

Utah State Bar

Financial Statements and Supplemental Schedules
as of and for the Year Ended June 30, 2009, and
Independent Auditors' Report

UTAH STATE BAR

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Utah State Bar:

We have audited the accompanying statement of financial position of the Utah State Bar (the "Bar") as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Bar's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Bar's 2008 financial statements and, in our report dated September 30, 2008, we expressed an unqualified opinion on those financial statements.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bar's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Bar as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Bar's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

September 16, 2009

UTAH STATE BAR

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2009 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2008)

	2009			2008 Total
	Unrestricted	Temporarily Restricted	Total	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,122,475	\$ 530,385	\$ 2,652,860	\$ 1,750,352
Investments at fair value	296,846		296,846	626,126
Receivables	50,614		50,614	32,959
Prepaid expenses	31,595		31,595	10,815
Total current assets	<u>2,501,530</u>	<u>530,385</u>	<u>3,031,915</u>	<u>2,420,252</u>
PROPERTY:				
Land	633,142		633,142	633,142
Building and improvements	2,284,741		2,284,741	2,284,741
Office furniture and equipment	834,273		834,273	859,210
Computer and computer software	111,539		111,539	390,059
Total property	3,863,695		3,863,695	4,167,152
Less accumulated depreciation	<u>(2,752,926)</u>		<u>(2,752,926)</u>	<u>(2,878,154)</u>
Net	<u>1,110,769</u>		<u>1,110,769</u>	<u>1,288,998</u>
TOTAL	<u>\$ 3,612,299</u>	<u>\$ 530,385</u>	<u>\$ 4,142,684</u>	<u>\$ 3,709,250</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of capital lease obligations	\$ 29,534	\$ -	\$ 29,534	\$ 48,117
Accounts payable and accrued liabilities	396,685	5,039	401,724	309,345
Interfund advance	12,577	(12,577)		
Deferred revenue	1,361,884		1,361,884	597,115
Total current liabilities	1,800,680	(7,538)	1,793,142	954,577
CAPITAL LEASE OBLIGATIONS — Less current portion	<u>33,918</u>		<u>33,918</u>	<u>58,248</u>
Total liabilities	<u>1,834,598</u>	<u>(7,538)</u>	<u>1,827,060</u>	<u>1,012,825</u>
COMMITMENTS AND CONTINGENCIES (Notes 3, 6, 7, and 8)				
NET ASSETS:				
Unrestricted	1,777,701		1,777,701	2,218,518
Temporarily restricted:				
Bar section and other funds		340,370	340,370	310,960
Client security fund		197,553	197,553	166,947
Total net assets	<u>1,777,701</u>	<u>537,923</u>	<u>2,315,624</u>	<u>2,696,425</u>
TOTAL	<u>\$ 3,612,299</u>	<u>\$ 530,385</u>	<u>\$ 4,142,684</u>	<u>\$ 3,709,250</u>

See notes to financial statements.

UTAH STATE BAR

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009 (WITH SUMMARIZED FINANCIAL INFORMATION FOR 2008)

	2009			2008
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE:				
License fees	\$2,764,773	\$ -	\$2,764,773	\$2,631,017
Services and programs	474,645		474,645	559,063
Meetings	411,301		411,301	413,931
Bar examination fees	357,473		357,473	371,733
Bar section funds and client security fund	38,885	406,506	445,391	329,675
Net investment income (loss)	(199,547)	1,729	(197,818)	131,716
Postage, mailing, and other services	188,289		188,289	98,688
Room rental and catering	251,797		251,797	277,059
In-kind room rental	57,758		57,758	38,595
Gain (loss) on disposal of property	(1,655)		(1,655)	16,975
Net assets released from program restrictions	348,219	(348,219)		
Total	4,691,938	60,016	4,751,954	4,868,452
EXPENSES:				
Licensing	132,025		132,025	134,673
Services and programs	803,210		803,210	754,210
Meetings	366,350		366,350	368,680
Bar examination	371,226		371,226	327,720
Bar section funds and client security fund	399,184		399,184	309,719
Office of Professional Conduct	909,602		909,602	909,928
General and administrative	723,709		723,709	669,017
Committees	122,240		122,240	158,800
Room rental and catering	544,252		544,252	557,348
In-kind room rental	57,758		57,758	38,595
Public education	62,528		62,528	66,253
Commission education/training	142,957		142,957	133,731
General counsel	273,301		273,301	208,388
Computer and MIS support	151,802		151,802	133,981
Other	72,611		72,611	69,806
Total	5,132,755		5,132,755	4,840,849
CHANGE IN NET ASSETS	(440,817)	60,016	(380,801)	27,603
NET ASSETS:				
Beginning of year	2,218,518	477,907	2,696,425	2,668,822
End of year	\$ 1,777,701	\$ 537,923	\$ 2,315,624	\$ 2,696,425

See notes to financial statements.

UTAH STATE BAR

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (380,801)	\$ 27,603
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	188,656	205,085
Net realized (gain)/loss on investments	2,893	6,050
Net unrealized (gain)/loss on investments	254,911	(5,586)
Loss (gain) on disposal of property	1,655	(16,975)
Changes in assets and liabilities:		
Receivables — net	(17,655)	(8,980)
Prepaid expenses	(20,780)	16,550
Accounts payable and accrued liabilities	92,379	21,000
Deferred revenue	764,769	51,682
Net cash provided by operating activities	<u>886,027</u>	<u>296,429</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	(16,574)	(57,323)
Purchase of investments	(250,000)	(2,063,655)
Investment proceeds and income reinvested	<u>325,968</u>	<u>2,452,072</u>
Net cash provided by investing activities	<u>59,394</u>	<u>331,094</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	<u>(42,913)</u>	<u>(47,599)</u>
Net cash used in financing activities	<u>(42,913)</u>	<u>(47,599)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	902,508	579,924
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,750,352</u>	<u>1,170,428</u>
End of year	<u>\$ 2,652,860</u>	<u>\$ 1,750,352</u>
SUPPLEMENTAL DISCLOSURE — Interest paid	<u>\$ 7,121</u>	<u>\$ 10,766</u>
SUPPLEMENTAL NONCASH FINANCING AND INVESTING ACTIVITIES:		
Property acquired through increase in capital lease obligations	<u>\$ -</u>	<u>\$ 31,010</u>
Early termination of capital lease obligation	<u>\$ -</u>	<u>\$ 40,947</u>

See notes to financial statements.

UTAH STATE BAR

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

1. ORGANIZATION

The Utah State Bar (the "Bar") is an organization created in 1931 by the laws of the State of Utah. The Bar was integrated by court order on June 30, 1981 and was incorporated as a 501(c)(6) organization on June 24, 1991. Members of the Bar are all attorneys licensed under the laws of the State of Utah.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting — The assets, liabilities and net assets of the Bar are reported on the accrual basis of accounting. The unrestricted fund is used for the general operations of the Bar. The temporarily restricted funds are used to account for the operation of funds segregated for the various Bar sections and the client security fund including an overhead charge to defray the costs of administering these funds.

Cash and Cash Equivalents — The Bar considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments — Investments are recorded at fair value at year end with any realized or unrealized gains or losses being reflected in the statement of activities.

Property — Property is recorded at cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building and improvements	25 years
Office furniture, equipment, and leased equipment	3–7 years
Computer and computer software	3–5 years

Deferred Revenue — License fees are assessed in June for the following fiscal year. All such license fees collected prior to the current fiscal year end are recorded as deferred revenue. Deferred revenue is recognized as income in the year in which it is earned.

Use of Estimates in Preparing Financial Statements — 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.

Income Tax Status — On June 24, 1991, the Bar incorporated as a 501(c)(6) organization and has received a determination letter from the Internal Revenue Service exempting the Bar from federal and state income taxes. Management believes that the Bar is currently designed and operated in compliance with the applicable requirements of the IRC, and the Bar continues to be tax-exempt. Therefore, no provision for income taxes has been included in the Bar's financial statements.

Related Parties — The Bar leases office space to the Utah State Board of Continuing Legal Education (the “Board”). The Bar processes the Board’s payroll and other various operating expenses which the Board then reimburses on a monthly basis.

Summarized 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 Bar’s financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Recently Issued Accounting Standards — The financial statements reflect the prospective adoption of FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157), as of the beginning of the year ended June 30, 2009 (see Note 5). SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The adoption of SFAS No. 157 had no impact on the statement of financial position or statement of activities.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the date of the statement of financial position but before financial statements are issued or are available to be issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. The Bar’s adoption of SFAS No. 165 is not expected to have a material impact on its financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (“Codification”), which supersedes all existing accounting standard documents and will become the single source of authoritative non-governmental U.S. GAAP. All other accounting literature not included in the Codification will be considered non-authoritative. The Codification was implemented on July 1, 2009 and will be effective for interim and annual periods ending after September 15, 2009. We expect to conform our financial statements and related notes to the new Codification for the year ending June 30, 2010.

3. CAPITAL LEASE OBLIGATIONS

The Bar leases certain equipment under capital lease obligations. Equipment under capital lease has a cost of \$165,775 and accumulated depreciation of \$86,820. Future minimum lease payments under capital lease and present values of the net minimum lease payments are as follows:

Years Ending June 30		
2010		\$ 33,406
2011		27,247
2012		<u>8,676</u>
Total future minimum lease payments		69,329
Less amount representing interest		<u>(5,877)</u>
Present value of future net minimum lease payments		63,452
Less current portion		<u>(29,534)</u>
Long-term obligations		<u>\$ 33,918</u>

4. INVESTMENTS AND NET INVESTMENT INCOME

The aggregate carrying amount of investments at June 30, 2009, consists of the following:

	Carrying Amount	Accrued Interest	Aggregate Carrying Amount
Investments in marketable securities:			
Agency bonds	\$ 43,875	\$ -	\$ 43,875
Corporate bonds	<u>250,000</u>	<u>2,971</u>	<u>252,971</u>
Total	<u>\$ 293,875</u>	<u>\$ 2,971</u>	<u>\$ 296,846</u>

Investment income (loss) for the year ended June 30, 2009, consists of the following:

	Unrestricted	Temporarily Restricted	Total
Interest income — investments	\$ 46,265	\$ -	\$ 46,265
Interest income — cash and cash equivalents	11,992	1,729	13,721
Net realized losses	(2,893)		(2,893)
Net unrealized losses	<u>(254,911)</u>		<u>(254,911)</u>
Total	<u>\$ (199,547)</u>	<u>\$ 1,729</u>	<u>\$ (197,818)</u>

Custodial fees for the year ended June 30, 2009 were \$5,916.

Net unrealized losses in the table above relate primarily to a Lehman Brothers bond with a face value of \$300,000. On September 15, 2008, Lehman Brothers filed for chapter 11 bankruptcy placing the bond

into default. As of June 30, 2009, the fair value of the bond is approximately \$43,875. The Lehman bankruptcy proceedings are ongoing and the ultimate value of the bond and the resulting recovery by the Bar is uncertain.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bar's financial instruments include cash and cash equivalents, investments, and capital leases. The fair value of such financial instruments has been determined using available market information as of June 30, 2009. Management believes that the recorded value of each financial instrument approximates its fair value.

The Bar's financial instruments reported in the financial statements at fair value are categorized into a three-level hierarchy based on the nature of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the fair value of the financial instrument fall within different levels of the hierarchy, the level to which the financial instrument is assigned is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded in the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1. Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

Level 2. Financial assets and liabilities whose values are based on quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in nonactive markets (examples include corporate and municipal bonds because these instruments trade infrequently); (c) pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most OTC derivatives, such as interest rate and currency swaps); (d) pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (an example includes certain mortgage loans).

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (for example, private equity investments and certain collateral-dependent loans).

The following table presents the Bar's fair value hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments at fair value	<u>\$ -</u>	<u>\$ 296,846</u>	<u>\$ -</u>	<u>\$ 296,846</u>

