

**The Client Protection Fund
of the State Bar of Arizona**

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

December 31, 2010 and 2009

The Client Protection Fund of the State Bar of Arizona
December 31, 2010 and 2009

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Independent Auditor's Report

Board of Trustees of the Client Protection Fund
of the State Bar of Arizona

We have audited the accompanying statements of financial position of the Client Protection Fund 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 Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Client Protection Fund of the State Bar of Arizona as of 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.


May 26, 2011

The Client Protection Fund of the State Bar of Arizona
Statements of Financial Position
December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,089	\$ 95,135
Investments	3,047,939	1,965,803
Interest receivable	7,110	23,883
Total current assets	3,251,138	2,084,821
Investments	-	1,074,172
Total assets	\$ 3,251,138	\$ 3,158,993
Liabilities and Net Assets		
Current liabilities:		
Due to the State Bar of Arizona	\$ 20,734	\$ 22,792
Net Assets:		
Unrestricted	3,230,404	3,136,201
Total liabilities and net assets	\$ 3,251,138	\$ 3,158,993

See accompanying notes to financial statements.

The Client Protection Fund of the State Bar of Arizona
Statements of Activities
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue:		
Assessments	\$ 187,580	\$ 188,040
Interest	51,880	64,768
Restitution receipts	8	18,299
Other	-	30,602
Total revenue	<u>239,468</u>	<u>301,709</u>
Expenses:		
Claims	57,867	299,822
Management and general	87,398	94,410
Total expenses	<u>145,265</u>	<u>394,232</u>
Change in net assets	94,203	(92,523)
Unrestricted net assets, beginning of year	<u>3,136,201</u>	<u>3,228,724</u>
Unrestricted net assets, end of year	<u>\$ 3,230,404</u>	<u>\$ 3,136,201</u>

See accompanying notes to financial statements.

The Client Protection Fund of the State Bar of Arizona
Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 94,203	\$ (92,523)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase)/decrease in:		
Due from the State Bar of Arizona	-	3,913
Interest receivable	16,773	8,012
Increase/(decrease) in:		
Due to the State Bar of Arizona	(2,058)	22,792
Net cash provided (used) by operating activities	108,918	(57,806)
 Cash flows from investing activities:		
Purchase of investments	(2,014,337)	(2,939,690)
Proceeds from maturities of investments	2,006,373	2,995,787
Net cash provided (used) by investing activities	(7,964)	56,097
 Net increase (decrease) in cash and cash equivalents	100,954	(1,709)
 Cash and cash equivalents, beginning of year	95,135	96,844
 Cash and cash equivalents, end of year	\$ 196,089	\$ 95,135

See accompanying notes to financial statements.

The Client Protection Fund of the State Bar of Arizona
Notes to Financial Statements
December 31, 2010 and 2009

Note 1 - Nature of the Organization

The Client Protection Fund of the State Bar of Arizona (Fund) was established on January 7, 1961 by the Supreme Court of Arizona, pursuant to Arizona Revised Statutes Ct. 31(d)(8). Authority to revoke or amend the Declaration of Trust, which established the Fund, is delegated to the Board of Governors of the State Bar of Arizona.

The purpose of the Fund is to promote 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 relationship between the lawyer and the claimant.

The Fund is considered for income tax purposes as a component part of the State Bar of Arizona. The State Bar of Arizona has been determined to be exempt from federal income taxes under §501(c)(6) of the Internal Revenue Code. The Fund did not generate any unrelated business income during the years ended December 31, 2010 and 2009.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Fund conform to U.S. generally accepted accounting principles. The more significant accounting policies of the Fund are described below.

Financial Statement Presentation - The Fund has adopted 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.

Cash and Cash Equivalents - For purposes of reporting cash flows, the Fund considers all highly liquid investments with initial maturities of three months or less at the time of purchase to be cash equivalents.

Investments - The Fund carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. The fair value of investments are based on quoted market value. The Fund also carries certificates of deposit with maturities of six to nine months at cost which is equivalent to fair market value.

Claim Limits - Prior to June 2009, the Fund's claim limit for each attorney was \$200,000 and \$100,000 for each claim. As of June 2009, the Fund's claim limit increased for each attorney to \$250,000 and remained \$100,000 for each claim.

The Client Protection Fund of the State Bar of Arizona
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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 Fund has evaluated subsequent events through May 26, 2011, the date of the financial statements were available to be issued.

Note 3 - Concentrations of Credit Risk

Financial instruments, which potentially subject the Fund to concentrations of credit risk, consist of cash deposits and investments with financial institutions.

Cash deposits with banks in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) of \$250,000 are exposed to loss in the event of nonperformance by the financial institutions. The Fund does not anticipate nonperformance by the financial institutions.

Note 4 - Cash and Cash Equivalents

The Fund places its cash and cash equivalents with institutions of high credit-worthiness. At year end, cash and cash equivalents consisted of the following:

	2010	2009
Cash in bank	\$ 196,089	\$ 95,135

At December 31, 2010 and 2009, the bank balance was \$203,589 and \$118,354, respectively. Balances at December 31, 2010 and 2009 were fully covered by FDIC insurance.

Note 5 - Investments

Investments, stated at fair value, consisted of:

	2010	2009
Certificates of deposits, with maturities less than one year	\$3,047,939	\$1,965,803
Certificates of deposits, with maturities between one and five years	-	1,074,172
Total investments	\$3,047,939	\$3,039,975

The Fund's investments were fully covered by FDIC insurance.

Note 6 - Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes

The Client Protection Fund of the State Bar of Arizona
Notes to Financial Statements
December 31, 2010 and 2009

the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
Level 2	Inputs to the valuation methodology include <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2010 and 2009.

Certificates of deposit: Valued at cost, which approximates fair value.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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The fair values of the Fund's financial assets that are measured on a recurring basis as of December 31, 2010 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 3,047,939	\$ -	\$ 3,047,939
Total	<u>\$ -</u>	<u>\$ 3,047,939</u>	<u>\$ -</u>	<u>\$ 3,047,939</u>

The fair values of the Fund's financial assets that are measured on a recurring basis as of December 31, 2009 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 3,039,975	\$ -	\$ 3,039,975
Total	<u>\$ -</u>	<u>\$ 3,039,975</u>	<u>\$ -</u>	<u>\$ 3,039,975</u>

Note 7 - Related Organization

The Fund's assessment revenue is collected by the State Bar of Arizona from its members and is transferred to the Fund annually. The Fund pays the State Bar of Arizona administrative fees. The administrative fees totaled \$87,368 and \$91,516 during 2010 and 2009, respectively. At December 31, 2010 and 2009, the Fund owed \$20,734 and \$22,792, respectively, of administrative fees to the State Bar of Arizona.

Note 8 - Risk Management

The Fund is exposed to various risks of loss related to torts and thefts. The Fund maintains a fidelity bond for employee dishonesty.