



Consolidated Financial Statements  
December 31, 2024

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

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

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December 31, 2024

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## **Independent Auditor's Report**

To the Board of Governors and Trustees  
State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona  
Phoenix, Arizona

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management 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; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.


In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purposes of additional analysis 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

  
Phoenix, Arizona  
August 26, 2025

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

## Consolidated Statement of Financial Position

December 31, 2024

### Assets

#### Current Assets

Cash and cash equivalents	\$ 3,918,698
Accounts receivable, net of allowance for credit losses of \$12,010	159,747
Inventories	98,028
Prepaid expenses and other assets	724,202
	<hr/>
Total current assets	4,900,675

#### Non-Current Assets

Cash and cash equivalents - board designated	627,988
Cash and cash equivalents - statute designated	210,496
Property and equipment, net	9,057,078
Investments - board designated	13,967,366
Investments - undesignated	6,087
Investments - statute designated	2,496,402
Investments - restricted for benefit plan	432,750
	<hr/>

Total assets	<u><u>\$ 31,698,842</u></u>
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### Liabilities and Net Assets

#### Current Liabilities

Accounts payable	\$ 751,598
Accrued expenses and other liabilities	1,508,621
Deferred rent	11,397
Deferred revenue	2,768,644
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Total current liabilities	5,040,260
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Deferred Compensation Plan Liability	<hr/> 432,750
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Total liabilities	<hr/> <u>5,473,010</u>
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#### Net Assets

Without donor restrictions	
Undesignated	8,923,580
Designated by the board	14,595,354
Designated by statute	2,706,898
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Total net assets	<hr/> 26,225,832
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Total liabilities and net assets	<u><u>\$ 31,698,842</u></u>
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# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Consolidated Statement of Activities

Year Ended December 31, 2024

## Revenue and Support

### Membership fees

Active	\$ 9,396,952
Inactive	1,112,275
Membership fee penalties	422,235
Sections	326,618
Board of legal specializations	84,095
Admission on motion	163,662

11,505,837

### Regulatory

Judgment receipts	110,213
Professional services	71,700
Reinstatement fees	15,126
Trust account ethics program	7,640
Miscellaneous charges	23,771

228,450

### Compliance

Board of legal specializations	26,630
Pro Hac Vice fees	656,777
Reinstatement fees	10,800
Mandatory continuing legal education - late fees	579,254
Miscellaneous	73,300

1,346,761

### Professional development

Continuing legal education	2,514,975
Convention	616,457
Publications, net of costs of goods sold of \$61,288	202,532
Advertising sales	1,123,204
Arizona Attorney magazine	1,335
Sections meetings and conferences	171,252
Contributions and sponsorships	155,984
Membership benefits	107,245
Other miscellaneous	153,325

5,046,309

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

## Consolidated Statement of Activities

Year Ended December 31, 2024

Client protection fund	
Assessments	\$ 455,710
Restitution receipts	24,605
	<u>480,315</u>
Other revenue	
Rental income	599,034
Other	118,450
	<u>717,484</u>
Total revenue and support	<u>19,325,156</u>
Expenses	
Program services expense	
Regulatory	6,659,367
Compliance	1,939,940
Professional development	5,877,743
Access to justice	529,679
Client protection fund	315,293
	<u>15,322,022</u>
Supporting services expense	
Management and general	2,605,762
	<u>17,927,784</u>
Change in Net Assets before Investment Activity	1,397,372
Interest and dividends	458,429
Realized and unrealized gains, net of investment expenses	1,000,954
	<u>2,856,755</u>
Change in Net Assets	2,856,755
Net Assets, Beginning of Year	<u>23,369,077</u>
Net Assets, End of Year	<u><u>\$ 26,225,832</u></u>

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2024

	Program Services					Total	Management and General	Total Functional Expenses
	Regulatory	Compliance	Professional Development	Access to Justice	Client Protection Fund			
Salaries and Wages	\$ 3,836,147	\$ 1,119,762	\$ 2,184,968	\$ 227,647	\$ 96,070	\$ 7,464,594	\$ 1,171,683	\$ 8,636,277
Employee Benefits	633,755	220,512	402,299	47,253	18,417	1,322,236	226,139	1,548,375
Payroll Taxes	286,617	82,733	158,759	16,992	7,027	552,128	86,168	638,296
Bank/Credit Card Fees	137,757	53,638	158,023	12,538	-	361,956	300	362,256
Claims Paid	-	-	-	-	171,109	171,109	-	171,109
Conferences, Conventions and Meetings	2,842	1,307	1,192,064	2,838	-	1,199,051	69,534	1,268,585
Contributions	-	-	25,698	104,667	-	130,365	-	130,365
Depreciation	213,672	83,593	128,413	20,955	-	446,633	200,112	646,745
Information Technology	389,562	150,479	347,918	40,249	-	928,208	91,781	1,019,989
Legal Fees	11,595	-	-	-	19	11,614	21,476	33,090
Member Research Tool	-	-	80,004	-	-	80,004	-	80,004
Occupancy	214,570	81,307	163,164	22,293	11,506	492,840	314,377	807,217
Office Expense	132,821	94,281	622,142	22,823	906	872,973	6,434	879,407
Office of Presiding Disciplinary Judge	647,368	-	-	-	-	647,368	-	647,368
Professional Services	26,282	12,947	231,768	2,558	-	273,555	80,191	353,746
Training and Development	61,798	14,499	72,620	1,792	1,425	152,134	77,230	229,364
Other Expenses	64,581	24,882	171,191	7,074	8,814	276,542	260,337	536,879
Total Expenses by Function	6,659,367	1,939,940	5,939,031	529,679	315,293	15,383,310	2,605,762	17,989,072
Less Expenses Included with Revenues on the Statement of Activities								
Publications cost of goods sold	-	-	(61,288)	-	-	(61,288)	-	(61,288)
Total Expenses Included in the Expense Section of the Statement of Activities	<u>\$ 6,659,367</u>	<u>\$ 1,939,940</u>	<u>\$ 5,877,743</u>	<u>\$ 529,679</u>	<u>\$ 315,293</u>	<u>\$ 15,322,022</u>	<u>\$ 2,605,762</u>	<u>\$ 17,927,784</u>



# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

## Consolidated Statement of Cash Flows

Year Ended December 31, 2024

Operating Activities	
Change in net assets	\$ 2,856,755
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	646,745
Realized and unrealized gain on investments	(1,038,623)
Loss on sale of property and equipment	3,454
Changes in operating assets and liabilities	
Accounts receivable, net	8,181
Inventories	(43,730)
Prepaid expenses and other assets	(46,465)
Accounts payable	320,320
Accrued expenses and other liabilities	151,327
Deferred rent	6,644
Deferred revenue	(420,471)
Deferred Compensation Plan liability	11,032
Net Cash from Operating Activities	<u>2,455,169</u>
Investing Activities	
Purchase of investments	(1,920,041)
Sale of investments	65,564
Purchases of property and equipment	<u>(504,950)</u>
Net Cash used for Investing Activities	<u>(2,359,427)</u>
Net Change in Cash and Cash Equivalents	95,742
Cash and Cash Equivalents, Beginning of Year	<u>4,661,440</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,757,182</u></u>
Cash and cash equivalents	\$ 3,918,698
Cash and cash equivalents - board designated	627,988
Cash and cash equivalents - statute designated	<u>210,496</u>
Total cash and cash equivalents	<u><u>\$ 4,757,182</u></u>

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

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 19,000 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 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 State 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.

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

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## **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 Revised Statutes Ct. 32(d)(8). The CPF is a trust that is an entity separate from the State Bar 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, September 29, 2017 and April 16, 2021.

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.

## **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**

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. No restricted cash balances existed at December 31, 2024.

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

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## Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2024, the Organization had approximately \$4,443,000 in excess of FDIC-insured limits.

## Accounts Receivable and Allowance for Credit Losses

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 credit losses 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 credit losses and a credit to accounts receivable.

Management believes that the historical loss information for its accounts receivable and its compiled historical credit loss percentages (i.e., the similar risk characteristics of its customers and its lending practices) have not changed significantly over time. Additionally, management has determined that the current and reasonable and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information. As a result, the historical loss rates have not been adjusted for differences in current conditions or forecasted changes. Accordingly, the allowance for credit losses at December 31, 2024 totaled \$12,010.

Changes in the allowance for credit losses for receivables are as follows for the year ended December 31, 2024:

Allowance for credit losses, beginning of year	\$ 7,118
Provision for credit losses	4,892
Charge-offs	-
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Allowance for credit losses, end of year	<u><u>\$ 12,010</u></u>

## 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, 2024, inventories consisted of handbooks and textbooks for sale.

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

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## Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, the investments are reported at their fair values in the statement of financial position. Investment income and gains and losses, net of external expenses, are recorded as increases or decreases in the consolidated statement of activities.

## Property and Equipment

Property and equipment additions over \$5,000 for building and improvements, over \$10,000 for tenant leasehold improvements, and over \$2,500 for all other additions, are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years. 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. 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 equipment	4 - 10 years
Computer software and hardware	3 - 7 years

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. 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, 2024.

## Deferred Revenue

Membership fees are assessed in November for the following membership period, which is considered the calendar year, which correlates with the Organization's fiscal year. All such fees collected prior to the current year end are recorded as deferred revenue in the accompanying consolidated statement of financial position. Additionally, registration fees for Continuing Learning Education (CLE) consists of both "live" and online and on demand courses. All registration fees collected in advance of live events, completion of course or expiration of course access is recorded as deferred revenue. 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 or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for operating reserves. The governing board has designated by statute, from net assets without donor restrictions, net assets for the CPF.

*Net Assets With Donor Restrictions* – Net assets subject to donor (or certain grantor) restrictions. Some donor or grantor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization had no donor restricted net assets as of December 31, 2024.

**Revenue and Revenue Recognition**

SBA has multiple revenue streams that are accounted for as exchange transactions as described below.

*Membership Fees* – Members join SBA for calendar year annual periods. SBA has allocated the total membership transaction price to the benefits available. As all membership terms terminate at the reporting period end date, all membership revenue is recognized in the calendar year in which it applies. Members generally pay the annual fee in advance. Late fees associated with membership dues are recognized in the period in which they are assessed. Unearned membership dues are reflected as contract liabilities on the consolidated statement of financial position.

*Continuing Legal Education* - Continuing legal education (“CLE”) revenue is reported at an amount that reflects the consideration to which SBA expects to be entitled in exchange for providing services to their customers. CLE fees grant the right for the customer to access specified programs. As a CLE registration is for a specific event, SBA considers the contract to be a single performance obligation that is met at the point in time in which the CLE program is completed by the customer. Customers may pay in advance of or on the date of the program, generally resulting in contract liabilities.

*Other Revenue* - Other revenue includes Pro Hac Vice, publications revenue, advertising, and other regulatory and compliance fees and is reported at an amount that reflects the consideration to which SBA expects to be entitled in exchange for the goods or services. Amounts received for other fees are recorded as revenue at the point in time the goods or services are transferred to the customer. Payment is due at the time of the sale and this transaction may result in accounts receivable.

As of December 31, 2024, 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 over time in the year for which they are assessed.

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

The beginning and ending balances for contract liabilities and contract assets are as follows:

	Accounts Receivable 01/01/24	Accounts Receivable 12/31/24	Contract Liability 01/01/24	Contract Liability 12/31/24
Membership fees	\$ -	\$ -	\$ 2,541,454	\$ 1,846,467
Continuing legal education	-	-	288,887	232,458
Other fees	167,928	159,747	495,894	689,719
Total	<u>\$ 167,928</u>	<u>\$ 159,747</u>	<u>\$ 3,326,235</u>	<u>\$ 2,768,644</u>

For the year ended December 31, 2024, revenue recognized under a point in time convention totaled approximately \$6,466,000. For the year ended December 31, 2024, revenue recognized under an over-time convention totaled approximately \$11,986,000, which includes membership dues.

## 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 as net assets released from restrictions.

*Sponsorship Revenue* – Sponsorship revenue is accounted for in accordance with ASC 958-605 as an unconditional promise to give. Sponsorship revenue is included in the accompanying consolidated statement of activities as follows for the year ended December 31, 2024:

Contributions and sponsorships	\$ 155,984
Conventions	<u>61,285</u>
Total sponsorship revenue	<u>\$ 217,269</u>

## 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 are performed by people with those skills and would otherwise be purchased. No significant contributions of such goods or services were received during the year ended December 31, 2024. 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.

**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.

**Advertising and Promotion Costs**

Advertising costs are expensed as incurred and approximated \$26,000 during the year ended December 31, 2024.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program(s) and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as salaries and wages, employee benefits, payroll taxes, professional services, office expense, information technology, and other expenses, which are allocated on the basis of estimates of time and effort.

**Income Taxes**

The Organization is organized as an Arizona nonprofit and has been recognized by the IRS as exempt from federal income taxes under Section 501(a) as organizations described in IRC Section 501(c)(6), qualify for the charitable contribution deduction, and have been determined not to be private foundations. 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). SBA is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. CPF is annually required to file a Return of Organization Exempt from Income Tax (Form 1041) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organization determined that CPF is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that each entity has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization 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.



# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

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## Subsequent Events

The Organization has evaluated subsequent events through August 26, 2025, which is the date the consolidated financial statements were available to be issued.

## Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 3,918,698
Cash and cash equivalents - board designated	627,988
Cash and cash equivalents - statute designated	210,496
Accounts receivable, net	159,747
Investments - board designated	13,967,366
Investments - undesignated	6,087
Investments - statute designated	2,496,402
Investments - restricted for benefit plan	<u>432,750</u>
Total financial assets available within one year	<u>21,819,534</u>
Less	
Investments restricted for benefit plan	(432,750)
Board-designated funds	(14,595,354)
Statute designated funds	<u>(2,706,898)</u>
	<u>(17,735,002)</u>
	<u><u>\$ 4,084,532</u></u>

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. 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 upon Board approval.

**Note 3 - Fair Value Measurements and Disclosures**

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset 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 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 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 that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset 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. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. 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.

Mutual funds are classified within Level 1 because they have readily determinable fair values based on daily redemption values. Bonds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 2.

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

The following table presents investments measured at fair value on a recurring basis at December 31, 2024:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and money market funds (at cost)	\$ 6,087	\$ -	\$ -	\$ -
Equity mutual funds	9,821,783	9,821,783	-	-
Bonds	7,074,735	-	7,074,735	-
Total	<u>\$ 16,902,605</u>	<u>\$ 9,821,783</u>	<u>\$ 7,074,735</u>	<u>\$ -</u>

## Note 4 - Property and Equipment

Property and equipment consist of the following at December 31, 2024:

Land	\$ 1,753,943
Land improvements	112,037
Buildings	7,739,696
Building improvements	6,247,997
Furniture and equipment	2,015,619
Computer hardware	1,019,711
Computer software	419,428
Construction in progress	106,463
	<u>19,414,894</u>
Less accumulated depreciation	<u>(10,357,816)</u>
	<u>\$ 9,057,078</u>

## Note 5 - Net Assets

Each of the Organization's 30 sections charge 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 \$627,988 as of December 31, 2024.

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

As of December 31, 2024, the funds have been designated and allocated between the reserve accounts as follows:

Capital reserve	\$ 3,782,758
Annual fees reserve	7,807,357
Section carryover	627,988
Opportunity reserve	<u>2,377,251</u>
Total Board designated	<u>\$ 14,595,354</u>

Additionally, the net assets of the CPF are designated by Arizona State Statute to only be used for the purposes of the CPF as set forth in the trust agreement and per statute mandate.

## Note 6 - Leases

### *Lessor*

The Organization leases office space to the Arizona Foundation for Legal Services & Education (the "Foundation"), a related party, 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 in excess of the \$60,000 rent reduction to be received under this lease at December 31, 2024 are as follows:

<u>Years Ending December 31,</u>	
2025	\$ 96,759
2026	96,759
2027	96,759
2028	<u>8,063</u>
	<u>\$ 298,340</u>

# State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona

Notes to Consolidated Financial Statements

December 31, 2024

The Organization also leases office space to unrelated third parties. The lease terms call for monthly payments of approximately \$36,716 maturing through November 2027. Minimum future rental payments to be received on these non-cancelable leases at December 31, 2024 are as follows:

<u>Years Ending December 31,</u>	
2025	\$ 471,750
2026	404,421
2027	345,594
	<u>\$ 1,221,765</u>

Lease property subject to operating leases at December 31, 2024 includes:

Building	\$ 2,648,376
Less accumulated depreciation	(1,400,385)
	<u>\$ 1,247,991</u>

Depreciation expense for leased property subject to operating leases is provided on the straight-line method over the estimated useful life of the property in amounts necessary to reduce the assets to their estimated residual values. Estimated and actual residual values are reviewed on a regular basis to determine that depreciation amounts are appropriate. Depreciation expense relating to leased property subject to operating leases was approximately \$68,000 for 2024.

## **Note 7 - 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 amended in March 2021 to clarify definitions per the Plan Document. The entry date is the first day of the month following the date the employee satisfies the eligibility requirements. The Plan includes an automatic deferral feature and 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, 2024, SBA contributed approximately \$455,000 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, 2024, 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 \$433,000 at December 31, 2024. During the year ended December 31, 2024, SBA contributed approximately \$30,000 to the Non-Qualified 457b Plan with additional interest earned of approximately \$49,000. During the year ended December 31, 2024, SBA distributed approximately \$65,000 from the Non-Qualified 457b Plan.

**Note 8 - Related Parties**

SBA appoints six of the 25 members of the Board of Directors for the Foundation. Included in accounts payable, are amounts collected on behalf of the Foundation that have not remitted to the Foundation as of December 31, 2024. Transactions with the Foundation include the following as of and for the years ended December 31, 2024:

In-kind expense - rent (see Note 6)	\$ 60,000
Accounts payable	314,433
Rental income - (see Note 6 - includes common area maintenance recovery)	96,759
Accounts receivable	28,953
Expenses (cash paid - 1% pro bono and mock trial)	59,667

**Note 9 - Risks and Uncertainties**

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

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.

**Note 10 - Commitments**

As of December 31, 2024, 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:

<u>Years Ending December 31,</u>	
2025	\$ 188,276
2026	204,140
2027	192,266
2028	<u>194,330</u>
	<u><u>\$ 779,012</u></u>



Supplementary Information  
December 31, 2024

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



**State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona**  
**Consolidating Statement of Financial Position Information**  
**December 31, 2024**

	SBA	CPF	Eliminations	Consolidated
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,886,172	\$ 32,526	\$ -	\$ 3,918,698
Accounts receivable, net of allowance for credit losses of \$12,010	159,747	-	-	159,747
Inventories	98,028	-	-	98,028
Prepaid expenses and other assets	724,202	-	-	724,202
<b>Total current assets</b>	<b>4,868,149</b>	<b>32,526</b>	<b>-</b>	<b>4,900,675</b>
Cash and cash equivalents -board designated	627,988	-	-	627,988
Cash and cash equivalents -statute designated	-	210,496	-	210,496
Property and equipment, net	9,057,078	-	-	9,057,078
Due from	37,376	82,430	(119,806)	-
Investments - board designated	13,967,366	-	-	13,967,366
Investments - undesignated	6,087	-	-	6,087
Investments - statute designated	-	2,496,402	-	2,496,402
Investments - restricted for benefit plan	432,750	-	-	432,750
<b>Total assets</b>	<b>\$ 28,996,794</b>	<b>\$ 2,821,854</b>	<b>\$ (119,806)</b>	<b>\$ 31,698,842</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 751,598	\$ -	\$ -	\$ 751,598
Accrued expenses and other liabilities	1,508,621	-	-	1,508,621
Due to	82,430	37,376	(119,806)	-
Deferred rent	11,397	-	-	11,397
Deferred revenue	2,691,064	77,580	-	2,768,644
<b>Total current liabilities</b>	<b>5,045,110</b>	<b>114,956</b>	<b>(119,806)</b>	<b>5,040,260</b>
Deferred Compensation Plan Liability	432,750	-	-	432,750
<b>Total liabilities</b>	<b>5,477,860</b>	<b>114,956</b>	<b>(119,806)</b>	<b>5,473,010</b>
<b>Net Assets</b>				
Without donor restrictions				
Undesignated	8,923,580	-	-	8,923,580
Designated by the board	14,595,354	-	-	14,595,354
Designated by statute	-	2,706,898	-	2,706,898
<b>Total net assets</b>	<b>23,518,934</b>	<b>2,706,898</b>	<b>-</b>	<b>26,225,832</b>
<b>Total liabilities and net assets</b>	<b>\$ 28,996,794</b>	<b>\$ 2,821,854</b>	<b>\$ (119,806)</b>	<b>\$ 31,698,842</b>

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona  
Consolidating Statement of Activities Information  
Year Ended December 31, 2024

	SBA	CPF	Eliminations	Consolidated
Revenue and Support				
Membership fees				
Active	\$ 9,396,952	\$ -	\$ -	\$ 9,396,952
Inactive	1,112,275	-	-	1,112,275
Membership fee penalties	422,235	-	-	422,235
Sections	326,618	-	-	326,618
Board of legal specializations	84,095	-	-	84,095
Admission on motion	163,662	-	-	163,662
	<u>11,505,837</u>	<u>-</u>	<u>-</u>	<u>11,505,837</u>
Regulatory				
Judgment receipts	110,213	-	-	110,213
Professional services	71,700	-	-	71,700
Reinstatement fees	15,126	-	-	15,126
Trust account ethics program	7,640	-	-	7,640
Miscellaneous charges	23,771	-	-	23,771
	<u>228,450</u>	<u>-</u>	<u>-</u>	<u>228,450</u>
Compliance				
Board of legal specializations	26,630	-	-	26,630
Legal services	144,184	-	(144,184)	-
Pro Hac Vice fees	656,777	-	-	656,777
Reinstatement fees	10,800	-	-	10,800
Mandatory continuing legal education - late fees	579,254	-	-	579,254
Miscellaneous	73,300	-	-	73,300
	<u>1,490,945</u>	<u>-</u>	<u>(144,184)</u>	<u>1,346,761</u>
Professional development				
Continuing legal education	2,514,975	-	-	2,514,975
Convention	616,457	-	-	616,457
Publications, net of costs of goods sold of \$61,288	202,532	-	-	202,532
Advertising sales	1,123,204	-	-	1,123,204
Arizona Attorney magazine	1,335	-	-	1,335
Sections meetings and conferences	171,252	-	-	171,252
Contributions and sponsorships	155,984	-	-	155,984
Membership benefits	107,245	-	-	107,245
Other miscellaneous	153,325	-	-	153,325
	<u>5,046,309</u>	<u>-</u>	<u>-</u>	<u>5,046,309</u>

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona  
Consolidating Statement of Activities Information  
Year Ended December 31, 2024

	SBA	CPF	Eliminations	Consolidated
Client Protection Fund				
Assessments	\$ -	\$ 455,710	\$ -	\$ 455,710
Restitution receipts	-	24,605	-	24,605
	-	480,315	-	480,315
Other Revenue				
Rental income	599,034	-	-	599,034
Other	118,450	-	-	118,450
	717,484	-	-	717,484
Total revenue and support	18,989,025	480,315	(144,184)	19,325,156
Expenses				
Program services expense				
Regulatory	6,659,367	-	-	6,659,367
Compliance	2,072,620	-	(132,680)	1,939,940
Professional development	5,877,743	-	-	5,877,743
Access to justice	529,679	-	-	529,679
Client protection fund	-	315,293	-	315,293
Total program services expense	15,139,409	315,293	(132,680)	15,322,022
Supporting services expense				
Management and general	2,617,266	-	(11,504)	2,605,762
Total expenses	17,756,675	315,293	(144,184)	17,927,784
Change in Net Assets before Investment Activity	1,232,350	165,022	-	1,397,372
Interest and dividends	389,288	69,141	-	458,429
Realized and unrealized gains, net of investment expenses	828,743	172,211	-	1,000,954
Change in Net Assets	2,450,381	406,374	-	2,856,755
Net Assets, Beginning of Year	21,068,553	2,300,524	-	23,369,077
Net Assets, End of Year	\$ 23,518,934	\$ 2,706,898	\$ -	\$ 26,225,832