Client Protection Fund
2023 Annual Report

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Appendix

I. Introduction

Supreme Court of Arizona 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, 2023 through December 31, 2023. 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 is 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 terns, with no more than two consecutive terms. The Trustees typically hold quarterly meetings to review claims and are not compensated for their service. Trustees serving in 2023 included:

Trustee	Appointed	Reappointed	Term End
Etherton, Sandra L., Past Sec/Treas (Scottsdale)	07/01/18		05/19/23
Woodnick, Gregg, Chair (Phoenix)	07/01/19	07/01/24	06/30/29
Gerst, Matthew A., Public Trustee (Scottsdale)	07/01/15	07/01/20	06/30/25
Estavillo, Joshua L.J., Trustee (Tucson)	07/01/21		06/30/26
Hill, Clifford L., Sec/Treasurer (Prescott)	07/01/22		06/30/27
Chan, Patty, Trustee (Phoenix)	07/01/23		06/30/28

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 clamant. The Trustees cannot approve a claim for payment until one of the 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 circumstances of the claim

Claims that are eligible by reason of one of the events listed above may not be paid prior to the expiration of six months following the event. 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 (5) 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 2023

Forty (40) claims were received in 2023. Not all of the claims received during 2023 were eligible for payment in 2023.

V. Claims Paid in 2023

Thirty-four (34) claims were approved and paid during 2023—one received in 2021[1], 29 received in 2022 and 4 received in 2023. Claims filed against the following lawyers were paid in 2023:

CLAIMS FILED IN 2021—PAID IN 2023				
Lawyer	**State Bar Status**	**No. of Claims**	**Amount Sought**	**Amount Paid**
Barr, Christopher L.	Suspended	1	$ 3,400	$ 2,400
TOTALS		**1**	**$3,400**	**$2,400**

CLAIMS FILED IN 2022—PAID IN 2023				
Lawyer	**State Bar Status**	**No. of Claims**	**Amount Sought**	**Amount Paid**
Adams, Jeffrey R.	Deceased	1	$ 4,000	$ 3,000
Baker, Michael S.	Deceased	3	22,511	10,500
Barr, Christopher L.	Suspended	1	2,800	1,600
Burkhart, Michael A.	Disbarred	1	10,000	10,000

[1] This claim was denied on November 17, 2022. Reconsideration of the denial was requested on January 9, 2023 and the reconsideration was approved on February 14, 2023

CLAIMS FILED IN 2022—PAID IN 2023				
Lawyer	**State Bar Status**	**No. of Claims**	**Amount Sought**	**Amount Paid**
Forrester, Scott M.	Disbarred	1	4,500	4,500
Gregan, Maureen E.	Deceased	1	1,500	1,500
McNeice, Valarie A.	Disbarred	1	1,500	1,500
Mendoza, Joseph N.	Disbarred	6	32,789	29,936
Montgomery, Danny W.	Deceased	1	32,500	32,500
Nolan, Cari M.	Disability Inactive	19	365,583	261,168
Nolan, Todd E.	Deceased	22	242,797	204,980
Osborn, Roy A.	Deceased	1	3,000	3,000
Salvador, Anthony G.	Disbarred	1	4,763	4,763
Torok, Gregory T.	Suspended	2	7,300	7,300
Wolf, David J.	Deceased	1	3,400	3,400
TOTALS		**63**	**$738,943**	**$579,647**

CLAIMS FILED IN 2023—PAID IN 2023				
Lawyer	**State Bar Status**	**No. of Claims**	**Amount Sought**	**Amount Paid**
Nolan, Cari M.	Disability Inactive	2	$35,416	$31,166
Torok, Gregory T.	Suspended	2	4,000	4,500
TOTALS		**4**	**$39,416**	**$35,666**

TOTAL CLAIMS FILED 2021-2023 PAID IN 2023			
Year	**Claims Paid**	**Total Sought**	**Total Paid**
2021	1	$ 3,400	$ 2,400
2022	63	633,443	579,647
2023	4	86,916	35,666
TOTALS	**68**	**$723,759**	**$617,713**

In March 2022, the Fund began receiving claims filed against the two partners of the Nolan Law Firm, Todd E. Nolan and Cari M. Nolan. Sixty (60) claims were filed against the Nolans in 2022 and 2023. The first batch of sixteen (16) claims was considered by the Trustees at the November 2022 meeting, with the remaining claims considered at the February and May 2023 meetings. As the claims received were seeking greater than $800,000 in total, and because the Nolans were both partners in the firm, the Trustees considered all Nolan claims together with a $500,000 cap so that the Fund could potentially help more claimants. The approved amounts were pro-rated in order to keep the total below the $500,000 maximum payout. All Nolan claim payments were completed in 2023.

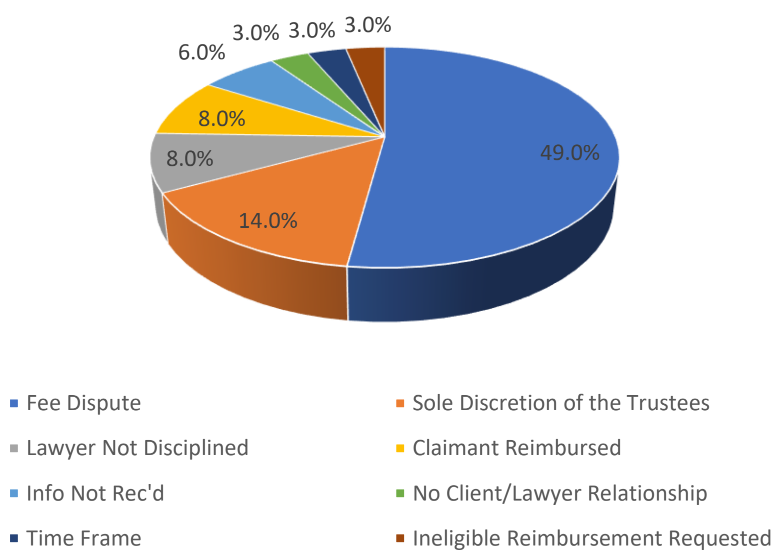
NOLAN CLAIMS FILED IN 2022-23—PAID IN 2023					
Lawyer	**State Bar Status**	**Claims Received**	**Claims Paid**	**Amount Sought**	**Amt. Paid (Pro-rated)**
Nolan, Todd	Deceased	2022: 27 2023: 5 = **32**	2022: 22 2023: 0 = **22**	$ 242,797	$ 204,980
Nolan, Cari	Disability Inactive	2022: 23 2023: 5= **28**	2022: 19 2023: 2 = **21**	365,583	292,334
TOTALS		**60**	**43**	**$ 814,134**	**$497,314**

VI. Claims Denied in 2023

The Trustees denied thirty-seven (37) claims in 2023, nine (9) more denials than in 2022. The Trustees denied claims for the following reasons:

- The claim did not demonstrate dishonesty but was a dispute over fees charged.
- The claim was withdrawn, or the claimant was reimbursed by the lawyer or other entity.
- The claim was based upon lawyer malpractice, negligence, and/or incompetence.
- The lawyer was not admitted or licensed to practice law in Arizona.
- Necessary information requested from the claimant was not received.
- Ineligible reimbursement was requested by the claimant.

REASONS FOR DENIAL OF CLAIMS IN 2023



VII. Forecasting

Twelve (12) claims filed in 2023 remained pending at the end of 2023. Seven (7) of those claims were completed by June 30, 2024, which is within the standard average processing time of six months, five (5) are currently pending Conservatorship trust account audits, and two (2) are currently in the investigation stage. Thirty-five (35) claims have been filed so far in 2024, seeking a total of $541,154 from the Fund.

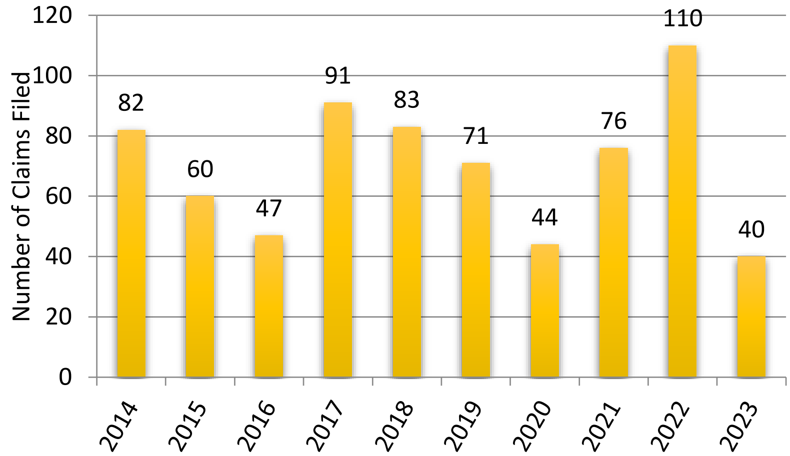
Year	Beginning Fund Balance	Claims Filed	Total Amount Sought	Claims Paid by Year Filed	Total Amount Paid	Claims Denied	Total Claims Resolved	Year End Fund Balance*	Claims Pending Year End	Claims Resolved Following Year
2022	$2,595,880	110	$1,193,060	2021: 45 2022: 18 Total: 63	$362,376	28	91	$2,251,694	76	76
2023	$2,251,694	40	$1,553,027	2022: 29 2023: 4 Total: 33	$617,713	37	70	$2,300,524	12	7
2024**	$2,300,524	35	$541,154	2023: 5 2024: 5 Total: 10	$36,771	19	N/A	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 in investments, staff and operating expenses, and lawyer restitution to the Fund.

**As of June 30, 2024

VIII. Historical Claims Data

CLAIMS FILED BY YEAR 2014-2023

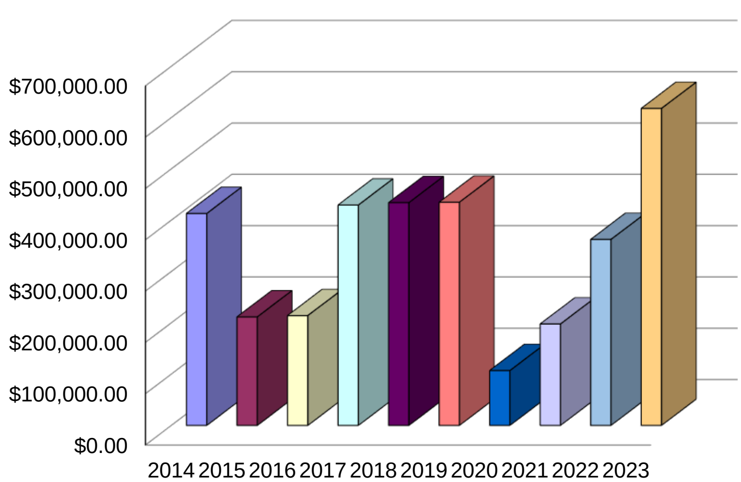


Five-Year Snapshot by Calendar Year

Year	Claims Filed	Claims Paid	Claims Denied	Total Amount Sought for all Claims Filed	Amount Paid by the Fund*
2019	71	54	44	$4,281,678	$346,293
2020	44	18	15	$6,391,901	$106,793
2021	76	36	12	$1,256,125	$197,568
2022	110	63	28	$1,193,060	$362,376
2023	40	33	37	$1,553,027	$617,713

*Total amount paid out for all claims filed in a specific calendar year, regardless of when actually paid. Not all claims are resolved during the calendar year in which 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 2014-2023



For the last ten (10) years, the annual average for claims paid was $342,132.

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 reasonable 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 2023 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 can pay claims where virtually no work of 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. Revenue Received by the Fund

As of December 31, 2023, the Fund had a balance of $2,300,524 in total net assets. Payments into the Fund include: (1) the annual member assessment; (2) interest and dividend income on investments; and (3) restitution to the Fund. Revenues from these sources totaled $546,575 in 2023.

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
2019	434,866
2020	435,390
2021	441,800
2022	446,100
2023	450,280

B. Interest and Dividends from Investments

In 2023, the Fund earned $63,731 in interest and dividend income from its investments, an increase from 2022. For the last ten years, interest income has averaged $22,491 per year. A ten-year history of the Fund's interest income is presented in the following chart:

Year	Interest Income
2014	$3,775
2015	$8,937
2016	$9,368
2017	$11,898
2018	$21,169
2019	$32,958
2020	$19,638
2021	$6,286
2022	$47,154
2023	$63,731

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

C. Restitution to the Fund

In 2023, the Fund received a total of $32,564 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 they have reimbursed the Fund for any claims paid.

XI. Investments

Effective 2022, the Trustees made the decision to utilize Vanguard Institutional Advisory Services to manage its investments. As of December 31, 2023, the Fund's investments have a fair value of $2,256,347.

XII. Fund Administration

A. Administration

Karen Oschmann, Client Protection Fund Administrator ("Administrator") provided support to the Trustees regarding the administration of the Fund in 2023. Caitlin Kelly, Legal Services Program Coordinator, provided additional administrative support to the Administrator. The State Bar's General Counsel, Lisa Panahi, Chief Financial Officer, Kathy Gerhart, and Controller, Jessica Iennarella, provided additional support to the Fund in 2023.

The Fund's Administrator reviews claims, investigates the claimant 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 $140,014 in operating expenses in 2023, including, but not limited to, the apportioned salaries for the General Counsel and Fund Administrator. Investigators are utilized at the discretion of the Trustees to investigate claim information. The Trustees are volunteers and are not compensated for their service. The chart below demonstrates the Fund’s 2023 financial overview:

2023 FINANCIAL OVERVIEW	2023
Net assets as of 12/31/22	$2,251,694
Revenue received in 2023	$546,575
Claims paid in 2023	617,713
Operation expenses paid in 2023	140,014
Realized and Unrealized losses, net of investment expenses	259,982
Net assets as of 12/31/23	$2,300,524

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 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 in 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

- “I cannot find the proper words to tell you how much I appreciate what you did for me. Thank you again for all your hard work.”
- “I want to thank you and the board for refunding to me what I thought was gone forever.”
- “What a blessing, thank you so much!”
- “Thank you and the committee for your consideration and effort.”

Consolidated Financial Statements
December 31, 2023

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

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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, 2023, 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.

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, 2023, 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.

Eide Bailly LLP

Phoenix, Arizona
September 18, 2024

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

Consolidated Statement of Financial Position

December 31, 2023

Assets	
Current Assets	
Cash and cash equivalents	$ 3,961,554
Accounts receivable, net of allowance for credit losses of $7,118	167,928
Inventories	54,298
Prepaid expenses and other assets	677,737
Total current assets	4,861,517
Non-Current Assets	
Cash and cash equivalents -board designated	655,709
Cash and cash equivalents -statute designated	44,177
Property and equipment, net	9,202,326
Investments - board designated	11,325,569
Investments - undesignated	5,872
Investments - statute designated	2,256,347
Investments restricted for benefit plan	421,718
Total assets	$ 28,773,235
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	$ 431,278
Accrued expenses and other liabilities	1,357,294
Deferred rent	4,753
Deferred revenue	3,189,115
Total current liabilities	4,982,440
Deferred Compensation Plan Liability	421,718
Total liabilities	5,404,158
Net Assets	
Without donor restrictions	
Undesignated	9,087,275
Designated by the Board	11,981,278
Designated by Statute	2,300,524
Total net assets	23,369,077
Total liabilities and net assets	$ 28,773,235

See Notes to Consolidated Financial Statements

Revenue, Support, and Gains	
Membership fees	
Active	$ 9,211,865
Inactive	1,121,930
Membership fee penalties	373,435
Sections	330,125
Board of legal specializations	88,000
Admission on motion	132,925
	11,258,280
Regulatory	
Judgment receipts	96,619
Professional services	45,325
Reinstatement fees	7,794
Trust account ethics program	4,700
Miscellaneous charges	19,068
	173,506
Compliance	
Board of legal specializations	39,700
Pro Hac Vice fees	590,614
Reinstatement fees	11,986
Mandatory continuing legal education - late fees	508,138
Miscellaneous	20,450
	1,170,888
Professional development	
Continuing legal education	2,794,341
Convention	535,584
Publications, net of costs of goods sold of $62,044	195,765
Advertising sales	1,138,522
Arizona Attorney magazine	1,528
Sections meetings and conferences	163,160
Contributions and sponsorships	125,362
Membership benefits	95,468
Other miscellaneous	122,071
	5,171,801

See Notes to Consolidated Financial Statements

Client protection fund	
Assessments	$ 450,280
Restitution receipts	32,564
	482,844
Other revenue	
Rental income	595,237
Other	107,618
	702,855
Total revenue, support, and gains	18,960,174
Expenses	
Program services expense	
Regulatory	6,600,299
Compliance	1,938,722
Professional development	5,656,861
Access to justice	503,067
Client protection fund	619,827
Total program services expense	15,318,776
Supporting services expense	
Management and general	2,487,866
Total expenses	17,806,642
Change in Net Assets before Investment Activity	1,153,532
Interest and dividends	386,782
Realized and unrealized gains, net of investment expenses	1,328,983
Change in Net Assets	2,869,297
Net Assets, Beginning of Year	20,499,780
Net Assets, End of Year	$ 23,369,077

See Notes to Consolidated Financial Statements

	Program Services							
	Regulatory	Compliance	Professional Development	Access to Justice	Client Protection Fund	Total	Management and General	Total Functional Expenses
Salaries and Wages	$ 3,693,194	$ 1,150,489	$ 2,189,971	$ 204,847	$ -	$ 7,238,501	$ 1,162,119	$ 8,400,620
Employee Benefits	596,959	219,519	387,102	42,937	-	1,246,517	208,799	1,455,316
Payroll Taxes	276,281	86,070	162,064	15,295	-	539,710	86,173	625,883
Bank/Credit Card Fees	134,478	48,589	160,821	11,436	14	355,338	299	355,637
Claims Paid	-	-	-	-	617,713	617,713	-	617,713
Conferences, Conventions and Meetings	1,416	1,358	1,049,900	1,774	1,136	1,055,584	58,844	1,114,428
Contributions	-	-	25,698	112,940	-	138,638	-	138,638
Depreciation	193,040	75,905	130,536	19,083	-	418,564	188,522	607,086
Information Technology	337,161	121,096	324,420	29,011	-	811,688	88,211	899,899
Legal Fees	17,907	3	-	-	-	17,910	40,544	58,454
Member Research Tool	-	-	80,004	-	-	80,004	-	80,004
Occupancy	199,166	78,792	160,620	21,388	-	459,966	294,846	754,812
Office Expense	124,042	99,191	639,034	24,222	-	886,489	6,738	893,227
Office of Presiding Disciplinary Judge	832,199	-	-	-	-	832,199	-	832,199
Professional Services	86,518	11,500	199,966	1,665	-	299,649	95,572	395,221
Training and Development	37,245	14,372	57,472	4,790	399	114,278	45,053	159,331
Other Expenses	70,693	31,838	151,297	13,679	565	268,072	212,146	480,218
Total Expenses by Function	6,600,299	1,938,722	5,718,905	503,067	619,827	15,380,820	2,487,866	17,868,686
Less Expenses Included with Revenues on the Statement of Activities Publications cost of goods sold	-	-	(62,044)	-	-	(62,044)	-	(62,044)
Total Expenses Included in the Expense Section of the Statement of Activities	$ 6,600,299	$ 1,938,722	$ 5,656,861	$ 503,067	$ 619,827	$ 15,318,776	$ 2,487,866	$ 17,806,642

See Notes to Consolidated Financial Statements

Operating Activities	
Change in net assets	$ 2,869,297
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	607,086
Realized and unrealized gain on investments	(1,359,255)
Loss on sale of property and equipment	295
Changes in operating assets and liabilities	
Accounts receivable, net	(90,333)
Inventories	31,272
Prepaid expenses and other assets	(52,864)
Accounts payable	237,957
Accrued liabilities	(51,218)
Deferred rent	(6,484)
Membership and other fees collected in advance	(155,031)
Other liabilities	91,877
Net Cash from Operating Activities	2,122,599
Investing Activities	
Purchase of investments	(3,031,402)
Sale of investments	1,564,504
Purchases of property and equipment	(292,711)
Net Cash used for Investing Activities	(1,759,609)
Net Change in Cash and Cash Equivalents	362,990
Cash and Cash Equivalents, Beginning of Year	4,298,450
Cash and Cash Equivalents, End of Year	$ 4,661,440
Cash and cash equivalents	$ 3,961,554
Cash and cash equivalents - board designated	655,709
Total cash and cash equivalents	$ 4,661,440
Supplemental Disclosure of Non-cash Investing and Financing Activity	
Accounts payable for property and equipment	$ 94,612

See Notes to Consolidated Financial Statements

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 18,500 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, 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, 2023.

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, 2023, the Organization had approximately $4,409,800 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 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, 2023 totaled $7,118.

Changes in the allowance for credit losses for receivables are as follows for the year ended December 31, 2023:

Allowance for credit losses, beginning of year	$	4,121
Provision for credit losses		2,997
Charge-offs		-
Allowance for credit losses, end of year	$	7,118

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, 2023 and 2022, inventories consisted of handbooks and textbooks for sale.

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 and direct internal investment expenses, are recorded as increases or decreases in the consolidated statement of activities and change in net assets.

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, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. 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 equipment	4 - 10 years
Computer software and hardware	3 - 7 years
Capitalized leased assets or leasehold improvements	Lesser of the useful life of the asset or the lease term

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, 2023.

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, 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 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 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.

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, 2023.

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, 2023, 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.

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

	Accounts Receivable 01/01/23	Accounts Receivable 12/31/23	Contract Liability 01/01/23	Contract Liability 12/31/23
Membership fees	$ -	$ -	$ 2,541,454	$ 2,376,707
Continuing legal education	-	-	288,887	164,606
Other fees	77,595	167,928	495,894	647,802
Total	$ 77,595	$ 167,928	$ 3,326,235	$ 3,189,115

For the year ended December 31, 2023, revenue recognized under a point in time convention totaled approximately $11,258,000. For the year ended December 31, 2023, revenue recognized under an over-time convention totaled approximately $6,981,000, 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 years ended December 31, 2023:

Contributions and sponsorships	$ 125,362
Conventions	57,555
Total sponsorship revenue	$ 182,917

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. 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 $45,000 during the year ended December 31, 2023.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present 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. The entities’ Forms 990, 990-T and other income tax filings required by state, local, or non-U.S. tax authorities are no longer subject to tax examination for years before 2020.

Adoption of New Accounting Standard

As of January 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This standard provides financial statements users with more decision-useful information about the expected losses on financial instruments.

The Organization adopted ASU 2016-13 using the modified retrospective review method for all financial assets measured at amortized cost. As a result of the adoption of the new credit loss guidance, the Organization recognized no impact to net assets. The adoption of the new standard did not materially impact the Organization’s Statement of Activities or Statement of Cash Flows.

Subsequent Events

The Organization has evaluated subsequent events through September 18, 2024, 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	$ 3,961,554
Cash and cash equivalents - board designated	655,709
Cash and cash equivalents - statute designated	44,177
Accounts receivable	167,928
Investments - board designated	11,325,569
Investments - undesignated	5,872
Investments - statute designated	2,256,347
Investments - restricted for benefit plan	421,718
Total financial assets available within one year	18,838,874
Less:	
Investments restricted for benefit plan	(421,718)
Board-designated funds	(11,981,278)
Statute designated funds	(2,300,524)
	(14,703,520)
	$ 4,135,354

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 Seminary'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.

The following table presents investments measured at fair value on a recurring basis at December 31, 2023:

		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				
Cash and money market funds (at cost)	$ 4,111	$ -	$ -	$ -
Equity mutual funds	8,119,419	8,119,419	-	-
Bonds	5,884,215	-	5,884,215	-
Total	$ 14,007,745	$ 8,119,419	$ 5,884,215	$ -

Note 4 - Property and Equipment

Property and equipment consist of the following at December 31, 2023:

Land	$ 1,753,943
Land improvements	116,195
Buildings	7,739,696
Building improvements	5,994,348
Furniture and equipment	2,075,556
Computer hardware	1,334,228
Computer software	669,025
Construction in progress	89,537
	19,772,528
Less accumulated depreciation	(10,570,202)
	$ 9,202,326

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 $658,827 as of December 31, 2023.

As of December 31, 2023, the funds have been designated and allocated between the reserve accounts as follows:

Capital reserve	$ 3,215,470
Annual fees reserve	6,251,078
Section carryover	655,709
Opportunity reserve	1,859,021
Total Board designated	$ 11,981,278

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.

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 to be received under this lease including the above referenced in-kind reductions at December 31, 2023 are as follows:

Years Ending December 31,	
2024	$ 96,759
2025	96,759
2026	96,759
2027	96,759
2028	8,063
	$ 395,099

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, 2023 are as follows:

Years Ending December 31,	
2024	$ 466,311
2025	471,035
2026	376,375
2027	320,023
	$ 1,633,744

Lease property subject to operating leases at December 31, 2023 includes:

Building	$ 2,648,376
Less: accumulated depreciation	(1,332,204)
	$ 1,316,172

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 $69,000 for 2023.

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 years ended December 31, 2023, SBA contributed approximately $436,000 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, 2023, 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 $422,000 at December 31, 2023. During the year ended December 31, 2023, SBA contributed approximately $37,500 to the 457b plan with additional interest earned of approximately $56,500.

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, 2023. Transactions with the Foundation include the following as of and for the years ended December 31, 2023:

In-kind expense - rent (see Note 6)	$	60,000
In-kind expense - convention booth		1,820
In-kind expense - advertising revenue		1,795
Accounts payable		127,201
Rental income - (see Note 6 - includes common area maintenance recovery)		95,639
Accounts receivable		17,310
Expenses (cash paid - 1% pro bono & mock trial)		59,740

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 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, 2023, 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,	
2024	$ 183,276
2025	188,276
2026	204,140
	$ 575,692

Supplementary Information
December 31, 2023

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

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	SBA	CPF	Eliminations	Consolidated
Assets				
Current Assets				
Cash and cash equivalents	$ 3,930,496	$ 31,058	$ -	$ 3,961,554
Accounts receivable, net of allowance for credit losses of $7,118	167,928	-	-	167,928
Inventories	54,298	-	-	54,298
Prepaid expenses and other assets	677,737	-	-	677,737
Total current assets	4,830,459	31,058	-	4,861,517
Cash and cash equivalents -board designated	655,709	-	-	655,709
Cash and cash equivalents -statute designated	-	44,177	-	44,177
Property and equipment, net	9,202,326	-	-	9,202,326
Due from	36,988	105,550	(142,538)	-
Investments - board designated	11,325,569	-	-	11,325,569
Investments - undesignated	5,872	-	-	5,872
Investments - statute designated	-	2,256,347	-	2,256,347
Investments restricted for benefit plan	421,718	-	-	421,718
Total assets	$ 26,478,641	$ 2,437,132	$ (142,538)	$ 28,773,235
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 431,278	$ -	$ -	$ 431,278
Accrued expenses and other liabilities	1,357,294	-	-	1,357,294
Due to	105,550	36,988	(142,538)	-
Deferred rent	4,753	-	-	4,753
Deferred revenue	3,089,495	99,620	-	3,189,115
Total current liabilities	4,988,370	136,608	(142,538)	4,982,440
Deferred Compensation Plan Liability	421,718	-	-	421,718
Total liabilities	5,410,088	136,608	(142,538)	5,404,158
Net Assets				
Without donor restrictions				
Undesignated	9,087,275	-	-	9,087,275
Designated by the board	11,981,278	-	-	11,981,278
Designated by statute	-	2,300,524	-	2,300,524
Total net assets	21,068,553	2,300,524	-	23,369,077
Total liabilities and net assets	$ 26,478,641	$ 2,437,132	$ (142,538)	$ 28,773,235

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

Consolidating Statement of Activities Information

Year Ended December 31, 2023

	SBA	CPF	Eliminations	Consolidated
Revenue, Support, and Gains				
Membership fees				
Active	$ 9,211,865	$ -	$ -	$ 9,211,865
Inactive	1,121,930	-	-	1,121,930
Membership fee penalties	373,435	-	-	373,435
Sections	330,125	-	-	330,125
Board of legal specializations	88,000	-	-	88,000
Admission on motion	132,925	-	-	132,925
	11,258,280	-	-	11,258,280
Regulatory				
Judgment receipts	96,619	-	-	96,619
Professional services	45,325	-	-	45,325
Reinstatement fees	7,794	-	-	7,794
Trust account ethics program	4,700	-	-	4,700
Miscellaneous charges	19,068	-	-	19,068
	173,506	-	-	173,506
Compliance				
Board of legal specializations	39,700	-	-	39,700
Legal services	137,900	-	(137,900)	-
Pro Hac Vice fees	590,614	-	-	590,614
Reinstatement fees	11,986	-	-	11,986
Mandatory continuing legal education - late fees	508,138	-	-	508,138
Miscellaneous	20,450	-	-	20,450
	1,308,788	-	(137,900)	1,170,888
Professional development				
Continuing legal education	2,794,341	-	-	2,794,341
Convention	535,584	-	-	535,584
Publications, net of costs of goods sold of $62,044	195,765	-	-	195,765
Advertising sales	1,138,522	-	-	1,138,522
Arizona Attorney magazine	1,528	-	-	1,528
Sections meetings and conferences	163,160	-	-	163,160
Contributions and sponsorships	125,362	-	-	125,362
Membership benefits	95,468	-	-	95,468
Other miscellaneous	122,071	-	-	122,071
	5,171,801	-	-	5,171,801
Client Protection Fund				
Assessments	-	450,280	-	450,280
Restitution receipts	-	32,564	-	32,564
	-	482,844	-	482,844
Other Revenue				
Rental income	595,237	-	-	595,237
Other	107,618	-	-	107,618
	702,855	-	-	702,855
Total revenue, support, and gains	18,615,230	482,844	(137,900)	18,960,174

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

Consolidating Statement of Activities Information

Year Ended December 31, 2023

	SBA	CPF	Eliminations	Consolidated
Expenses				
Program services expense				
Regulatory	$ 6,600,299	$ -	$ -	$ 6,600,299
Compliance	1,938,722	-	-	1,938,722
Professional development	5,656,861	-	-	5,656,861
Access to justice	503,067	-	-	503,067
Client protection fund	-	757,727	(137,900)	619,827
Total program services expense	14,698,949	757,727	(137,900)	15,318,776
Supporting services expense				
Management and general	2,487,866	-	-	2,487,866
Total expenses	17,186,815	757,727	(137,900)	17,806,642
Change in Net Assets before Investment Activity	1,428,415	(274,883)	-	1,153,532
Interest and dividends	323,051	63,731	-	386,782
Realized and unrealized gains, net of investment expenses	1,069,001	259,982	-	1,328,983
Change in Net Assets	2,820,467	48,830	-	2,869,297
Net Assets, Beginning of Year	18,248,086	2,251,694	-	20,499,780
Net Assets, End of Year	$ 21,068,553	$ 2,300,524	$ -	$ 23,369,077