

MINNESOTA STATE BAR ASSOCIATION AND
SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT
AUDITORS' REPORT

JUNE 30, 2009

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Assembly of the
Minnesota State Bar Association and Subsidiary
Minneapolis, Minnesota

We have audited the accompanying consolidated statement of financial position of Minnesota State Bar Association and Subsidiary (nonprofit organizations) as of June 30, 2009 and 2008, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Minnesota State Bar Association and Subsidiary as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

St. Paul, Minnesota
September 8, 2009

Olsen Thielen & Co., Ltd.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008**

ASSETS		
	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 4,289,809	\$ 5,034,631
Certificates of Deposit	136,788	88,371
Investments	579,403	871,451
Accounts Receivable	92,606	113,824
Publications Inventory	126,133	49,277
Prepaid Expenses	204,750	208,314
Total Current Assets	<u>5,429,489</u>	<u>6,365,868</u>
INVESTMENTS - LONG-TERM	<u>5,146,214</u>	<u>4,415,464</u>
PROPERTY AND EQUIPMENT:		
Office Furniture and Equipment	3,046,220	2,876,133
Leasehold Improvements	3,741,419	3,709,017
Less Accumulated Depreciation	<u>(5,639,510)</u>	<u>(5,268,106)</u>
Net Property and Equipment	<u>1,148,129</u>	<u>1,317,044</u>
OTHER:		
Cash Value of Life Insurance	64,392	61,170
Designated Investments	97,430	80,934
Total Other	<u>161,822</u>	<u>142,104</u>
TOTAL ASSETS	<u>\$ 11,885,654</u>	<u>\$ 12,240,480</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,410,172	\$ 1,281,226
Other Payables and Accrued Expenses	374,770	477,616
Deferred Revenue - Dues and Programs	2,841,675	2,534,024
Current Portion of Deferred Revenue - Other	93,030	364,179
Total Current Liabilities	<u>4,719,647</u>	<u>4,657,045</u>
OTHER LIABILITIES:		
Deferred Compensation	161,822	142,104
Deferred Revenue - Other, Net of Current Portion	361,717	581,401
Total Other Liabilities	<u>523,539</u>	<u>723,505</u>
NET ASSETS:		
Unrestricted:		
Appropriated	2,018,390	1,822,330
Unappropriated	4,624,078	5,037,600
Total Net Assets	<u>6,642,468</u>	<u>6,859,930</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,885,654</u>	<u>\$ 12,240,480</u>

The accompanying notes are an integral part of the consolidated financial statements.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
REVENUES:		
Membership Dues and Fees	<u>\$ 2,890,251</u>	<u>\$ 2,778,288</u>
Program Revenue:		
Member Services	429,097	449,838
Public Education	40,313	41,901
Communications	339,742	363,481
Other Programs	118,919	184,126
Seminars	5,888,503	6,131,475
Publications	938,260	866,337
Webcasts	603,704	438,735
Contributed Services	237,875	225,125
Total Program Revenue	<u>8,596,413</u>	<u>8,701,018</u>
Other General Revenue	<u>129,746</u>	199,490
Total Revenues	<u>11,616,410</u>	<u>11,678,796</u>
EXPENSES:		
Program Services:		
Member Services	1,195,113	1,169,840
Public Education	172,182	148,095
Communications and Publications	762,699	802,576
Other Programs	505,686	667,731
Seminars	5,329,581	5,494,530
Publications	931,118	809,409
Webcasts	378,361	357,656
Total Program Services	<u>9,274,740</u>	<u>9,449,837</u>
General and Administrative	<u>2,135,252</u>	<u>2,123,488</u>
Total Expenses	<u>11,409,992</u>	<u>11,573,325</u>
GENERAL OPERATING, NET	<u>206,418</u>	<u>105,471</u>
SECTION OPERATING ACTIVITIES:		
Revenues - Dues, Fees, and Other	340,492	351,540
Expenses - Member Services	<u>(369,252)</u>	<u>(288,248)</u>
Section Operating, Net	<u>(28,760)</u>	<u>63,292</u>
LONG-TERM INVESTMENT ACTIVITIES:		
Investment Losses	<u>(395,120)</u>	<u>(107,127)</u>
CHANGE IN NET ASSETS	<u>\$ (217,462)</u>	<u>\$ 61,636</u>

The accompanying notes are an integral part of the consolidated financial statements.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>Appropriated</u>	<u>Unappropriated</u>	<u>Net Assets</u>
Net Assets, June 30, 2007	\$ 1,517,629	\$ 5,280,665	\$ 6,798,294
Reclassification of Appropriated Net Assets	200,000	(200,000)	-
Change in Net Assets	<u>104,701</u>	<u>(43,065)</u>	<u>61,636</u>
Net Assets, June 30, 2008	1,822,330	5,037,600	6,859,930
Reclassification of Appropriated Net Assets	200,000	(200,000)	-
Change in Net Assets	<u>(3,940)</u>	<u>(213,522)</u>	<u>(217,462)</u>
Net Assets, June 30, 2009	<u>\$ 2,018,390</u>	<u>\$ 4,624,078</u>	<u>\$ 6,642,468</u>

The accompanying notes are an integral part of the consolidated financial statements.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (217,462)	\$ 61,636
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Unrealized (Gains) Losses on Investments	(172,671)	356,499
(Gains) Losses on Sale of Investments	793,446	(92,073)
Amortization of Deferred Revenue - Other	(490,833)	(457,761)
Depreciation and Amortization	371,404	372,529
Changes in Assets and Liabilities:		
Accounts Receivable	21,218	(38,359)
Publications Inventory	(76,856)	15,144
Prepaid Expenses	(12,932)	59,149
Accounts Payable	128,946	(134,437)
Other Payables and Accrued Expenses	(86,350)	92,686
Deferred Revenue - Dues and Programs	307,651	(84,472)
Net Cash Provided By Operating Activities	<u>565,561</u>	<u>150,541</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	4,091,259	3,313,299
Purchase of Investments	(5,199,153)	(3,846,522)
Purchases of Property and Equipment	(202,489)	(182,343)
Net Cash Used In Investing Activities	<u>(1,310,383)</u>	<u>(715,566)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(744,822)	(565,025)
CASH AND CASH EQUIVALENTS at Beginning of Year	<u>5,034,631</u>	<u>5,599,656</u>
CASH AND CASH EQUIVALENTS at End of Year	<u>\$ 4,289,809</u>	<u>\$ 5,034,631</u>

The accompanying notes are an integral part of the consolidated financial statements.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Minnesota State Bar Association and Subsidiary (the Association) are not-for-profit corporations whose objectives are primarily to promote the study and understanding of law among members of the bar and the general public, to foster respect for the law and to maintain the integrity of the legal profession in Minnesota. The Association meets these objectives through publications, meetings, conventions and other related activities.

The parent company, Minnesota State Bar Association (MSBA), collects membership dues and fees to fund the various committees and programs of the organization, including the Attorney Referral Service, Civil Trial and Real Property Certifications, Technology Resource Center, Practicelaw.org, Member *Advantage* Program, Legal Assistance to the Disadvantaged, the *Bench and Bar* publication and the annual convention. In addition, the MSBA provides the service of collecting dues for various other organizations. Such dues are collected with the MSBA's dues and are subsequently forwarded to the appropriate organizations. The activity of collecting and forwarding these dues is not reflected in the MSBA's statement of activities. Dues received for the other organizations for 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
District Associations	\$ 1,740,247	\$ 1,629,222
Minnesota State Bar Foundation (MSBF)	86,543	106,125
Minnesota Intellectual Property Law Association	<u>63,803</u>	<u>54,500</u>
Total	<u>\$ 1,890,593</u>	<u>\$ 1,789,847</u>

The MSBA also collects membership dues for Sections. Sections are specialized member groups established by the organization for carrying on the MSBA's work in a particular field of law. At June 30, 2009, there were 34 Sections. Section revenues and expenses are recorded in total in the statement of activities.

The Minnesota Continuing Legal Education (CLE) is a wholly-owned subsidiary of the MSBA, with offices in Saint Paul and an education center in Minneapolis, provides educational services through classes, seminars and professional publications. The CLE was incorporated on June 30, 2008 and prior to this they were a division of the MSBA.

Accounting 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all monies in banks and highly liquid investments with original maturities of less than three months to be cash and cash equivalents, respectively.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-Term Investments

Short-term interest bearing investments are those with maturities of less than one year but greater than three months when purchased. Certificates with maturity dates beyond one year are classified as noncurrent assets. These investments are readily convertible to cash and are stated at cost plus accrued interest which approximates fair value.

Receivables

Receivables are reported at the amount the Association expects to collect on balances outstanding at year-end. The Association monitors outstanding balances and periodically writes off balances that are determined to be uncollectible. The Association has concluded that losses on balances outstanding at year end will be immaterial.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, or market. Inventory consists of books and educational materials that are held for resale and used in the educational courses offered by the CLE.

Property and Equipment

Property and equipment are recorded at original cost. Additions, improvements or major renewals are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in operations. Contributed equipment is recorded at fair market value at date of donation. If the donor stipulates how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted.

Depreciation is computed using the straight-line method at rates based on the estimated service or remaining useful lives of the various assets. In 2008, the Association revised its estimate of leasehold improvements to a remaining life. This was changed to a remaining life to better the estimated periods during which these improvements will be used due to the lease extension. The change had the effect of decreasing depreciation expense by approximately \$298,000 (MSBA \$64,000 and CLE \$234,000). Estimated service lives of the various assets are as follows:

Furniture and Equipment	3-10 years
Vehicles	3-5 years
Leasehold Improvements	3-15 years

Investments

Investments are carried at fair value. Net realized gains and losses are computed based on specific identification of the investments sold. Unrealized gains and losses are included in the statement of activities.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Membership dues, subscriptions, tuition and publication fees, and sponsorship fees are recognized as revenue in the period earned. Unearned amounts are recorded as deferred revenue.

Other deferred revenue consists of lease incentive payments provided by the landlord and compensation provided by a former landlord for the costs incurred related to the early vacating of leased office and educational facilities. The deferred revenue is being recognized over a 15-year period.

Grants are considered available for unrestricted use unless specifically restricted by the donors as to time or purpose. Grants received and/or unconditional promises to give are recorded as unrestricted or temporarily restricted revenue depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recorded as revenue when the Association receives the promise.

Donated Services

CLE recognizes revenue for donated professional services from a number of lawyers and professors for teaching courses. The estimated fair value of these services is determined as the services require specialized skills and generally would be purchased if not provided through contribution.

Income Taxes

The MSBA is classified as a tax-exempt association under Section 501(c)(6) of the Internal Revenue Code and is subject to federal and state income tax only on net unrelated business income. The MSBA had no income tax expense for 2009 or 2008.

The CLE is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is subject to federal and state income tax only on net unrelated business income. The CLE had no income tax expense for 2009 or 2008.

The Financial Accounting Standards Board (FASB) has issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standards for the financial statement recognition and measurement of income tax positions taken or expected to be taken in income tax returns. This includes positions that the entity is exempt from income taxes or not subject to income taxes on unrelated business income. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic entities to annual financial statements for fiscal years beginning after December 15, 2008. The Association has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to adoption of FIN 48, the Association will continue to evaluate its uncertain tax positions and related income tax contingencies under FASB Statement No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Association to accrue for losses it believes are probable and can be reasonably estimated. Management has not assessed the impact of FIN 48, but does not expect the adoption of FIN 48 will have a material effect on its financial statements.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expense

The Association allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification. General and administrative that are common to several functions are allocated based on the proportion of each program's direct and personnel expenses to the total program direct and personnel expenses.

Risks and Uncertainties

The Association places its cash with financial institutions. At times the amount on deposit exceeds the insured limit of the institution and exposes the Association to a credit risk that management considers minimal. Additionally, investments expose the Association to credit risk, which is mitigated by holding a diversified portfolio.

The Association holds investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Disclosures About Fair Value of Financial Instruments

Effective July 1, 2008, the Association adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SFAS No. 157 defines fair value as the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Association holds certain assets that are required to be measured at fair value on a recurring basis. The fair value of the Association's investment securities were determined based on Level 1 inputs.

Reclassifications

Certain amounts in the 2008 financial statements and notes have been reclassified to conform with the 2009 presentation. These reclassifications had no effect on net assets for either period.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents are allocated as follows as of June 30:

	2009	2008
MSBA:		
Designated for Sections	\$ 156,506	\$ 173,628
Civil Trial Certification	33,467	32,452
Real Property Certification	-	27,179
Designated for Rent Subsidy	4,822	93,080
Undesignated	<u>2,795,102</u>	<u>3,385,156</u>
Total	<u>2,989,897</u>	<u>3,711,495</u>
 CLE:		
Undesignated	<u>1,299,912</u>	<u>1,323,136</u>
Total MSBA and CLE Cash and Cash Equivalents	<u>\$ 4,289,809</u>	<u>\$ 5,034,631</u>

Certificates of deposit are allocated as follows:

	2009	2008
MSBA:		
Designated for Sections	\$ 64,301	\$ 45,494
Real Property Certification	<u>72,487</u>	<u>42,877</u>
Total	<u>\$ 136,788</u>	<u>\$ 88,371</u>

NOTE 3 - INVESTMENTS

MSBA

MSBA investments consist of the following as of June 30, 2009 and 2008:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Available for Operations:				
Mutual Funds - Fixed Income	\$ 973,451	\$ 996,915	\$ 528,891	\$ 517,513
Mutual Funds - Equity	957,634	1,015,023	1,115,000	1,097,727
Designated for Rent Subsidy:				
Mutual Funds - Fixed Income	209,854	216,615	276,162	270,560
Mutual Funds - Equity	<u>243,851</u>	<u>262,970</u>	<u>216,154</u>	<u>214,203</u>
Total	<u>\$ 2,384,790</u>	<u>\$ 2,491,523</u>	<u>\$ 2,136,207</u>	<u>\$ 2,100,003</u>

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS (Continued)

CLE

CLE investments consisted of the following at June 30, 2009 and 2008:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Stocks	\$ 429,496	\$ 397,241	\$ 587,048	\$ 589,823
Certificates of Deposit	<u>2,775,000</u>	<u>2,836,853</u>	<u>2,600,000</u>	<u>2,597,089</u>
Total	<u>\$ 3,204,496</u>	<u>\$ 3,234,094</u>	<u>\$ 3,187,048</u>	<u>\$ 3,186,912</u>
Total MSBA and CLE Investments	<u>\$ 5,589,286</u>	<u>\$ 5,725,617</u>	<u>\$ 5,323,255</u>	<u>\$ 5,286,915</u>

MSBA

Return on investment and cash equivalents for the years ended June 30, 2009 and 2008 consisted of the following:

	2009			2008		
	Investment Income	Net Gain (Loss) in Fair Value of Investments	Totals	Investment Income	Net Gain (Loss) in Fair Value of Investments	Totals
Cash and Cash Equivalents	\$ 50,395	\$ -	\$ 50,395	\$ 117,221	\$ 1,345	\$ 118,566
Mutual Funds - Fixed Income	18,999	5,059	24,058	21,941	(219,214)	(197,273)
Mutual Funds - Equity	<u>39,432</u>	<u>(431,741)</u>	<u>(392,309)</u>	42,336	<u>(10,430)</u>	31,906
Total	<u>\$ 108,826</u>	<u>\$ (426,682)</u>	<u>\$ (317,856)</u>	<u>\$ 181,498</u>	<u>\$ (228,299)</u>	<u>\$ (46,801)</u>

The return on investments and cash equivalents has been classified as follows at June 30:

	2009	2008
General Operating Activity - Income	\$ 95,993	\$ 159,387
General Operating Activity - Offset of Rent Expenses	<u>(93,437)</u>	<u>(17,119)</u>
Long-Term Activity	<u>(320,412)</u>	<u>(189,068)</u>
Total	<u>\$ (317,856)</u>	<u>\$ (46,800)</u>

During the years ended June 30, 2009 and 2008, the MSBA liquidated mutual fund shares, the proceeds for which were \$2,363,922 and \$1,064,239, respectively. Net realized gains and losses determined based on the sales proceeds less the original cost of the shares amounted to \$(569,619) and \$63,011, respectively.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS (Continued)

CLE

Return on investments and cash and cash equivalents for the years ended June 30, 2009 and 2008 consisted of the following:

	2009			2008		
	Investment Income	Net Gain (Loss) in Fair Value of Investments	Total	Investment Income	Net Gain (Loss) in Fair Value of Investments	Total
Cash and Cash Equivalents	\$ 6,070	\$ -	\$ 6,070	\$ 26,847	\$ -	\$ 26,847
Certificates of Deposit	104,278	64,763	169,041	57,166	(3,249)	53,917
Stocks	9,037	(258,856)	(249,819)	12,019	(37,855)	(25,836)
Government Securities	-	-	-	20,690	6,323	27,013
Total	<u>\$ 119,385</u>	<u>\$ (194,093)</u>	<u>\$ (74,708)</u>	<u>\$ 116,722</u>	<u>\$ (34,781)</u>	<u>\$ 81,941</u>

During the years ended June 30, 2009 and 2008, the CLE Fund sold certificates of deposit and mutual funds, the proceeds for which were \$1,727,337 and \$2,249,060, respectively. Net realized gains and losses determined based on the sales proceeds less the original cost of the shares amounted to \$(223,827) and \$29,062, respectively.

NOTE 4 - OPERATING LEASES

MSBA

The MSBA leases office space under an operating lease with a lease term that expires in May 2014, but is subject to one five-year renewal option that may be exercised unilaterally by the MSBA. The agreement requires monthly rental payments of \$17,950. In addition to monthly rent payments, the organization is required to pay its pro-rata share of building operating costs and real estate taxes.

Total rental expense, including operating costs (approximately \$140,000 in 2009 and \$127,000 in 2008), for operating leases of the MSBA was approximately \$313,000 in 2009 and \$297,000 in 2008.

CLE

CLE leases office space under an operating lease with a lease term that expires in May, 2014, but is subject to one five-year renewal option that may be exercised unilaterally by CLE. The agreement requires initial monthly payments of \$9,913, subject to annual increases of approximately 2.5%. In addition to monthly rent payments, CLE is required to pay its pro-rata share of building operating costs and real estate taxes.

CLE leases its education center under a non-cancelable operating lease with an extended term that expires in April, 2014, but is subject to one five-year renewal option that may be exercised unilaterally by the CLE. The agreement requires monthly rent payments of \$20,365. In addition to monthly rent payments, CLE is required to pay its pro-rata share of building operating costs and real estate taxes.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - OPERATING LEASES (Continued)

CLE (Continued)

CLE leases office equipment under an operating lease with a term that expires on December 31, 2013. Monthly minimum payments are \$9,652. The lease may be terminated prior to its expiration with ninety days notice. Certain equipment is being leased through April, 2014. Monthly minimum payments are \$251.

Total rental expense for operating leases including operating costs (approximately \$305,000 for 2009 and \$315,000 for 2008) of CLE was approximately \$813,000 and \$821,000 for the years ended June 30, 2009 and 2008, respectively.

CLE also subleases shared space to the MSBA and the Hennepin County Bar Association under terms of sublease agreements. Under the subleases, monthly payments of \$885, including pro-rata share of operating costs and real estate taxes, are due. Total sublease income, including base rent plus respective portions of operating costs, was \$9,756 and \$9,582 for the years ended June 30, 2009 and 2008, respectively. Future annual sublease payments receivable are \$10,626 through April, 2014.

MSBA and CLE

Future minimum lease payments, excluding operating costs and real estate taxes, under noncancelable leases with initial terms in excess of one year as of June 30, 2009, are as follows:

	Operating Leases		
	MSBA	CLE	Total
2010	\$ 224,516	\$ 498,041	\$ 722,557
2011	224,516	501,015	725,531
2012	224,516	503,989	728,505
2013	224,516	506,963	731,479
2014	205,807	395,891	601,698
Total Minimum Lease Payments	\$ 1,103,871	\$ 2,405,899	\$ 3,509,770

NOTE 5 - EMPLOYEE BENEFIT PLANS

Pension Plan

The Association has a defined contribution pension plan, which covers qualified employees. Contributions are made semi-annually on behalf of active participants based on a percentage of their qualified compensation. Pension expense under the plan for the years ended June 30, 2009 and 2008, was as follows:

	2009	2008
MSBA	\$ 153,937	\$ 153,490
CLE	224,203	190,553
Total	\$ 378,140	\$ 344,043

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EMPLOYEE BENEFIT PLANS (Continued)

Savings Plan

The Association maintains a 401(k) savings plan for employees meeting minimum service requirements. The plan provides for elective employee contributions. No employer contributions are required.

NOTE 6 - APPROPRIATED NET ASSETS

MSBA

Detail of appropriated MSBA net assets as designated by the Assembly is as follows:

	<u>Sections</u>	<u>Civil Trial Certification</u>	<u>Real Property Certification</u>	<u>Total</u>
Balance, June 30, 2008	\$ 644,465	\$ 42,475	\$ 35,390	\$ 722,330
Revenue	340,492	59,126	66,315	465,933
Expenses	<u>(369,252)</u>	<u>(50,411)</u>	<u>(50,210)</u>	<u>(469,873)</u>
Balance, June 30, 2009	<u>\$ 615,705</u>	<u>\$ 51,190</u>	<u>\$ 51,495</u>	<u>\$ 718,390</u>

CLE

The appropriated CLE net assets of \$1,300,000 and \$1,100,000 at June 30, 2009 and 2008 consisted of Board of Directors' designations for capital improvements. During 2009, the Board of Directors designated an additional \$200,000 of previously unappropriated net assets for capital improvements.

NOTE 7 - RELATED PARTIES

Payments to Board Members

CLE made honorarium payments to certain board members for teaching courses and authors' royalties. The total payments made to board members for years ended June 30, 2009 and 2008 were nominal.

Affiliated Organizations

The Association is affiliated with the Minnesota State Bar Foundation (MSBF) through common board membership. The Association conducted the following transactions with this affiliated organization during the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
MSBF - Contributions/Sponsorship Fees Received by MSBA	\$ 2,500	\$ 10,000
MSBF - Contributions of Services from MSBA	18,696	22,567

The Lawyers Public Affairs Commission (LawPAC) is an affiliated organization which accepts contributions and makes expenditures to influence the selection, nomination or election of candidates to legislative offices in the State of Minnesota.

Because common board membership involves less than 50% of the affiliates' Board of Directors, the Association does not have voting control of these organizations; therefore, the financial statements of these organizations have not been consolidated with the financial statements of the Association.

MINNESOTA STATE BAR ASSOCIATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - DEFERRED COMPENSATION

MSBA

The MSBA has a deferred compensation agreement with its executive director which allows the executive to defer a portion of his salary in favor of compensation payments subsequent to termination of employment or retirement.

The agreement allows the MSBA to match the executive's voluntary deferred compensation when payments of the deferred compensation are made subsequent to employment termination or retirement.

The MSBA has a cash value life insurance policy, which will be used as the funding vehicle for payment of the deferred compensation. Interest is accrued on the compensation deferred by the executive equal to the increase in cash value related to the life insurance policy. At termination of employment or retirement, payment of the deferred compensation, and accrued interest, is required over a ten-year period, in monthly installments.

The balance of the deferred compensation liability, including accrued interest, was \$64,392 and \$61,170 at June 30, 2009 and 2008, respectively.

CLE

CLE has a deferred compensation agreement with its executive director. Under terms of the agreement the CLE may make discretionary contributions to the plan. Approval of discretionary contributions to the deferred compensation plan require Board of Director approval. All contributions are deposited into a trust account. At termination of employment or retirement, payment of the vested deferred compensation, including investment earnings, is required. CLE accrued contributions of \$18,300 and \$18,000 for June 30, 2009 and 2008.

The balance of the deferred compensation liability, including accrued interest, was \$97,430 and \$80,934 at June 30, 2009 and 2008, respectively.

NOTE 9 - SUBSEQUENT EVENTS

The Association adopted Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events*, effective June 30, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued.

The Association evaluated subsequent events through September 8, 2009, the date the financial statements were available to be issued. The Association is not aware of any subsequent events that require recognition or disclosure in the financial statements.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To The Assembly of the
Minnesota State Bar Association and Subsidiary
Minneapolis, Minnesota

Our report on our audits of the basic consolidated financial statements of Minnesota State Bar Association and Subsidiary as of June 30, 2009 and 2008 appears on page 1. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole.

The supplementary information on pages 17-26 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The 2009 and 2008 information, except for that portion marked "budget" which is unaudited and upon which we express no opinion or any other form of assurance, has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

St. Paul, Minnesota
September 8, 2009

Olsen Thilen & Co., Ltd.

MINNESOTA STATE BAR ASSOCIATION (MSBA)

SCHEDULE OF FINANCIAL POSITION INFORMATION

JUNE 30, 2009 AND 2008

ASSETS		
	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,989,897	\$ 3,711,495
Certificates of Deposit	136,788	88,371
Accounts Receivable	76,923	88,844
Prepaid Expenses	7,047	15,319
Total Current Assets	<u>3,210,655</u>	<u>3,904,029</u>
INVESTMENTS - LONG-TERM	<u>2,491,523</u>	<u>2,100,003</u>
PROPERTY AND EQUIPMENT:		
Office Furniture and Equipment	1,121,338	1,105,258
Leasehold Improvements	1,048,812	1,019,155
Less Accumulated Depreciation	<u>(1,905,692)</u>	<u>(1,821,181)</u>
Net Property and Equipment	<u>264,458</u>	<u>303,232</u>
OTHER:		
Cash Value of Life Insurance	<u>64,392</u>	<u>61,170</u>
TOTAL ASSETS	<u>\$ 6,031,028</u>	<u>\$ 6,368,434</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 1,304,547	\$ 1,117,561
Due to Minnesota Continuing Legal Education	-	5,512
Other Payables and Accrued Expenses	35,810	154,334
Deferred Revenue - Dues and Programs	1,921,503	1,664,208
Current Portion of Deferred Revenue - Other	56,330	149,931
Total Current Liabilities	<u>3,318,190</u>	<u>3,091,546</u>
OTHER LIABILITIES:		
Deferred Compensation	64,392	61,170
Deferred Revenue - Other, Net of Current Portion	<u>221,034</u>	<u>404,018</u>
Total Other Liabilities	<u>285,426</u>	<u>465,188</u>
NET ASSETS:		
Unrestricted:		
Appropriated	718,390	722,330
Unappropriated	<u>1,709,022</u>	<u>2,089,370</u>
Total Net Assets	<u>2,427,412</u>	<u>2,811,700</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,031,028</u>	<u>\$ 6,368,434</u>

MINNESOTA STATE BAR ASSOCIATION (MSBA)

**SCHEDULE OF ACTIVITIES INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
REVENUES:		
Membership Dues and Fees	<u>\$ 2,890,251</u>	<u>\$ 2,778,288</u>
Program Revenue:		
Member Services	429,097	449,838
Public Education	40,313	41,901
Communications	339,742	363,481
Other Programs	<u>118,919</u>	<u>184,126</u>
Total Program Revenue	<u>928,071</u>	<u>1,039,346</u>
Other General Revenue	<u>129,746</u>	<u>199,490</u>
Total Revenues	<u>3,948,068</u>	<u>4,017,124</u>
EXPENSES:		
Program Services:		
Member Services	1,195,113	1,169,840
Public Education	172,182	148,095
Communications and Publications	762,699	802,576
Other Programs	<u>505,686</u>	<u>667,731</u>
Total Program Services	<u>2,635,680</u>	<u>2,788,242</u>
General and Administrative	<u>1,347,504</u>	<u>1,381,674</u>
Total Expenses	<u>3,983,184</u>	<u>4,169,916</u>
GENERAL OPERATING, NET	<u>(35,116)</u>	<u>(152,792)</u>
SECTION OPERATING ACTIVITIES:		
Revenues - Dues, Fees, and Other	340,492	351,540
Expenses - Member Services	<u>(369,252)</u>	<u>(288,248)</u>
Section Operating, Net	<u>(28,760)</u>	<u>63,292</u>
LONG-TERM INVESTMENT ACTIVITIES:		
Investment Losses	<u>(320,412)</u>	<u>(189,068)</u>
CHANGE IN NET ASSETS	<u>\$ (384,288)</u>	<u>\$ (278,568)</u>

MINNESOTA STATE BAR ASSOCIATION (MSBA)
SCHEDULE OF CHANGES IN NET ASSETS INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>Appropriated</u>	<u>Unappropriated</u>	<u>Net Assets</u>
Net Assets, June 30, 2007	\$ 617,629	\$ 2,472,639	\$ 3,090,268
Change in Net Assets	<u>104,701</u>	<u>(383,269)</u>	<u>(278,568)</u>
Net Assets, June 30, 2008	722,330	2,089,370	2,811,700
Change in Net Assets	<u>(3,940)</u>	<u>(380,348)</u>	<u>(384,288)</u>
Net Assets, June 30, 2009	<u>\$ 718,390</u>	<u>\$ 1,709,022</u>	<u>\$ 2,427,412</u>

MINNESOTA STATE BAR ASSOCIATION (MSBA)

**SCHEDULE OF CASH FLOWS INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (384,288)	\$ (278,568)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Unrealized (Gains) Losses on Investments	(142,937)	292,655
(Gains) Losses on Sale of Investments	569,619	(63,011)
Amortization of Deferred Revenue - Other	(276,585)	(207,999)
Depreciation and Amortization	84,511	83,858
Changes in Assets and Liabilities:		
Accounts Receivable	11,921	(35,502)
Prepaid Expenses	8,272	10,636
Accounts Payable	186,986	(170,061)
Due to Minnesota Continuing Legal Education	(5,512)	2,003
Other Payables and Accrued Expenses	(118,524)	59,715
Deferred Revenue - Dues and Programs	257,295	(83,897)
Net Cash Provided By (Used In) Operating Activities	<u>190,758</u>	<u>(390,171)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	2,363,922	1,064,239
Purchase of Investments	(3,230,541)	(1,021,923)
Purchases of Property and Equipment	(45,737)	(64,395)
Net Cash Used In Investing Activities	<u>(912,356)</u>	<u>(22,079)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(721,598)	(412,250)
CASH AND CASH EQUIVALENTS at Beginning of Year	<u>3,711,495</u>	<u>4,123,745</u>
CASH AND CASH EQUIVALENTS at End of Year	<u>\$ 2,989,897</u>	<u>\$ 3,711,495</u>

MINNESOTA STATE BAR ASSOCIATION (MSBA)

**SCHEDULE OF GENERAL OPERATING REVENUE – ACTUAL AND BUDGET
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009		2008	
	Actual	Budget	Actual	Budget
Membership Dues and Fees:				
Membership Dues	\$ 2,888,351	\$ 2,897,967	\$ 2,775,890	\$ 2,747,290
Semi-Annual Fees	1,900	2,000	2,398	2,000
Total	<u>2,890,251</u>	<u>2,899,967</u>	<u>2,778,288</u>	<u>2,749,290</u>
Member Services:				
Committee Coordination	2,600	–	65	–
Section Coordination	975	–	57	–
PracticeLaw.org	13,928	50,000	–	–
Attorney Referral Service	14,346	17,500	14,080	17,500
Certification - Civil Trial	57,260	50,900	66,840	51,600
Certification - Real Property	61,680	47,500	66,368	62,675
Legal Assistance to Disadvantaged	96,000	101,000	108,980	101,000
MSBA Advantage	182,308	205,763	193,448	199,363
Total	<u>429,097</u>	<u>472,663</u>	<u>449,838</u>	<u>432,138</u>
Public Education:				
Mock Trial	40,213	41,500	41,901	41,500
Other Programs	100	–	–	–
Total	<u>40,313</u>	<u>41,500</u>	<u>41,901</u>	<u>41,500</u>
Communications and Publications:				
Publications: Bench and Bar	307,478	335,000	309,359	362,000
Legislative Relations	31,614	40,000	54,122	40,000
Media Relations	650	13,000	–	13,000
Total	<u>339,742</u>	<u>388,000</u>	<u>363,481</u>	<u>415,000</u>
Other Programs:				
Annual Convention	75,639	112,000	114,621	128,150
Outside Organizations	36,210	36,110	23,810	36,110
Approved Unbudgeted	4,880	–	45,695	–
Association Governance	2,190	–	–	–
Total	<u>118,919</u>	<u>148,110</u>	<u>184,126</u>	<u>164,260</u>
Other General:				
Office Rent Revenue	–	–	7,082	–
Data Processing	32,198	–	31,427	–
Investment Income	95,993	140,000	159,387	140,000
Miscellaneous	1,555	5,000	1,594	5,000
Total	<u>129,746</u>	<u>145,000</u>	<u>199,490</u>	<u>145,000</u>
TOTAL REVENUE	<u>\$ 3,948,068</u>	<u>\$ 4,095,240</u>	<u>\$ 4,017,124</u>	<u>\$ 3,947,188</u>

MINNESOTA STATE BAR ASSOCIATION (MSBA)

SCHEDULE OF GENERAL OPERATING EXPENSES - ACTUAL AND BUDGET
YEARS ENDED JUNE 30, 2009 AND 2008

	2009				2008	
	Direct Expenses	Personnel Expenses	Total Direct and Personnel	Overhead Allocation	Actual	Budget
Member Services:						
Committee Coordination	\$ 40,645	\$ 170,929	\$ 211,574	\$ 103,910	\$ 315,484	\$ 340,627
Section Coordination	16,773	195,505	212,278	110,404	322,682	361,900
Technology Resource Center	9,701	120,520	130,221	67,542	197,763	222,538
Practacelaw.org	27,932	346,561	374,493	227,303	601,796	742,994
Attorney Referral Service	10,739	15,434	26,173	10,391	36,564	35,672
Certification - Civil Trial	24,305	14,239	38,544	10,000	48,544	50,900
Certification - Real Property	25,337	14,239	39,576	6,000	45,576	63,862
Legal Assistance to Disadvantaged MSBA Advantage	13,161	122,904	136,065	76,634	212,699	253,390
	1,782	24,407	26,189	16,885	43,074	55,434
	<u>170,375</u>	<u>1,024,738</u>	<u>1,195,113</u>	<u>629,069</u>	<u>1,824,182</u>	<u>2,127,317</u>
Public Education:						
Mock Trial	32,806	90,831	123,637	51,955	175,592	171,161
Other Programs	6,022	42,523	48,545	28,575	77,120	92,286
	<u>38,828</u>	<u>133,354</u>	<u>172,182</u>	<u>80,530</u>	<u>252,712</u>	<u>263,447</u>
Communications and Publications:						
Publications: Bench and Bar	309,081	177,263	486,344	241,591	727,935	789,626
Media Relations	122,632	978	123,610	62,346	185,956	203,715
Legislative Relations	141,718	11,027	152,745	64,944	217,689	211,464
	<u>573,431</u>	<u>189,268</u>	<u>762,699</u>	<u>368,881</u>	<u>1,131,580</u>	<u>1,204,805</u>
Other Programs:						
Association Governance	132,515	158,401	290,916	142,876	433,792	468,245
Annual Convention	81,317	33,369	114,686	72,737	187,423	237,454
Impact Fund	-	40,519	40,519	20,782	61,301	66,338
Outside Organizations	6,180	37,459	43,639	-	43,639	59,624
Approved Unbudgeted	15,926	-	15,926	-	15,926	-
	<u>235,938</u>	<u>269,748</u>	<u>505,686</u>	<u>236,395</u>	<u>742,081</u>	<u>831,661</u>
General and Administrative:						
Membership Development	38,252	70,224	108,476	(108,463)	13	-
Membership Promotion	74,824	235,483	310,307	(309,892)	415	-
Office Expenses	314,813	406,684	721,497	(701,484)	20,013	-
Data Processing	90,850	116,374	207,224	(195,036)	12,188	-
	<u>518,739</u>	<u>828,765</u>	<u>1,347,504</u>	<u>(1,314,875)</u>	<u>32,629</u>	<u>-</u>
TOTAL EXPENSES	<u>\$ 1,537,311</u>	<u>\$ 2,445,873</u>	<u>\$ 3,983,184</u>	<u>\$ -</u>	<u>\$ 3,983,184</u>	<u>\$ 4,427,230</u>
					<u>\$ 4,169,916</u>	<u>\$ 4,269,906</u>

MINNESOTA CONTINUING LEGAL EDUCATION
SCHEDULE OF FINANCIAL POSITION INFORMATION
JUNE 30, 2009 AND 2008

ASSETS		
	2009	2008
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 1,299,912	\$ 1,323,136
Investments	579,403	871,451
Accounts Receivable	15,683	24,980
Due from MSBA	-	5,512
Publications Inventory	126,133	49,277
Prepaid Expenses	197,703	192,995
Total Current Assets	2,218,834	2,467,351
INVESTMENTS - LONG-TERM	2,654,691	2,315,461
PROPERTY AND EQUIPMENT:		
Office Furniture and Equipment	1,924,882	1,770,875
Leasehold Improvements	2,692,607	2,689,862
Less Accumulated Depreciation	(3,733,818)	(3,446,925)
Net Property and Equipment	883,671	1,013,812
OTHER:		
Designated Investments	97,430	80,934
TOTAL ASSETS	\$ 5,854,626	\$ 5,877,558
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 105,625	\$ 163,665
Other Payables and Accrued Expenses	338,960	323,282
Deferred Revenue - Dues and Programs	920,172	869,816
Current Portion of Deferred Revenue - Other	36,700	214,248
Total Current Liabilities	1,401,457	1,571,011
OTHER LIABILITIES:		
Deferred Compensation	97,430	80,934
Deferred Revenue - Other, Net of Current Portion	140,683	177,383
Total Other Liabilities	238,113	258,317
NET ASSETS:		
Unrestricted:		
Appropriated	1,300,000	1,100,000
Unappropriated	2,915,056	2,948,230
Total Net Assets	4,215,056	4,048,230
TOTAL LIABILITIES AND NET ASSETS	\$ 5,854,626	\$ 5,877,558

MINNESOTA CONTINUING LEGAL EDUCATION

SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS INFORMATION YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
REVENUES:		
Seminars	\$ 5,888,503	\$ 6,131,475
Publications	938,260	866,337
Webcasts	603,704	438,735
Contributed Services	237,875	225,125
Total Revenues	<u>7,668,342</u>	<u>7,661,672</u>
EXPENSES:		
Program Services:		
Seminars	5,329,581	5,494,530
Publications	931,118	809,409
Webcasts	378,361	357,656
Total Program Services	<u>6,639,060</u>	<u>6,661,595</u>
General and Administrative	<u>787,748</u>	<u>741,814</u>
Total Expenses	<u>7,426,808</u>	<u>7,403,409</u>
Investment Income (Losses)	<u>(74,708)</u>	<u>81,941</u>
CHANGE IN NET ASSETS	166,826	340,204
NET ASSETS at Beginning of Year	<u>4,048,230</u>	<u>3,708,026</u>
NET ASSETS at End of Year	<u>\$ 4,215,056</u>	<u>\$ 4,048,230</u>

MINNESOTA CONTINUING LEGAL EDUCATION

SCHEDULE OF CASH FLOWS INFORMATION YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 166,826	\$ 340,204
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Unrealized (Gains) Losses on Investments	(29,734)	63,844
(Gains) Losses on Sale of Investments	223,827	(29,062)
Amortization of Deferred Revenue - Other	(214,248)	(249,762)
Depreciation and Amortization	286,893	288,671
Changes in Assets and Liabilities:		
Accounts Receivable	9,297	(2,857)
Due from MSBA	5,512	(2,003)
Publications Inventory	(76,856)	15,144
Prepaid Expenses and Other	(21,204)	48,513
Accounts Payable	(58,040)	35,624
Other Accrued Expenses	32,174	32,971
Deferred Revenue - Dues and Programs	50,356	(575)
Net Cash Provided By Operating Activities	<u>374,803</u>	<u>540,712</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	1,727,337	2,249,060
Purchase of Investments	(1,968,612)	(2,824,599)
Purchases of Property and Equipment	(156,752)	(117,948)
Net Cash Used In Investing Activities	<u>(398,027)</u>	<u>(693,487)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,224)	(152,775)
CASH AND CASH EQUIVALENTS at Beginning of Year	<u>1,323,136</u>	<u>1,475,911</u>
CASH AND CASH EQUIVALENTS at End of Year	<u>\$ 1,299,912</u>	<u>\$ 1,323,136</u>

MINNESOTA CONTINUING LEGAL EDUCATION

**SCHEDULE OF REVENUE AND EXPENSES – ACTUAL AND BUDGET
YEARS ENDED JUNE 30, 2009 AND 2008**

	2009		2008
	<u>Totals</u>	<u>Budget</u>	<u>Totals</u>
REVENUES:			
Seminars	\$ 5,888,503	\$ 6,542,382	\$ 6,131,475
Publications	938,260	1,042,425	866,337
Webcasts	603,704	555,000	438,735
Contributed Services	237,875	220,000	225,125
Investment Income	(74,708)	132,000	81,941
Total Revenues	<u>7,593,634</u>	<u>8,491,807</u>	<u>7,743,613</u>
EXPENSES:			
Program Services:			
Seminars:			
Materials Preparation	361,534	524,250	573,359
Promotion	896,283	1,075,850	907,610
Program Facilities	1,167,235	1,242,905	1,144,717
Faculty	561,303	663,900	632,064
Personnel	1,668,183	1,769,196	1,592,365
Other	675,043	719,123	644,415
	<u>5,329,581</u>	<u>5,995,224</u>	<u>5,494,530</u>
Publications:			
Materials Preparation	125,571	141,250	15,774
Promotion	137,484	127,780	91,028
Faculty	8,753	11,500	14,614
Personnel	538,033	565,458	475,059
Other	121,277	137,029	212,934
	<u>931,118</u>	<u>983,017</u>	<u>809,409</u>
Webcasts:			
Materials Preparation	7,034	51,500	26,793
Promotion	54,434	63,170	62,154
Software	23,435	22,379	22,564
Faculty	22,579	8,500	16,194
Personnel	188,706	192,678	174,794
Other	82,173	70,112	55,157
	<u>378,361</u>	<u>408,339</u>	<u>357,656</u>
Supporting Services:			
General and Administrative:			
Personnel	616,986	613,884	576,366
Other	170,762	190,603	165,448
	<u>787,748</u>	<u>804,487</u>	<u>741,814</u>
Total Expenses	<u>7,426,808</u>	<u>8,191,067</u>	<u>7,403,409</u>
Change in Net Assets	<u>\$ 166,826</u>	<u>\$ 300,740</u>	<u>\$ 340,204</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

To the Assembly of the
Minnesota State Bar Association and Subsidiary
Minneapolis, Minnesota

In planning and performing our audit of the consolidated financial statements of Minnesota State Bar Association and Subsidiary as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Minnesota State Bar Association and Subsidiary's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

A fundamental concept in a good system of internal controls is the segregation of duties. Duties should be separated so that no one person performs incompatible duties or has complete control of any type of transaction. Due to the relatively small size of the Association's staff, the Association is not able to attain segregation of duties to the extent required for ideal internal control. This is not unusual in an organization of this size, and generally it is not economically feasible to provide for complete adherence to the segregation of duties concept. In Management's Opinion, they have reduced the risks by doing the following:

- (1) Identify areas where the lack of segregation of duties exists and where there are higher risks of errors or fraud occurring.
- (2) Implement limited segregation to the extent possible to reduce risks without impairing efficiency.
- (3) Use the knowledge that management and the Assembly have of operations by having them review certain accounting records and reports.
- (4) Monitor the effectiveness of the above actions and make changes as considered appropriate.

Other internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with generally accepted accounting principles (GAAP), the preparer must have certain knowledge and expertise.

Association personnel prepare periodic financial statements and other financial information for internal use that meet the needs of management and the Assembly. However, the Association does not have internal resources to prepare full-disclosure financial statements required by GAAP for external reporting. For entities of the Association's size, it generally is not practical to obtain the internal expertise to handle all aspects of the external financial reporting. The Association's management is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the Association's annual financial statements. Management reviews and approves the completed statements and distributes them to the users.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the significant deficiencies described above constitute material weaknesses.

This communication is intended solely for the information and use of management, the Assembly, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

St. Paul, Minnesota
September 8, 2009

Olsen Thilen & Co., Ltd.

Audit Committee
Minnesota State Bar Association and Subsidiary
Minneapolis, Minnesota

We have audited the consolidated financial statements of Minnesota State Bar Association and Subsidiary for the year ended June 30, 2009 and 2008, and have issued our report thereon dated September 8, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 28, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Minnesota State Bar Association and Subsidiary. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to your treasurer in our meeting about planning matters on August 11, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Association are described in Note 1 to the financial statements. The Association adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, in 2008. Expanded disclosure as a result of SFAS No. 157 is detailed in Note 1 of the financial statements. Other than the adoption of SFAS No. 157, the application of existing policies was not changed during the year. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

<u>Estimate</u>	<u>Management's Method of Determination</u>
Depreciation	Based on estimated useful lives of equipment.

We evaluated the key factors and assumptions used to develop this estimate in determining that it was reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. We wish to thank the Association's management and staff for their assistance.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such material misstatements.

Recorded audit adjustments pertaining to investment income (loss) had a material effect on the Association's financial statements. The net effect of the adjustment was to increase the net assets by \$36,088.

In addition, unrecorded audit adjustments pertaining to investments income on rent subsidy funds and cumulative effect of recording rent expense for office on an actual basis rather than a straight-line basis over the life of the lease would have decreased net assets by \$82,065. Management has determined that their effects are immaterial, both individually and in aggregate to the financial statements taken as a whole. We have looked at Management's decision and agree that the unrecorded difference is not significant and effects are immaterial to the financial statements taken as a whole.

Significant Audit Findings (Continued)

Disagreements with Management

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

Management Representation

We have requested certain representations from management that are included in the management representation letter dated September 8, 2009.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of the assembly, audit committee, and management of the Association and is not intended to be and should not be used by anyone other than these specified parties.

Olsen Thielken & Co., Ltd.

St. Paul, Minnesota
September 8, 2009