

Utah State Bar

***Financial Statements and Supplemental
Schedules for the Year Ended June 30,
2007 and Independent Auditors' Report***

UTAH STATE BAR

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Deloitte & Touche LLP
Suite 1900
299 South Main Street
Salt Lake City, UT 84111
USA

Tel: +1 801 328 4706
Fax: +1 801 366 7900
www.deloitte.com

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, 2007, 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 2006 financial statements and, in our report dated September 1, 2006, 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, 2007, 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 14, 2007

UTAH STATE BAR

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2007 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2006)

	2007			2006 Total
	Unrestricted	Temporarily Restricted	Total	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 652,452	\$ 517,976	\$ 1,170,428	\$ 1,331,300
Investments at fair market value	1,015,007		1,015,007	873,543
Receivables, net of allowance for doubtful accounts of \$575	23,979		23,979	35,969
Interfund advance	17,291	(17,291)		
Prepaid expenses	27,365		27,365	32,996
Total current assets	1,736,094	500,685	2,236,779	2,273,808
PROPERTY:				
Land	633,142		633,142	633,142
Building and improvements	2,244,620		2,244,620	2,221,187
Office furniture and equipment	937,201		937,201	889,227
Computer and computer software	383,718		383,718	362,623
Total property	4,198,681		4,198,681	4,106,179
Less accumulated depreciation	(2,768,959)		(2,768,959)	(2,596,940)
Net	1,429,722		1,429,722	1,509,239
TOTAL	\$ 3,165,816	\$ 500,685	\$ 3,666,501	\$ 3,783,047
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current portion of note payable to Utah Law and Justice Center	\$ -	\$ -	\$ -	\$ 42,653
Current portion of capital lease obligations	52,424		52,424	39,547
Accounts payable and accrued liabilities	282,771	5,574	288,345	393,691
Deferred revenue	545,433		545,433	543,166
Total current liabilities	880,628	5,574	886,202	1,019,057
CAPITAL LEASE OBLIGATIONS — Less current portion	111,477		111,477	91,393
Total liabilities	992,105	5,574	997,679	1,110,450
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 4, 7, 8 and 9)				
NET ASSETS:				
Unrestricted	2,173,711		2,173,711	2,295,293
Temporarily restricted:				
Bar section and other funds		302,520	302,520	301,970
Client security fund		192,591	192,591	75,334
Total net assets	2,173,711	495,111	2,668,822	2,672,597
TOTAL	\$ 3,165,816	\$ 500,685	\$ 3,666,501	\$ 3,783,047

See notes to financial statements.

UTAH STATE BAR

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007 (WITH SUMMARIZED FINANCIAL INFORMATION FOR 2006)

	2007			2006 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE:				
License fees	\$ 2,537,146	\$ -	\$ 2,537,146	\$ 2,434,668
Services and programs	484,243		484,243	487,635
Meetings	337,278		337,278	333,601
Bar examination fees	329,013		329,013	314,695
Bar section funds and client security fund	42,844	379,721	422,565	295,521
Investment income	126,806	8,242	135,048	104,565
Postage, mailing, and other services	110,229		110,229	155,739
Utah Law and Justice Center property management	195,015		195,015	147,288
Gain on disposal of property	10,660		10,660	
Net assets released from program restrictions	<u>270,156</u>	<u>(270,156)</u>		
Total	<u>4,443,390</u>	<u>117,807</u>	<u>4,561,197</u>	<u>4,273,712</u>
EXPENSES:				
Licensing	84,739		84,739	91,996
Services and programs	790,861		790,861	763,063
Meetings	366,409		366,409	309,351
Bar examination	314,070		314,070	289,323
Bar section funds and client security fund	270,156		270,156	373,575
Office of Professional Conduct	839,215		839,215	843,730
General and administrative	673,862		673,862	674,683
Committees	158,223		158,223	161,221
Utah Law and Justice Center property management	372,818		372,818	320,908
Public education	57,791		57,791	64,443
Commission education/training	235,511		235,511	165,838
General counsel	199,262		199,262	192,245
Computer and MIS support	131,929		131,929	138,287
Other	<u>70,126</u>		<u>70,126</u>	<u>58,909</u>
Total	<u>4,564,972</u>		<u>4,564,972</u>	<u>4,447,572</u>
CHANGE IN NET ASSETS	(121,582)	117,807	(3,775)	(173,860)
NET ASSETS:				
Beginning of year	<u>2,295,293</u>	<u>377,304</u>	<u>2,672,597</u>	<u>2,846,457</u>
End of year	<u>\$2,173,711</u>	<u>\$ 495,111</u>	<u>\$2,668,822</u>	<u>\$2,672,597</u>

Additional Management Comments. "Commission Education/Training" includes the audit of bar governance conducted by Grant Thornton; events to recognize the bar's 75th anniversary; travel for all elected and *ex-officio* commissioners to meetings in Salt Lake, St. George, California, Vernal, Provo, Price & Midway; elections of the president-elect, and staff time and overhead allocated to the administration of bar governance.

See notes to financial statements.

UTAH STATE BAR

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2007 (COMPARATIVE TOTALS FOR 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (3,775)	\$ (173,860)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	220,371	222,887
Net unrealized gains on investments	(24,281)	(18,142)
Net realized losses on investments	15,283	15,858
Gain on disposal of property	(10,660)	
Changes in assets and liabilities:		
Receivables—net	11,990	33,599
Prepaid expenses	5,631	(22,696)
Accounts payable and accrued liabilities	(105,346)	33,693
Deferred revenue	2,267	92,545
Net cash provided by operating activities	<u>111,480</u>	<u>183,884</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property	(48,954)	(61,752)
Purchase of investments	(15,301,480)	(12,627,884)
Investment proceeds and income reinvested	<u>15,169,014</u>	<u>12,869,241</u>
Net cash provided by (used in) investing activities	<u>(181,420)</u>	<u>179,605</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable to Utah Law and Justice Center	(42,653)	(80,826)
Payments on capital lease obligations	<u>(48,279)</u>	<u>(36,795)</u>
Net cash used in investing activities	<u>(90,932)</u>	<u>(117,621)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(160,872)	245,868
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>1,331,300</u>	<u>1,085,432</u>
End of year	<u>\$ 1,170,428</u>	<u>\$ 1,331,300</u>
SUPPLEMENTAL DISCLOSURE—Interest paid	\$ 9,566	\$ 7,651
SUPPLEMENTAL NONCASH FINANCING AND INVESTING ACTIVITIES:		
Property purchases included in accounts payable and accrued liabilities	\$ -	\$ 17,198
Property acquired through increase in capital lease obligations	112,755	
Early termination of capital lease obligation	31,515	

See notes to financial statements.

UTAH STATE BAR

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

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 market value at year end, based on quoted market prices, 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 on related income.

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, 2006, from which the summarized information was derived.

3. UTAH LAW AND JUSTICE CENTER

In 1984, the Bar incorporated a tax-exempt entity known as the Utah Law and Justice Center (the "Center") for the purpose of acquiring and maintaining a building facility to be used to promote legal and judicial education, to conduct studies to improve the legal system and to enhance legal services for the poor in the State of Utah. The financial statements of the Center have not been included in the Bar's accompanying financial statements.

The Center's building was owned 50% by the Bar and 50% by the Center. During the year ended June 30, 1993, the Bar entered into an agreement with the Center to purchase the Center's 50% interest in the land, building and improvements and the Center's furniture and equipment for \$1,143,375. The purchase price was established based on an independent appraisal of the building and management's estimate of the fair value of the furniture and equipment. The transfer of the Center's interest occurred October 19, 1994. As stated in the agreement, the Bar's consideration consisted of cancellation of a receivable from the Center of \$425,000 and a note payable to the Center for \$718,375 (see Note 5).

The Bar leased office space and meeting rooms to the Center at the rate of \$7,700 per month. This lease terminated upon the Bar's repayment of the note payable to the Center as of December 31, 2006. During the year ended June 30, 2007, the Bar's revenue resulting from this lease agreement and charges for other operating services were \$195,015. The Bar incurred \$372,818 of expenses relating to the maintenance of the building.

The Center's board of trustees terminated the Center as of May 29, 2007. Upon termination of the Center, management of the Center contributed insignificant residual assets to the Bar and the Bar now provides the services previously provided by the Center.

The Center provided rooms and catering for continuing legal education courses at a cost to the Bar of \$81,327 during fiscal year 2007.

4. CAPITAL LEASE OBLIGATIONS

The Bar leases certain equipment under capital lease obligations. Equipment under capital lease has a cost of \$266,035 and accumulated amortization of \$102,080. Future minimum lease payments under capital lease and present values of the net minimum lease payments are as follows:

Years Ending June 30	
2008	\$ 63,165
2009	62,347
2010	32,584
2011	24,450
2012	5,788
Thereafter	<u> </u>
Total lease payments	188,334
Less interest	<u>(24,433)</u>
Present value of minimum lease payments	163,901
Less — current portion	<u>(52,424)</u>
	<u>\$ 111,477</u>

5. LONG-TERM DEBT

The Bar issued a promissory note to the Center in 1994 for \$718,375 bearing interest at 10% in order to acquire the Center's property (see Note 3). The note was collateralized by the Center's previous 50% ownership of the property. Interest expense on the debt totaled \$1,608 in fiscal year 2007. Principal payments on the note payable equal amounts paid by the Bar to subsidize the Center's current operating losses. The note was paid off as of December 31, 2006.

6. INVESTMENTS AND INVESTMENT INCOME

Investments at June 30, 2007, consist of the following:

	Cost	Net Unrealized Gain	Fair Value
Corporate bonds	\$ 489,999	\$ 16	\$ 490,015
Government agency securities	<u>518,535</u>	<u>6,457</u>	<u>524,992</u>
Total	<u>\$1,008,534</u>	<u>\$ 6,473</u>	<u>\$1,015,007</u>

Investment income for the year ended June 30, 2007, consists of the following:

	Unrestricted	Temporarily Restricted
Interest income—investments	\$ 117,808	\$ -
Interest income—cash and cash equivalents		8,242
Net realized loss	(15,283)	
Net unrealized gain	<u>24,281</u>	<u> </u>
 Total	 <u>\$ 126,806</u>	 <u>\$ 8,242</u>

Custodial fees for the year ended June 30, 2007 were \$7,107.

7. EMPLOYEE BENEFIT PLANS

The Bar sponsors a 401(k) defined contribution plan to which the Bar contributes 10% of the compensation of all plan participants. Employees who have completed one year of service with the Bar and have attained the age of 21 are eligible to participate. Contributions to the plan were approximately \$148,109 for the year ended June 30, 2007. Participants may also elect to make contributions to this plan.

The Bar also sponsors a Section 125 cafeteria plan. All contributions to this plan are made by the participants and there is no direct expense to the Bar.

8. CLIENT SECURITY FUND

On October 30, 1983, the Bar received approval from the Utah Supreme Court to collect up to \$20 per attorney per year to accumulate a client security fund in the base amount of \$200,000 to partially indemnify the public against losses incurred as a result of lawyers' misappropriation of clients' funds. Claims against the fund are limited to \$20,000 for each claim. The balance in the temporarily restricted Client Security Fund was \$192,591 at June 30, 2007. Cases must be reviewed and approved by the Client Security Fund Committee and also by the Board of Commissioners before they are considered to be claims payable by the Client Security Fund. There were no cases awaiting the Committee's review as of June 30, 2007.

9. CONTINGENT LIABILITIES

As of June 30, 2007, the Bar was involved in various lawsuits in the normal course of its operations. The Bar's management believes the outcome of these lawsuits will not have a material adverse effect on the Bar's financial statements. The Bar has been notified of potential back property taxes and interest related to the eligibility of the tax exempt status of the Bar and the Center. The estimated potential range of loss is \$0 to \$50,000.

UTAH STATE BAR

**SCHEDULE OF ACTIVITY OF TEMPORARILY RESTRICTED FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007**

	Balance July 1, 2006	Revenue	Interest Income	Expenses	Overhead Charge	Balance June 30, 2007	Net Increase (Decrease)
BAR SECTION FUNDS:							
Administrative law	\$ 13,120	\$ 1,371	\$ -	\$ 619	\$ 264	\$ 13,608	\$ 488
Antitrust/unfair competition	433	1,150			230	1,353	920
Appellate practice	9,952	5,975		8,541	550	6,836	(3,116)
Banking and finance	16,916	(3,111)		4,403	316	9,086	(7,830)
Bankruptcy	10,360	4,365		2,767	873	11,085	725
Business law	17,013	5,273		3,464	1,449	17,373	360
Collection law	1,912	2,106		12	675	3,331	1,419
Constitutional law	1,367	960		274	192	1,861	494
Construction law	19,071	1,171		1,223	651	18,368	(703)
Corporation counsel	18,370	4,165		1	981	21,553	3,183
Criminal law	14,204	4,454		3,448	834	14,376	172
Cyberlaw	309	1,320		15	220	1,394	1,085
Dispute Resolution	4,889	5,892		2,779	846	7,156	2,267
Education law	6,653	915		2,754	183	4,631	(2,022)
Environmental law	8,242	7,121		3,326	1,220	10,817	2,575
Estate planning	15,037	21,786		20,560	1,768	14,495	(542)
Family law	16,144	19,497		18,200	2,280	15,161	(983)
Franchise law	613	465		248	75	755	142
Governmental law	18,561	4,310		1,114	840	20,917	2,356
Intellectual property	(1,718)	24,832		12,864	2,534	7,716	9,434
International law	88	4,001		4,915	476	(1,302)	(1,390)
Labor and employment law	9,109	12,355		12,919	1,636	6,909	(2,200)
Litigation law	59,780	15,661		21,291	6,689	47,461	(12,319)
Military law	(70)	2,088		2,123	188	(293)	(223)
Non-profit/charitable law	648	1,343		1,006	208	777	129
Real property	6,093	17,042		15,548	1,516	6,071	(22)
Securities	5,283	9,987		1,169	1,815	12,286	7,003
Senior lawyers	2,765	4,205		3,930	425	2,615	(150)
Solo, Small Firm and Rural Practice	7,931	3,371		3,413	462	7,427	(504)
Tax	3,821	13,218		7,719	1,536	7,784	3,963
Young lawyers	13,418	26,495		32,378		7,535	(5,883)
Total	300,314	223,783		193,023	31,932	299,142	(1,172)
Other Programs—							
Paralegal division	1,656	17,273		13,618	1,933	3,378	1,722
Client Security Fund	75,334	138,665	8,242	29,650		192,591	117,257
Total	\$ 377,304	\$ 379,721	\$ 8,242	\$ 236,291	\$ 33,865	\$ 495,111	\$ 117,807

SUPPLEMENTAL SCHEDULE 2

UTAH STATE BAR

SCHEDULE OF SERVICES AND PROGRAMS REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	Bar Journal	CLE	Member- ship Benefits	Tuesday Night Bar	Access to Justice	Total
REVENUE	\$ 99,703	\$324,669	\$ 59,871	\$ -	\$ -	\$ 484,243
EXPENSES:						
Program	187,462	198,988	197,767		2,887	587,104
Salaries and benefits	27,114	60,739	18,658	3,469	53,419	163,399
General and administrative	4,075	22,383	2,246	2,568	9,086	40,358
Total	<u>218,651</u>	<u>282,110</u>	<u>218,671</u>	<u>6,037</u>	<u>65,392</u>	<u>790,861</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$(118,948)</u>	<u>\$ 42,559</u>	<u>\$(158,800)</u>	<u>\$(6,037)</u>	<u>\$(65,392)</u>	<u>\$(306,618)</u>

SUPPLEMENTAL SCHEDULE 3

UTAH STATE BAR

SCHEDULE OF MEETINGS REVENUE AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	Annual Convention	Spring Convention	Fall Forum	Total
REVENUE	<u>\$ 153,855</u>	<u>\$ 119,733</u>	<u>\$ 63,690</u>	<u>\$337,278</u>
EXPENSES:				
Program	140,766	91,921	45,589	278,276
Salaries and benefits	34,281	20,635	8,117	63,033
General and administrative	<u>11,058</u>	<u>11,753</u>	<u>2,289</u>	<u>25,100</u>
Total	<u>186,105</u>	<u>124,309</u>	<u>55,995</u>	<u>366,409</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ (32,250)</u>	<u>\$ (4,576)</u>	<u>\$ 7,695</u>	<u>\$ (29,131)</u>