



Consolidated Financial Statements
December 31, 2016 and 2015

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, 2016 and 2015

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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 Financial Statements

We have audited the accompanying consolidated financial statements of State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona (collectively referred to as “the Organization”), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona as of December 31, 2016 and 2015, and the change in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Organization's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona
April 12, 2017

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona
Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash	\$ 5,404,698	\$ 3,561,465
Certificates of deposit	1,855,174	2,302,963
Accounts receivable, net of allowance of \$1,183 and \$14,054, respectively	57,431	30,984
Inventories	92,250	78,942
Prepaid expenses and other assets	420,628	402,078
Total current assets	7,830,181	6,376,432
Investments Restricted for Benefit Plan	450,820	368,212
Property and Equipment, Net	10,604,048	11,168,516
Total assets	\$ 18,885,049	\$ 17,913,160
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 101,005	\$ 156,699
Property taxes payable	92,155	89,119
Accrued liabilities	1,291,501	1,169,646
Deferred rent	63,507	-
Dues and fees collected in advance	2,166,261	2,322,924
Total current liabilities	3,714,429	3,738,388
Long-Term Liabilities		
Other liabilities	477,610	384,047
Total liabilities	4,192,039	4,122,435
Net Assets		
Unrestricted, board designated	2,987,887	1,711,609
Unrestricted, statute designated	2,088,216	2,394,248
Unrestricted	9,616,907	9,684,868
Total net assets	14,693,010	13,790,725
Total liabilities and net assets	\$ 18,885,049	\$ 17,913,160

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona
Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015

	2016	2015
Support and Revenue		
Dues		
Active	\$ 9,261,413	\$ 8,932,321
Inactive	921,390	906,805
Sections	327,370	337,880
Board of legal specialization	115,350	114,755
Assessments	213,990	211,445
Fees		
Continuing legal education	1,981,620	2,059,801
Convention	498,452	524,146
Lawyer regulations	192,521	158,188
Board of legal specialization	33,495	48,900
Publication and advertising sales		
Arizona attorney magazine	870,139	816,281
Membership directory	1,028	80,775
Website	2,300	2,475
Mailing lists and labels	1,350	520
Economic survey	11,189	4,115
Rental income	357,762	314,483
Pro hac vice	432,958	442,002
Late fees mandatory continuing legal education	291,228	575,161
Sections - other	149,622	133,314
Special services	9,119	9,825
Contributions and sponsorships	110,747	118,653
Membership benefits	37,660	28,763
Interest and dividends	17,227	9,598
Other	108,934	82,512
Restitution receipts	5,059	100,554
Total support and revenue	15,951,923	16,013,272
Expenses		
Program services		
Discipline	7,023,819	7,059,149
Member services	5,820,704	5,714,886
Client protection fund claims	396,770	409,071
Total program services	13,241,293	13,183,106
Management and general	1,808,345	1,788,278
Total expenses	15,049,638	14,971,384
Change in Net Assets	902,285	1,041,888
Net Assets, Beginning of Year	13,790,725	12,748,837
Net Assets, End of Year	\$ 14,693,010	\$ 13,790,725

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 902,285	\$ 1,041,888
Adjustments to reconcile net assets to net cash from operating activities		
Depreciation	870,561	852,869
Loss on disposition of property and equipment	833	-
Changes in assets and liabilities		
Accounts receivable	(26,447)	38,219
Inventories	(13,308)	1,005
Prepaid expenses and other assets	(18,550)	11,306
Accounts payable	(55,694)	(13,944)
Property taxes payable	3,036	8,620
Accrued liabilities	121,855	(154,979)
Deferred rent	63,507	(9,551)
Dues and fees collected in advance	(156,663)	170,411
Other liabilities	10,955	(329,710)
	1,702,370	1,616,134
Net Cash from Operating Activities		
Cash Flows for Investing Activities		
Purchases of property and equipment	(306,926)	(543,627)
Purchases of certificates of deposit	(3,164,593)	(3,458,519)
Redemptions of certificates of deposit	3,612,382	3,452,065
	140,863	(550,081)
Net Cash from (used for) Investing Activities		
Net Change in Cash	1,843,233	1,066,053
Cash, Beginning of Year	3,561,465	2,495,412
Cash, End of Year	\$ 5,404,698	\$ 3,561,465

Note 1 - Principal Business Activity and Significant Accounting Policies

Principal Business Activity

The State Bar of Arizona is an Arizona non-profit corporation formed in 1933 and operated under the supervision of the Arizona Supreme Court. The Organization regulates approximately 18,500 active attorneys in Arizona and provides education and development programs for the legal profession and the public. The Bar and its members are committed to serving the public by making sure the voices of all people in Arizona are heard in our justice system.

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.

State Bar of Arizona (SBA): In Arizona, the State Bar is responsible for the regulation of attorneys. It receives this authority from Arizona Supreme Court Rule 32. The State Bar receives and investigates complaints and inquiries against attorneys which may lead to a formal hearing and discipline sanctions, if warranted.

In addition to regulation, Rule 32 gives the State Bar responsibility to provide a forum for the discussion of legal subjects, as well as research in the areas of substantive law, practice, and procedure. The ultimate goal is to maintain a level of honor and dignity in the legal profession that is effectively and efficiently carried out in the public interest. To that end, the State Bar is also involved in a number of programs that reach out and educate the public directly.

The State Bar also performs the role of a professional association for attorneys in Arizona. Beyond the desire to improve their knowledge of the law, it also provides programs and assistance that help attorneys in their daily work lives.

The Client Protection Fund of the State Bar of Arizona (“the 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 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.

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 (“SBA”) and the CPF because SBA has both control 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.”

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

For purposes of the consolidated statement of cash flows, highly liquid investments with a maturity of three months or less at date of purchase are considered to be cash equivalents. Restricted cash is limited in use to payment of costs of administering the CPF or approved claims of the CPF. No restricted cash balances existed at December 31, 2016 or 2015.

The Organization maintains cash balances at various financial institutions. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization has not experienced any loss in such accounts.

Accounts Receivable

Accounts receivable consist of program service fees, all of which are due in less than one year and, accordingly, are presented as current assets in the accompanying consolidated financial statements. The Organization is exposed to certain credit risk. The Organization manages its risk by regularly reviewing its accounts and by providing appropriate allowances for uncollectible accounts. The Organization deems accounts over 90 days old to be past due. The Organization does not charge interest on late accounts. Accounts receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to revenue and a credit to the allowance for uncollectible accounts based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible accounts and a credit to accounts receivable.

Inventories

Inventories, which consist primarily of periodicals, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

Investments

The Organization reports investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. Investment income and gains and losses are recorded as increases or decreases in unrestricted net assets.

Property and Equipment

Property and equipment additions \$5,000 and above for building and improvements, \$10,000 or above for tenant leasehold improvements, and \$2,500 and above for all other additions, are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to 40 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 or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2016 and 2015.

Dues and Fees Collected in Advance

Membership dues are assessed in November for the following fiscal year. All such dues collected prior to the current year end are recorded as deferred revenue. Additionally, certain Continuing Learning Education (“CLE”) seminar registrations are opened in advance of the seminar. All such registration fees collected in advance are recorded as 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-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time. The Organization reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets as of December 31, 2016 and 2015.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements. The Organization had no permanently restricted net assets as of December 31, 2016 and 2015.

Revenue Recognition

The Organization’s main sources of revenues are membership dues, service fees, and other self-generated revenue. Membership dues are generally collected at the beginning of the membership year and are recognized ratably over the year to which they pertain. Service fees and other self-generated revenue are recognized when assessed.

The CPF receives a \$10 annual assessment from each active and inactive member of the Organization. This is not part of the member's bar dues, but a separate assessment established by the Arizona Supreme Court. Assessments are recognized in the year for which they are assessed.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Donated Materials and Services

Donated materials and services are reflected as contributions in the accompanying consolidated financial statements at their estimated fair values as of the date of donation. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills performed by people with those skills, and would otherwise be purchased. The Organization utilizes and depends on the services of volunteers to perform a variety of tasks that assist the Organization with specific programs. The value of this contributed time is not reflected in these consolidated financial statements since the services did not require specialized skills and it was not susceptible to objective measurement.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2016 and 2015 was \$32,980 and \$34,774, respectively.

Functional Expense Allocation

Expenses are charged to program services and supporting services categories in the consolidated statement of activities based on direct expenditures incurred. Any expenditure, not directly chargeable to a functional expense category, is allocated based on personnel activity and other appropriate allocation methods.

Income and Certain Excise Taxes

SBA is organized as an Arizona non-profit corporation. The Internal Revenue Service has determined that SBA is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(6). Management has determined the CPF is a grantor trust and as such it is disregarded entity treated as a division of SBA solely for income tax purposes. Accordingly, contributions to either organization do not qualify for the charitable contribution deduction under Section 170(b)(1)(A). The combined entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the combined entity is generally subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes and it files an Exempt Organization Business Income Tax Return (IRS Form 990-T) and the Arizona equivalent (Form 99-T) to report its unrelated business taxable income.

SBA believes that it has appropriate support for any material income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the consolidated the financial statements. SBA would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Organization's federal Form 990-T and Arizona Form 99-T are no longer subject to tax examination for years before 2013 and 2012, respectively.

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.

Note 2 - Certificates of Deposit

The CPF invests in the Certificate of Deposit Account Registry Service ("CDARS"). The CDARS program allows the Organization to purchase certificates of deposit, each within the applicable federal insurance limit, from participating U.S. banks.

Note 3 - Fair Value Measurements and Disclosures

The Organization's significant financial instruments include investments, and deferred compensation plan assets. For these financial instruments, carrying values approximate fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

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

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

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

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

All of the Organization's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values.

The following table presents assets measured at fair value on a recurring basis at December 31, 2016 and 2015.

		2016		
		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)
Total				
Assets				
	Equity securities for benefit plan	\$ 450,820	\$ 450,820	\$ -
		<u> </u>	<u> </u>	<u> </u>
		2015		
		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)
Total				
Assets				
	Equity securities for benefit plan	\$ 368,212	\$ 368,212	\$ -
		<u> </u>	<u> </u>	<u> </u>

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2016	2015
Land	\$ 1,753,943	\$ 1,753,943
Land improvements	116,195	116,195
Buildings	7,739,696	7,739,696
Building improvements	3,873,699	3,738,962
Furniture and equipment	1,909,642	1,870,458
Computer hardware	1,125,996	988,692
Computer software	1,345,469	1,294,990
Construction in progress	41,136	155,134
Total cost or donated value	17,905,776	17,658,070
Accumulated depreciation and amortization	(7,301,728)	(6,489,554)
Net property and equipment	\$ 10,604,048	\$ 11,168,516

Depreciation expense for the years ended December 31, 2016 and 2015 was \$870,561 and \$852,869, respectively.

Note 5 - Line of Credit

SBA has a \$4,000,000 revolving line of credit with a financial institution which expires in August 2019. The line of credit bears interest at LIBOR + 1.50%. This line of credit is collateralized by a first deed of trust, together with an assignment of rents and leases on real property and improvements. No interest expense was incurred during 2016 and 2015. There were no amounts outstanding on the line of credit as of December 31, 2016 and 2015.

Note 6 - Net Assets

Each of the Organization's 28 sections charges separate dues 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 carry over totaled \$479,523 and \$420,667 for the years ended December 31, 2016 and 2015, respectively.

The Board of Directors adopted a cash reserve policy during the year ended December 31, 2016 and 2015. Under this new policy \$2,508,364 and \$1,290,942 as of December 31, 2016 and 2015, respectively, has been designated and allocated 50/50 between Dues Revenue and Capital Projects Reserves.

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

Note 7 - Leasing Activities

The Organization leases 8,027 square feet of office space to the Arizona Foundation for Legal Services & Education (the “Foundation”) under an operating lease agreement that ends in May 2021. The Foundation has the option to terminate the lease effective any time after May 31, 2015 by providing the Organization six months prior written notice and paying compensation for lost rents as defined in the agreement. Included in this lease agreement is a \$60,000 in-kind reduction of rent from the Organization to the Foundation. Minimum future rental payments to be received under this lease including the \$60,000 in-kind at December 31, 2016 are approximately as follows:

Years ending December 31,	
2017	\$ 143,000
2018	149,000
2019	154,000
2020	157,000
2021	<u>65,000</u>
 Total minimum lease receipts	 <u><u>\$ 668,000</u></u>

The Organization also leases office space to unrelated third parties. The lease terms call for monthly payments of approximately \$22,400. Minimum future rental payments to be received on these non-cancelable leases at December 31, 2016 are approximately as follows:

Years ending December 31,	
2017	\$ 287,000
2018	247,000
2019	257,000
2020	230,000
2021	179,000
Thereafter	<u>88,000</u>
 Total minimum lease receipts	 <u><u>\$ 1,288,000</u></u>

Note 8 - Operating Leases

The Organization leases offsite storage and convention and meeting facilities with varying minimum annual payments under non-cancelable lease agreements. Lease expense under these agreements was \$44,003 and \$53,878 during the years ended December 31, 2016 and 2015, respectively. Future minimum lease payments under operating leases total \$26,525 and are due as follows: \$18,425 in 2017 and \$8,100 in 2018.

Note 9 - Retirement Plans

Defined Contribution Plan

SBA sponsors a defined contribution plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code covering substantially all employees who meet specified age and years of service requirements. SBA may make discretionary contributions on behalf of participants. This plan was restated as of January 1, 2015. The entry date was changed from the January 1 and July 1 following when the employee had satisfied the eligibility requirements, to the first day of the month following the date the employee satisfies eligibility requirements. The plan now includes an automatic deferral feature and also adopted a safe harbor plan. Under the safe harbor election SBA is required to make safe harbor matching contributions equal to 100% of the salary deferrals that do not exceed 1% of the employee's compensation plus 50% of the employee's salary deferrals between 1% and 6% of compensation. The safe harbor matching contribution is subject to a different vesting schedule from the employer discretionary non-elective contributions to the plan. The vesting schedule for the employer qualified safe harbor contributions is 0% for one year of service or less and 100% for two years of service or more.

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, 2016 and 2015, 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.

Total expense related to these two retirement plans was \$525,617 and \$513,754 for the years ended December 31, 2016 and 2015, respectively.

Note 10 - Related Parties

SBA appoints six of the 25 members of the Board of Directors for the Foundation. Transactions with the Foundation include the following for the years ended December 31:

	2016	2015
In-kind expense (see Note 7)	\$ 65,095	\$ 56,645
Advertising revenue	8,505	8,330
Accounts payable	34,449	11,379
Rental income (see Note 7)	133,649	109,078
Expenses (cash paid – 1% ProBono & Mock Trial)	32,856	40,000

Note 11 - Contingencies

From time to time, the Organization may become involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

Note 12 - Commitments

As of December 31, 2016, 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,	
2017	\$ 584,119
2018	556,326
2019	521,440
2020	<u>351,273</u>
Total minimum lease payments	<u>\$ 2,013,158</u>

Note 13 - Subsequent Events

Subsequent to year end the Organization entered into a construction contract for tenant improvements totaling approximately \$125,000.

Additionally, subsequent to year end the Organization entered into an agreement for a research tool on a five year agreement totaling \$400,000 due over 5 years and a software license agreement totaling \$140,000 due over a two year period.

The Organization has evaluated subsequent events through April 12, 2017, the date which the financial statements were available to be issued.



Supplementary Information
December 31, 2016 and 2015

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
December 31, 2016

	<u>SBA</u>	<u>CPF</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current Assets				
Cash	\$ 5,140,046	\$ 264,652	\$ -	\$ 5,404,698
Certificates of deposit	-	1,855,174	-	1,855,174
Accounts receivable, net	90,046	75,465	(108,080)	57,431
Inventories	92,250	-	-	92,250
Prepaid expenses and other assets	420,628	-	-	420,628
Total current assets	<u>5,742,970</u>	<u>2,195,291</u>	<u>(108,080)</u>	<u>7,830,181</u>
Investments Restricted for Benefit Plan	450,820	-	-	450,820
Property and Equipment, Net	<u>10,604,048</u>	<u>-</u>	<u>-</u>	<u>10,604,048</u>
Total assets	<u>\$ 16,797,838</u>	<u>\$ 2,195,291</u>	<u>\$ (108,080)</u>	<u>\$ 18,885,049</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 101,005	\$ -	\$ -	\$ 101,005
Property taxes payable	92,155	-	-	92,155
Accrued liabilities	1,366,966	32,615	(108,080)	1,291,501
Deferred rent	63,507	-	-	63,507
Dues and fees collected in advance	2,091,801	74,460	-	2,166,261
Total current liabilities	<u>3,715,434</u>	<u>107,075</u>	<u>(108,080)</u>	<u>3,714,429</u>
Long-Term Liabilities				
Other liabilities	<u>477,610</u>	<u>-</u>	<u>-</u>	<u>477,610</u>
Total liabilities	<u>4,193,044</u>	<u>107,075</u>	<u>(108,080)</u>	<u>4,192,039</u>
Net Assets				
Unrestricted, board designated	2,987,887	-	-	2,987,887
Unrestricted, statute designated	-	2,088,216	-	2,088,216
Unrestricted	9,616,907	-	-	9,616,907
Total net assets	<u>12,604,794</u>	<u>2,088,216</u>	<u>-</u>	<u>14,693,010</u>
Total liabilities and net assets	<u>\$ 16,797,838</u>	<u>\$ 2,195,291</u>	<u>\$ (108,080)</u>	<u>\$ 18,885,049</u>

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona
Consolidating Statement of Financial Position
December 31, 2015

	<u>SBA</u>	<u>Trust</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 3,400,168	\$ 161,297	\$ -	\$ 3,561,465
Certificates of deposit	-	2,302,963	-	2,302,963
Accounts receivable, net	69,723	43,145	(81,884)	30,984
Inventories	78,942	-	-	78,942
Prepaid expenses and other assets	402,078	-	-	402,078
Total current assets	<u>3,950,911</u>	<u>2,507,405</u>	<u>(81,884)</u>	<u>6,376,432</u>
Investments Restricted for Benefit Plan	368,212	-	-	368,212
Property and Equipment, Net	<u>11,168,516</u>	<u>-</u>	<u>-</u>	<u>11,168,516</u>
Total assets	<u>\$ 15,487,639</u>	<u>\$ 2,507,405</u>	<u>\$ (81,884)</u>	<u>\$ 17,913,160</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 156,699	\$ -	\$ -	\$ 156,699
Property taxes payable	89,119	-	-	89,119
Accrued liabilities	1,179,633	71,897	(81,884)	1,169,646
Dues and fees collected in advance	2,281,664	41,260	-	2,322,924
Total current liabilities	<u>3,707,115</u>	<u>113,157</u>	<u>(81,884)</u>	<u>3,738,388</u>
Long-Term Liabilities				
Other liabilities	<u>384,047</u>	<u>-</u>	<u>-</u>	<u>384,047</u>
Total liabilities	<u>4,091,162</u>	<u>113,157</u>	<u>(81,884)</u>	<u>4,122,435</u>
Net Assets				
Unrestricted, board designated	1,711,609	-	-	1,711,609
Unrestricted, statute designated	-	2,394,248	-	2,394,248
Unrestricted	9,684,868	-	-	9,684,868
Total net assets	<u>11,396,477</u>	<u>2,394,248</u>	<u>-</u>	<u>13,790,725</u>
Total liabilities and net assets	<u>\$ 15,487,639</u>	<u>\$ 2,507,405</u>	<u>\$ (81,884)</u>	<u>\$ 17,913,160</u>

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona
Consolidating Statement of Activities
Year Ended December 31, 2016

	<u>SBA</u>	<u>CPF</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenue				
Dues				
Active	\$ 9,261,413	\$ -	\$ -	\$ 9,261,413
Inactive	921,390	-	-	921,390
Sections	327,370	-	-	327,370
Board of legal specialization	115,350	-	-	115,350
Assessments - CPF	-	213,990	-	213,990
Fees				
Continuing legal education	1,981,620	-	-	1,981,620
Convention	498,452	-	-	498,452
Lawyer regulations	192,521	-	-	192,521
Board of legal specialization	33,495	-	-	33,495
Publication and advertising sales				
Arizona attorney magazine	870,139	-	-	870,139
Membership directory	1,028	-	-	1,028
Website	2,300	-	-	2,300
Mailing lists and labels	1,350	-	-	1,350
Economic survey	11,189	-	-	11,189
Rental income	357,762	-	-	357,762
Pro hac vice	432,958	-	-	432,958
Late fees mandatory continuing legal education	291,228	-	-	291,228
Sections - other	149,622	-	-	149,622
Special services	146,798	-	(137,679)	9,119
Contributions and sponsorships	110,747	-	-	110,747
Membership benefits	37,660	-	-	37,660
Interest and dividends	7,859	9,368	-	17,227
Other	108,934	-	-	108,934
Restitution receipts	-	5,059	-	5,059
Total support and revenue	<u>15,861,185</u>	<u>228,417</u>	<u>(137,679)</u>	<u>15,951,923</u>
Expenses				
Program services				
Discipline	7,023,819	-	-	7,023,819
Member services	5,820,704	-	-	5,820,704
Client protection fund claims	-	396,770	-	396,770
Total program services	<u>12,844,523</u>	<u>396,770</u>	<u>-</u>	<u>13,241,293</u>
Management and general	<u>1,808,345</u>	<u>137,679</u>	<u>(137,679)</u>	<u>1,808,345</u>
Total expenses	<u>14,652,868</u>	<u>534,449</u>	<u>(137,679)</u>	<u>15,049,638</u>
Change in Net Assets	1,208,317	(306,032)	-	902,285
Net Assets, Beginning of Year	<u>11,396,477</u>	<u>2,394,248</u>	<u>-</u>	<u>13,790,725</u>
Net Assets, End of Year	<u>\$ 12,604,794</u>	<u>\$ 2,088,216</u>	<u>\$ -</u>	<u>\$ 14,693,010</u>

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona
Consolidating Statement of Activities
Year Ended December 31, 2015

	<u>SBA</u>	<u>CPF</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenue				
Dues				
Active	\$ 8,932,321	\$ -	\$ -	\$ 8,932,321
Inactive	906,805	-	-	906,805
Sections	337,880	-	-	337,880
Board of legal specialization	114,755	-	-	114,755
Assessments - CPF	-	211,445	-	211,445
Fees				
Continuing legal education	2,059,801	-	-	2,059,801
Convention	524,146	-	-	524,146
Lawyer regulations	158,188	-	-	158,188
Board of legal specialization	48,900	-	-	48,900
Publication and advertising sales				
Arizona attorney magazine	816,281	-	-	816,281
Membership directory	80,775	-	-	80,775
Website	2,475	-	-	2,475
Mailing lists and labels	520	-	-	520
Economic survey	4,115	-	-	4,115
Rental income	314,483	-	-	314,483
Pro hac vice	442,002	-	-	442,002
Late fees mandatory continuing legal education	575,161	-	-	575,161
Sections - other	133,314	-	-	133,314
Special services	149,371	-	(139,546)	9,825
Contributions and sponsorships	118,653	-	-	118,653
Membership benefits	28,763	-	-	28,763
Interest and dividends	661	8,937	-	9,598
Other	82,512	-	-	82,512
Restitution receipts	-	100,554	-	100,554
Total support and revenue	<u>15,831,882</u>	<u>320,936</u>	<u>(139,546)</u>	<u>16,013,272</u>
Expenses				
Program services				
Discipline	7,059,149	-	-	7,059,149
Member services	5,714,886	-	-	5,714,886
Client protection fund claims	-	409,071	-	409,071
Total program services	<u>12,774,035</u>	<u>409,071</u>	<u>-</u>	<u>13,183,106</u>
Management and general	<u>1,788,247</u>	<u>139,577</u>	<u>(139,546)</u>	<u>1,788,278</u>
Total expenses	<u>14,562,282</u>	<u>548,648</u>	<u>(139,546)</u>	<u>14,971,384</u>
Change in Net Assets	1,269,600	(227,712)	-	1,041,888
Net Assets, Beginning of Year	<u>10,126,877</u>	<u>2,621,960</u>	<u>-</u>	<u>12,748,837</u>
Net Assets, End of Year	<u>\$ 11,396,477</u>	<u>\$ 2,394,248</u>	<u>\$ -</u>	<u>\$ 13,790,725</u>