

State Bar of Arizona

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

December 31, 2009 and 2008

State Bar of Arizona
December 31, 2009 and 2008

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



Mark L. Landy, CPA
Stephen T. Harris, CPA
Thomas L. Friend, CPA
Robert N. Snyder, CPA

Robert L. Miller, CPA
(1931 - 1992)

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, 2009 and 2008, 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, 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.

Miller, Allen & Co., P.C.
April 21, 2010

State Bar of Arizona
Statements of Financial Position
December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,402	\$ 387,511
Accounts receivable (net of allowances of \$16,034 in 2009 and \$17,199 in 2008)	102,023	144,473
Inventories	42,343	48,239
Prepaid expenses	265,493	258,444
	606,261	838,667
Property and equipment, net	11,343,569	11,481,973
Other assets	27,007	52,251
	\$ 11,976,837	\$ 12,372,891
	\$ 11,976,837	\$ 12,372,891
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 122,174	\$ 177,677
Property taxes payable	109,369	108,388
Accrued liabilities	730,210	687,297
Dues and fees collected in advance	2,967,667	2,488,945
	3,929,420	3,462,307
Line of credit payable	1,250,000	2,959,000
Other liabilities	26,751	25,101
	5,206,171	6,446,408
Net assets:		
Unrestricted	6,770,666	5,926,483
	\$ 11,976,837	\$ 12,372,891
	\$ 11,976,837	\$ 12,372,891

See accompanying notes to financial statements.

State Bar of Arizona
Statements of Activities
For the Years Ended December 31, 2009 and 2008

	2009	2008
Revenue:		
Dues -		
Active	\$ 6,997,192	\$ 6,540,672
Inactive	845,215	764,700
Sections	290,900	282,182
Board of Legal Specialization	135,720	139,014
Fees -		
Continuing legal education	2,444,233	2,533,792
Convention	625,562	560,129
Lawyer regulations	187,362	212,717
Law office management assistance program	106,224	64,474
Board of Legal Specialization	37,025	22,560
Publication and advertising sales -		
Arizona Attorney Magazine	503,993	547,662
Membership directory	119,378	159,393
Website	44,701	56,151
Mailing lists and labels	10,681	19,148
Economic survey	1,123	8,575
Rental income	552,056	648,645
Pro Hac Vice	450,801	412,693
Late fees mandatory continuing legal education	316,015	426,612
Sections - other	144,183	133,635
Special services	91,516	88,134
Contributions and sponsorships	82,555	282,094
Membership assistance program	61,595	59,453
Membership benefits	17,156	20,567
Interest and dividends	6,411	12,127
Other	110,050	19,675
	14,181,647	14,014,804
Expenses and losses:		
Program Services:		
Discipline	4,950,498	5,095,111
Member services	4,645,264	5,368,386
Support Services		
Management and general	2,826,408	2,813,512
Building related	915,294	875,276
	13,337,464	14,152,285
Loss on disposal of equipment	-	1,493
	13,337,464	14,153,778
Change in net assets	844,183	(138,974)
Unrestricted net assets, beginning of year	5,926,483	6,065,457
Unrestricted net assets, end of year	\$ 6,770,666	\$ 5,926,483

See accompanying notes to financial statements.

State Bar of Arizona
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 844,183	\$ (138,974)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	530,404	485,730
Loss on disposal of assets	-	1,493
Bad debt expense	-	11,080
Changes in operating assets and liabilities:		
(Increase)/decrease:		
Accounts receivable	42,450	303
Inventories	5,896	13,673
Amount due from affiliated organization	-	392
Prepaid expenses	(7,049)	(23,954)
Other assets	20,001	(51,460)
Increase/(decrease):		
Accounts payable	(55,503)	(74,374)
Property taxes payable	981	11,578
Accrued liabilities	42,913	(352,324)
Dues and fees collected in advance	478,722	837,149
Other liabilities	1,650	
Net cash provided by operating activities	1,904,648	720,312
Cash flows from financing activities:		
Proceeds from line of credit	3,080,000	4,702,000
Principal payments on line of credit	(4,789,000)	(3,233,000)
Net cash provided by (used for) financing activities	(1,709,000)	1,469,000
Cash flows from investing activities:		
Purchase of property and equipment	(386,757)	(2,232,986)
Net cash used in investing activities	(386,757)	(2,232,986)
Net decrease in cash and cash equivalents	(191,109)	(43,674)
Cash and cash equivalents, beginning of year	387,511	431,185
Cash and cash equivalents, end of year	\$ 196,402	\$ 387,511
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 20,937	\$ 65,388
Unrelated business income taxes paid	1,489	46,139
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, 2009 and 2008

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. On June 29, 2009, the Financial Accounting Standards Board (FASB) issued Statement 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* (codified in FASB ASC 105, *Generally Accepted Accounting Principles*), which approved the FASB Accounting Standards Codification (Codification) as the single source of authoritative nongovernmental GAAP. The Codification is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The adoption of FASB ASC 105 did not impact the State Bar's financial condition or results of operations. All accounting references within this report are in accordance with the new Codification.

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* (codified in FASB ASC 958-205, *Presentation of Financial Statements*).

New Accounting Pronouncements - In May 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 165, *Subsequent Events* (codified in FASB ASC 855, *Subsequent Events*), which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date but before financial statements are issued or are available to be issued. SFAS No. 165 applies prospectively to annual financial periods ending after June 15, 2009. The State Bar adoption of SFAS No. 165 in the year ended December 31, 2009 did not have a significant impact on the State Bar's financial statements. In connection with preparation of the financial statements, the State Bar evaluated subsequent events after the statement of financial position date of December 31, 2009 through April 21, 2010, the date the financial statements were available to be issued.

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.

State Bar of Arizona
Notes to Financial Statements
December 31, 2009 and 2008

Contributions – The State Bar has also elected to adopt SFAS No. 116, *Accounting for Contributions Received and Contributions Made* (codified in FASB ASC 958- 605, *Revenue Recognition*). 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.

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.

State Bar of Arizona
Notes to Financial Statements
December 31, 2009 and 2008

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* (codified in FASB ASC 360, *Property, Plant and Equipment*). 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.

Fair Value of Financial Statements – Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

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>2009</u>	<u>2008</u>
Cash on hand	\$ 1,975	\$ 1,975
Cash in bank	194,427	385,536
	<u>\$ 196,402</u>	<u>\$ 387,511</u>

The amount of uninsured and uncollateralized cash in bank was \$-0- and \$214,173 at December 31, 2009 and 2008, respectively.

Note 4 - Property and Equipment

	<u>2009</u>	<u>2008</u>
Property and equipment consists of:		
Cost or donated value:		
Land	\$ 1,753,943	\$ 1,753,943
Land improvements	116,195	107,063
Building	7,739,696	7,739,696
Building Improvements	2,119,906	1,733,296
Furniture and equipment	1,331,680	1,246,534
Computer hardware	958,814	926,745
Computer software	1,011,201	988,609
Construction in progress	1,645	151,222
Leasehold improvements	-	2,233
Total cost or donated value	<u>15,033,080</u>	<u>14,649,341</u>
Accumulated depreciation and amortization	<u>(3,689,511)</u>	<u>(3,167,368)</u>
Property and equipment, net	<u>\$ 11,343,569</u>	<u>\$ 11,481,973</u>

State Bar of Arizona
Notes to Financial Statements
December 31, 2009 and 2008

Depreciation and amortization expense charged to operations was \$530,404 for 2009 and \$485,730 for 2008.

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, 2009 and 2008:

	2009	2008
Membership, section, and other dues	\$ 2,672,843	\$ 2,182,827
Continuing legal education	139,382	166,141
Other	155,442	139,977
Total dues and fees collected in advance	\$ 2,967,667	\$ 2,488,945

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.

Accrued liabilities includes approximately \$60,335 and \$54,065 at December 31, 2009 and 2008, 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, 2009 and 2008 was 2.15% and 2.40%, 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, 2009 and 2008 was \$7,210,000 and \$5,861,000, respectively, and is secured by real property. The outstanding loan balance at December 31, 2009 and 2008 was \$1,250,000 and \$2,959,000, respectively.

State Bar of Arizona
Notes to Financial Statements
December 31, 2009 and 2008

Note 8 - Designated Net Assets

The activities of 29 Sections of the State Bar have resulted in a cumulative surplus of \$271,250 and \$256,591 at December 31, 2009 and 2008, 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

Previous to January 1, 2009, the State Bar sponsored two defined contribution pension plans, a money purchase plan and a 401(k) plan. The plans were merged effective December 31, 2008. The Bar contributes an amount equal to 7% of a participant's annual compensation up to the social security base. An additional 5.7% is contributed for the wages in excess of the prevailing social security base. In addition, the State Bar may make discretionary matching contributions on behalf of participants who make elective 401(k) contributions.

Total employer pension expense for 2009 and 2008 was \$426,544 and \$394,831, respectively.

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 \$91,516 and \$88,133 for the years ended December 31, 2009 and 2008, 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. There were no amounts due from the Foundation at December 31, 2009 or 2008.

During 2008, the State Bar performed certain management functions for the Foundation. The total agreed upon management fee reimbursed by the Foundation was \$20,960 for 2008. The State Bar did not perform any management functions for the Foundation during 2009.

The State Bar currently leases 7,435 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, 2008. The Foundation has an option to cancel the lease agreement any time after March 31, 2010. In July 2009, the Bar and the Foundation came to an agreement where 1,024 square feet of office space would be used by the Bar's employees. Also, in 2009, the Bar reduced the amount of required rental payments from the Foundation by \$60,000 for each year remaining on the lease agreement. Rental

State Bar of Arizona
Notes to Financial Statements
December 31, 2009 and 2008

payments under the terms of the operating lease were approximately \$110,700 and \$182,200 for the years ended December 31, 2009 and 2008, respectively. The following schedule details the amount of minimum rentals to be received as of December 31, 2009 from the Foundation.

Year ending December 31,	
2010	\$ 107,733
2011	111,916
2012	113,868
2013	115,856
2014	117,808
2015	<u>29,573</u>
Total minimum lease payments	<u>\$ 596,754</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 \$1,489 for 2009 and was \$46,139 for 2008.

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 \$510,374 and \$604,751 of lease payments during the year ended December 31, 2009 and 2008, respectively.

The following schedule details the amount of minimum rentals to be received as of December 31, 2009.

Year ending December 31,	
2010	\$ 349,163
2011	158,253
2012	132,258
2013	115,856
2014	117,808
2015	<u>29,573</u>
Total minimum lease payments	<u>\$ 902,911</u>

State Bar of Arizona
Notes to Financial Statements
December 31, 2009 and 2008

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.