

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of State Bar Association of North Dakota (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of State Bar Association of North Dakota as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Association changed its method for recognizing revenue as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, effective 2019. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Association has adopted Accounting Standards Update No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective 2019. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

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

Report on Summarized Comparative Information

We have previously audited State Bar Association of North Dakota's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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

June 8, 2020

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	\$ 1,538,824	\$ 1,688,891
Certificates of deposit	146,753	191,057
Accounts receivable	36,488	24,621
Prepaid expense	24,289	23,333
Inventory	1,296	3,505
Accrued interest receivable	8,351	5,757
Total current assets	1,756,001	1,937,164
Noncurrent assets:		
Certificates of deposit	598,725	365,748
Bonds	170,010	159,460
Equipment at cost, net of accumulated depreciation of \$82,282 and \$71,289 in 2019 and 2018, respectively	30,622	31,573
Website development costs, net of accumulated amortization of \$3,420 and \$1,900 in 2019 and 2018, respectively	4,180	5,700
Total noncurrent assets	803,537	562,481
Total assets	\$ 2,559,538	\$ 2,499,645

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 125,594	\$ 44,782
Accrued expenses	46,856	40,925
Capital lease payable - due within one year	1,249	2,771
Total current liabilities	173,699	88,478
Noncurrent liabilities:		
Capital lease payable	8,550	-
Total liabilities	182,249	88,478
Net assets:		
Without donor restrictions	1,138,808	1,200,465
With donor restrictions	1,238,481	1,210,702
Total net assets	2,377,289	2,411,167
Total liabilities and net assets	\$ 2,559,538	\$ 2,499,645

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018 (Memorandum only)
Revenue:				
License fees	\$ 755,148	\$ -	\$ 755,148	\$ 749,680
Disciplinary fees	-	257,475	257,475	254,925
Continuing legal education	102,329	-	102,329	139,080
Publications	11,223	-	11,223	27,680
Lawyer referral	240	-	240	390
Newsletter	17,053	-	17,053	22,793
Web page income	1,862	-	1,862	639
Service income	943	-	943	1,181
Annual meeting	92,290	-	92,290	115,425
Interest income	29,703	9,814	39,517	20,955
CLE Commission	-	90,450	90,450	96,600
Sections income	-	23,282	23,282	63,860
Client protection fund	-	49,520	49,520	64,318
Realized and unrealized gain (loss) on investment	8,896	-	8,896	(6,173)
Gain (loss) on disposal of equipment	(500)	-	(500)	-
Miscellaneous income	57,259	-	57,259	59,550
Revenue before net assets released	1,076,446	430,541	1,506,987	1,610,903
Net assets released from restrictions	402,762	(402,762)	-	-
Total revenue	1,479,208	27,779	1,506,987	1,610,903
Expenses and losses:				
Sections fund	22,909	-	22,909	42,810
CLE - commission	91,226	-	91,226	105,262
IOLTA - volunteer lawyers	24,991	-	24,991	24,897
Law related education	7,063	-	7,063	793
Disciplinary board	199,135	-	199,135	266,813
Client protection fund	77,118	-	77,118	85,473
Graduating into adult world	191	-	191	4,754
Lawyer assistance program	12,374	-	12,374	18,851
General and administrative	1,105,858	-	1,105,858	1,074,994
Total expenses	1,540,865	-	1,540,865	1,624,647
Change in net assets	(61,657)	27,779	(33,878)	(13,744)
Net assets - beginning of period	1,200,465	1,210,702	2,411,167	2,424,911
Net assets - end of period	<u>\$ 1,138,808</u>	<u>\$ 1,238,481</u>	<u>\$ 2,377,289</u>	<u>\$ 2,411,167</u>

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018

	Sections	CLE	IOLTA	Law	Disciplinary	Client	Graduating into	Lawyer	Total	General	Total	Total
	Fund	Commissions	Volunteer	Related	Board/	Protection	Adult World	Assistance	Program	and	2019	2018
			Lawyers	Education	Committee	Fund		Program	Costs	Admin.		(Memorandum only)
Salaries	\$ -	\$ 43,317	\$ 10,677	\$ -	\$ 969	\$ 1,157	\$ -	\$ 4,117	\$ 60,237	\$ 349,947	\$ 410,184	\$ 383,964
Payroll taxes	-	-	817	-	-	-	-	-	817	28,292	29,109	26,629
Retirement expenses	-	3,561	624	-	-	-	-	-	4,185	13,284	17,469	15,018
Depreciation and amortization	-	-	-	-	-	-	-	-	-	12,513	12,513	13,862
Staff expense	-	-	-	-	-	-	-	-	-	28,552	28,552	22,639
Officers' expenses	-	-	-	-	-	-	-	-	-	36,193	36,193	25,864
Disciplinary expenses	-	-	-	-	183,699	-	-	-	183,699	8,261	191,960	264,105
Law review	-	-	-	-	-	-	-	-	-	22,000	22,000	22,000
Contract services	-	1,500	780	-	-	-	-	-	2,280	41,363	43,643	56,451
Advertising	-	-	321	500	-	-	-	-	821	-	821	736
Attorney expense	-	-	-	-	-	-	-	-	-	68,509	68,509	49,055
Rent	-	12,700	5,400	-	-	-	-	-	18,100	44,015	62,115	60,611
Utilities	-	4,000	-	-	-	-	-	-	4,000	-	4,000	4,000
Telephone	-	1,200	540	-	-	300	-	-	2,040	5,638	7,678	7,735
Administrative	3,000	-	-	1,924	-	200	-	6,752	11,876	767	12,643	15,537
Postage / copies	-	1,902	897	-	441	470	-	1,505	5,215	7,949	13,164	13,610
Supplies	50	150	404	1,919	-	291	191	-	3,005	7,496	10,501	25,095
Travel / education	863	-	-	-	-	-	-	-	863	22,886	23,749	17,188
Annual meeting	-	-	-	-	5,765	-	-	-	5,765	114,752	120,517	109,335
Committee meetings	11,237	-	-	2,720	-	-	-	-	13,957	-	13,957	20,717
Web page expenses	-	-	625	-	-	-	-	-	625	20,285	20,910	23,753
CLE production	-	-	-	-	-	-	-	-	-	67,375	67,375	94,086

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF FUNCTIONAL EXPENSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018

	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 2019	Total 2018 (Memorandum only)
Newsletter expense	-	-	-	-	-	-	-	-	-	60,215	60,215	58,770
Committee expenses	-	-	-	-	8,261	-	-	-	8,261	5,845	14,106	15,532
Insurance	-	-	3,820	-	-	-	-	-	3,820	57,930	61,750	56,225
Contingency	-	-	-	-	-	-	-	-	-	10,512	10,512	17,453
Audit	-	-	-	-	-	-	-	-	-	12,390	12,390	11,275
Lawyer referral	-	-	-	-	-	-	-	-	-	8,538	8,538	8,544
Publication	-	-	-	-	-	-	-	-	-	6,710	6,710	6,628
Dues	-	-	-	-	-	-	-	-	-	8,156	8,156	5,005
Bank charges	-	-	-	-	-	-	-	-	-	3,700	3,700	5,828
Casemaker	-	-	-	-	-	-	-	-	-	19,443	19,443	21,804
Computer expense	-	8,000	-	-	-	-	-	-	8,000	-	8,000	2,580
Claims	-	-	-	-	-	74,700	-	-	74,700	-	74,700	79,410
Contributions	-	14,896	-	-	-	-	-	-	14,896	-	14,896	15,794
Leadership forum contribution	7,759	-	-	-	-	-	-	-	7,759	-	7,759	10,113
Rural justice support	-	-	-	-	-	-	-	-	-	12,000	12,000	12,000
Interest expense	-	-	86	-	-	-	-	-	86	342	428	399
Jack Rabbit Bar	-	-	-	-	-	-	-	-	-	-	-	25,297
Totals	\$ 22,909	\$ 91,226	\$ 24,991	\$ 7,063	\$ 199,135	\$ 77,118	\$ 191	\$ 12,374	\$ 435,007	\$ 1,105,858	\$ 1,540,865	\$ 1,624,647

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (33,878)	\$ (13,744)
Adjustments to reconcile changes in net assets to cash from operating activities:		
Depreciation and amortization	12,513	13,862
Realized and unrealized (gain) loss on investment	(8,896)	6,173
Effects on operating cash flows due to changes in:		
Accounts receivable	(11,867)	22,445
Accrued interest receivable	(2,594)	451
Prepaid expenses	(956)	(8,138)
Inventory	2,209	8,364
Accounts payable	80,811	(11,715)
Accrued expenses	5,931	(4,572)
	<u>43,273</u>	<u>13,126</u>
Cash flows from investing activities:		
Purchase of investments	(411,905)	(314,904)
Sale of investments	221,578	263,725
	<u>(190,327)</u>	<u>(51,179)</u>
Cash flows (used) by financing activities:		
Payments on capital lease payable	(3,013)	(3,018)
	<u>(3,013)</u>	<u>(3,018)</u>
Net change in cash and cash equivalents	(150,067)	(41,071)
Cash and cash equivalents balance - beginning of year	<u>1,688,891</u>	<u>1,729,962</u>
Cash and cash equivalents balance - end of year	<u>\$ 1,538,824</u>	<u>\$ 1,688,891</u>
Supplemental disclosures of cash flow information:		
Interest paid for the year	\$ 428	\$ 399
Non-cash investing and financing activities		
Assets acquired by capital lease	\$ 10,042	\$ -

See Notes to the Financial Statements

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

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, 2018, from which the summarized information was derived.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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. 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.

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.

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, 2019, no allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. Receivables from contracts with customers are reported as accounts receivable in the accompanying statement of financial position.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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.

Intangible Assets

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

Fair Value Measurements

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

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

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

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

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2019.

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.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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 methods are 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 ending December 31, 2019.

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

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

Effective January 1, 2019, the Association adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective method of transition applied to contracts that were not complete as of January 1, 2019. This ASU replaced existing revenue recognition guidance, including industry-specific guidance, and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled to in an exchange of goods or services. There was no adjustment required to the opening balance of net assets for the adoption of this ASU. Comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Association has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

NOTE 2 CERTIFICATE OF DEPOSIT

Certificates of deposit are recorded at cost and consist of the following as of December 31, 2019:

Financial Institution	Amount	Rate	Maturity Date
Capital One Bank USA	\$ 24,000	2.20%	10/21/20
Goldman Sachs Bank USA	13,000	1.80%	03/02/21
Capital One Bank USA	25,000	1.70%	10/05/21
State Bank of India	25,000	2.30%	02/24/22
Morgan Stanley Bk N A Salt	44,000	2.30%	07/05/24
Goldman Sachs Bank USA	11,000	1.80%	03/02/21
Wells Fargo Bank Na	13,000	1.75%	06/17/21
State Bank of India	25,000	2.30%	02/09/22
State Bank of India	14,000	2.90%	03/29/23
Morgan Stanley Bk N A Salt	14,000	2.30%	07/05/24
American Express Centurion Bk	18,000	2.05%	05/20/20
Goldman Sachs Bank USA	21,000	1.80%	03/02/21
Wells Fargo Bank Na	12,000	2.55%	01/31/22
Sallie Mae Bank	12,000	2.65%	01/24/23
Wells Fargo Bk N A Sioux Falls	14,000	2.05%	10/17/24
BNC - 12-23 Months CD	31,344	1.45%	04/05/21
BNC - Month Step up CD	48,175	2.00%	04/06/22
BNC - 52 Week Non-Personal CD	104,753	1.49%	12/24/20
Bremer Bank CD	107,207	1.60%	02/17/21
1st International Bank & Trust CD	169,000	1.99%	06/24/21
Total certificates of deposit	<u>\$ 745,478</u>		

NOTE 3 CREDIT RISK

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

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 4 FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of December 31, 2019 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	\$ 72,298	\$ -	\$ 72,298	\$ -
Corporate-Fixed	97,712	-	97,712	-
Total	\$ 170,010	\$ -	\$ 170,010	\$ -

NOTE 5 INTANGIBLE ASSETS

Intangible assets consist of costs incurred for the creation of the Association's website, the portion of which that is eligible for capitalization totaled \$7,600. Amortization expense for the year ended December 31, 2019 was \$1,520. The accumulated amortization at December 31, 2019 related to the website was \$3,420.

NOTE 6 OPERATING LEASE

The Association has a lease on its office space until December 31, 2019. The Association paid \$62,115 in rent in for the year ended December 31, 2019.

In November 2019, the Association entered into a lease agreement to continue leasing their office space. The agreement is for the period January 1, 2020 through January 1, 2025. The lease is for \$4,484 per month through December 31, 2020. Beginning January 1, 2021 and each year thereafter the yearly rate shall increase 1.5%.

Future minimum lease payments are as follows:

2020	\$ 53,810
2021	54,617
2022	55,436
2023	56,268
2024	57,112

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 7 CAPITAL LEASE

The Association had a lease on a copier under capital lease agreement with monthly payments of \$291 including interest through October 2019. A new lease agreement was signed in November 2019 for a lease on a copier under capital lease agreement with monthly payments of \$262 including interest through November 2024. Equipment capitalized and accumulated depreciation is \$10,042 and \$502, respectively, for the year ended December 31, 2019.

The detail of the Association's capital lease as of December 31, 2019, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital Lease	\$ 2,771	\$ 10,042	\$ (3,014)	\$ 9,799	\$ 1,249

The following is a schedule by year of the future minimum rental payments due on the capital lease as of December 31, 2019:

	2020	\$ 2,878
	2021	3,140
	2022	3,140
	2023	3,140
	2024	2,780
Total Minimum Lease Payments		15,078
Less: Amount Representing Interest		(5,279)
Present Value of Minimum Lease Payments		\$ 9,799
Current Portion of Capital Lease		\$ 1,249
Non-Current Portion of Capital Lease		8,550
		\$ 9,799

NOTE 8 RELATED PARTY

The North Dakota Bar Foundation (Foundation) is a separate not-for-profit foundation formed to operate within the meaning of IRS Code Section 501(c)(3). The Foundation's Board of Directors consists of directors who are elected by the membership and those who are appointed by the State Bar Association. In addition, the Association maintains the records of the Foundation and employees of the Association perform various duties for the Foundation as of December 31, 2019. The Foundation paid the Association \$33,134 for these services, for the year ending December 31, 2019. This amount is included in miscellaneous income.

As of December 31, 2019 the Association recorded \$32,878 in accounts receivable due from the Foundation.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 9 ADVERTISING EXPENSE

The Association expenses all advertising costs as they are incurred. Total advertising costs for the year ended December 31, 2019 was \$821.

NOTE 10 PENSION PLAN

The Association adopted a 401(k) profit sharing plan. All full-time employees are eligible to participate in the plan as long as they are at least 21 years of age and have completed one year of employment. Employer contributions to this plan totaled \$17,469 for the year ended December 31, 2019.

NOTE 11 RESERVE FUND POLICY

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

NOTE 12 INCOME TAXES

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

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2019:

Subject to expenditure for specified purpose:	
Sections program expenses	\$ 189,190
CLE Commission expenses	152,838
Disciplinary Board Committee expenses	398,209
Client Protection Fund program expenses	485,802
Lawyer Assistance Program expenses	12,442
	<u>\$ 1,238,481</u>

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

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, 2019:

Purpose restrictions accomplished:	
Sections	\$ 22,909
CLE Commission	91,226
Disciplinary Board Committee	199,135
Client Protection Fund	77,118
Lawyer Assistance Program	12,374
	<u>\$ 402,762</u>

NOTE 14 LIQUIDITY AND AVAILABILITY

The following reflects the Association's financial assets as of December 31, 2019, 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	\$1,538,824
Certificates of deposit	745,478
Accounts receivable	36,488
Accrued interest receivable	8,351
Bonds	170,010
Total financial assets	<u>2,499,151</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>1,238,481</u>
	<u>1,238,481</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$1,260,670</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 11 for a description of the Association's reserve fund policy.

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounts receivable from contracts with customers were as follows:

	<u>2019</u>
Beginning of year	\$ 24,621
End of year	36,488

The following table provides information about significant changes in the continuing legal education fees paid in advance for the year ended December 31, 2019:

Continuing legal education paid in advance, beginning of year	\$ 328
Revenue recognized that was included in continuing legal education at the beginning of year	(328)
Increase in continuing legal education fees due to cash received during the period	<u>2,450</u>
Continuing legal education paid in advance, end of year	<u>\$ 2,450</u>

NOTE 16 COMMITMENTS AND CONTINGENCIES

In December 2019, the Association entered into an agreement for the production of four publications of The Gavel magazine. The total cost of the contract is \$31,500, to be paid in 12 equal installments of \$2,625. As of December 31, 2019, no payments have been made 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 17 NEW ACCOUNTING PRONOUNCEMENTS

ASU 2016-02, Leases (Topic 842)

During 2016, the FASB issued guidance to change the accounting for leases. The main provision of ASU 2016-02 is that lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. The ASU is effective for the Company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

Management has not yet determined what effect this pronouncement will have on the Association's financial statements.

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

STATE BAR ASSOCIATION OF NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

NOTE 18 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. Restrictions and government social distancing recommendations have impacted the activities of the Association. While the Association expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain.

Subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. The Association is closely monitoring their investment portfolio and its liquidity and are actively working to minimize the impact of these declines. The financial statements do not include adjustments to fair value that have resulted from these declines.

Subsequent events have been evaluated through June 8, 2020, 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, 2019 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018

	Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Graduating into Adult World	Lawyer Assistance Program	Total 2019	Total 2018
Revenues:										
License fees	\$ -	\$ -	\$ -	\$ -	\$ 257,475	\$ -	\$ -	\$ -	\$ 257,475	\$ 254,925
CLE commission	-	90,450	-	-	-	-	-	-	90,450	96,600
Section income	23,282	-	-	-	-	-	-	-	23,282	63,860
Client protection income	-	-	-	-	-	49,520	-	-	49,520	64,318
Interest income	-	-	-	-	5,053	4,176	-	585	9,814	7,002
Total revenue	23,282	90,450	-	-	262,528	53,696	-	585	430,541	486,705
Expenditures:										
Salaries	-	43,317	10,677	-	969	1,157	-	4,117	60,237	63,929
Payroll taxes	-	-	817	-	-	-	-	-	817	730
Retirement expenses	-	3,561	624	-	-	-	-	-	4,185	4,021
Disciplinary expenses	-	-	-	-	183,699	-	-	-	183,699	251,844
Contract services	-	1,500	780	-	-	-	-	-	2,280	16,920
Advertising	-	-	321	500	-	-	-	-	821	736
Attorney expense	-	-	-	-	-	-	-	-	-	112
Rent	-	12,700	5,400	-	-	-	-	-	18,100	17,340
Utilities	-	4,000	-	-	-	-	-	-	4,000	4,000
Telephone	-	1,200	540	-	-	300	-	-	2,040	2,093
Administrative	3,000	-	-	1,924	-	200	-	6,752	11,876	15,420
Postage / copies	-	1,902	897	-	441	470	-	1,505	5,215	4,534
Supplies	50	150	404	1,919	-	291	191	-	3,005	15,650
Travel / education	863	-	-	-	-	-	-	-	863	1,976
Annual meeting	-	-	-	-	5,765	-	-	-	5,765	5,500
Committee meetings	11,237	-	-	2,720	-	-	-	-	13,957	20,717
Web page expenses	-	-	625	-	-	-	-	-	625	625

STATE BAR ASSOCIATION OF NORTH DAKOTA
SCHEDULE OF PROGRAM ACTIVITIES - CONTINUED

FOR THE YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018

	Sections Fund	CLE Commission	IOLTA Volunteer Lawyers	Law Related Education	Disciplinary Board Committee	Client Protection Fund	Graduating into Adult World	Lawyer Assistance Program	Total 2019	Total 2018
Committee expenses	-	-	-	-	8,261	-	-	-	8,261	12,261
Insurance	-	-	3,820	-	-	-	-	-	3,820	3,275
Computer expense	-	8,000	-	-	-	-	-	-	8,000	2,580
Claims	-	-	-	-	-	74,700	-	-	74,700	79,410
Contributions	-	14,896	-	-	-	-	-	-	14,896	15,794
Leadership forum contribution	7,759	-	-	-	-	-	-	-	7,759	10,113
Interest expense	-	-	86	-	-	-	-	-	86	73
Total expenditures	22,909	91,226	24,991	7,063	199,135	77,118	191	12,374	435,007	549,653
Excess revenue over expenditures	\$ 373	\$ (776)	\$ (24,991)	\$ (7,063)	\$ 63,393	\$ (23,422)	\$ (191)	\$ (11,789)	\$ (4,466)	\$ (62,948)