STATE BAR OF ARIZONA

Client Protection Fund

2019 Annual Report

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I. Introduction

The Supreme Court of Arizona, by its Rule 32(d)(8), requires the State Bar of Arizona to create and maintain the Client Protection Fund ("Fund") as an entity separate from the State Bar. A resolution authorizing the establishment of the Fund was submitted by the State Bar Board of Governors ("Board") to the State Bar membership and approved on April 9, 1960. The Fund was created by a Declaration of Trust dated January 7, 1961, which is amended and restated by the Board as needed.

"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 or otherwise allowed to practice in Arizona, occurring in the course of the client-lawyer or fiduciary relationship between the lawyer and the claimant." Declaration of Trust.

Each year the Fund presents its Annual Report to the Supreme Court of Arizona. The period covered by this report is January 1, 2019 through December 31, 2019. The report summarizes the Fund's claim and financial activity for the year, and provides other general information about the Fund. Members of the Board are provided with a copy, and the report will be posted on the State Bar's website so that Bar members can monitor the Fund's activities and operations. More specific information than what in this report may be obtained only with the consent of the Supreme Court.

II. Board of Trustees

A five-person Board of Trustees ("Trustees"), appointed by the Board, administers the Fund. Each lawyer Trustee must be an active member of the State Bar in good standing for at least ten years. The Board, in its discretion, may appoint one non-lawyer Trustee. Trustees serve five-year terms, with no more than two consecutive terms. The Trustees typically hold quarterly meetings to review claims, and are not compensated for their service. The Board of Trustees for 2019 included:

Trustee	Appointed	Reappointed	Term End
Rosemary H. Rosales, Esq., Outgoing Chair (Chandler)	07/01/09	07/01/14	06/30/19
James B. Penny, Esq., Incoming Chair (Tucson)	07/01/11	07/01/16	06/30/21
Robert E. Schmitt, Esq., Trustee (Prescott)	07/01/12	07/01/17	06/30/22
Matthew A. Gerst, Public Trustee (Scottsdale)	07/01/15		06/30/20
Sandra L. Etherton, Esq., Treasurer (Scottsdale)	07/01/18		06/30/23
Gregg Woodnick, Esq. Trustee (Phoenix)	07/01/19		06/30/24

III. Eligible Claims

The Trustees only consider claims alleging a loss of money or property due to the dishonest conduct of a lawyer acting as a lawyer or fiduciary to the claimant. The Trustees cannot approve a claim for payment until one of the "triggering" events listed in Rule 3(C) of the Declaration of Trust has occurred. Rule 3(C) requires that the lawyer must be: 1) suspended for a term of longer than six months; 2) placed on interim suspension; 3) disbarred; 4) deceased; 5) transferred to disability inactive status; or 6) convicted of a felony related to the claim. Claims that are eligible by reason of one of those events may not be paid before the expiration of six months following the event.

The Declaration of Trust includes claim caps and a limitations period. The Fund may not award more than $100,000 to any one claimant and not more than $250,000 total in claims against any one lawyer. Claims must be filed within five years from the time the claimant knew or should have known of the dishonest conduct. This limitation period can be waived by the Trustees.

IV. Claims Filed in 2019

Seventy-one (71) claims were received in 2019. Not all of the claims received during 2019 were eligible for payment in 2019.

V. Claims Paid in 2019

Fifty-four (54) claims were approved and paid during 2019—twenty-six (26) received in 2018, and twenty-eight (28) received in 2019. Claims filed against the following lawyers were paid in 2019:

CLAIMS FILED IN 2018 - PAID IN 2019				
Lawyer	**State Bar Status**	**No. of Claims**	**Amount Sought**	**Amount Paid**
Brook, James F.	Deceased	2	$ 13,562	$ 9,507
Brown, Guy F.	Deceased	4	30,559	24,000
Hemerling, Harriet	Disbarred	1	1,350	1,350
Kell, David William	Deceased	2	11,000	11,000
Lockin, Matthew W.	Disbarred	1	2,500	2,500
Maasen, Scott Allan	Disbarred	1	2,500	2,500
Macleod, Scott A.	Disbarred	1	1,650	1,650
Rosen, David K.	Disbarred	2	28,000	21,875
Salazar, Roberto	Suspended	1	5,000	5,000
Wilkes, Garrett J.	Disbarred	10	51,570	35,423
Wood, James Roger	Disbarred	1	500	500
TOTALS		**26**	**$148,190**	**$115,305**

CLAIMS FILED IN 2019 - PAID IN 2019				
Lawyer	**State Bar Status**	**No. of Claims**	**Amount Sought**	**Amount Paid**
Billar, Robert C.	Disbarred	1	$ 54,080	$ 40,000
Brown, Guy F.	Deceased	2	18,750	18,750
Cantu-Madril, Marivel	Disbarred	1	4,970	2,855
Engler, Donald B.	Deceased	4	88,872	78,972
Kell, David William	Deceased	1	2,000	2,000
Klein, Danny L.	Deceased	1	4,000	4,000
Macleod, Scott A.	Disbarred	2	5,500	5,500
McNeice, Valarie A.	Disbarred	2	6,300	4,261
Montgomery, Dan W.	Deceased	8	52,486	46,653
Nelson, Shawn E.	Disbarred	2	10,500	10,500
Nemiro, Judd S.	Disbarred	1	6,000	6,000
Rosen David K.	Disbarred	1	9,745	6,497
Tilson, James N.	Disbarred	1	2,000	2,000
Wilkes, Garrett J.	Disbarred	1	4,000	3,000
TOTALS		**28**	**$269,203**	**$230,988**

TOTAL CLAIMS FILED 2018-2019 – PAID IN 2019			
Year	**Claims Paid**	**Total Sought**	**Total Paid**
2018	26	$148,190	$115,305
2019	28	269,203	230,988
Totals	**54**	**$417,393**	**$346,293**

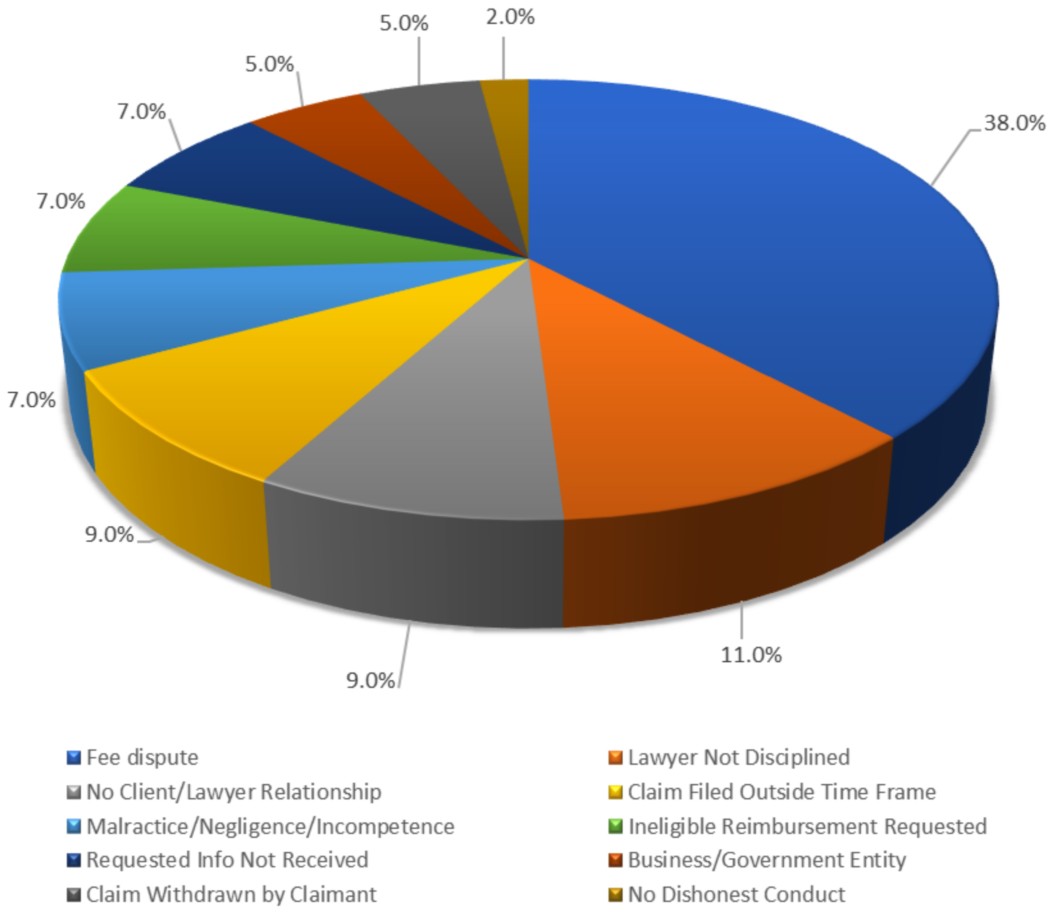
VI. <u>Claims Denied in 2019</u>

The Trustees denied forty-four (44) claims in 2019, two more denials than in 2019. The Trustees denied claims for the following reasons:

- The claim was withdrawn.
- Necessary information requested from the claimant was not received.
- The claim was not filed within five years after the claimant knew or should have known of the dishonest conduct of the lawyer.
- There was no client/lawyer or fiduciary relationship with the claimant.
- The lawyer was not disciplined, or the disciplinary sanction received by the lawyer did not meet the criteria outlined in the Trust.
- The claim did not demonstrate dishonesty, but was a dispute over fees charged.

- The claim was based upon lawyer malpractice, negligence, and/or incompetence.
- The claimant was a business entity.
- The Trustees found no dishonest conduct on the part of the lawyer.

REASONS FOR DENIAL OF CLAIMS IN 2019



VII. Forecasting

Twenty-five (25) claims filed in 2019 remained pending at the end of 2019. Ten of those claims were completed by June 30, 2020, which is within the standard average processing time of six months. There have been 48 claims filed during the first six months of 2020, seeking a total of $560,240. Six claims received in 2019, seeking a total of $140,000 from the Fund, have been denied in 2020, leaving 59 claims pending consideration as of June 30, 2020—14 from 2019 and 45 from 2020.

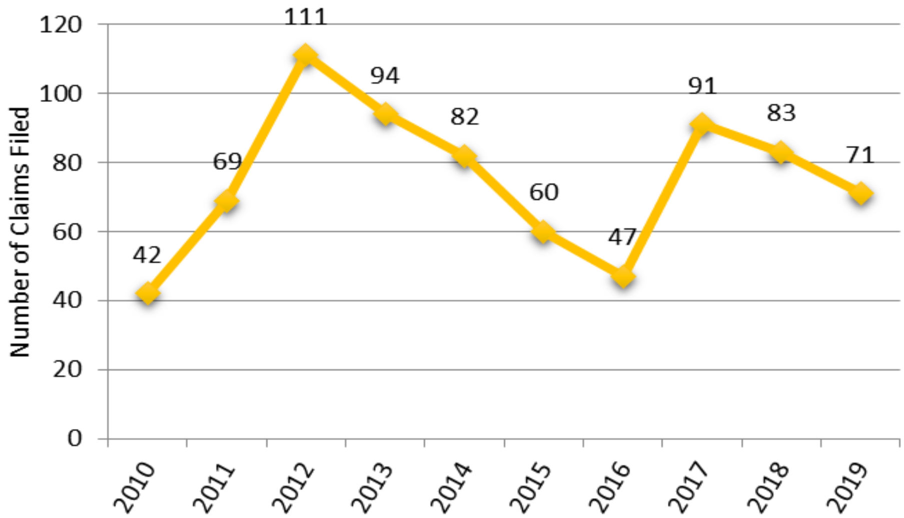
Year	Beginning Fund Balance	Claims Filed	Total Amount Sought	Claims Paid by Year Filed	Total Amount Paid	Claims Denied	Total Claims Resolved	Year End Fund Balance*	Claims Pending Year End	Claims Resolved Following Year
2018	$2,467,715	83	$4,237,173	62: 42 - 2017 20 – 2018	$547,907	42	104	$2,232,045	51	50
2019	$2,232,045	71	$766,368	54: 26 - 2018 28 - 2019	$346,293	44	98	$2,241,077	25	11**
2020**	$2,241,077	48	$560,240	5: 2019	$25,563	9	14	N/A	N/A	N/A

*Year end Fund balance does not only reflect claims paid. Other factors affecting the final balance include, but are not limited to: dues assessments, interest on investments, staff and operating expenses, and lawyer restitution to the Fund.

**As of June 30, 2020.

VIII. 2010-2019 Historical Claims Data

CLAIMS FILED BY YEAR 2010-2019

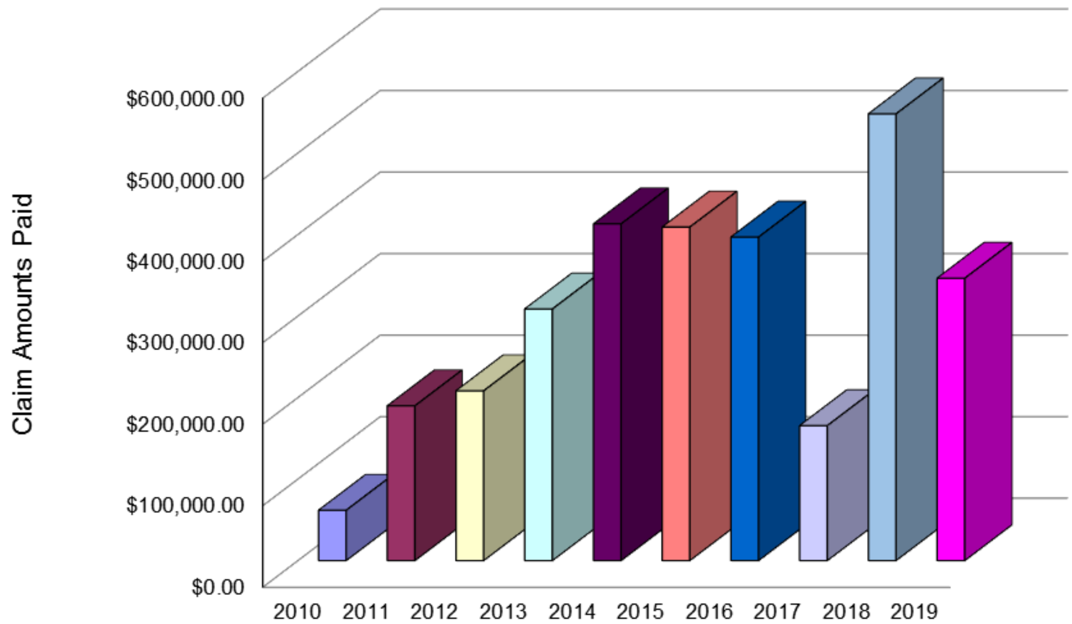


Five-Year Snapshot by Calendar Year

Year	No. of Claims Filed	No. of Claims Paid	No. of Claims Denied	Amount sought for all claims filed in that year	Amount paid out by the Fund for that year*
2015	60	34	26	$682,231	$409,071
2016	47	31	16	$1,591,313	$396,770
2017	91	52	39	$2,244,393	$165,473
2018	83	62	42	$4,281,678	$547,907
2019	71	54	44	$766,368	$346,293

* Total amount paid out by the Fund for all claims that were filed in that specific calendar year, regardless of when the claim was actually paid. Not all claims are resolved during the calendar year in which they were received. The aggregate of approved and denied claims, as well as the number of claims paid, do not always equal the claims filed in a given year.

AMOUNTS PAID 2010-2019



For the last ten years, the annual average for claims paid was $295,460.

IX. Types of Dishonest Conduct

The Declaration of Trust authorizes the Trustees to consider claims arising out of a lawyer's "dishonest conduct," defined in Rule 3(D) as:

(1) wrongful acts committed by a lawyer in the nature of theft or embezzlement of money or the wrongful taking or conversion of money, property or other things of value; or

(2) failure to refund unearned fees received in advance as required by Rule 1.16(d) of the *Arizona Rules of Professional Conduct* (which states, "[u]pon termination of representation, a lawyer shall take steps to the extent reasonably practicable to protect a client's interests, such as . . . surrendering documents and property to which the client is entitled and refunding any advance payment of a fee that has not been earned"); or,

(3) a lawyer's act of intentional dishonesty or deceit that proximately leads to the loss of money or property.

Examples of the types of dishonest conduct forming the basis for claims paid in 2019 include:

A. Retention of Unearned Fees

A number of claims were paid based upon the respondent lawyers keeping unearned fees. When a lawyer receives fees for work that is never performed, and fails to return the unearned fees, the Trustees may consider that conduct "dishonest." The Trustees do not resolve fee disputes, but they will pay claims where virtually no work of any value was performed, such that the failure to return the unearned portion of the fee amounted to conversion or theft. These are some of the most difficult claims for the Trustees because they involve an assessment of the value of work performed by a lawyer.

B. Misappropriation of Clients' Money

Some claims arose from lawyers misappropriating either settlement proceeds or other funds entrusted to them. Arizona currently does not have a third-party payee notification statute that would require entities, such as insurance carriers, to notify clients when the carrier issues a check to a lawyer. Hence, a claimant may not be aware of the misappropriation until after the lawyer cashed the check and the one-year statute of limitations to bring a forged-endorsement action against the paying financial institution has expired.

X. Revenues Received by the Fund

As of December 31, 2019, the Fund had a balance of $2,241,077 in total net assets. Payments into the Fund include: (1) the annual member assessment; (2) interest income on investments; and (3) restitution to the Fund. Revenues from these sources totaled $483,518 in 2019.

A. Annual Lawyer Assessment

The Fund receives a $20 annual assessment from each active bar member. This is not part of a member's bar dues, but a separate assessment established by the Board with the consent of the Arizona Supreme Court pursuant to Rule 32(c)(7) and (8). The total assessments received by the Fund in recent years were:

Year	Annual Revenue from Assessment
2014	207,435
2015	211,445
2016	213,990
2017	429,420
2018	434,115
2019	434,866

B. Interest from Investments

In 2019, the Fund earned $32,958 in interest income from its investments, an increase over 2018. Over the last ten years, however, interest income had decreased by approximately 64%. The post-recession history of the Fund's interest income is shown below:

Year	Interest Income
2010	$51,880
2011	$23,008
2012	$13,052
2013	$4,475
2014	$3,775
2015	$8,937
2016	$9,368
2017	$11,898
2018	$21,169
2019	$32,958

Fund investments are made in compliance with the Board's investment policies.

C. Restitution to the Fund

In 2019, the Fund received a total of $15,694 in restitution from lawyers against whom claims had been paid. A lawyer whose conduct has resulted in a paid claim may not seek reinstatement to active status until the lawyer has repaid the Fund for any claim paid.

XI. Investments

Since 2005, the Fund has invested in the Certificate of Deposit Account Registry Service ("CDARS"). The CDARS program allows the Fund to purchase certificates of deposit, each within the applicable federal insurance limit, from participating U.S. banks. CDARS are beneficial because they: (1) are FDIC insured up to $20,000,000; (2) offer varying maturities and fixed rates; (3) allow the Fund to deal with only one bank and receive a single monthly statement and IRS Form 1099; and (4) pay "jumbo" rates with FDIC coverage. The Fund ladders all of its investments in the CDARS program. The benefits of laddering are that market risk is reduced, there is a more stable rate of return and the interest rates are higher.

In 2019, the Fund invested in the CDARS program through Alliance Bank of Arizona. As of December 31, 2019, the Fund had a balance of $2,391,360 in total assets. The table below outlines the Fund's CDARS accounts as of December 31, 2019:

CDARS	Rate	Effective Date	Maturity Date	Principal
WA(1022240354)	1.80368%	01/31/2019	01/30/2020	$ 397,738.21
WA(1022651443)	1.80368%	05/30/2019	05/28/2020	669,786.16
WA(1023311891)	0.80675%	12/12/2019	06/11/2020	600,265.29
WA(1023311883)	1.06433%	12/12/2019	12/10/2020	513,299.26
TOTAL				**$2,181,088.92**

XII. Fund Administration

A. Administration

Karen Oschmann, Client Protection Fund Administrator (Administrator) provided support to the Trustees regarding the administration of the Fund in 2019. Additionally, the Chief Financial Officer of the State Bar, Kathy Gerhart, and the State Bar's Accounting Manager, Martin Gaxiola, provided accounting support to the Fund in 2019.

The Fund's Administrator reviews claims, investigates the claimants' allegations, corresponds with claimants and lawyers, prepares claim summaries and recommendations, and forwards copies of this information to the Trustees for review at quarterly meetings. The Administrator is also responsible for taking minutes of the meetings, compiling statistical data and other information, and preparing the Fund's annual report for the Trustees' approval.

Each year, the Administrator and/or the Trustees may attend one or both the American Bar Association National Forum on Client Protection and the National Client Protection Organization Workshop. At these conferences, Fund Administrators and Trustees from the United States and Canada meet to discuss issues common to all funds, and learn about emerging trends in the arena of client protection.

Questions regarding the Fund should be addressed to the Fund Administrator, Karen Oschmann, at 602-340-7286 or karen.oschmann@staff.azbar.org.

B. Expenses

The Fund incurred $128,193 in operating expenses in 2019, including, but not limited to, the apportioned salaries for the General Counsel, Fund Administrator, and Administrative

Assistant, and Trustee travel to quarterly meetings. Investigators are utilized at the discretion of the Trustees to investigate claim information. The CPF Trustees are volunteers and are not compensated for their service. The chart below demonstrates the Fund's 2019 Financial Overview:

2019 Financial Overview	
Net assets as of 12/31/18	$2,232,045
Revenues received in 2019	$483,518
Claims paid in 2019	$346,293
Operation expenses paid in 2019	$128,193
Net assets as of 12/31/19	$2,241,077

XIII. Financial Controls

The Fund maintains a commercial crime insurance policy of $1,000,000. The Fund also has other financial controls in place, including requiring two Trustee signatures on all checks and an annual audit by an independent auditor.

XIV. Public Awareness

The Trustees have undertaken a variety of activities to create greater public and member awareness of the Fund:

- Information about the Fund is included in State Bar Convention materials.
- The State Bar website provides easy access to information about the Fund.
- Advertisements for the Fund are periodically placed in issues of Arizona Attorney magazine.

XV. Comments from Claimants

- "The AZ State Bar has been a tremendous help and we appreciate you guys."
- "Thank you so much for all the work you did! You truly have been professional, kind, and empathetic."
- "Thank you for being so communicative and helpful during this process. I appreciate all you've done."
- "I want to thank you for your assistance in this matter and the communication throughout this process. I greatly appreciated it."
- "Thank you, thank you for your kindness!"

APPENDIX A

Consolidated Financial Statements and Supplementary Information,
Year Ended December 31, 2019
State Bar of Arizona and the
Client Protection Fund of the State Bar of Arizona

(*See Fund-Specific Information on Appendix pages 19-20*)

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, 2019

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

Year Ended December 31, 2019

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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, 2019, 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, 2019, 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 is 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.

Mayer Hoffman McCann P.C.

July 30, 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	7,554,797
Certificates of deposit		2,181,089
Accounts receivable, net		74,641
Inventories		52,684
Deferred rent - short term		26,290
Prepaid expenses and other assets		484,255
TOTAL CURRENT ASSETS		10,373,756
INVESTMENTS RESTRICTED FOR BENEFIT PLAN		340,528
OTHER ASSETS		74,146
DEFERRED RENT - LONG TERM		91,717
PROPERTY AND EQUIPMENT, net		10,498,135
TOTAL ASSETS	$	21,378,282

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	172,605
Property taxes payable		83,433
Accrued liabilities		1,493,521
Prepaid rent liability		2,162
Membership and other fees collected in advance		2,442,416
TOTAL CURRENT LIABILITIES		4,194,137
OTHER LIABILITIES		412,993
TOTAL LIABILITIES		4,607,130
NET ASSETS		
Net assets without donor restrictions		
Undesignated		9,888,098
Board designated		4,641,977
Statute designated		2,241,077
TOTAL NET ASSETS		16,771,152
TOTAL LIABILITES AND NET ASSETS	$	21,378,282

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, 2019

SUPPORT AND REVENUE	
Membership fees	
Active	$ 8,855,612
Inactive	1,157,120
Membership fees penalties	329,555
Sections	331,925
Board of legal specializations	100,600
Admission on motion	103,897
	10,878,709
PROGRAM SERVICE REVENUE	
Regulatory	
Judgement receipts	90,283
Professional services	53,652
Reinstatement fees	6,660
Trust account ethics program	9,600
Miscellaneous charges	21,033
	181,228
COMPLIANCE	
Board of legal specializations	30,550
Pro Hac Vice fees	456,273
Reinstatement fees	10,666
Mandatory continuing legal education - late fees	509,059
Miscellaneous charges	525
	1,007,073
PROFESSIONAL DEVELOPMENT	
Continuing legal education	2,252,704
Convention	588,275
Publications	242,239
Advertising sales	883,880
Arizona Attorney magazine	17,177
Sections meetings and conferences	192,746
Contributions and sponsorships	98,267
Membership benefits	81,201
Other miscellaneous	94,522
	4,451,011
ACCESS TO JUSTICE	
Lawyer referral services	46,063
CLIENT PROTECTION FUND	
Assessments	434,866
Restitution receipts	15,694
	450,560
OTHER REVENUE	
Rental income	437,961
Interest and dividends	110,651
Loss on sale-disposal of assets	(4,195)
Other	120,681
TOTAL SUPPORT AND REVENUE	17,679,742
EXPENSES	
Program Services:	
Regulatory	5,931,728
Compliance	1,630,736
Professional development	5,759,521
Access to justice	614,995
Client Protection Fund	474,486
Total program services	14,411,466
Management and general	2,449,376
TOTAL EXPENSES	16,860,842
CHANGE IN NET ASSETS	818,900
NET ASSETS, BEGINNING OF YEAR	15,952,252
NET ASSETS, END OF YEAR	$ 16,771,152

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, 2019

	Program Services							
	Regulatory	Compliance	Professional Development	Access to Justice	Client Protection Fund	Total Program Services	Management and General	Total
Salaries and wages	$ 3,334,122	$ 898,757	$ 2,056,508	$ 233,596	$ 84,933	$ 6,607,916	$ 1,066,728	$ 7,674,644
Employee benefits	590,193	182,583	384,726	56,062	15,657	1,229,221	194,699	1,423,920
Payroll taxes	251,185	69,244	155,461	17,974	6,432	500,296	78,907	579,203
Bank/credit card fees	136,777	50,497	156,152	16,353	-	359,779	263	360,042
Claims paid	-	-	-	-	346,293	346,293	-	346,293
Conferences, conventions and meetings	2,296	1,942	1,287,721	2,418	1,296	1,295,673	49,457	1,345,130
Contract labor	74	5,802	27,065	-	-	32,941	58,515	91,456
Contributions	55	20	27,802	110,486	-	138,363	-	138,363
Depreciation	273,588	108,440	227,861	30,681	-	640,570	190,554	831,124
Information technology	256,387	93,412	228,864	79,604	4	658,271	51,001	709,272
Legal fees	17,162	-	-	-	20	17,182	229,931	247,113
Member research tool	-	-	80,004	-	-	80,004	-	80,004
Occupancy	223,393	87,129	138,035	23,977	10,620	483,154	279,249	762,403
Office expense	127,127	80,437	575,657	22,074	1,519	806,814	7,781	814,595
Office of Presiding Disciplinary Judge	581,039	-	-	-	-	581,039	-	581,039
Professional services	30,925	14,774	197,811	1,877	-	245,387	52,565	297,952
Training and development	59,009	19,495	71,330	2,317	2,314	154,465	40,948	195,413
Other expenses	48,396	18,204	144,524	17,576	5,398	234,098	148,778	382,876
	$ 5,931,728	$ 1,630,736	$ 5,759,521	$ 614,995	$ 474,486	$ 14,411,466	$ 2,449,376	$ 16,860,842

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, 2019

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	$ 818,900
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	831,124
Loss on sale-disposal of assets	4,195
Change in assets and liabilities	
Accounts receivable	(4,082)
Inventories	32,134
Prepaid expenses and other assets	(112,159)
Investments restricted for benefit plan	36,232
Accounts payable	111,882
Property taxes payable	2,333
Accrued liabilities	45,819
Deferred rent	2,162
Membership and other fees collected in advance	26,959
Other liabilities	(30,513)
Net cash provided by operating actitives	1,764,986
CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchases of property and equipment	(575,554)
Proceeds on sale of property and equipment	200
Purchases of certificates of deposit	(2,299,233)
Redemptions of certificates of deposit	2,355,844
Net cash used in investing activities	(518,743)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,246,243
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,308,554
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,554,797

See Notes to Consolidated Financial Statements

(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 18,750 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 and September 29, 2017.

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, 2019.

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, 2019, the total allowance for uncollectible accounts was approximately $9,000.

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, 2019, 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 fixtures	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, 2019.

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, certain Continuing Learning Education (CLE) seminar registrations are opened in advance of the seminar. All such registration fees collected in advance are 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, where by the donor has stipulated the funds be maintained in perpetuity. The Organization had no donor restricted net assets as of December 31, 2019.

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

Revenue recognition - The Organization's main source of revenues are membership fees, regulatory fees/assessments, compliance fees, revenue generated from professional development programs and events, and lawyer referral services. Membership fees are generally collected at the beginning of the membership year and recognized ratably over the year to which they pertain. Regulatory fees/assessments and compliance fees are recognized as paid. Revenue associated with professional development programs and events are recognized at the time the event occurs. Lawyer referral services are collected throughout the year as an annual fee which is recognized ratably over the year to which the fee pertains.

As of December 31, 2019 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.

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.

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 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.

Advertising and promotion costs - The Organization expenses advertising and promotion costs as incurred. Advertising and promotion expense for the year ended December 31, 2019 was $52,200.

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

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

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 2016 and 2015, 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. 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.

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

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 of 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.

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.

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 will supersede 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 is currently evaluating the effect the new guidance will have on the Organization's consolidated financial statements.

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 amendments in this update are effective for years beginning after December 15, 2019, unless the entities adopt the provisions of ASU No. 2020-05 as described below. 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.

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

In June 2020, the FASB issued FASB ASU No. 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), which allows certain entities to elect to defer the effective date of the provisions of FASB ASU No. 2014-09 and ASU No. 2015-14 and ASU No. 2016-02. These entities may elect to adopt the guidance for revenue for annual reporting periods beginning after December 15, 2019. Additionally, under the amendments, entities may elect to adopt the leases guidance for fiscal years beginning after December 15, 2021. The Organization elected to adopt this deferral of one year for the ASU's identified.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of the amendments in ASU 2016-01 as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, is permitted for all entities that are not public business entities. The Organization adopted this update for the year ended December 31, 2019. This adoption had no impact on the year ended December 31, 2019.

Subsequent events - The Organization has evaluated subsequent events through July 30, 2020, which is the date the consolidated financial statements were available to be issued.

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 dues and continuing legal education revenue for the remainder of 2020.

(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 2020. 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	$ 7,554,797
Certificates of deposit	2,181,089
Accounts receivable, net	74,641
Total financial assets available within one year	9,810,527
Less:	
Board-designated funds	4,641,977
Statute designated funds	2,241,077
	6,883,054
Financial assets available to meet general expenditures over the next twelve months	$ 2,927,473

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. To help manage unanticipated liquidity needs, the Organization has a revolving line of credit of $4,000,000, which it could draw upon. 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, 2019.

		Fair Value Measurements At Report Date Using		
	Total	Quoted Prices In Active Markets for Identical Assets **Level 1**	Significant Other Observable Inputs **Level 2**	Significant Unobservable Inputs **Level 3**
Assets				
Equity securities for benefit plan	$ 340,528	$ 340,528	$ -	$ -

(5) Property and equipment

Property and equipment consisted of the following at December 31, 2019:

Land	$ 1,753,943
Land improvements	116,195
Buildings	7,739,696
Building improvements	5,352,115
Furniture and equipment	2,030,883
Computer hardware	1,001,955
Computer software	544,535
Total cost or donated value	18,539,322
Accumulated depreciation	(8,041,187)
Property and equipment, net	$ 10,498,135

(6) Line of credit

SBA has a $4,000,000 revolving line of credit with a financial institution which expired in August 2019. In January 2020, the line of credit was extended to February 2021. The line of credit bears interest at LIBOR + 1.50% (3.32% at December 31, 2019). This line of credit is 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 2019. There were no amounts outstanding on the line of credit as of December 31, 2019. The line of credit is subject to certain financial and non-financial covenants.

(7) Net assets

Each of the Organization's 31 sections charges 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 $586,096 as of December 31, 2019.

The Board of Directors adopted a cash reserve policy during the year ended December 31, 2017. Under this policy $4,055,881 as of December 31, 2019, 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, 2019 are as follows:

Years ending December 31,	
2020	$ 94,278
2021	94,278
2022	94,278
2023	96,552
2024	96,759
Thereafter	298,340
Total minimum lease receipts	$ 774,485

The Organization also leases office space to unrelated third parties. The lease terms call for monthly payments of approximately $30,000, maturing through January 2023. Minimum future rental payments to be received on these non-cancelable leases at December 31, 2019 are as follows:

Years ending December 31,	
2020	$ 330,879
2021	248,116
2022	185,018
2023	11,728
Total minimum lease receipts	$ 775,741

In January 2020, the Organization executed a lease termination agreement for one tenant with a buy out fee of $15,450 to be paid. The result of this termination is a decrease in future rental payments of approximately $25,000 in 2020, 2021, and 2022 that are not included in the table above.

(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 $66,995 during the year ended December 31, 2019. Future minimum lease payments under operating leases are $22,042 due in the year ended December 31, 2020.

(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, 2019, SBA contributed approximately $494,000 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, 2019, 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 $341,000 at December 31, 2019, and is included in other liabilities on the consolidated statement of financial position. During the year ended December 31, 2019, SBA contributed $22,500 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, 2019:

In-kind expense - rent (see Note 8)	$	60,000
In-kind advertising revenue	$	5,130
Accounts payable	$	43,093
Rental income - straight line (see Note 8 – includes common area maintenance recovery)	$	87,930
Expenses (cash paid - 1% Pro Bono & Mock Trial)	$	60,350

(12) Contingencies

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, 2019, 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,		
2020	$	683,719
2021		9,355
Total minimum payments	$	693,074

Subsequent to year end, the Organization entered into an amended contract to extend the date of one event from 2020 to 2024, which will reduce 2020 commitments by approximately $325,000.

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, 2019

ASSETS	SBA	CPF	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 7,427,566	$ 127,231	$ -	$ 7,554,797
Certificates of deposit	-	2,181,089	-	2,181,089
Accounts receivable, net	101,329	83,040	(109,728)	74,641
Inventories	52,684	-	-	52,684
Deferred rent - short term	26,290	-	-	26,290
Prepaid expenses and other assets	484,255	-	-	484,255
TOTAL CURRENT ASSETS	8,092,124	2,391,360	(109,728)	10,373,756
INVESTMENTS RESTRICTED FOR BENEFIT PLAN	340,528	-	-	340,528
OTHER ASSETS	74,146	-	-	74,146
DEFERRED RENT - LONG TERM	91,717	-	-	91,717
PROPERTY AND EQUIPMENT, net	10,498,135	-	-	10,498,135
TOTAL ASSETS	$ 19,096,650	$ 2,391,360	$ (109,728)	$ 21,378,282

LIABILITIES AND NET ASSETS	SBA	CPF	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable	$ 172,605	$ -	$ -	$ 172,605
Property taxes payable	83,433	-	-	83,433
Accrued liabilities	1,533,706	69,543	(109,728)	1,493,521
Prepaid rent liability	2,162	-	-	2,162
Membership and other fees collected in advance	2,361,676	80,740	-	2,442,416
TOTAL CURRENT LIABILITIES	4,153,582	150,283	(109,728)	4,194,137
OTHER LIABILITIES	412,993	-	-	412,993
TOTAL LIABILITIES	4,566,575	150,283	(109,728)	4,607,130
NET ASSETS				
Net assets without donor restrictions				
Undesignated	9,888,098	-	-	9,888,098
Board designated	4,641,977	-	-	4,641,977
Statute designated	-	2,241,077	-	2,241,077
TOTAL NET ASSETS	14,530,075	2,241,077	-	16,771,152
TOTAL LIABILITIES AND NET ASSETS	$ 19,096,650	$ 2,391,360	$ (109,728)	$ 21,378,282

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, 2019

	SBA	CPF	Eliminations	Total
SUPPORT AND REVENUE				
Membership fees				
Active	$ 8,855,612	$ -	$ -	$ 8,855,612
Inactive	1,157,120	-	-	1,157,120
Membership fees penalties	329,555	-	-	329,555
Sections	331,925	-	-	331,925
Board of legal specializations	100,600	-	-	100,600
Admission on motion	103,897	-	-	103,897
	10,878,709	-	-	10,878,709
PROGRAM SERVICE REVENUE				
Regulatory				
Judgement receipts	90,283	-	-	90,283
Professional services	53,652	-	-	53,652
Reinstatement fees	6,660	-	-	6,660
Trust account ethics program	9,600	-	-	9,600
Miscellaneous charges	21,033	-	-	21,033
	181,228	-	-	181,228
COMPLIANCE				
Board of legal specializations	30,550	-	-	30,550
Legal Services	128,322	-	(128,322)	-
Pro Hac Vice fees	456,273	-	-	456,273
Reinstatement Fees	10,666	-	-	10,666
Mandatory continuing legal education - late fees	509,059	-	-	509,059
Miscellaneous charges	525	-	-	525
	1,135,395	-	(128,322)	1,007,073
PROFESSIONAL DEVELOPMENT				
Continuing legal education	2,252,704	-	-	2,252,704
Convention	588,275	-	-	588,275
Publications	242,239	-	-	242,239
Advertising sales	883,880	-	-	883,880
Arizona Attorney magazine	17,177	-	-	17,177
Sections meetings and conferences	192,746	-	-	192,746
Contributions and sponsorships	98,267	-	-	98,267
Membership benefits	81,201	-	-	81,201
Other miscellaneous	94,522	-	-	94,522
	4,451,011	-	-	4,451,011
ACCESS TO JUSTICE				
Lawyer referral services	46,063	-	-	46,063
CLIENT PROTECTIONS FUND				
Assessments	-	434,866	-	434,866
Restitution receipts	-	15,694	-	15,694
	-	450,560	-	450,560
OTHER REVENUE				
Rental income	437,961	-	-	437,961
Interest and dividends	77,693	32,958	-	110,651
Loss on sale-disposal of assets	(4,195)	-	-	(4,195)
Other	120,681	-	-	120,681
TOTAL SUPPORT AND REVENUE	17,324,546	483,518	(128,322)	17,679,742
EXPENSES				
Program Services:				
Regulatory	5,931,728	-	-	5,931,728
Compliance	1,630,736	-	-	1,630,736
Professional development	5,759,521	-	-	5,759,521
Access to justice	614,995	-	-	614,995
Client Protection Fund	125,798	474,486	(125,798)	474,486
Total program services	14,062,778	474,486	(125,798)	14,411,466
Management and general	2,451,900	-	(2,524)	2,449,376
TOTAL EXPENSES	16,514,678	474,486	(128,322)	16,860,842
CHANGE IN NET ASSETS	809,868	9,032	-	818,900
NET ASSETS, BEGINNING OF YEAR	13,720,207	2,232,045	-	15,952,252
NET ASSETS, END OF YEAR	$ 14,530,075	$ 2,241,077	$ -	$ 16,771,152