

State Bar of Arizona

**Independent Auditor's Report
and
Financial Statements**

December 31, 2008 and 2007

State Bar of Arizona
December 31, 2008 and 2007

Table of Contents

Independent Auditor's Report.....	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5

Independent Auditor's Report

The Board of Governors of
State Bar of Arizona

We have audited the accompanying statements of financial position of the State Bar of Arizona as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the State Bar of Arizona. 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 financial statements referred to above present fairly, in all material respects, the financial position of the State Bar of Arizona at December 31, 2008 and 2007, 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.



May 23, 2009

State Bar of Arizona
Statements of Financial Position
December 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 387,511	\$ 431,185
Accounts receivable (net of allowances of \$17,199 in 2008 and \$14,355 in 2007)	144,473	155,856
Inventories	48,239	61,912
Amount due from affiliated organization	-	392
Prepaid expenses	258,444	234,490
	838,667	883,835
Property and equipment, net	11,481,973	9,697,888
Other assets	52,251	11,335
	\$ 12,372,891	\$ 10,593,058
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Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 177,677	\$ 224,273
Property taxes payable	108,388	96,810
Accrued liabilities	687,297	1,039,621
Dues and fees collected in advance	2,488,945	1,651,796
	3,462,307	3,012,500
Line of credit payable	2,959,000	1,490,000
Other liabilities	25,101	25,101
	6,446,408	4,527,601
Net assets:		
Unrestricted	5,926,483	6,065,457
	\$ 12,372,891	\$ 10,593,058
	\$ 12,372,891	\$ 10,593,058

See accompanying notes to financial statements.

State Bar of Arizona
Statements of Activities
For the Years Ended December 31, 2008 and 2007

	2008	2007
Revenue:		
Dues -		
Active	\$ 6,540,672	\$ 6,395,834
Inactive	764,700	768,950
Sections	282,182	282,735
Board of Legal Specialization	139,014	142,925
Fees -		
Continuing legal education	2,535,892	2,395,752
Convention	560,129	626,692
Lawyer regulations	212,717	194,763
Board of Legal Specialization	22,560	47,267
Law office management assistance program	64,474	76,371
Publication and advertising sales -		
Arizona Attorney Magazine	547,662	554,619
Membership directory	159,393	164,955
Website	56,151	40,103
Mailing lists and labels	19,148	47,896
Economic survey	8,575	20,490
Late fees mandatory continuing legal education	426,612	177,360
Interest and dividends	12,127	44,801
Sections - other	133,635	129,194
Membership benefits	20,567	20,707
Special services	88,134	83,653
Rental income	648,645	625,368
Contributions and sponsorships	280,094	91,349
Pro Hac Vice	412,693	406,051
Membership assistance program	59,453	55,488
Other	19,575	45,992
	14,014,804	13,439,315
Expenses and losses:		
Program Services:		
Discipline	5,095,111	4,557,357
Member services	5,368,386	4,775,188
Support Services		
Management and general	2,813,512	2,676,851
Building related	875,276	947,066
	14,152,285	12,956,462
Loss on disposal of equipment	1,493	536
	14,153,778	12,956,998
Change in net assets	(138,974)	482,317
Unrestricted net assets, beginning of year	6,065,457	5,583,140
Unrestricted net assets, end of year	\$ 5,926,483	\$ 6,065,457

See accompanying notes to financial statements.

State Bar of Arizona
Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (138,974)	\$ 482,317
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	485,730	730,637
Loss on disposal of assets	1,493	536
Bad debt expense	11,080	(6,680)
Changes in operating assets and liabilities:		
(Increase)/decrease:		
Accounts receivable	303	(24,505)
Inventories	13,673	8,569
Amount due from affiliated organization	392	9,995
Prepaid expenses	(23,954)	(18,278)
Other assets	(51,460)	-
Increase/(decrease):		
Accounts payable	(74,374)	19,133
Property taxes payable	11,578	8,894
Accrued liabilities	(352,324)	71,029
Dues and fees collected in advance	837,149	(291,455)
	720,312	990,192
Cash flows from financing activities:		
Proceeds from line of credit	4,702,000	2,450,000
Principal payments on line of credit	(3,233,000)	(2,800,000)
	1,469,000	(350,000)
Cash flows from investing activities:		
Purchase of property and equipment	(2,232,986)	(429,543)
	(2,232,986)	(429,543)
Net increase (decrease) in cash and cash equivalents	(43,674)	210,649
Cash and cash equivalents, beginning of year	431,185	220,536
Cash and cash equivalents, end of year	\$ 387,511	\$ 431,185
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 65,388	\$ 39,779
Unrelated business income taxes paid	46,139	207,159
Supplemental Schedule of Noncash Investing and Financing Activities:		
Purchased equipment included in accounts payable at year-end.	\$ 27,778	

See accompanying notes to financial statements.

State Bar of Arizona
Notes to Financial Statements
December 31, 2008 and 2007

Note 1 - Nature of the Organization

The State Bar of Arizona (State Bar) is a private, nonprofit Arizona corporation that was founded in 1933 for the advancement of the administration of justice, the regulation of persons seeking to practice law, the regulation and discipline of persons engaged in the practice of law and other purposes. The State Bar has been determined exempt from federal income taxes under §501(c)(6) of the Internal Revenue Code.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the State Bar conform to U.S. generally accepted accounting principles as applicable to nonprofit organizations. The more significant accounting policies of the State Bar are described below.

Financial Statement Presentation – The State Bar has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

Basis of Accounting - The financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred.

Contributions – The State Bar has also elected to adopt SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Contributed Services - Donated materials and professional services are reflected as contributions in the accompanying financial statements at their estimated values at the date of receipt. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of SFAS No. 116; however, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services.

Estimates - The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents - For purposes of the statement of cash flows, the State Bar considers all liquid investments with initial maturities of three months or less to be cash equivalents.

Comparative Data – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

State Bar of Arizona
Notes to Financial Statements
December 31, 2008 and 2007

Accounts Receivable – Accounts receivables are stated at the amount the State Bar expects to collect from outstanding balances. The State Bar provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the State Bar has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Inventories – Inventories consist of publications related to continuing legal education and are valued at the lower of cost (determined by the first-in, first-out method) or market.

Property and Equipment - Property and equipment are stated at cost, if purchased, or at fair market value, if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets generally as follows.

Buildings	39 years
Building Improvements	10 to 39 years
Furniture and equipment	4 to 10 years
Computer hardware	4 to 5 years
Computer software	3 to 5 years
Vehicles	5 to 7 years

The State Bar has a capitalization threshold policy of \$1,000 for property and equipment.

Impairment of long-lived assets – The State Bar accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

Note 3 - Cash and Cash Equivalents

The State Bar's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The State Bar places its cash with institutions of high credit-worthiness. At year-end, cash and cash equivalents consisted of the following:

	<u>2008</u>	<u>2007</u>
Cash on hand	\$ 1,975	\$ 1,725
Cash in bank	385,536	429,460
	<u>\$ 387,511</u>	<u>\$ 431,185</u>

State Bar of Arizona
Notes to Financial Statements
December 31, 2008 and 2007

The amount of uninsured and uncollateralized cash in bank was \$214,173 and \$382,751 at December 31, 2008 and 2007, respectively.

Note 4 - Property and Equipment

	<u>2008</u>	<u>2007</u>
Property and equipment consists of:		
Cost or donated value:		
Land	\$ 1,753,943	\$ 1,134,175
Land improvements	107,063	-
Building	7,739,696	7,298,354
Building Improvements	1,733,296	1,362,492
Furniture and equipment	1,246,534	1,140,311
Computer hardware	926,745	674,568
Computer software	988,609	963,450
Construction in progress	151,222	1,045
Leasehold improvements	2,233	2,233
Total cost or donated value	<u>14,649,341</u>	<u>12,576,628</u>
Accumulated depreciation and amortization	<u>(3,167,368)</u>	<u>(2,878,740)</u>
Property and equipment, net	<u>\$ 11,481,973</u>	<u>\$ 9,697,888</u>

Depreciation and amortization expense charged to operations was \$485,730 for 2008 and \$730,637 for 2007.

Note 5 - Membership Dues and Fees Collected in Advance

Amounts received in advance for annual membership dues and various other fees are deferred and recognized as revenue in the year in which they are earned. Dues and fees collected in advance consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Membership, section, and other dues	\$ 2,182,827	\$ 1,462,666
Continuing legal education	166,141	144,404
Other	139,977	44,726
Total dues and fees collected in advance	<u>\$ 2,488,945</u>	<u>\$ 1,651,796</u>

Note 6 - Client Protection Fund

The State Bar collects fees from its members in order to sustain a Client Protection Fund (the Fund) established to protect clients of State Bar members. The State Bar appoints trustees to administer the Fund. The Fund is maintained as a separate trust and is not included in the accounts of the State Bar.

State Bar of Arizona
Notes to Financial Statements
December 31, 2008 and 2007

Accrued liabilities includes approximately \$54,065 and \$129,552 at December 31, 2008 and 2007, respectively, of such fees collected by the State Bar, but not yet disbursed to the Fund.

Note 7 - Line of Credit Payable

In 2008, the State Bar updated their existing revolving line of credit agreement with Wells Fargo Bank to a maximum amount of \$9,000,000. The maximum amount under the line of credit balance will be reduced every quarter by \$90,000 until the expiration date of the agreement, July 25, 2014. The line of credit agreement requires that the State Bar make 59 consecutive interest payments and the principal is not due until the expiration of the agreement. The interest rate on the line of credit at December 31, 2008 and 2007 was 2.40% and 7.00%, respectively. The line of credit is secured by a first deed of trust, together with an assignment of rents and leases on real property and improvements.

The total maximum available on the line of credit at December 31, 2008 and 2007 was \$5,861,000 and \$7,107,750, respectively, and is secured by real property. The outstanding loan balance at December 31, 2008 and 2007 was \$2,959,000 and \$1,490,000, respectively.

Note 8 - Designated Net Assets

The activities of 29 Sections of the State Bar have resulted in a cumulative surplus of \$256,591 and \$276,674 at December 31, 2008 and 2007, respectively. These funds are commingled with the State Bar's cash funds but have been designated for use by the respective Sections.

Note 9- Pension Plans

The State Bar sponsors a defined contribution plan covering substantially all of its employees. Contributions are determined as 7% of each covered employee's total earnings up to the social security wage base. An additional 5.7% is contributed for the wages in excess of the prevailing social security wage base.

The State Bar administers a 401(k) plan that provides for a discretionary match on elective contributions by the State Bar. The State Bar may make matching contributions on behalf of participants who make elective contributions in an amount determined by the State Bar in its sole discretion for each plan year.

Total employer pension and 401(k) expense for 2008 and 2007 was approximately \$394,831 and \$383,419, respectively.

State Bar of Arizona
Notes to Financial Statements
December 31, 2008 and 2007

Note 10 - Related Party Transactions

The State Bar collects the Client Protection Fund of the State Bar of Arizona (the Fund) assessment revenue and transfers it to the Fund annually. The Fund pays the State Bar of Arizona administrative fees. The total administrative fees charged totaled \$88,133 and \$83,653 for the years ended December 31, 2008 and 2007, respectively.

The State Bar periodically makes advances to the Arizona Foundation for Legal Services & Education (Foundation), formerly the Arizona Bar Foundation, an organization closely associated with the State Bar. Such advances are repaid during the normal course of business. The Foundation is a nonprofit charitable and educational organization which has 6 of its 25 Directors appointed by the Board of Governors of the State Bar. Amounts due from the Foundation at December 31, 2008 and 2007 were \$-0- and \$392, respectively.

The State Bar has performed certain management functions under a contract for the Foundation at a fee. The total agreed upon management fees reimbursed by the Foundation was approximately \$20,960 for 2008 and \$146,240 for 2007.

The State Bar currently leases 8,459 square feet of office space to the Foundation under a 10 year operating lease agreement, which went into effect in April 2005 and was amended September 1, 2007. The Foundation has an option to cancel the lease agreement any time after March 31, 2010. Rental payments under the terms of the operating lease were approximately \$182,200 and \$95,900 for the years ended December 31, 2008 and 2007, respectively. The following schedule details the amount of minimum rentals to be received as of December 31, 2008 from the Foundation.

Year ending December 31,	
2009	\$ 186,285
2010	195,406
2011	200,131
2012	202,377
2013	204,623
2014-2015	258,726
Total minimum lease payments	<u>\$ 1,247,548</u>

Note 11 - Unrelated Business Income

The State Bar generates unrelated business income from advertising sales and endorsement revenue. Federal and State unrelated business income tax expense was estimated to be \$46,139 for 2008 and was \$207,159 for 2007.

State Bar of Arizona
Notes to Financial Statements
December 31, 2008 and 2007

Note 12- Operating Leases

Lessor

The State Bar leases office space to four tenants, including the Foundation, in its building located at 4201 North 24th Street, Phoenix, Arizona 85016. The State Bar has entered into an agreement with an organization to bill and collect rent from the tenants on behalf of the State Bar. The State Bar pays the organization a 2% leasing fee. The State Bar received \$604,751 and \$588,282 of lease payments during the year ended December 31, 2008 and 2007, respectively.

The following schedule details the amount of minimum rentals to be received as of December 31, 2008.

Year ending December 31,	
2009	\$ 544,220
2010	376,420
2011	200,131
2012	202,377
2013	204,623
2014-2015	<u>258,726</u>
Total minimum lease payments	<u>\$ 1,786,497</u>

Note 13- Contingencies

The State Bar is involved in a number of legal proceedings which represent litigation related to its business. In the State Bar's opinion, none of these legal proceedings currently pending will have a material adverse effect upon the financial position or results of operations.