STATE BAR OF ARIZONA
AND THE CLIENT PROTECTION FUND
OF THE STATE BAR OF ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended December 31, 2020

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

Year Ended December 31, 2020

CONTENTS

MHM

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Governors and Trustees

STATE BAR OF ARIZONA AND
THE CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ***State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona*** (collectively referred to as "the Organization"), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ***State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona*** as of December 31, 2020, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities and change in net assets are presented for the purpose of additional analysis of the consolidated financial statements, rather than to present the financial position, results of operation, and cash flows of the individual organizations, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

As discussed in Note 1 to the consolidated financial statements, ***State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona*** changed their method of accounting for revenue from contracts with customers as a result of the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* effective January 1, 2020, under the modified retrospective method. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

September 20, 2021

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2020

A S S E T S

CURRENT ASSETS	
Cash and cash equivalents	$ 9,958,760
Certificates of deposit	2,200,586
Accounts receivable, net	67,997
Inventories	61,509
Deferred rent - short term	10,055
Prepaid expenses and other assets	464,487
TOTAL CURRENT ASSETS	12,763,394
INVESTMENTS RESTRICTED FOR BENEFIT PLAN	425,015
OTHER ASSETS	60,281
DEFERRED RENT - LONG TERM	62,485
PROPERTY AND EQUIPMENT, net	9,891,779
TOTAL ASSETS	$ 23,202,954

L I A B I L I T I E S A N D N E T A S S E T S

CURRENT LIABILITIES	
Accounts payable	$ 175,377
Property taxes payable	85,315
Accrued liabilities	1,312,398
Prepaid rent liability	27,123
Membership and other fees collected in advance	3,349,412
TOTAL CURRENT LIABILITIES	4,949,625
OTHER LIABILITIES	502,780
TOTAL LIABILITIES	5,452,405
NET ASSETS	
Net assets without donor restrictions	
Undesignated	8,918,430
Board designated	6,369,075
Statute designated	2,463,044
TOTAL NET ASSETS	17,750,549
TOTAL LIABILITES AND NET ASSETS	$ 23,202,954

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended December 31, 2020

SUPPORT AND REVENUE	
Membership fees	
Active	$ 8,892,411
Inactive	1,177,594
Membership fees penalties	408,785
Sections	323,210
Board of legal specializations	96,800
Admission on motion	84,423
	10,983,223
PROGRAM SERVICE REVENUE	
Regulatory	
Judgement receipts	153,341
Professional services	70,950
Reinstatement fees	19,213
Trust account ethics program	6,650
Miscellaneous charges	17,649
	267,803
COMPLIANCE	
Board of legal specializations	44,225
Pro Hac Vice fees	450,726
Reinstatement fees	9,850
Mandatory continuing legal education - late fees	66,826
Miscellaneous charges	150
	571,777
PROFESSIONAL DEVELOPMENT	
Continuing legal education	1,833,168
Convention	342,613
Publications, net of cost of goods sold of $34,582	163,246
Advertising sales	982,740
Arizona Attorney magazine	1,289
Sections meetings and conferences	40,448
Contributions and sponsorships	70,170
Membership benefits	102,108
Other miscellaneous	64,047
	3,599,829
ACCESS TO JUSTICE	
Lawyer referral services	46,775
CLIENT PROTECTION FUND	
Assessments	434,890
Restitution receipts	1,062
	435,952
OTHER REVENUE	
Rental income	500,980
Interest and dividends	45,455
Other	113,451
TOTAL SUPPORT AND REVENUE	16,565,245
EXPENSES	
Program Services:	
Regulatory	6,008,393
Compliance	1,635,228
Professional development	5,047,132
Access to justice	548,646
Client Protection Fund	234,123
Total program services	13,473,522
Management and general	2,112,326
TOTAL EXPENSES	15,585,848
CHANGE IN NET ASSETS	979,397
NET ASSETS, BEGINNING OF YEAR	16,771,152
NET ASSETS, END OF YEAR	$ 17,750,549

See Notes to Consolidated Financial Statements

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2020

	Program Services							
	Regulatory	Compliance	Professional Development	Access to Justice	Client Protection Fund	Total Program Services	Management and General	Total
Salaries and wages	$ 3,441,485	$ 937,761	$ 2,213,557	$ 214,097	$ 86,749	$ 6,893,649	$ 1,044,965	$ 7,938,614
Employee benefits	551,306	178,804	357,158	37,633	16,653	1,141,554	230,821	1,372,375
Payroll taxes	248,845	69,094	160,513	15,236	6,526	500,214	76,598	576,812
Bank/credit card fees	140,265	48,741	166,280	16,548	-	371,834	268	372,102
Claims paid	-	-	-	-	106,793	106,793	-	106,793
Conferences, conventions and meetings	360	1,017	663,678	15	-	665,070	9,018	674,088
Contract labor	-	-	1,148	-	-	1,148	6,854	8,002
Contributions	-	-	17,500	101,166	-	118,666	-	118,666
Depreciation	256,192	99,045	217,717	28,793	-	601,747	186,528	788,275
Information technology	323,418	111,724	293,183	88,377	3	816,705	47,195	863,900
Legal fees	18,871	-	-	-	-	18,871	70,890	89,761
Member research tool	-	-	80,004	-	-	80,004	-	80,004
Occupancy	203,120	79,105	125,018	21,787	10,620	439,650	274,921	714,571
Office expense	106,323	71,044	505,859	18,516	802	702,544	10,174	712,718
Office of Presiding Disciplinary Judge	618,975	-	-	-	-	618,975	-	618,975
Professional services	30,539	16,810	182,861	2,569	-	232,779	62,833	295,612
Training and development	26,127	6,154	24,186	647	154	57,268	13,972	71,240
Other expenses	42,567	15,929	73,052	3,262	5,823	140,633	77,289	217,922
Total expenses	6,008,393	1,635,228	5,081,714	548,646	234,123	13,508,104	2,112,326	15,620,430
Less expenses included with revenues on the statement of activities								
Publications cost of goods sold	-	-	(34,584)	-	-	(34,584)	-	(34,584)
Total expenses included in the expense section of the statement of activities	$ 6,008,393	$ 1,635,228	$ 5,047,130	$ 548,646	$ 234,123	$ 13,473,520	$ 2,112,326	$ 15,585,846

See Notes to Consolidated Financial Statements

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2020

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	$ 979,397
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	788,275
Change in assets and liabilities	
Accounts receivable	6,644
Inventories	(8,825)
Prepaid expenses and other assets	79,100
Investments restricted for benefit plan	(84,487)
Accounts payable	2,772
Property taxes payable	1,882
Accrued liabilities	(181,123)
Deferred rent	24,961
Membership and other fees collected in advance	906,996
Other liabilities	89,789
Net cash provided by operating actitives	2,605,381
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchases of property and equipment	(181,921)
Purchases of certificates of deposit	(2,888,440)
Redemptions of certificates of deposit	2,868,943
Net cash used in investing activities	(201,418)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,403,963
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,554,797
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,958,760

See Notes to Consolidated Financial Statements

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2020

(1) Principal business activity and significant accounting policies

Principal business activity - The State Bar of Arizona ("SBA" or "State Bar") is an Arizona non-profit corporation formed in 1933 and operated under the supervision of the Arizona Supreme Court. SBA regulates approximately 18,970 active attorneys in Arizona and provides education and development programs for the legal profession and the public. The State Bar's mission states that it exists to serve and protect the public with respect to the provision of legal services and access to justice.

Regulatory - Pursuant to Rule 32 of the Supreme Court of Arizona, the State Bar of Arizona assists the Court with the regulation and discipline of persons engaged in the practice of law. The State Bar receives, screens, and investigates complaints against attorneys, which may be dismissed, require remedial action or lead to more formal proceedings resulting in various forms of discipline.

Compliance - Pursuant to Rule 32 of the Supreme Court of Arizona, the State Bar is charged with ensuring the competency of lawyers. Consistent with Rule 44, Legal Specialization, the State Bar administers a program through the Board of Legal Specialization in order to improve the quality of legal services. Additionally, in accordance with Rule 45, Mandatory Continuing Legal Education, the State Bar ensures active members complete required continuing legal education on an annual basis. The State Bar also assists in processing Pro Hac Vice Admissions under Rule 39 and processes In House Counsel registrations under Rule 38.

Professional development - Pursuant to Rule 32 of the Supreme Court of Arizona, the State Bar is to conduct educational programs regarding substantive law, best practices, procedure and ethics and provide forums for discussion regarding the administration of justice and practice of law. The State Bar is also responsible for fostering ideals of integrity, learning, competence, and public service among attorneys and serve the professional needs of its members. The State Bar fosters professional development of attorneys through opportunities to serve on advisory groups, committees, sections, and task forces, and by providing continuing legal education, practice management assistance, legal resources and various other member services.

Access to justice - Pursuant to Rule 32 of the Supreme Court of Arizona, the State Bar mission includes access to justice, which involves efforts to improve access to our legal system for all Arizonians. The Bar carries out this task through its Public Service Center by supporting various legal aid organizations, assisting with access to attorneys, working to educate the public about the legal process, and by supporting the Supreme Court's Access to Justice Commission.

Client Protection Fund - The Client Protection Fund of the State Bar of Arizona ("CPF"): the CPF was established on January 7, 1961, by the Supreme Court of Arizona, pursuant to Arizona Revise Statutes Ct. 32(d)(8). The CPF is a trust that is an entity separate from the State Bar of Arizona but exists as part of the State Bar's business structure. Authority to revoke or amend the Declaration of Trust, which established the CPF, is delegated to the Board of Governors of the State Bar of Arizona. The Declaration of Trust was amended and restated in its entirety on December 13, 2013 and further amended on November 21, 2014, September 29, 2017 and April 16, 2021.

The purpose of the CPF is to promote the public confidence in the administration of justice and the integrity of the legal profession by reimbursing losses caused by the dishonest conduct of lawyers admitted and licensed to practice in Arizona, occurring in the course of the client-lawyer or fiduciary responsibility between the lawyer and the claimant.

(1) Principal business activity and significant accounting policies (continued)

Principles of consolidation - The consolidated financial statements include the accounts of State Bar of Arizona and the CPF because SBA has both control of and an economic interest in the CPF. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as “the Organization”.

Basis of presentation - The Organization maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting classifies various resources in accordance with activities or objectives as specified, in accordance with regulations, restrictions, or limitations imposed by sources outside of the Organization, or in accordance with directions issued by the governing board.

Management's use of estimates - The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated 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 consolidated statement of cash flows, highly liquid investments with a maturity of three months or less at date of purchase are considered cash equivalents. No restricted cash balances existed at December 31, 2020.

The Organization maintains cash balances at various financial institutions. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Organization has not experienced any loss in such accounts.

Accounts receivable - Accounts receivable consist of program service fees, all of which are due in less than one year and, accordingly, are presented as current assets in the accompanying consolidated financial statements. The Organization is exposed to certain credit risk. The Organization manages its risk by regularly reviewing its accounts and by providing appropriate allowances for uncollectible accounts. The Organization deems accounts over 90 days old to be past due. The Organization does not charge interest on late accounts. Accounts receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to revenue and a credit to the allowance for uncollectible accounts based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible accounts and a credit to accounts receivable. As of December 31, 2020, the total allowance for uncollectible accounts was approximately $11,500.

Inventories - Inventories are measured at the lower of cost, determined on a first in, first out basis, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. As of December 31, 2020, inventories consisted of handbooks and textbooks for sale.

Investments - The Organization reports investments in equity securities at fair value. The fair values of investments are based on quoted market prices. Investment income and gains and losses are recorded as increases or decreases in the consolidated statement of activities and change in net assets.

(1) Principal business activity and significant accounting policies (continued)

Property and equipment - Property and equipment additions $5,000 and above for building and improvements, $10,000 or above for tenant leasehold improvements, and $2,500 and above for all other additions, are recorded at cost, or if donated, at fair value on the date of donation. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities and change in net assets. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Depreciation of property and equipment is computed using the straight-line method over the following estimated range of useful lives:

Building, building and land improvements	10 – 39 years
Furniture and equipment	4 – 10 years
Computer software and hardware	3 – 5 years
Capitalized leased assets or leasehold improvements	Lesser of the useful life of the asset or the lease term

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2020.

Membership and other fees collected in advance - Membership fees are assessed in November for the following membership period, which correlates with the Organization's fiscal year. All such fees collected prior to the current year end are recorded as deferred revenue and included in membership and other fees collected in advance in the accompanying consolidated statement of financial position. Additionally, registration fees for Continuing Learning Education (CLE) consists of both "live" and online and on demand courses. All registration fees collected in advance of live events, completion of course or expiration of course access is recorded as membership and other fees collected in advance. Deferred revenue is recognized as income in the year in which it is earned.

Net assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of governors.

Net Assets with Donor Restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization had no donor restricted net assets as of December 31, 2020.

(1) Principal business activity and significant accounting policies (continued)

Revenue from contracts with customers - The State Bar Association ("the Association") has multiple revenue streams that are accounted for as exchange transactions as described below.

Membership fees – Members join the State Bar Association for calendar year annual periods. The Association has allocated the total membership transaction price to the benefits available. As all membership terms terminate at the reporting period end date, all membership revenue is recognized in the calendar year in which it applies. Members generally pay the annual fee in advance. Late fees associated with membership dues are recognized in the period in which they are assessed. Unearned membership dues are reflected as contract liabilities on the consolidated statement of financial position.

Continuing legal education - Continuing legal education ("CLE") revenue is reported at an amount that reflects the consideration to which the Association expects to be entitled in exchange for providing services to their customers. CLE fees grant the right for the customer to access specified programs. As a CLE registration is for a specific event, the Association considers the contract to be a single performance obligation that is met at the point in time in which the CLE program is completed by the customer. Customers may pay in advance of or on the date of the program, generally resulting in contract liabilities.

Other revenue - Other revenue includes Pro Hac Vice, publications revenue, advertising, and other regulatory and compliance fees and is reported at an amount that reflects the consideration to which the Association expects to be entitled in exchange for the goods or services. Amounts received for other fees are recorded as revenue at the point in time the goods or services are transferred to the customer. Payment is due at the time of the sale and this transaction may result in accounts receivable.

As of December 31, 2020 the CPF received a $20 annual assessment from each active and inactive member of the Organization. This is not part of the member's bar fees, but a separate assessment established by the Arizona Supreme Court. Assessments are recognized in the year for which they are assessed.

The beginning and ending balances for contract liabilities and contract assets are as follows:

	Accounts receivable - 1/1/20	Accounts receivable - 12/31/20	Contract liability - 1/1/20	Contract liability - 12/31/20
Membership fees	$ -	$ -	$ 2,004,578	$ 2,637,255
Continuing legal education	-	-	115,228	329,230
Other fees	74,641	67,977	322,610	382,927
Total	$ 74,641	$ 67,977	$ 2,442,416	$ 3,349,412

For the year ended December 31, 2020, revenue recognized under a point in time convention totaled approximately $5,326,292. For the year ended December 31, 2020, revenue recognized under an over-time convention totaled approximately $10,574,438, which includes membership dues.

(1) Principal business activity and significant accounting policies (continued)

Contributions - Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and change in net assets as net assets released from restrictions.

Sponsorship revenue – Sponsorship revenue is accounted for in accordance with ASC 958-605 as an unconditional promise to give. Sponsorship revenue is included in the accompanying consolidated statement of activities as follows:

Contributions and sponsorships	$	70,170
Convention		23,955
Total sponsorship revenue	$	94,125

Donated materials and services - Donated materials and services are reflected as contributions in the accompanying consolidated financial statements at their estimated fair values as of the date of donation. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills are performed by people with those skills and would otherwise be purchased. The Organization utilizes and depends on the services of volunteers to perform a variety of tasks that assist the Organization with specific programs. The value of this contributed time is not reflected in these consolidated financial statements since the services did not require specialized skills and it was not susceptible to objective measurement.

Rental income - Commercial space is rented under long-term operating lease agreements and rent income related to commercial space is recorded on a straight-line basis. Rent income from tenants is recognized in the month in which it is earned rather than received. Any rent received prior to the month of occupancy is reported as prepaid rent. Tenant securities deposits are included in other long-term liabilities.

Advertising and promotion costs - The Organization expenses advertising and promotion costs as incurred. Advertising and promotion expense for the year ended December 31, 2020 was $6,395.

(1) Principal business activity and significant accounting policies (continued)

Functional expense allocation - The costs of providing program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities and change in net assets. The consolidated statement of functional expenses presents the natural classification detail of expense by function. Accordingly, certain departmental costs have been allocated among the programs and supporting services benefited by natural classification. Such allocations are determined by management on an equitable basis.

The departmental expenses that are allocated by natural classification include the following:

Expense	Method of Allocation
Occupancy	Square footage
Information technology	Full time equivalent
Office support services	Full time equivalent
Communications	Full time equivalent
Tucson support office	Full time equivalent

Income and certain excise taxes - SBA is organized as an Arizona non-profit corporation. The Internal Revenue Service has determined that SBA is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(6). Management has determined the CPF is a grantor trust and as such it is a disregarded entity treated as a division of SBA solely for income tax purposes. Accordingly, contributions to either organization do not qualify for the charitable contribution deduction under Section 170(b)(1)(A). The combined entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the combined entity is generally subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes and it files an Exempt Organization Business Income Tax Return (IRS Form 990-T) and the Arizona equivalent (Form 99-T) to report its unrelated business taxable income.

SBA believes that it has appropriate support for any material income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. SBA would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Organization's federal Form 990, 990-T and Arizona Form 99-T are no longer subject to tax examination for years before 2017 and 2016, respectively.

Fair value measurements - The Organization's significant financial instruments include investments, and deferred compensation plan assets. For these financial instruments, carrying values approximate fair value. FASB ASC 820-10, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring the use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

(1) Principal business activity and significant accounting policies (continued)

A three-tier hierarchy categorizes the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 - Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

All the Organization's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values.

Recent accounting pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* that supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. The effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018, unless the entities adopt the provisions of ASU No. 2020-05 as described below. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2017. Transition to the new guidance may be done using either a full or modified retrospective method.

The Organization adopted this standard as of January 1, 2020, using a modified retrospective approach to contracts that were not completed as of this date. Under the modified retrospective approach, the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets.

(1) Principal business activity and significant accounting policies (continued)

The Organization’s revenue from contracts with customers is generated from programs and fees as well as the sale of products and services to customers. These revenue streams predominately contain a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer. The timing of revenue recognition of the Organization’s revenue streams is not affected by the new standard and there was no cumulative effect of the adoption to beginning net assets as of January 1, 2020.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02 to improve financial reporting about leasing transactions (Topic 842). The ASU affects all lease transactions. The Organization as a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the consolidated statement of financial position. For leases greater than twelve months, the Organization as a lessee must also recognize interest on the lease liability separately from amortization of the right-of-use asset in the consolidated statement of activities and change in net assets. Repayments of the principal portion of the lease liability must be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the consolidated statement of cash flows. Leases for less than twelve months recognize a single lease cost on a straight-line basis. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. The Organization is currently evaluating the impact of adopting ASU 2016-02 and has not determined the effect to the consolidated financial statements. The standard requires a modified retrospective approach to implementation.

Subsequent events - The Organization has evaluated subsequent events through September 20, 2021, which is the date the consolidated financial statements were available to be issued.

(2) Certificates of deposit

The CPF invests in the Certificate of Deposit Account Registry Service (“CDARS”). The CDARS program allows the Organization to purchase certificates of deposit, each within the applicable federal insurance limit, from participating U.S. banks. All certificates of deposit are recorded at amortized cost and are scheduled to mature in 2021. Funds from the maturity of certificates of deposit are generally reinvested in certificates of deposit.

(3) Liquidity and availability of resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date are as follows:

Financial assets at year-end	
Cash and cash equivalents	$ 9,958,760
Certificates of deposit	2,200,586
Accounts receivable, net	67,997
Total financial assets available within one year	12,227,343
Less:	
Board-designated funds	6,369,075
Statute designated funds	2,463,044
	8,832,119
Financial assets available to meet general expenditures over the next twelve months	$ 3,395,224

STATE BAR OF ARIZONA AND THE CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2020

(3) Liquidity and availability of resources (continued)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the Organization had Board-designated net assets without donor restrictions that, while the Organization does not intend to spend for these purposes, the amounts could be made available for current operations, if necessary.

(4) Fair value measurements and disclosures

The following table presents assets measured at fair value on a recurring basis at December 31, 2020.

		Fair Value Measurements at Report Date Using		
		Quoted Prices In Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Equity securities for benefit plan	$ 425,015	$ 425,015	$ -	$ -

(5) Property and equipment

Property and equipment consisted of the following at December 31, 2020:

Land	$ 1,753,943
Land improvements	116,195
Buildings	7,739,696
Building improvements	5,411,857
Furniture and equipment	2,055,965
Computer hardware	1,037,779
Computer software	605,807
Total cost or donated value	18,721,242
Accumulated depreciation	(8,829,463)
Property and equipment, net	$ 9,891,779

(6) Line of credit

SBA had a $4,000,000 revolving line of credit with a financial institution which expired February 2021. The line of credit bears interest at the Prime rate less 1.25% (2% at December 31, 2020). This line of credit was collateralized by a first deed of trust, together with an assignment of rents and leases on real property and improvements. No interest expense was incurred during 2020. There were no amounts outstanding on the line of credit as of December 31, 2020. The line of credit is subject to certain financial and non-financial covenants. The line of credit was not renewed upon expiration.

(7) Net assets

Each of the Organization's 31 sections charge separate fees and may only spend out of their current year income or their cumulative surplus, if any. The remaining balances are designated by the Organization's Board of Governors for that specific section. The section carryover totaled $714,589 as of December 31, 2020.

The Board of Directors adopted a cash reserve policy during the year ended December 31, 2017. Under this policy $5,654,486 as of December 31, 2020, has been designated and allocated between Membership Fees Reserve and Capital Projects Reserves.

Additionally, the net assets of the CPF are designated by Arizona State Statue to only be used for the purposes of the CPF as set forth in the trust agreement and per statute mandate.

(8) Leasing activities

The Organization leases office space to the Arizona Foundation for Legal Services & Education (the "Foundation") under an operating lease agreement ending on January 31, 2028. In addition to this lease agreement, the State Bar has a memorandum of understanding in which the State Bar donates 1% of membership fees collected to the Foundation. This donation is required to be utilized to implement pro bono legal service programs and promote pro bono involvement with legal services. For years beginning 2019 and forward, the reduction of rent is expected to be $60,000 annually, to be adjusted based on the actual membership fees collected. Minimum future rental payments to be received under this lease including the above referenced in-kind reductions at December 31, 2020 are as follows:

Years ending December 31,	
2021	$ 94,278
2022	94,278
2023	96,552
2024	96,759
2025	96,759
Thereafter	201,581
Total minimum lease receipts	$ 680,207

The Organization also leases office space to unrelated third parties. The lease terms call for monthly payments of approximately $24,000, maturing through November 2023. Minimum future rental payments to be received on these non-cancelable leases at December 31, 2020 are as follows:

Years ending December 31,	
2021	$ 316,215
2022	261,229
2023	96,339
Total minimum lease receipts	$ 673,783

(9) Leasing commitments

The Organization leases offsite storage and convention and meeting facilities with varying minimum annual payments under non-cancelable lease agreements. Lease expense under these agreements was $19,200 during the year ended December 31, 2020. Future minimum lease payments under operating leases are $8,000 due in the year ending December 31, 2021.

(10) Retirement plans

Defined contribution plan - SBA sponsors a defined contribution plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code covering substantially all employees who meet specified age and years of service requirements. SBA may make discretionary contributions on behalf of participants. This plan was restated as of January 1, 2015. The entry date was changed from the January 1 and July 1 following when the employee had satisfied the eligibility requirements, to the first day of the month following the date the employee satisfies eligibility requirements. The plan now includes an automatic deferral feature and adopted a safe harbor plan. Under the safe harbor election SBA is required to make safe harbor matching contributions equal to 100% of the salary deferrals that do not exceed 1% of the employee's compensation plus 50% of the employee's salary deferrals between 1% and 6% of compensation. The safe harbor matching contribution is subject to a different vesting schedule from the employer discretionary non-elective contributions to the plan. The vesting schedule for the employer qualified safe harbor contributions is 0% for one year of service or less and 100% for two years of service or more. During the year ended December 31, 2020, SBA contributed approximately $554,000 to the 401(k) plan.

Deferred compensation plan - The Organization sponsors a non-qualified deferred compensation plan (the Non-Qualified 457b Plan) for top management employees. This plan allows for deferral of employee salary, as well as discretionary contributions from SBA. Participant contributions are fully vested upon funding. Discretionary employer contributions are made in the first quarter of each fiscal year and fully vest on June 30 of the same year. As of December 31, 2020, all contributions to this plan are fully vested. This plan was restated as of January 1, 2015 and maintains all qualities and characteristics with the exception employees are divided between two tiers with only the top tier eligible to benefit from discretionary employer contributions, and that vesting is achieved over the employee's period of service. The liability related to the plan totaled approximately $425,000 at December 31, 2020 and is included in other liabilities on the consolidated statement of financial position. During the year ended December 31, 2020, SBA contributed $30,000 to the 457b plan.

(11) Related parties

SBA appoints six of the 25 members of the Board of Directors for the Foundation. Transactions with the Foundation include the following as of and for the year ended December 31, 2020:

In-kind expense - rent (see Note 8)	$	60,000
Accounts payable	$	59,220
Rental income - straight line (see Note 8 – includes common area maintenance recovery)	$	87,930
Expenses (cash paid - 1% Pro Bono & Mock Trial)	$	56,166

(12) Risks and uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations and travel.

The COVID-19 outbreak has triggered volatility in financial markets and a significant negative impact on the global economy. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on members, convention exhibitors, employees and vendors, all of which are uncertain and cannot be predicted and are expected to impact membership fees and continuing legal education revenue for the remainder of 2021.

In 2020 the State Bar of Arizona’s operations and financial results were impacted by COVID-19. It actively began transitioning to remote operation in March 2020. As a result, the State Bar experienced a reduction in Professional Development revenues. The reduction was mainly related to continuing legal education, convention and section meetings and conferences, as well as a reduction in Compliance revenue related to the deferral of the MCLE filing deadlines. In addition, the State Bar realized significant savings in 2020, largely due to the cancellation of in-person meetings and travel. It plans to continue to adjust operations utilizing a hybrid operations model (both on-site and remote) based upon guidance and information received from the Centers for Disease Control and Prevention (CDC) and state health officials.

From time to time, the Organization may become involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

(13) Commitments

As of December 31, 2020, SBA had signed various contracts with convention locations for future years. These contracts include minimum revenue guarantees and are subject to a cancellation fee if terminated early. The following is a summary of approximate future minimum guaranteed payments under these contracts:

Years ending December 31,		
2021	$	548,285
2022		529,040
2023		375,912
2024		376,002
Total minimum payments	$	1,829,239

Subsequent to year end, the Organization entered into cancellation agreements with no cancellation damages, and amendment of event dates on existing contracts resulting in a reduction of 2021 commitments by approximately $473,000 and an increase to 2023 commitments by approximately $163,000.

SUPPLEMENTARY INFORMATION

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2020

ASSETS	SBA	CPF	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 9,669,727	$ 289,033	$ -	$ 9,958,760
Certificates of deposit	-	2,200,586	-	2,200,586
Accounts receivable, net	95,872	108,355	(136,230)	67,997
Inventories	61,509	-	-	61,509
Deferred rent - short term	10,055	-	-	10,055
Prepaid expenses and other assets	464,487	-	-	464,487
TOTAL CURRENT ASSETS	10,301,650	2,597,974	(136,230)	12,763,394
INVESTMENTS RESTRICTED FOR BENEFIT PLAN	425,015	-	-	425,015
OTHER ASSETS	60,281	-	-	60,281
DEFERRED RENT - LONG TERM	62,485	-	-	62,485
PROPERTY AND EQUIPMENT, net	9,891,779	-	-	9,891,779
TOTAL ASSETS	$ 20,741,210	$ 2,597,974	$ (136,230)	$ 23,202,954

LIABILITIES AND NET ASSETS	SBA	CPF	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable	$ 175,377	$ -	$ -	$ 175,377
Property taxes payable	85,315	-	-	85,315
Accrued liabilities	1,420,753	27,875	(136,230)	1,312,398
Prepaid rent liability	27,123	-	-	27,123
Membership and other fees collected in advance	3,242,357	107,055	-	3,349,412
TOTAL CURRENT LIABILITIES	4,950,925	134,930	(136,230)	4,949,625
OTHER LIABILITIES	502,780	-	-	502,780
TOTAL LIABILITIES	5,453,705	134,930	(136,230)	5,452,405
NET ASSETS				
Net assets without donor restrictions				
Undesignated	8,918,430	-	-	8,918,430
Board designated	6,369,075	-	-	6,369,075
Statute designated	-	2,463,044	-	2,463,044
TOTAL NET ASSETS	15,287,505	2,463,044	-	17,750,549
TOTAL LIABILITIES AND NET ASSETS	$ 20,741,210	$ 2,597,974	$ (136,230)	$ 23,202,954

STATE BAR OF ARIZONA AND THE
CLIENT PROTECTION FUND OF THE STATE BAR OF ARIZONA

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended December 31, 2020

	SBA	CPF	Eliminations	Total
SUPPORT AND REVENUE				
Membership fees				
Active	$ 8,892,411	$ -	$ -	$ 8,892,411
Inactive	1,177,594	-	-	1,177,594
Membership fees penalties	408,785	-	-	408,785
Sections	323,210	-	-	323,210
Board of legal specializations	96,800	-	-	96,800
Admission on motion	84,423	-	-	84,423
	10,983,223	-	-	10,983,223
PROGRAM SERVICE REVENUE				
Regulatory				
Judgement receipts	153,341	-	-	153,341
Professional services	70,950	-	-	70,950
Reinstatement fees	19,213	-	-	19,213
Trust account ethics program	6,650	-	-	6,650
Miscellaneous charges	17,649	-	-	17,649
	267,803	-	-	267,803
COMPLIANCE				
Board of legal specializations	44,225	-	-	44,225
Legal Services	127,330	-	(127,330)	-
Pro Hac Vice fees	450,726	-	-	450,726
Reinstatement Fees	9,850	-	-	9,850
Mandatory continuing legal education - late fees	66,826	-	-	66,826
Miscellaneous charges	150	-	-	150
	699,107	-	(127,330)	571,777
PROFESSIONAL DEVELOPMENT				
Continuing legal education	1,833,168	-	-	1,833,168
Convention	342,613	-	-	342,613
Publications, net of cost of goods sold of $34,582	163,246	-	-	163,246
Advertising sales	982,740	-	-	982,740
Arizona Attorney magazine	1,289	-	-	1,289
Sections meetings and conferences	40,448	-	-	40,448
Contributions and sponsorships	70,170	-	-	70,170
Membership benefits	102,108	-	-	102,108
Other miscellaneous	64,047	-	-	64,047
	3,599,829	-	-	3,599,829
ACCESS TO JUSTICE				
Lawyer referral services	46,775	-	-	46,775
CLIENT PROTECTIONS FUND				
Assessments	-	435,390	(500)	434,890
Restitution receipts	-	1,062	-	1,062
	-	436,452	(500)	435,952
OTHER REVENUE				
Rental income	500,980	-	-	500,980
Interest and dividends	25,817	19,638	-	45,455
Other	113,451	-	-	113,451
TOTAL SUPPORT AND REVENUE	16,236,985	456,090	(127,830)	16,565,245
EXPENSES				
Program Services:				
Regulatory	6,008,393	-	-	6,008,393
Compliance	1,635,228	-	-	1,635,228
Professional development	5,047,132	-	-	5,047,132
Access to justice	548,646	-	-	548,646
Client Protection Fund	116,710	234,123	(116,710)	234,123
Total program services	13,356,109	234,123	(116,710)	13,473,522
Management and general	2,123,446	-	(11,120)	2,112,326
TOTAL EXPENSES	15,479,555	234,123	(127,830)	15,585,848
CHANGE IN NET ASSETS	757,430	221,967	-	979,397
NET ASSETS, BEGINNING OF YEAR	14,530,075	2,241,077	-	16,771,152
NET ASSETS, END OF YEAR	$ 15,287,505	$ 2,463,044	$ -	$ 17,750,549