Consolidated Financial Statements
December 31, 2017 and 2016

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

EideBailly
CPAs & BUSINESS ADVISORS

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, 2017 and 2016, 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, 2017 and 2016, and the changes 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.

Eide Bailly LLP

Phoenix, Arizona
April 16, 2018

State Bar of Arizona and the Client Protection Fund of the State Bar of Arizona
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash	$ 6,462,157	$ 5,404,698
Certificates of deposit	2,416,851	1,855,174
Accounts receivable, net of allowance of $897 and $1,183, respectively	40,333	57,431
Inventories	82,723	92,250
Prepaid expenses and other assets	460,217	420,628
Total current assets	9,462,281	7,830,181
Investments Restricted for Benefit Plan	593,397	450,820
Property and Equipment, Net	10,803,290	10,604,048
Total assets	$ 20,858,968	$ 18,885,049
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 410,125	$ 101,005
Property taxes payable	78,322	92,155
Accrued liabilities	1,411,728	1,291,501
Deferred rent	47,255	63,507
Dues and fees collected in advance	2,329,228	2,166,261
Total current liabilities	4,276,658	3,714,429
Long-Term Liabilities		
Other liabilities	621,954	477,610
Total liabilities	4,898,612	4,192,039
Net Assets		
Unrestricted, board designated	3,574,442	2,987,887
Unrestricted, statute designated	2,467,715	2,088,216
Unrestricted	9,918,199	9,616,907
Total net assets	15,960,356	14,693,010
Total liabilities and net assets	$ 20,858,968	$ 18,885,049

	2017	2016
Support and Revenue		
Dues		
Active	$ 9,511,586	$ 9,261,413
Inactive	878,880	921,390
Sections	321,557	327,370
Board of legal specialization	111,205	115,350
Assessments	429,420	213,990
Fees		
Continuing legal education	2,107,694	1,981,620
Convention	427,373	498,452
Lawyer regulations	195,102	192,521
Board of legal specialization	35,400	33,495
Publication and advertising sales		
Arizona attorney magazine	877,613	870,139
Membership directory	425	1,028
Website	1,970	2,300
Mailing lists and labels	680	1,350
Economic survey	6,865	11,189
Rental income	407,776	357,762
Pro hac vice	422,564	432,958
Late fees mandatory continuing legal education	408,943	291,228
Sections - other	131,865	149,622
Special services	5,613	9,119
Contributions and sponsorships	125,222	110,747
Membership benefits	68,638	37,660
Interest and dividends	45,717	17,227
Gain on sale	11,703	-
Other	97,705	108,934
Restitution receipts	227,024	5,059
Total support and revenue	16,858,540	15,951,923
Expenses		
Program services		
Discipline	7,168,637	7,023,819
Member services	6,325,949	5,820,704
Client protection fund claims	165,473	396,770
Total program services	13,660,059	13,241,293
Management and general	1,931,135	1,808,345
Total expenses	15,591,194	15,049,638
Change in Net Assets	1,267,346	902,285
Net Assets, Beginning of Year	14,693,010	13,790,725
Net Assets, End of Year	$ 15,960,356	$ 14,693,010

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 1,267,346	$ 902,285
Adjustments to reconcile net assets to net cash from operating activities		
Depreciation	785,493	870,561
(Gain)/Loss on disposition of property and equipment	(11,703)	833
Changes in assets and liabilities		
Accounts receivable	17,098	(26,447)
Inventories	9,527	(13,308)
Prepaid expenses and other assets	(39,589)	(18,550)
Accounts payable	309,120	(55,694)
Property taxes payable	(13,833)	3,036
Accrued liabilities	120,227	121,855
Deferred rent	(16,252)	63,507
Dues and fees collected in advance	162,967	(156,663)
Other liabilities	1,767	10,955
Net Cash from Operating Activities	2,592,168	1,702,370
Cash Flows for Investing Activities		
Purchases of property and equipment	(1,001,748)	(306,926)
Purchases of certificates of deposit	(2,821,145)	(3,164,593)
Proceeds on sale of property and equipment	28,716	-
Redemptions of certificates of deposit	2,259,468	3,612,382
Net Cash (used for) from Investing Activities	(1,534,709)	140,863
Net Change in Cash	1,057,459	1,843,233
Cash, Beginning of Year	5,404,698	3,561,465
Cash, End of Year	$ 6,462,157	$ 5,404,698

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 Revise Statutes Ct. 32(d)(8). The CPF is a trust that is an entity separate from the State Bar of Arizona, but exists as part of the State Bar's business structure. Authority to revoke or amend the Declaration of Trust, which established the CPF, is delegated to the Board of Governors of the State Bar of Arizona. The Declaration of Trust was amended and restated in its entirety on December 13, 2013 and further amended on November 21, 2014 and September 29, 2017.

The purpose of the CPF is to promote the public confidence in the administration of justice and the integrity of the legal profession by reimbursing losses caused by the dishonest conduct of lawyers admitted and licensed to practice in Arizona, occurring in the course of the client-lawyer or fiduciary responsibility between the lawyer and the claimant.

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. No restricted cash balances existed at December 31, 2017 or 2016.

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

As of January 1, 2017, the Organization adopted Accounting Standards Update (ASU) 2015-11, *Inventory: Simplifying the Measurement of Inventory*. This update requires inventory to be measured at the lower of cost 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.

Inventories are stated at the lower of cost, determined on a first in, first out basis, or net realizable value. As of December 31, 2017 and 2016, inventory consisted of handbooks and textbooks for sale.

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 is 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 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, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016.

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.

As of December 31, 2017 and 2016, the CPF received a $20 and $10 annual assessment, respectively, 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 years ended December 31, 2017 and 2016 was $38,671 and $32,980, 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 2014 and 2013, 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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, to improve revenue recognition guidance. The ASU affects any entity that enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue recognition will go through a five step process: 1) identify the contract with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations, and 5) recognize revenue when (or as) the Organization satisfies the performance obligation. The Organization is currently evaluating the impact of adopting ASU 2014-09 and has not determined the effect to the consolidated financial statements. The Organization will be required to adopt the new standard for the year beginning after December 15, 2018. The standard requires retroactive application.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02 to improve financial reporting about leasing transactions (Topic 842). The ASU affects all lease transactions. The Organization as a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at present value of the lease payments, on the balance sheets. For leases greater than twelve months, the Organization as a lessee must also recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of operations. Repayments of the principal portion of the lease liability must be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. Leases for less than twelve months recognize a single lease cost on a straight-line basis. The amendments in this update are effective for years beginning after December 15, 2019. The Organization is currently evaluating the impact of adopting ASU 2016-02 and has not determined the effect to the consolidated financial statements. The standard requires a modified retrospective approach to implementation.

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14 to improve presentation of financial statements for not-for-profit entities. The ASU affects all not-for-profit entities. The main provisions of this Update that will impact the Organization include:

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. The not-for-profits will report amounts for net assets with donor restrictions and net assets without donor restrictions. They will also be required to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes.

- All not-for-profits will now be required to disclose an analysis of expenses by both functional and natural classifications.
- All not-for-profits will have to add disclosures regarding how they manage liquidity and information that communicates the availability of financial assets to meet cash needs for general expenditures.

This new standard will be effective for years beginning after December 15, 2017. The standard requires retrospective application.

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.

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, 2017 and 2016.

		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)
2017				
Assets				
Equity securities for benefit plan	$ 593,397	$ 593,397	$ -	$ -
2016				
Assets				
Equity securities for benefit plan	$ 450,820	$ 450,820	$ -	$ -

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31:

	2017	2016
Land	$ 1,753,943	$ 1,753,943
Land improvements	116,195	116,195
Buildings	7,739,696	7,739,696
Building improvements	4,300,529	3,873,699
Furniture and equipment	2,007,289	1,909,642
Computer hardware	781,165	1,125,996
Computer software	1,443,900	1,345,469
Construction in progress	77,842	41,136
Total cost or donated value	18,220,559	17,905,776
Accumulated depreciation	(7,417,269)	(7,301,728)
Net property and equipment	$ 10,803,290	$ 10,604,048

Depreciation expense for the years ended December 31, 2017 and 2016 was $785,493 and $870,561, 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 2017 and 2016. There were no amounts outstanding on the line of credit as of December 31, 2017 and 2016.

Note 6 - Net Assets

Each of the Organization's 29 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 $515,826 and $479,523 for the years ended December 31, 2017 and 2016, respectively.

The Board of Directors adopted a cash reserve policy during the years ended December 31, 2017 and 2016. Under this new policy $3,058,616 and $2,508,364 as of December 31, 2017 and 2016, respectively, has been designated and allocated between Dues Reserve and Capital Projects Reserves.

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

Note 7 - Leasing Activities

The Organization leases office space to the Arizona Foundation for Legal Services & Education (the "Foundation") under an operating lease agreement. During 2017 the Foundation down-sized from 8,027 square feet to 4,962 square feet effective November 15, 2017. A new operating lease agreement was entered into during 2017 with a lease commencement date of February 1, 2018 ending on January 31, 2028 for the 4,962 square feet currently occupied. In addition to this lease agreement, the State Bar has entered into a memorandum of understanding of shared initiatives which include a contribution by the State Bar of 1% of dues to the Foundation for pro bono legal services. For 2017 and 2018, a portion of this contribution ($55,000) will be utilized annually as an in-kind reduction of rent from the Foundation to the Organization. For years beginning 2019 and forward, the in-kind reduction of rent will be $60,000 annually. Minimum future rental payments to be received under this lease including the above referenced in-kind reductions at December 31, 2017 are approximately as follows:

Years ending December 31,	
2018	$ 86,422
2019	94,278
2020	94,278
2021	94,278
2022	94,278
Thereafter	491,652
Total minimum lease receipts	$ 955,186

The Organization also leases office space to unrelated third parties. The lease terms call for monthly payments of approximately $27,800. Minimum future rental payments to be received on these non-cancelable leases at December 31, 2017 are approximately as follows:

Years ending December 31,	
2018	$ 300,531
2019	323,233
2020	296,752
2021	248,107
2022	185,020
Thereafter	11,728
Total minimum lease receipts	$ 1,365,371

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 $60,724 and $44,003 during the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments under operating leases are due as follows:

Years ending December 31,	
2018	$ 59,465
2019	47,633
2020	23,855
Total minimum lease payments	$ 130,953

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, 2017 and 2016, 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 $593,400 and $450,800 at December 31, 2017 and 2016, respectively and is included in other liabilities on the consolidated Statements of Financial Position.

Total expense related to these two retirement plans was $534,929 and $525,617 for the years ended December 31, 2017 and 2016, 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:

	2017	2016
In-kind expense - rent (see Note 7)	$ 55,000	$ 60,000
Advertising revenue	5,970	8,505
Accounts payable	48,181	34,449
Rental income (see Note 7)	118,255	133,649
Expenses (cash paid – 1% ProBono & Mock Trial)	68,929	32,856

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, 2017, 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,	
2018	$ 631,600
2019	521,440
2020	351,273
Total minimum payments	$ 1,504,313

Subsequent to year end, the Organization entered into a contract for the 2020 Convention in the amount of $233,725.

Note 13 - Subsequent Events

The Organization has evaluated subsequent events through April 16, 2018, the date which the financial statements were available to be issued.

Supplementary Information
December 31, 2017 and 2016

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

	2017			
	SBA	CPF	Eliminations	Total
Assets				
Current Assets				
Cash	$ 6,267,829	$ 194,328	$ -	$ 6,462,157
Certificates of deposit	-	2,416,851	-	2,416,851
Accounts receivable, net	122,637	81,780	(164,084)	40,333
Inventories	82,723	-	-	82,723
Prepaid expenses and other assets	460,217	-	-	460,217
Total current assets	6,933,406	2,692,959	(164,084)	9,462,281
Investments Restricted for Benefit Plan	593,397	-	-	593,397
Property and Equipment, Net	10,803,290	-	-	10,803,290
Total assets	$ 18,330,093	$ 2,692,959	$ (164,084)	$ 20,858,968
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$ 346,795	$ 63,330	$ -	$ 410,125
Property taxes payable	78,322	-	-	78,322
Accrued liabilities	1,493,508	82,304	(164,084)	1,411,728
Deferred rent	47,255	-	-	47,255
Dues and fees collected in advance	2,249,618	79,610	-	2,329,228
Total current liabilities	4,215,498	225,244	(164,084)	4,276,658
Long-Term Liabilities				
Other liabilities	621,954	-	-	621,954
Total liabilities	4,837,452	225,244	(164,084)	4,898,612
Net Assets				
Unrestricted, board designated	3,574,442	-	-	3,574,442
Unrestricted, statute designated	-	2,467,715	-	2,467,715
Unrestricted	9,918,199	-	-	9,918,199
Total net assets	13,492,641	2,467,715	-	15,960,356
Total liabilities and net assets	$ 18,330,093	$ 2,692,959	$ (164,084)	$ 20,858,968

	2016			
	SBA	Trust	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 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	5,742,970	2,195,291	(108,080)	7,830,181
Investments Restricted for Benefit Plan	450,820	-	-	450,820
Property and Equipment, Net	10,604,048	-	-	10,604,048
Total assets	$ 16,797,838	$ 2,195,291	$ (108,080)	$ 18,885,049
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	3,715,434	107,075	(108,080)	3,714,429
Long-Term Liabilities				
Other liabilities	477,610	-	-	477,610
Total liabilities	4,193,044	107,075	(108,080)	4,192,039
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	12,604,794	2,088,216	-	14,693,010
Total liabilities and net assets	$ 16,797,838	$ 2,195,291	$ (108,080)	$ 18,885,049

	2017			
	SBA	CPF	Eliminations	Total
Support and Revenue				
Dues				
Active	$ 9,511,586	$ -	$ -	$ 9,511,586
Inactive	878,880	-	-	878,880
Sections	321,557	-	-	321,557
Board of legal specialization	111,205	-	-	111,205
Assessments - CPF	-	429,420	-	429,420
Fees				
Continuing legal education	2,107,694	-	-	2,107,694
Convention	427,373	-	-	427,373
Lawyer regulations	195,102	-	-	195,102
Board of legal specialization	35,400	-	-	35,400
Publication and advertising sales				
Arizona attorney magazine	877,613	-	-	877,613
Membership directory	425	-	-	425
Website	1,970	-	-	1,970
Mailing lists and labels	680	-	-	680
Economic survey	6,865	-	-	6,865
Rental income	407,776	-	-	407,776
Pro hac vice	422,564	-	-	422,564
Late fees mandatory continuing legal education	408,943	-	-	408,943
Sections - other	131,865	-	-	131,865
Special services	127,053	-	(121,440)	5,613
Contributions and sponsorships	125,222	-	-	125,222
Membership benefits	68,638	-	-	68,638
Interest and dividends	33,819	11,898	-	45,717
Gain on sale	11,703	-	-	11,703
Other	97,705	-	-	97,705
Restitution receipts	-	227,024	-	227,024
Total support and revenue	16,311,638	668,342	(121,440)	16,858,540
Expenses				
Program services				
Discipline	7,168,637	-	-	7,168,637
Member services	6,325,949	-	-	6,325,949
Client protection fund claims	-	165,473	-	165,473
Total program services	13,494,586	165,473	-	13,660,059
Management and general	1,929,205	123,370	(121,440)	1,931,135
Total expenses	15,423,791	288,843	(121,440)	15,591,194
Change in Net Assets	887,847	379,499	-	1,267,346
Net Assets, Beginning of Year	12,604,794	2,088,216	-	14,693,010
Net Assets, End of Year	$ 13,492,641	$ 2,467,715	$ -	$ 15,960,356

	2016			
	SBA	CPF	Eliminations	Total
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	15,861,185	228,417	(137,679)	15,951,923
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	12,844,523	396,770	-	13,241,293
Management and general	1,808,345	137,679	(137,679)	1,808,345
Total expenses	14,652,868	534,449	(137,679)	15,049,638
Change in Net Assets	1,208,317	(306,032)	-	902,285
Net Assets, Beginning of Year	11,396,477	2,394,248	-	13,790,725
Net Assets, End of Year	$ 12,604,794	$ 2,088,216	$ -	$ 14,693,010