,850               |
| Annual meeting                                    | 96,080            | -                         | 96,080              | 59,845              |
| Interest income                                   | 7,888             | 4,125                     | 12,013              | 14,816              |
| Grants                                            | -                 | -                         | -                   | 2,667               |
| CLE Commission                                    | -                 | 77,336                    | 77,336              | 75,524              |
| Sections income                                   | -                 | 30,410                    | 30,410              | 34,911              |
| Client protection fund                            | -                 | 43,673                    | 43,673              | 43,743              |
| Lawyer Assistance Program                         | -                 | 9,793                     | 9,793               | 12,170              |
| Realized and unrealized gain (loss) on investment | 4,213             | -                         | 4,213               | (9,126)             |
| Loss on disposal of equipment                     | (4,635)           | -                         | (4,635)             | -                   |
| Miscellaneous income                              | 35,868            | -                         | 35,868              | 42,326              |
| Revenue before net assets released                | 991,724           | 407,137                   | 1,398,861           | 1,344,499           |
| Net assets released from restrictions:            |                   |                           |                     |                     |
| Satisfaction of restrictions                      | 298,797           | (298,797)                 | -                   | -                   |
| Total revenue                                     | 1,290,521         | 108,340                   | 1,398,861           | 1,344,499           |
| Expenses and losses:                              |                   |                           |                     |                     |
| Sections fund                                     | 23,490            | -                         | 23,490              | 14,683              |
| CLE - Commission                                  | 66,456            | -                         | 66,456              | 72,239              |
| IOLTA - volunteer lawyers                         | 30,014            | -                         | 30,014              | 31,092              |
| Law related education                             | 6,221             | -                         | 6,221               | 16,421              |
| Disciplinary board                                | 197,621           | -                         | 197,621             | 202,706             |
| Client Protection Fund                            | 1,436             | -                         | 1,436               | 10,580              |
| Graduating into Adult World                       | 7,844             | -                         | 7,844               | 65                  |
| Lawyer Assistance Program                         | 9,794             | -                         | 9,794               | 11,670              |
| General and administrative                        | 940,997           | -                         | 940,997             | 791,731             |
| Total expenses                                    | 1,283,873         | -                         | 1,283,873           | 1,151,187           |
| Change in net assets                              | 6,648             | 108,340                   | 114,988             | 193,312             |
| Net assets - beginning of period                  | 901,374           | 868,172                   | 1,769,546           | 1,576,234           |
| Net assets - end of period                        | <u>\$ 908,022</u> | <u>\$ 976,512</u>         | <u>\$ 1,884,534</u> | <u>\$ 1,769,546</u> |

See Notes to the Financial Statements

## Statement of Functional Expenses

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2014 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013**

|                       | 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 2014 | Total 2013 |
|-----------------------|---------------|-----------------|-------------------------|-----------------------|------------------------------|------------------------|-----------------------------|---------------------------|---------------------|--------------------|------------|------------|
| Salaries              | -             | \$ 35,317       | \$ 12,224               | \$ 2,079              | \$ 1,355                     | \$ 1,173               | \$ 527                      | \$ 1,884                  | \$ 54,559           | \$ 284,495         | \$ 339,054 | \$ 341,296 |
| Payroll taxes         | -             | -               | 935                     | -                     | -                            | -                      | -                           | -                         | 935                 | 22,708             | 23,643     | 24,921     |
| Retirement expenses   | -             | 3,561           | 776                     | -                     | -                            | -                      | -                           | -                         | 4,337               | 13,590             | 17,927     | 18,965     |
| Depreciation          | -             | -               | -                       | -                     | -                            | -                      | -                           | -                         | -                   | 22,601             | 22,601     | 21,073     |
| Staff expense         | -             | -               | -                       | -                     | -                            | -                      | -                           | -                         | -                   | 17,813             | 17,813     | 12,608     |
| Officers' expenses    | -             | -               | -                       | -                     | -                            | -                      | -                           | -                         | -                   | 19,189             | 19,189     | 13,079     |
| Disciplinary expenses | -             | -               | -                       | -                     | 174,000                      | -                      | -                           | -                         | 174,000             | 10,149             | 184,149    | 184,924    |
| Law review            | -             | -               | -                       | -                     | -                            | -                      | -                           | -                         | -                   | 22,000             | 22,000     | 22,000     |
| Contract services     | -             | 1,000           | 780                     | -                     | -                            | -                      | -                           | -                         | 1,780               | 17,592             | 19,372     | 20,402     |
| Advertising           | -             | -               | 1,100                   | 192                   | -                            | -                      | -                           | -                         | 1,292               | -                  | 1,292      | 1,097      |
| Attorney expense      | -             | -               | 12                      | -                     | -                            | -                      | -                           | -                         | 12                  | -                  | 12         | 70         |
| Rent                  | -             | 9,050           | 5,330                   | -                     | -                            | -                      | -                           | -                         | 14,380              | 37,502             | 51,882     | 34,760     |
| Utilities             | -             | 642             | 642                     | -                     | -                            | -                      | -                           | -                         | 1,284               | 3,101              | 4,385      | 4,414      |
| Maintenance           | -             | 458             | 458                     | -                     | -                            | -                      | -                           | -                         | 916                 | 2,907              | 3,823      | 4,318      |
| Telephone             | -             | 600             | 852                     | -                     | -                            | 102                    | -                           | -                         | 1,554               | 5,714              | 7,268      | 6,090      |
| Administrative        | -             | -               | -                       | 2,905                 | -                            | -                      | -                           | 6,752                     | 9,657               | 117                | 9,774      | 23,289     |
| Postage / copies      | -             | 1,091           | 812                     | -                     | 324                          | 93                     | -                           | 1,021                     | 3,341               | 4,993              | 8,334      | 11,062     |
| Supplies              | 54            | 850             | 1,150                   | 45                    | -                            | -                      | 7,317                       | -                         | 9,416               | 7,493              | 16,909     | 13,292     |
| Travel / education    | -             | -               | -                       | -                     | -                            | -                      | -                           | 137                       | 137                 | 3,176              | 3,313      | 8,165      |
| Annual meeting        | -             | -               | -                       | -                     | 2,000                        | -                      | -                           | -                         | 2,000               | 97,935             | 99,935     | 79,321     |
| Committee meetings    | 1,436         | -               | 80                      | 1,000                 | -                            | -                      | -                           | -                         | 2,516               | -                  | 2,516      | 3,249      |
| Web page expenses     | -             | -               | 625                     | -                     | -                            | -                      | -                           | -                         | 625                 | 7,155              | 7,780      | 9,252      |
| CLE production        | -             | -               | -                       | -                     | -                            | -                      | -                           | -                         | -                   | 62,059             | 62,059     | 61,788     |
| Newsletter expense    | -             | -               | -                       | -                     | -                            | -                      | -                           | -                         | -                   | 38,526             | 38,526     | 36,605     |

|                               |           |           |           |            |          |          |          |            |            |              |              |
|-------------------------------|-----------|-----------|-----------|------------|----------|----------|----------|------------|------------|--------------|--------------|
| Committee expenses            | -         | -         | -         | 10,149     | -        | -        | -        | 10,149     | 14,267     | 24,416       | 26,984       |
| Insurance                     | -         | -         | -         | -          | -        | -        | -        | -          | 55,263     | 59,350       | 55,001       |
| Contingency                   | -         | -         | -         | -          | -        | -        | -        | -          | 30,904     | 30,904       | 4,305        |
| Audit                         | -         | -         | -         | -          | -        | -        | -        | -          | 7,350      | 7,350        | 7,065        |
| Lawyer referral               | -         | -         | -         | -          | -        | -        | -        | -          | 9,982      | 9,982        | 10,290       |
| Publication                   | -         | -         | -         | -          | -        | -        | -        | -          | 5,612      | 5,612        | 15,394       |
| Dues                          | -         | -         | -         | -          | -        | -        | -        | -          | 4,153      | 4,153        | 2,785        |
| Bank charges                  | -         | -         | -         | -          | -        | -        | -        | -          | 1,255      | 1,255        | 523          |
| Computer expense              | -         | 4,125     | -         | -          | -        | -        | -        | 4,125      | -          | 4,125        | 5,761        |
| Claims                        | -         | -         | -         | -          | 68       | -        | -        | 68         | -          | 68           | 9,642        |
| Contributions                 | -         | 9,762     | -         | -          | -        | -        | -        | 9,762      | -          | 9,762        | 20,667       |
| Leadership forum contribution | 2,000     | -         | -         | -          | -        | -        | -        | 2,000      | -          | 2,000        | 3,676        |
| Casemaker                     | -         | -         | -         | -          | -        | -        | -        | -          | 20,180     | 20,180       | 20,126       |
| Interest expense              | -         | -         | 151       | -          | -        | -        | -        | 151        | 816        | 967          | 1,233        |
| Moving Costs                  | -         | -         | -         | -          | -        | -        | -        | -          | 40,400     | 40,400       | -            |
| VLP certificates              | -         | -         | -         | -          | -        | -        | -        | -          | -          | -            | 25           |
| Lawyer Assistance Program     | -         | -         | -         | 9,793      | -        | -        | -        | 9,793      | -          | 9,793        | 11,670       |
| Keeping Kids First Campaign   | 20,000    | -         | -         | -          | -        | -        | -        | 20,000     | 50,000     | 70,000       | -            |
| Totals                        | \$ 23,490 | \$ 66,456 | \$ 30,014 | \$ 197,621 | \$ 1,436 | \$ 7,844 | \$ 9,794 | \$ 342,876 | \$ 940,997 | \$ 1,283,873 | \$ 1,151,187 |

See Notes to the Financial Statements

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014 WITH COMPARATIVE TOTALS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

|                                                                                      | <u>2014</u>        | <u>2013</u>        |
|--------------------------------------------------------------------------------------|--------------------|--------------------|
| Cash flows from operating activities:                                                |                    |                    |
| Change in net assets                                                                 | \$ 114,988         | \$ 193,312         |
| Adjustments to reconcile changes in net assets<br>to cash from operating activities: |                    |                    |
| Depreciation                                                                         | 22,601             | 21,073             |
| Realized and unrealized (gain) loss on investment                                    | (4,213)            | 9,126              |
| Loss on disposal of equipment                                                        | 4,635              | -                  |
| Effects on operating cash flows due to changes in:                                   |                    |                    |
| Accounts receivable                                                                  | 5,688              | (12,592)           |
| Interest receivable                                                                  | (293)              | (167)              |
| Prepaid expenses                                                                     | (2,868)            | (8,476)            |
| Inventory                                                                            | (3,015)            | 4,177              |
| Accounts payable                                                                     | (2,017)            | (4,100)            |
| Accrued expenses                                                                     | 5,567              | (9,754)            |
|                                                                                      | <u>141,073</u>     | <u>192,599</u>     |
| Cash provided (used) by operating activities                                         |                    |                    |
| Cash flows from investing activities:                                                |                    |                    |
| Purchase of investments                                                              | (371,721)          | (279,092)          |
| Sale of investments                                                                  | 360,165            | 268,010            |
| Purchase of equipment                                                                | (36,852)           | (3,450)            |
| Sale of equipment                                                                    | 3,270              | -                  |
|                                                                                      | <u>(45,138)</u>    | <u>(14,532)</u>    |
| Cash provided (used) by investing activities                                         |                    |                    |
| Cash flows provided (used) by financing activities:                                  |                    |                    |
| Payments on capital lease payable                                                    | (7,396)            | (4,231)            |
|                                                                                      | <u>(7,396)</u>     | <u>(4,231)</u>     |
| Cash flows provided (used) by financing activities                                   |                    |                    |
| Net change in cash and cash equivalents                                              | 88,539             | 173,836            |
| Cash and cash equivalents balance - beginning of year                                | <u>1,046,524</u>   | <u>872,688</u>     |
| Cash and cash equivalents balance - end of year                                      | <u>\$1,135,063</u> | <u>\$1,046,524</u> |
| Supplemental disclosures of cash flow information:                                   |                    |                    |
| Interest paid for the year                                                           | <u>\$ 967</u>      | <u>\$ 1,233</u>    |
| Noncash investing activities:                                                        |                    |                    |
| Equipment acquired with capital lease                                                | <u>\$ 13,506</u>   | <u>\$ -</u>        |

See Notes to the Financial Statements

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

**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 67% 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.

**Restricted and Unrestricted Revenue and Support**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Temporarily restricted net assets consists of grants and funds received for IOLTA Volunteer Lawyers Program, Law Related Education, Client Protection Services, Disciplinary Board, CLE Commissions, O'Keefe Tennis Tournament, Lawyer Assistance Program, CB Little House Furnishings, Graduating into the Adult World, and Sections Activities.

The Association has no permanently restricted net assets.

**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.

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2014**

**Inventory**

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

**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, 2014, no allowance for uncollectible accounts has been provided since management considers all accounts to be collectible.

**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.

**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, 2014.

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.

**Cash and Cash Equivalents**

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

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2014**

**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.

**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.

**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, 2013, from which the summarized information was derived.

**Reclassifications**

Certain reclassifications have made to the prior year financial statements in order for them to conform to the current year presentation.

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2014**

**NOTE 2 CERTIFICATE OF DEPOSIT**

Certificates of deposit are recorded at cost and consist of the following as of December 31, 2014:

| Financial Institution         | Amount            | Rate  | Maturity Date |
|-------------------------------|-------------------|-------|---------------|
| BMW Bank of North America     | \$ 11,000         | 2.20% | 08/27/15      |
| GE Money Bank                 | 22,000            | 2.00% | 10/15/15      |
| BMW Bank of North America     | 12,000            | 2.30% | 02/25/16      |
| GE Capital Financial Inc.     | 25,000            | 2.00% | 09/30/16      |
| Lasalle Bank                  | 19,715            | 2.01% | 08/18/17      |
| Bank of Baroda                | 19,000            | 1.25% | 03/08/18      |
| GE Capital Retail Bank        | 34,000            | 1.95% | 02/28/19      |
| BMW Bank of North America     | 20,000            | 2.30% | 02/25/16      |
| Discover Bank                 | 15,000            | 1.55% | 09/05/17      |
| State Bank of India           | 12,000            | 2.15% | 09/11/19      |
| BMW Bank of North America     | 36,000            | 2.30% | 02/25/16      |
| BNC                           | 71,440            | 0.20% | 06/08/15      |
| BNC                           | 30,150            | 0.40% | 08/05/15      |
| BNC                           | 101,253           | 0.35% | 03/01/15      |
| Bremer Bank                   | 101,830           | 0.20% | 03/17/16      |
| Total certificates of deposit | <u>\$ 530,388</u> |       |               |

**NOTE 3 CREDIT RISK**

On December 31, 2014, the Association had \$734,108 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 amount not insured by FDIC was \$80,756 on December 31, 2014.

The Association had \$404,741 of investments with a local brokerage firm on December 31, 2014, of which \$227,794 were certificates of deposit covered by FDIC and \$166,064 were securities covered by SIPC. The remaining \$10,883 is uninsured, neither covered by FDIC nor SIPC.

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2014**

**NOTE 4 FAIR VALUE MEASUREMENTS**

Assets measured at fair value on a recurring base as of December 31, 2014 are summarized as follows:

| Description     | Total<br>Carrying<br>Amount | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-----------------|-----------------------------|----------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
| Bonds:          |                             |                                                                            |                                                           |                                                    |
| Municipal-Fixed | \$ 84,836                   | \$ -                                                                       | \$ 84,836                                                 | \$ -                                               |
| Corporate-Fixed | 34,885                      | -                                                                          | 34,885                                                    | -                                                  |
| Government-FNMA | 46,344                      | -                                                                          | 46,344                                                    | -                                                  |
| Total           | <u>\$ 166,065</u>           | <u>\$ -</u>                                                                | <u>\$ 166,065</u>                                         | <u>\$ -</u>                                        |

**NOTE 5 LEASE COMMITMENTS**

The Association has a lease on its office space until December 31, 2019. The rental commitments for the years ending December 31 are as follows:

|      |           |
|------|-----------|
| 2015 | \$ 49,950 |
| 2016 | 50,699    |
| 2017 | 51,460    |
| 2018 | 52,232    |
| 2019 | 53,015    |

The Association paid \$51,882 in rent in for the year ended December 31, 2014.

**NOTE 6 CAPITAL LEASE**

The Association leased 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 \$675, respectively, for the year ended December 31, 2014.

**STATE BAR ASSOCIATION OF NORTH DAKOTA**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2014**

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, 2014.

|                                                |                  |
|------------------------------------------------|------------------|
| 2015                                           | \$ 2,908         |
| 2016                                           | 3,489            |
| 2017                                           | 3,489            |
| 2018                                           | 3,489            |
| 2019                                           | <u>2,909</u>     |
| Net minimum lease payments                     | 16,284           |
| Less amount representing interest              | <u>3,493</u>     |
| Present value of net<br>minimum lease payments | <u>\$ 12,791</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). Three board members of the Association also serve on the board of the Foundation as ex-officio members and one member serves as the board chair on the Foundation. 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, 2014. The Foundation paid the Association \$28,605 for these services, for the year ending December 31, 2014. This amount is included in miscellaneous income.

As of December 31, 2014 the Association recorded \$18,271 in accounts receivable due from the Foundation and recorded \$2,925 in accounts payable due to the Foundation.

**NOTE 8 ADVERTISING EXPENSE**

The Association expenses all advertising costs as they are incurred. Total advertising costs for the year ended December 31, 2014 was \$1,292 .

**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. Contributions to this plan totaled \$17,927 for the year ended December 31, 2014.

**NOTE 10 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, 2014**

**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.

**NOTE 12 SUBSEQUENT EVENTS**

Subsequent to year end, a lawsuit was filed against officers of the Association that challenges the collection of mandatory dues from active attorneys in the state of North Dakota. It also requests the implementation of specific procedures and safeguards surrounding the use of Association funds for lobbying activities. As of April 1, 2015 there have been no additional filings or rulings concerning this lawsuit and the potential outcome of the case is not known.

Subsequent events noted above were evaluated through April 1, 2015, which is the date these financial statements were available to be issued.

## SUPPLEMENTARY INFORMATION

## Schedule of Program Activities

## STATE BAR ASSOCIATION OF NORTH DAKOTA SCHEDULE OF PROGRAM ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013

| Sections                      | CLE        | IOLTA     | Law       | Disciplinary | Client     | CB Little   | O'Keefe    | Graduating  | Lawyer     | Total      |
|-------------------------------|------------|-----------|-----------|--------------|------------|-------------|------------|-------------|------------|------------|
| Fund                          | Commission | Volunteer | Related   | Board        | Protection | House       | Tennis     | into        | Assistance | 2014       |
|                               |            | Lawyers   | Education | Committee    | Fund       | Furnishings | Tournament | Adult World | Program    | 2013       |
| Revenues:                     |            |           |           |              |            |             |            |             |            |            |
| License fees                  | \$ -       | \$ -      | \$ -      | \$ 241,800   | \$ -       | \$ -        | \$ -       | \$ -        | \$ -       | \$ 224,775 |
| Grants                        | -          | -         | -         | -            | -          | -           | -          | -           | -          | 2,667      |
| CLE commission                | 77,336     | -         | -         | -            | -          | -           | -          | -           | -          | 75,524     |
| Section income                | 30,410     | -         | -         | -            | -          | -           | -          | -           | -          | 34,911     |
| Client protection income      | -          | -         | -         | -            | 43,673     | -           | -          | -           | -          | 43,743     |
| Lawyer Assistance Program     | -          | -         | -         | -            | -          | -           | -          | -           | 9,793      | 12,170     |
| O'Keefe tennis tournament     | -          | -         | -         | -            | -          | -           | -          | -           | -          | -          |
| C.B. Little House Furnishings | -          | -         | -         | -            | -          | -           | -          | -           | -          | -          |
| Interest income               | -          | -         | -         | 1,629        | 2,115      | -           | -          | -           | 381        | 5,305      |
| Total revenue                 | 30,410     | -         | -         | 243,429      | 45,788     | -           | -          | -           | 10,174     | 399,095    |

Salaries  
Payroll taxes  
Retirement expenses  
Disciplinary expenses  
Contract services  
Advertising  
Attorney expense  
Rent  
Utilities  
Maintenance  
Telephone  
Administrative  
Postage / copies  
Supplies  
Travel / education  
Annual meeting  
Committee meetings  
Web page expenses

