

**State Bar of Arizona**

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

**December 31, 2010 and 2009**

**State Bar of Arizona**  
**December 31, 2010 and 2009**

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, 2010 and 2009, 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, 2010 and 2009, 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 28, 2011

**State Bar of Arizona**  
**Statements of Financial Position**  
**December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 494,588	\$ 196,402
Accounts receivable (net of allowances of \$16,034 in 2010 and 2009)	103,350	102,023
Inventories	42,557	42,343
Prepaid expenses	190,166	265,493
Total current assets	830,661	606,261
Property and equipment, net	11,487,342	11,343,569
Other assets	21,764	27,007
Total assets	\$ 12,339,767	\$ 11,976,837
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 412,983	\$ 112,174
Property taxes payable	113,601	109,369
Accrued liabilities	843,001	730,210
Dues and fees collected in advance	3,227,763	2,967,667
Total current liabilities	4,597,348	3,919,420
Line of credit payable	-	1,250,000
Other liabilities	6,751	26,751
Total liabilities	4,604,099	5,196,171
Net Assets		
Unrestricted	7,735,668	6,770,666
Total liabilities and net assets	\$ 12,339,767	\$ 11,966,837

See accompanying notes to financial statements.

**State Bar of Arizona**  
**Statements of Activities**  
**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Revenue:		
Dues -		
Active	\$ 7,174,451	\$ 6,997,192
Inactive	867,230	845,215
Sections	297,643	290,900
Board of Legal Specialization	133,175	135,720
Fees -		
Continuing legal education	2,583,331	2,444,233
Convention	580,059	625,562
Lawyer regulations	174,189	187,362
Law office management assistance program	88,780	106,224
Board of Legal Specialization	45,895	37,025
Publication and advertising sales -		
Arizona Attorney Magazine	595,177	503,993
Membership directory	136,840	119,378
Website	27,640	44,701
Mailing lists and labels	4,983	10,681
Economic survey	15,050	1,123
Rental income	524,092	552,056
Pro Hac Vice	380,924	450,801
Late fees mandatory continuing legal education	318,925	316,015
Sections - other	127,675	144,183
Special services	89,069	91,516
Contributions and sponsorships	83,254	82,555
Membership assistance program	55,810	61,595
Membership benefits	12,555	17,156
Interest and dividends	799	6,411
Other	359,089	110,050
Total revenue	<u>14,676,635</u>	<u>14,181,647</u>
Expenses:		
Program services:		
Discipline	4,697,606	4,950,498
Member services	4,676,448	4,645,264
Support services:		
Management and general	3,423,400	2,826,408
Building related	914,179	915,294
Total expenses	<u>13,711,633</u>	<u>13,337,464</u>
Change in net assets	965,002	844,183
Unrestricted net assets, beginning of year	6,770,666	5,926,483
Unrestricted net assets, end of year	<u>\$ 7,735,668</u>	<u>\$ 6,770,666</u>

See accompanying notes to financial statements.

**State Bar of Arizona**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 965,002	\$ 844,183
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	530,376	530,404
Changes in operating assets and liabilities:		
(Increase)/decrease:		
Accounts receivable	(1,327)	42,450
Inventories	(214)	5,896
Prepaid expenses	75,327	(7,049)
Other assets	-	20,001
(Increase)/decrease:		
Accounts payable	168,300	(55,503)
Property taxes payable	4,232	981
Accrued liabilities	112,791	42,913
Dues and fees collected in advance	260,096	478,722
Other liabilities	-	1,650
Net cash provided by operating activities:	<u>2,114,583</u>	<u>1,904,648</u>
Cash flows from financing activities:		
Proceeds from line of credit	1,900,000	3,080,000
Principal payments on the line of credit	<u>(3,150,000)</u>	<u>(4,789,000)</u>
Net cash used for financing activities	<u>(1,250,000)</u>	<u>(1,709,000)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(566,397)</u>	<u>(386,757)</u>
Net cash used in investing activities	<u>(566,397)</u>	<u>(386,757)</u>
Net increase (decrease) in cash and cash equivalents	298,186	(191,109)
Cash and cash equivalents, beginning of year	<u>196,402</u>	<u>387,511</u>
Cash and cash equivalents, end of year	<u>\$ 494,588</u>	<u>\$ 196,402</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest paid	\$ 8,575	\$ 20,937
Unrelated business income taxes paid	-	1,489

**Supplemental Schedule of Noncash Investing and Financing Activities:**

Accounts payable at December 31, 2010 included equipment purchases costing \$102,509

See accompanying notes to financial statements

**State Bar of Arizona**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*.

*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 FASB ASC 958-605, *Revenue Recognition*. In accordance with FASB ASC 958-605, 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 FASB ASC 958-605; however, a substantial number of volunteers have donated significant amounts of their time in the State Bar'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 a maturity of three months or less when purchased to be cash equivalents.

**State Bar of Arizona**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

*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 FASB ASC 360, *Property, Plant and Equipment*. FASB ASC 360 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.

*Subsequent Events* – The State Bar has evaluated subsequent events through April 28, 2011, the date the financial statements were available to be issued.



**State Bar of Arizona**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**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>2010</u>	<u>2009</u>
Cash on hand	\$ 2,025	\$ 1,975
Cash in bank	492,563	194,427
	<u>\$ 494,588</u>	<u>\$ 196,402</u>

At December 31, 2010 and 2009, the State Bar had no cash deposits in excess of the FDIC insurance coverage.

**Note 4 - Property and Equipment**

	<u>2010</u>	<u>2009</u>
Property and equipment consists of:		
Land	\$ 1,753,943	\$ 1,753,943
Land improvements	116,195	116,195
Building	7,739,696	7,739,696
Building Improvements	2,224,562	2,119,906
Furniture and equipment	1,341,206	1,331,680
Computer hardware	1,090,207	958,814
Computer software	1,026,431	1,011,201
Construction in progress	409,748	1,645
Property and equipment	<u>15,701,988</u>	<u>15,033,080</u>
Accumulated depreciation and amortization	<u>(4,214,646)</u>	<u>(3,689,511)</u>
Property and equipment, net	<u>\$ 11,487,342</u>	<u>\$ 11,343,569</u>

Depreciation and amortization expense charged to operations was \$530,376 for 2010 and \$530,404 for 2009.

**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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Membership, section, and other dues	\$ 3,036,643	\$ 2,672,843
Continuing legal education	105,434	139,382
Other	85,686	155,442
Total dues and fees collected in advance	<u>\$ 3,227,763</u>	<u>\$ 2,967,667</u>

**State Bar of Arizona**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**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 \$67,730 and \$60,335 at December 31, 2010 and 2009, 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, 2010 and 2009 was 2.27% and 2.15%, 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, 2010 and 2009 was \$8,100,000 and \$7,210,000, respectively, and is secured by real property. The outstanding loan balance at December 31, 2010 and 2009 was zero and \$1,250,000, respectively.

**Note 8 - Designated Net Assets**

The activities of 29 Sections of the State Bar have resulted in a cumulative surplus of \$288,270 and \$271,250 at December 31, 2010 and 2009, respectively. These funds are commingled with the State Bar's cash funds but have been designated for use by the respective Sections.

As of December 31, 2010, the State Bar had designated approximately \$214,000 for estimated legal fees to be incurred in fiscal year 2011.

**Note 9- Pension Plan**

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 2010 and 2009 was \$449,643 and \$426,544, respectively.

**State Bar of Arizona**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**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 \$87,368 and \$91,516 for the years ended December 31, 2010 and 2009, 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, 2010 or 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 payments under the terms of the operating lease were approximately \$93,800 and \$110,700 for the years ended December 31, 2010 and 2009, respectively. The following schedule details the amount of minimum rentals to be received as of December 31, 2010 from the Foundation.

Year ending December 31,		
2011		\$ 111,916
2012		113,868
2013		115,856
2014		117,808
2015		29,573
Total minimum lease payments		\$ 489,021

**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 zero for 2010 and was \$1,489 for 2009.

**Note 12- Operating Leases**

**Lessor**

The State Bar leases office space to four tenants, including the Foundation, in its building located at 4201 North 24<sup>th</sup> Street, Phoenix, Arizona 85016. The State Bar has entered into

**State Bar of Arizona**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

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 \$483,104 and \$510,374 of lease payments during the year ended December 31, 2010 and 2009, respectively.

The following schedule details the amount of minimum rentals to be received as of December 31, 2010.

Year ending December 31,	
2011	\$ 147,669
2012	147,273
2013	150,213
2014	156,232
2015	<u>29,573</u>
Total minimum lease payments	<u>\$ 630,960</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.