

State Bar of Montana

Financial Statements and Required Supplementary Information

**Years Ended March 31, 2024 (Audited)
and 2023 (Unaudited)
with Independent Auditor's Report**

MaherDuessel

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STATE BAR OF MONTANA

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

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Independent Auditor's Report

**Board of Trustees
State Bar of Montana**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the State Bar of Montana (State Bar), as of and for the year ended March 31, 2024, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the State Bar, as of March 31, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter: Prior Year Comparative Information Unaudited-Was Subject to a Review

The financial statements of the State Bar as of March 31, 2023 were reviewed by other accountants, whose report dated May 31, 2024, stated they were not aware of any material modifications that should be made to those statements in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maher Duessel

Pittsburgh, Pennsylvania
September 20, 2024

STATE BAR OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

This Management's Discussion and Analysis (MD&A) of the State Bar of Montana's (State Bar) financial performance provides an overall review of the State Bar's financial activities for the fiscal years ended March 31, 2024 and 2023. The intent of this MD&A is to look at the State Bar's financial performance as a whole. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the basic financial statements and the notes to the financial statements.

The MD&A is an element of the reporting model adopted by the Government Accounting Standards Board (GASB) in its Statement No. 34 issued in June 1999.

FINANCIAL HIGHLIGHTS

- The financial statements for the fiscal year ended March 31, 2024 were audited. The financial statements for the fiscal year ended March 31, 2023 were not audited but were subject to a review. A review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.
- The assets of the State Bar exceeded its liabilities at the close of the most recent fiscal year by \$6,333,855 (net position), which was an increase of \$934,368 from \$5,399,487 its net position as of March 31, 2023. The assets of the State Bar exceeded its liabilities at the close of March 31, 2023 by \$5,399,487 (net position), which was a decrease of (\$68,539) from \$5,468,026 its net position as of March 31, 2022.
- At the end of the current fiscal year, the unrestricted net position is \$4,968,108 to support the ongoing operations of the State Bar. At the end of March 31, 2023, the unrestricted net position was \$4,068,928 to support the ongoing operations of the State Bar.
- Total operating revenues exceeded operating expenses (excluding depreciation and amortization) by \$561,007 at March 31, 2024, largely due to successful CLE Institute classes, an increase in Mandatory Continuing Legal Education (MCLE) transcript filing fees, increased quantities of other MCLE assessments, increased Admission on Motion applications and increased Pro Hac Vice applications. Total operating revenue exceeded operating expenses (excluding depreciation and amortization) by \$462,474 at March 31, 2023, largely due to expense control.

STATE BAR OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the State Bar are presented on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the liability is incurred. The financial statements offer short-term and long-term financial information about the State Bar's activities.

The Statement of Net Position summarizes the State Bar's assets and liabilities. The overall financial condition of the State Bar is reflected in this statement.

The Statement of Revenues, Expenses, and Changes in Net Position reports the revenues and expenses of the State Bar. This statement measures the success of the State Bar's operations over the past year and can be used to determine the health of the organization. Changes in net position can also be a useful indicator of whether the financial condition of the State Bar is improving or deteriorating.

The Statement of Cash Flows provides information about the State Bar's cash receipts and cash payments during the reporting period. The statement reports cash flows from operating activities, as well as net changes in cash during the reporting period.

The Notes to Financial Statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information on the State Bar's accounting policies, the basis of accounting, capital assets and other significant activities.

STATE BAR OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

FINANCIAL ANALYSIS

The summary of the State Bar's Statements of Net Position are presented below:

Condensed Statements of Net Position

Table 1

	Fiscal Year 2024 (AUDITED)	Fiscal Year 2023 (UNAUDITED)	Dollar Change
Current assets	\$ 1,448,055	\$ 2,074,104	\$ (626,049)
Investments and capital assets	7,491,958	6,113,921	1,378,037
Total Assets	\$ 8,940,013	\$ 8,188,025	\$ 751,988
Current liabilities	\$ 2,269,598	\$ 2,279,973	\$ (10,375)
Noncurrent liabilities	336,560	508,565	(172,005)
Total Liabilities	\$ 2,606,158	\$ 2,788,538	\$ (182,380)
Net investment in capital assets	\$ 33,117	\$ 46,743	\$ (13,626)
Restricted	1,332,630	1,283,816	48,814
Unrestricted	4,968,108	4,068,928	899,180
Total Net Position	\$ 6,333,855	\$ 5,399,487	\$ 934,368

The summary above shows an increase in net position of \$934,368, resulting in total net position of \$6,333,855. Current assets decreased by \$626,049, which is a result of increased frequency of transfers of cash on hand into investments. Investments and capital assets increased by \$1,378,037, which is a result of better market conditions during the year ended March 31, 2024. Total liabilities decreased by \$182,380, due primarily a decrease in the lease liability.

STATE BAR OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Table 2

	Fiscal Year 2023 (UNAUDITED)	Fiscal Year 2022 (AUDITED)	Dollar Change
Current assets	\$ 2,074,104	\$ 1,863,191	\$ 210,913
Investments and capital assets	6,113,921	5,737,892	376,029
Total Assets	\$ 8,188,025	\$ 7,601,083	\$ 586,942
Current liabilities	\$ 2,279,973	\$ 2,133,057	\$ 146,916
Noncurrent liabilities	508,565	-	508,565
Total Liabilities	\$ 2,788,538	\$ 2,133,057	\$ 655,481
Net investment in capital assets	\$ 46,743	\$ 33,236	\$ 13,507
Restricted	1,283,816	1,439,838	(156,022)
Unrestricted	4,068,928	3,994,952	73,976
Total Net Position	\$ 5,399,487	\$ 5,468,026	\$ (68,539)

The summary above shows a decrease in net position of \$68,539, resulting in total net position of \$5,399,487. Current assets increased by \$210,913, which is a result of increased cash positions offset by decreased accounts receivable and prepaid expenses. Investments and capital assets increased by \$376,029, which is a result of the inclusion of a right of use asset due to the adoption of GASB Statement No. 87 *“Leases”* reduced by the year’s amortization expense and unfavorable market conditions. Total liabilities increased by \$655,481 primarily due to the adoption of GASB Statement No. 87 *“Leases”* which resulted in the inclusion of a lease liability.

With the Statements of Net Position giving the view of net changes, the Statements of Revenues, Expenses, and Changes in Net Position give the basis for these changes. A condensed version of the Statements of Revenues, Expenses, and Changes in Net Position is provided.

STATE BAR OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

Table 3

	Fiscal Year 2024 (AUDITED)	Fiscal Year 2023 (UNAUDITED)	Dollar Change
Operating revenues	\$ 3,700,203	\$ 3,299,891	\$ 400,312
Nonoperating revenues	569,162	(341,235)	910,397
Total Revenues	4,269,365	2,958,656	1,310,709
Depreciation and amortization expense	195,801	217,185	(21,384)
Other operating expenses	3,139,196	2,810,010	329,186
Total Expenses	3,334,997	3,027,195	307,802
Change in net position	934,368	(68,539)	1,002,907
Net Position, Beginning of Year	5,399,487	5,468,026	(68,539)
Net Position, End of Year	\$ 6,333,855	\$ 5,399,487	\$ 934,368

The summary above shows an increase in operating revenues of \$400,312 that resulted from increased CLE seminar revenue, increased Admission on Motion and Pro Hac Vice applicants, and increased quantities of MCLE filing and accreditation fees. Additionally, there was an increase in nonoperating revenues of \$910,397 that resulted from higher interest rates and better market conditions during 2024. Operating expenses excluding depreciation and amortization expense increased by \$329,186 due to investments in strategic planning, like MCLE integration into the association management software (AMS) and increased personnel expenses.

STATE BAR OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Table 4

	Fiscal Year 2023 (UNAUDITED)	Fiscal Year 2022 (AUDITED)	Dollar Change
Operating revenues	\$ 3,299,891	\$ 3,279,311	\$ 20,580
Nonoperating revenues	(341,235)	2,122	(343,357)
Total Revenues	2,958,656	3,281,433	(322,777)
Depreciation and amortization expense	217,185	25,215	191,970
Other operating expenses	2,810,010	2,787,006	23,004
Total Expenses	3,027,195	2,812,221	214,974
Change in net position	(68,539)	469,212	(537,751)
Net Position, Beginning of Year	5,468,026	4,998,814	469,212
Net Position, End of Year	\$ 5,399,487	\$ 5,468,026	\$ (68,539)

The summary above shows an increase in operating revenues of \$20,580 that resulted from an increase in revenue from CLE classes offset by a decrease in AOM and exam fees. Additionally, there was a decrease in nonoperating revenues of \$343,357 that resulted from less ideal market conditions during 2023. Operating expenses excluding depreciation and amortization expense increased by \$23,004 due to implementation costs of AMS, claims paid from Lawyers Fund for Client Protection, and increased expenses from CLE classes offered.

STATE BAR OF MONTANA

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

CAPITAL ASSETS

Table 5

	Balance at March 31, 2024 (AUDITED)	Balance at March 31, 2023 (UNAUDITED)	Balance at March 31, 2022 (AUDITED)
Furniture and equipment	\$ 48,667	\$ 48,667	\$ 62,864
Vehicles	46,026	46,026	48,273
Computer equipment	97,187	79,068	160,423
Computer software	6,643	6,643	15,406
Right of use lease space	854,681	854,681	-
Total capital assets	1,053,204	1,035,085	286,966
Less: accumulated depreciation and amortization	(511,522)	(315,721)	(253,730)
	\$ 541,682	\$ 719,364	\$ 33,236

More detailed information about the State Bar's capital assets is presented in the Notes to the Financial Statements, Note 4.

LONG-TERM DEBT

The State Bar has no debt as of March 31, 2024, 2023 and 2022.

CONTACTING THE STATE BAR OF MONTANA

Our financial report is designed to provide a general overview of the State Bar's finances. If you have any questions about this report or wish to request additional information, please contact John Mudd, Executive Director of the State Bar of Montana, PO Box 577, Helena, Montana 59624.

STATE BAR OF MONTANA

STATEMENTS OF NET POSITION

MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

	2024 (AUDITED)	2023 (UNAUDITED)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,286,599	\$ 2,000,794
Designated cash	-	16,139
Accounts receivable	18,945	11,522
Prepaid expenses	142,511	45,649
Total current assets	1,448,055	2,074,104
Noncurrent assets:		
Investments	6,950,276	5,394,557
Capital assets, net of accumulated depreciation and amortization	541,682	719,364
Total noncurrent assets	7,491,958	6,113,921
Total Assets	\$ 8,940,013	\$ 8,188,025
Liabilities and Net Position		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 131,436	\$ 75,879
Accrued payroll liabilities	230,900	230,248
Unearned revenue	1,735,257	1,809,790
Lease liability, current portion	172,005	164,056
Total current liabilities	2,269,598	2,279,973
Noncurrent liabilities:		
Lease liability, long-term portion	336,560	508,565
Total noncurrent liabilities	336,560	508,565
Total Liabilities	2,606,158	2,788,538
Net Position:		
Net investments in capital assets	33,117	46,743
Restricted:		
Lawyers' Fund for client protection	1,332,630	1,253,127
Local pro bono donations	-	30,689
Total restricted	1,332,630	1,283,816
Unrestricted	4,968,108	4,068,928
Total Net Position	6,333,855	5,399,487
Total Liabilities and Net Position	\$ 8,940,013	\$ 8,188,025

See accompanying notes to financial statements.

STATE BAR OF MONTANA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

	2024 (AUDITED)	2023 (UNAUDITED)
Operating Revenues:		
Dues and assessments	\$ 2,918,078	\$ 2,731,634
Publications	140,061	136,099
Administration fees	169,687	137,393
Annual meeting	61,665	38,867
CLE seminars and courses	302,434	153,495
Section dues revenue	31,028	40,433
Other	77,250	61,970
Total operating revenues	3,700,203	3,299,891
Operating Expenses:		
Salaries and benefits	1,641,883	1,560,680
Program expenses	314,376	267,472
Administrative fees	140,356	111,297
Publications	75,827	94,379
Section expenses	75,690	44,803
Seminars and courses	169,122	119,111
Training and travel	64,578	80,384
Dues and subscriptions	10,578	18,343
Occupancy	42,808	13,103
Office expenses	72,867	57,194
Information technology	182,982	206,075
Insurance	46,458	56,961
Consulting and contracting	210,504	106,548
Board expenses	40,516	51,811
Depreciation and amortization	195,801	217,185
Other expenses	50,651	21,849
Total operating expenses	3,334,997	3,027,195
Operating Income (Loss)	365,206	272,696
Nonoperating Revenues (Expenses):		
Investment gain (loss), net of fees	569,162	(344,919)
Gain (loss) on disposal	-	3,684
Total nonoperating revenues (expenses)	569,162	(341,235)
Change in Net Position	934,368	(68,539)
Net Position:		
Beginning of year	5,399,487	5,468,026
End of year	\$ 6,333,855	\$ 5,399,487

See accompanying notes to financial statements.

STATE BAR OF MONTANA

STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

	2024 (AUDITED)	2023 (UNAUDITED)
Cash Flows From Operating Activities:		
Receipts from members, applicants, grants, and other professionals	\$ 3,618,247	\$ 3,420,861
Payments to suppliers, service providers, and other	(1,538,618)	(1,299,117)
Payments to employees	(1,641,231)	(1,553,826)
Net cash provided by (used in) operating activities	438,398	567,918
Cash Flows From Investing Activities:		
Purchase of investments	(1,726,957)	(1,247,308)
Proceeds from sale or maturity of investments	740,400	1,214,558
Net cash provided by (used in) investing activities	(986,557)	(32,750)
Cash Flows From Capital and Related Financing Activities:		
Purchases of capital assets	(18,119)	(46,119)
Payments on operating lease	(164,056)	(157,166)
Net cash provided by (used in) capital and related financing activities	(182,175)	(203,285)
Net Increase (Decrease) in Cash, Cash Equivalents, and Designated Cash	(730,334)	331,883
Cash, Cash Equivalents, and Designated Cash:		
Beginning of year	2,016,933	1,685,050
End of year	<u>\$ 1,286,599</u>	<u>\$ 2,016,933</u>
Cash and cash equivalents	\$ 1,286,599	\$ 2,000,794
Designated cash	-	16,139
	<u>\$ 1,286,599</u>	<u>\$ 2,016,933</u>
Reconciliation of Operating Income (Loss) to Cash Flows From Operating Activities:		
Operating income (loss)	\$ 365,206	\$ (72,223)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	195,801	189,778
Gain on disposal of capital asset	-	3,684
Realized gain on investments	-	(166,894)
Unrealized gain on investments	-	509,743
Change in:		
Accounts receivable	(7,423)	74,087
Other receivables	-	5,296
Prepaid expenses	(96,862)	41,587
Accounts payable	55,557	8,798
Accrued payroll liabilities	652	(5,433)
Unearned revenue	(74,533)	(20,505)
Net cash provided by (used in) operating activities	<u>\$ 438,398</u>	<u>\$ 567,918</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 9,512</u>	<u>\$ 31</u>
Noncash Financing Activities:		
Intangible right-of-use asset obtained in exchange for lease liabilities	<u>\$ -</u>	<u>\$ 829,787</u>

See accompanying notes to financial statements.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

1. Organization

The State Bar of Montana (State Bar) was created on January 29, 1974, by the Montana Supreme Court to aid the courts in improving the quality of the legal profession in Montana and to ensure that the responsibilities of the legal profession to the public are more effectively administered. All persons permitted to practice law in the State are members of the State Bar.

The Office of Disciplinary Counsel (ODC) was created in 2001 by order of the Montana Supreme Court to be responsible for certain functions regarding the discipline of attorneys practicing in Montana. The operations and results of operations are presented in these financial statements. The ODC's annual budget, assessments, etc. are set by a governing body separate from the State Bar.

2. Summary of Significant Accounting Policies

Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The State Bar functions as a business-type activity, as defined by GASB. Operating revenues and expenses consist of those revenues and expenses that result from ongoing principal operations of the State Bar. Operating revenues consist primarily of membership dues. Nonoperating revenues and expenses consist of those revenues and expenses that are related to other financing types of activities.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Classification of Net Position

Accounting standards require the classification of net position into these components – net investment in capital assets; restricted; and unrestricted. These classifications are defined below:

Investment in Capital Assets, Net of Related Debt: Net investments in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Two categories are used to further describe restricted net position:

- Expendable – can be expended in compliance with the external restrictions
- Nonexpendable – net position that is required to be retained in perpetuity

Unrestricted: This component of net position consists of any remaining net position that are not included in the determination of net investment in capital assets or the restricted components of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the State Bar's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

To ensure observance of limitations and restrictions placed on the use of resources available to the State Bar, separate revenue and expense accounts are maintained for each activity. Separate net position accounts are also maintained so that net changes in position and liabilities for each activity can be properly reported.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

The State Bar's net position is composed of the following components:

- Unrestricted – Undesignated: This fund is an accumulation of court established assessments and dues and payment of expenses for general and administrative activities of the State Bar.
- Unrestricted – Designated: The Board of Trustees (Board) has designated portions of its unrestricted net position for certain activities as follows:
 - Haswell Fund: This fund originated from a donation of \$5,000 from former Chief Justice Haswell's remaining campaign election funds. The money was not restricted by Haswell, but was designated by the Board to be placed in an interest-bearing account with the annual interest earned being paid to the author of the best article appearing in the Montana Lawyer Magazine.
 - Commission on Legal Education: The Commission on Legal Education committee was established pursuant to an order from the Supreme Court of Montana on July 1, 1982. The special committee is required to administer the rules and regulations for continuing legal education for attorneys in the State of Montana. Revenue is generated mainly by affidavit fees, and proceeds are utilized to pay administrative expenses.
 - Section Fund: Members of the State Bar may voluntarily become members of sections dedicated to specific fields of law. Additional dues are assessed for each section with proceeds utilized to cover expenses of the respective sections.
 - Office of Disciplinary Counsel: The ODC was established in December 2001 to receive complaints and to discipline lawyers who break professional and ethical rules. Active Association members and pro hac vice applicants pay a \$125 annual fee.
- Restricted Net Position: Restrictions are comprised of the following:
 - Expendable Net Position - Lawyers' Fund for Client Protection: The Lawyers' Fund for Client Protection was established to provide financial reimbursement to members' clients as a result of dishonest conduct by members which results in a loss to the client. Annual assessments to members and pro hac vice applicants

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

are \$20. Proceeds are utilized to pay for administrative expenses for the fund and for claims meeting certain criterion established for this fund.

- Expendable Net Position - Local Pro Bono Donations: Donations from members in Gallatin and Yellowstone counties to be used for legal aid projects in those counties. All funds were utilized during the year ended March 31, 2024.

Cash and Cash Equivalents

The State Bar considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments

Investments for the State Bar are stated at fair value based on current market prices.

The State Bar categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Capital Assets

All acquisitions and improvements of capital assets of \$1,000 or more are capitalized, while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased capital assets are carried at cost (except for the intangible right-to-use lease, the measurement of which is discussed in leases below). Donated capital assets are carried at the approximate fair value at the date of donation. Depreciation/amortization is computed using the straight-line method over the estimated lives of the assets as follows:

Furniture and equipment	5-10 years
Vehicles	4 years
Computer equipment	5-10 years
Computer software	5-10 years
Right-to-use lease	5 years

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Leases

The State Bar is a lessee for a noncancellable lease of office space. The State Bar recognizes a lease liability and an intangible right-to-use asset (lease asset).

At the commencement of a lease, the State Bar initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the State Bar determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

The State Bar uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the State Bar generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and any purchase option price that the State Bar is reasonably certain to exercise..

The State Bar monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Unearned Revenue

Billing for court-established assessments and dues for the period from April 1, 2024, to March 31, 2025, were mailed in January 2024, with payment due April 1, 2024. Amounts received as of March 31, 2024, comprise unearned dues revenue in the amount of \$1,735,257.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Billing for court-established assessments and dues for the period from April 1, 2023, to March 31, 2024, were mailed in January 2023, with payment due April 1, 2023. Amounts received as of March 31, 2023, comprise unearned dues revenue in the amount of \$1,809,790.

Use of Estimates

The preparation 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.

Adopted Pronouncements

The following GASB Statements were adopted for the year ended March 31, 2024: Statement Nos. 91 (Conduit Debt Obligations), 94 (Public-Private and Public-Public Partnerships and Availability Payment Arrangements), and 96 (Subscription-Based Information Technology Arrangements). These statements had no significant impact on the State Bar's financial statements for the year ended March 31, 2024.

Pending Pronouncements

GASB has issued statements that will become effective in future years including Statement Nos. 100 (Accounting Changes and Error Corrections), 101 (Compensated Absences), 102 (Certain Risk Disclosures), and 103 (Financial Reporting Model Improvements). Management has not yet determined the impact of these statements on the financial statements.

Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

3. Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the State Bar’s deposits may not be returned to it. As of March 31, 2024 and 2023, \$542,864 and \$986,769, respectively, of the State Bar’s \$1,074,263 and \$1,781,921, respectively bank balance was exposed to custodial credit risk. These deposits have a carrying value of \$1,286,599 and \$2,016,933 as of March 31, 2024 and 2023, respectively, all of which is reported as current assets in the statements of net position.

Investments

As of March 31, 2024, the State Bar held the following investments:

Investment Type	Fair Value	Investment Maturities (In Years) from March 31, 2024			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 Years
Certificate of Deposit	\$ 1,644,334	\$ 498,296	\$ 1,104,313	\$ 41,725	\$ -
Corporate Bond	2,143,614	49,990	1,543,899	549,725	-
Total debt securities	3,787,948	<u>\$ 548,286</u>	<u>\$ 2,648,212</u>	<u>\$ 591,450</u>	<u>\$ -</u>
Bond mutual funds	709,118				
Bond EFT	217,190				
Equity mutual funds	1,571,714				
Equity EFT	664,306				
Total investments	<u>\$ 6,950,276</u>				

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

As of March 31, 2023, the State Bar held the following investments:

Investment Type	Fair Value	Investment Maturities (In Years) from March 31, 2023			
		Less than 1 year	1-5 Years	6-10 Years	More than 10 Years
Certificate of Deposit	\$ 945,971	\$ -	\$ 887,174	\$ 58,797	\$ -
Corporate Bond	409,657	50,608	184,883	154,204	19,962
Total debt securities	1,355,628	\$ 50,608	\$ 1,072,057	\$ 213,001	\$ 19,962
Bond mutual funds	2,033,056				
Bond EFT	219,660				
Equity mutual funds	1,273,690				
Equity EFT	512,523				
Total investments	\$ 5,394,557				

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

The State Bar categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The investment funds have the following recurring fair value measurements at March 31, 2024 and 2023:

Investments by Fair Value Level	Cost	Total Fair Value	Fair Value Measurements March 31, 2024		
			Level 1	Level 2	Level 3
Fixed income:					
Bond mutual fund	\$ 775,226	\$ 709,118	\$ 709,118	\$ -	\$ -
Bond EFT	216,914	217,190	217,190	-	-
Certificate of Deposit	1,717,521	1,644,334	-	1,644,334	-
Corporate Bond	2,189,793	2,143,614	-	2,143,614	-
Total fixed income	4,899,454	4,714,256	926,308	3,787,948	-
Equity mutual funds:					
Foreign large growth	162,071	185,683	185,683	-	-
Large growth	307,072	421,909	421,909	-	-
Large value	280,716	423,642	423,642	-	-
Mid-cap growth	216,143	319,787	319,787	-	-
Small growth	84,018	106,578	106,578	-	-
Small value	75,077	114,115	114,115	-	-
Total equity mutual funds	1,125,097	1,571,714	1,571,714	-	-
Equity EFT	636,378	664,306	664,306	-	-
Total investments	\$ 6,660,929	\$ 6,950,276	\$ 3,162,328	\$ 3,787,948	\$ -

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Investments by Fair Value Level	Cost	Total Fair Value	Fair Value Measurements March 31, 2023		
			Level 1	Level 2	Level 3
Fixed income:					
Bond mutual fund	\$ 2,207,735	\$ 2,033,056	\$ 2,033,056	\$ -	\$ -
Bond EFT	219,367	219,660	219,660	-	-
Certificate of Deposit	1,047,521	945,971	-	945,971	-
Corporate Bond	441,860	409,657	-	409,657	-
Total fixed income	3,916,483	3,608,344	2,252,716	1,355,628	-
Equity mutual funds:					
Foreign large growth	165,339	178,362	178,362	-	-
Large growth	307,072	319,575	319,575	-	-
Large value	283,827	361,773	361,773	-	-
Mid-cap growth	193,143	226,882	226,882	-	-
Small growth	76,018	83,690	83,690	-	-
Small value	75,077	103,408	103,408	-	-
Total equity mutual funds	1,100,476	1,273,690	1,273,690	-	-
Equity EFT	548,803	512,523	512,523	-	-
Total investments	\$ 5,565,762	\$ 5,394,557	\$ 4,038,929	\$ 1,355,628	\$ -

Bond and equity mutual funds and EFTs are valued using prices quoted in active markets for those securities (Level 1 inputs). Certificates of deposits and corporate bonds are priced by third-party pricing services using observable market data (Level 2 inputs).

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The State Bar has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

As of March 31, 2024 and 2023, the State Bar's investments have received the following rating from Standard & Poor's and had the following credit quality distribution for fixed income investments with credit exposure:

Rating	Fair Value at March 31, 2024	Percentage of Total Fixed Income Investment: with Credit Exposure
AA+	\$ 781,026	36%
A+	20,534	1%
A-	70,896	3%
BBB+	560,589	26%
BBB	360,067	17%
BBB-	350,502	17%
Subtotal	2,143,614	100%
Not rated	2,570,642	
Total fixed income investments	\$ 4,714,256	

Rating	Fair Value at March 31, 2023	Percentage of Total Fixed Income Investments with Credit Exposure
AA+	\$ 133,219	33%
A+	20,985	5%
A-	95,414	23%
BBB+	160,039	39%
BBB	-	0%
BBB-	-	0%
Subtotal	409,657	100%
Not rated	3,198,687	
Total fixed income investments	\$ 3,608,344	

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the State Bar will not be able to recover the value of its investments or collateral securities that are in the possession of an outside entity. The State Bar does not have a formal investment policy for custodial credit risk. The State Bar's investments in mutual funds cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk – The State Bar places no limit on the amount the State Bar may invest in any one issuer. There were no investments that constituted more than five percent of net position at March 31, 2024 or 2023.

Interest Rate Risk – The State Bar does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following schedule summarizes the investment return and its classification in the statements of activities:

	March 31, 2024				
	Interest/ Dividend Income	Net Realized Gain (Losses)	Net Unrealized Gains (Losses)	Money Manager Fee	Investment Income (Loss) - Net
Designated:					
Haswell	\$ 328	\$ 360	\$ 1,995	\$ -	\$ 2,683
Commission on Legal Education	4,789	3,391	22,524	(963)	29,741
Disciplinary Council	40,005	9,653	104,998	(6,031)	148,625
Total Designated	45,122	13,404	129,517	(6,994)	181,049
Undesignated	117,256	1,436	145,021	(15,890)	247,823
Restricted:					
Client Protection	37,882	11,607	96,643	(5,842)	140,290
Total	\$ 200,260	\$ 26,447	\$ 371,181	\$ (28,726)	\$ 569,162

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

	March 31, 2023				
	Interest/ Dividend Income	Net Realized Gain (Losses)	Net Unrealized Gains (Losses)	Money Manager Fee	Investment Income (Loss) - Net
Designated:					
Haswell	\$ -	\$ -	\$ (1,643)	\$ -	\$ (1,643)
Commission on Legal Education	-	3,508	(17,531)	(781)	(14,804)
Disciplinary Council	6,551	57,434	(132,227)	(5,986)	(74,228)
Total Designated	6,551	60,942	(151,401)	(6,767)	(90,675)
Undesignated	14,503	71,676	(236,028)	(13,036)	(162,885)
Restricted:					
Client Protection	2,664	34,276	(122,314)	(5,985)	(91,359)
Total	\$ 23,718	\$ 166,894	\$ (509,743)	\$ (25,788)	\$ (344,919)

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

4. Capital Assets

Capital asset activity for the years ended March 31, 2024 and 2023 are as follows:

	<u>April 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>March 31, 2024</u>
Capital assets:				
Furniture and equipment	\$ 48,667	\$ -	\$ -	\$ 48,667
Vehicles	46,026	-	-	46,026
Computer equipment	79,068	18,119	-	97,187
Computer software	6,643	-	-	6,643
Right of use lease space	<u>854,681</u>	<u>-</u>	<u>-</u>	<u>854,681</u>
	1,035,085	18,119	-	1,053,204
Less: accumulated depreciation	<u>(315,721)</u>	<u>(195,801)</u>	<u>-</u>	<u>(511,522)</u>
Capital Assets, Net	<u>\$ 719,364</u>	<u>\$ (177,682)</u>	<u>\$ -</u>	<u>\$ 541,682</u>
	<u>April 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>March 31, 2023</u>
Capital assets:				
Furniture and equipment	\$ 62,864	\$ 6,064	\$ (20,261)	\$ 48,667
Vehicles	48,273	23,026	(25,273)	46,026
Computer equipment	160,423	17,029	(98,384)	79,068
Computer software	15,406	-	(8,763)	6,643
Right of use lease space	<u>-</u>	<u>854,681</u>	<u>-</u>	<u>854,681</u>
	286,966	900,800	(152,681)	1,035,085
Less: accumulated depreciation	<u>(253,730)</u>	<u>(217,185)</u>	<u>155,194</u>	<u>(315,721)</u>
Capital Assets, Net	<u>\$ 33,236</u>	<u>\$ 683,615</u>	<u>\$ 2,513</u>	<u>\$ 719,364</u>

Depreciation and amortization expense for the years ended March 31, 2024 and 2023 was \$195,801 and \$217,185, respectively.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

5. Lease

The State Bar leases offices in Aspen Court in Helena, Montana for use in operations under an operating lease agreement. The State Bar entered into the lease effective February 1, 2022. An initial lease liability was recorded in the amount of \$854,681 during 2023. As of March 31, 2024 and 2023, the value of the lease liability was \$508,565 and \$672,621, respectively. The State Bar is required to make initial base monthly payments of \$13,972. The base monthly payments are increased on February 1 of each year by 3% of the previous base monthly payment. The lease has an interest rate of 0.14%, as estimated by management. The value of the right to use asset as of March 31, 2024 and 2023 was \$854,681 and \$854,681, respectively, and had accumulated amortization of \$361,855 and \$193,325, respectively.

The future principal and interest lease payments as of March 31, 2024, were as follows:

Fiscal Year Ending March 31,	Principal	Interest	Total
2025	\$ 172,005	\$ 6,773	\$ 178,778
2026	180,246	3,898	184,144
2027	156,314	957	157,271
Totals	<u>\$ 508,565</u>	<u>\$ 11,628</u>	<u>\$ 520,193</u>

6. Employee Benefit Plan

The State Bar has a 401A noncontributory defined contribution pension plan (plan) covering all eligible employees. Annual contributions are made to the plan based on a rate of 7% of eligible employee's compensation. Vested benefits are defined by the assets of the plan, and thus there are no unfunded liabilities. During the years ended March 31, 2024 and 2023, pension expense amounted to \$76,978 and \$85,232, respectively.

Additionally, employees of the State Bar may participate in a deferred compensation 457(b) option. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The State Bar does not contribute to this plan.

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

7. Net Position Unrestricted - Designated

Board designated net position balances at the beginning and end of fiscal years 2024 and 2023 were as follows:

	Designated Net Position April 1, 2023	Designated Resources	Designated Expenditures	Designated Net Position March 31, 2024
Haswell Fund	\$ 10,121	\$ 8,350	\$ (279)	\$ 18,192
Commision on Legal Education	154,095	422,869	(281,196)	295,768
Section Funds	402,139	132,273	(147,769)	386,643
Office of Disciplinary Counsel	257,250	728,821	(662,708)	323,363
Total designated net position	<u>\$ 823,605</u>	<u>\$ 1,292,313</u>	<u>\$ (1,091,952)</u>	<u>\$ 1,023,966</u>

	Designated Net Position April 1, 2022	Designated Resources	Designated Expenditures	Designated Net Position March 31, 2024
Haswell Fund	\$ 11,595	\$ 1,600	\$ (3,074)	\$ 10,121
Commision on Legal Education	138,569	266,472	(250,946)	154,095
Section Funds	401,671	40,441	(39,973)	402,139
Office of Disciplinary Counsel	381,270	497,058	(621,078)	257,250
Total designated net position	<u>\$ 933,105</u>	<u>\$ 805,571</u>	<u>\$ (915,071)</u>	<u>\$ 823,605</u>

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

Section funds consisted of the following fund balances:

	2024	2023
Animal Law	\$ 1,352	\$ 1,120
Bankruptcy	30,186	29,434
BETTR Law	73,518	63,108
Construction Law	21,379	21,385
Criminal Defense	18,343	19,130
Dispute Resolution	132	452
Family Law	57,542	58,532
Federal Practice	26,997	30,133
Health Care	21,552	21,914
Indian Law	6,752	10,197
Intellectual Property	3,836	3,845
Natural Resources	31,214	28,881
New Lawyers'	3,366	2,184
Nonprofit Section	9,662	9,339
Paralegal	38,375	42,994
Public Law	5,380	4,728
Public Utilities	2,563	1,827
School Law	1,689	1,489
Veterans Law	3,450	3,311
Water Law	9,980	7,681
Women's Law	19,375	40,455
Total section balances	<u>\$ 386,643</u>	<u>\$ 402,139</u>

STATE BAR OF MONTANA

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2024 (AUDITED) AND 2023 (UNAUDITED)

8. Restricted Net Position

Restricted net position balances at the beginning and end of fiscal years 2024 and 2023 was as follows:

	Restricted Net Position April 1, 2023	Restricted Resources	Satisfaction of Restrictions	Restricted Net Position March 31, 2024
Lawyers' Fund for Client Protection	\$ 1,253,127	\$ 239,908	\$ (160,405)	\$ 1,332,630
Local Pro Bono Donations	30,689	-	(30,689)	-
Total	<u>\$ 1,283,816</u>	<u>\$ 239,908</u>	<u>\$ (191,094)</u>	<u>\$ 1,332,630</u>
	Restricted Net Position April 1, 2022	Restricted Resources	Satisfaction of Restrictions	Restricted Net Position March 31, 2023
Lawyers' Fund for Client Protection	\$ 1,409,149	\$ 6,071	\$ (162,093)	\$ 1,253,127
Local Pro Bono Donations	30,689	-	-	30,689
Total	<u>\$ 1,439,838</u>	<u>\$ 6,071</u>	<u>\$ (162,093)</u>	<u>\$ 1,283,816</u>