WASHINGTON STATE BAR ASSOCIATION

Financial Statements

For the Years Ended September 30, 2012 and 2011

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Independent Auditors' Report

Board of Governors
Washington State Bar Association
Seattle, Washington

We have audited the statements of financial position of the Washington State Bar Association ("WSBA") as of September 30, 2012 and 2011, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the WSBA's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Bar Association as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Clark Nuber PS

Certified Public Accountants
December 19, 2012

WASHINGTON STATE BAR ASSOCIATION

Statements of Financial Position
September 30, 2012 and 2011

	2012	*2011*
Assets		
Cash and cash equivalents	$ 7,588,699	$ 6,807,196
Restricted cash and cash equivalents	1,065,730	1,297,225
Receivables, net	65,962	52,515
Prepaid expenses	129,989	151,062
Desk and course books	285,893	253,483
Deferred seminar costs	226,254	347,948
Investments	7,124,401	5,649,634
Property and equipment, net	1,995,528	2,398,253
Total Assets	**$ 18,482,456**	**$ 16,957,316**
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 777,682	$ 397,769
Accrued expenses	436,379	473,338
Lawyers' Fund for Client Protection, committed gifts	233,047	936,917
Unearned seminar revenue	283,658	365,288
Deferred licensing fees	3,438,251	3,378,649
Deferred lease obligation	718,710	742,967
Deferred lease incentive	643,964	810,430
Other deferred revenue	168,047	194,529
Total Liabilities	**6,699,738**	**7,299,887**
Net Assets:		
Unrestricted-		
General	8,745,116	7,271,316
Continuing legal education	1,341,267	1,351,465
Sections operations	904,934	773,328
Total Unrestricted Net Assets	10,991,317	9,396,109
Restricted-		
Lawyers' Fund for Client Protection	791,401	261,320
Total Net Assets	**11,782,718**	**9,657,429**
Total Liabilities and Net Assets	**$ 18,482,456**	**$ 16,957,316**

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Activities
For the Years Ended September 30, 2012 and 2011

	2012			*2011*		
	Revenues	*Expenses*	*Revenues Over (Under) Expenses*	*Revenues*	*Expenses*	*Revenues Over (Under) Expenses*
Unrestricted - General:						
Access to justice board	$ -	$ 361,565	$ (361,565)	$ 30,338	$ 337,795	$ (307,457)
Administration	266,049	1,046,137	(780,088)	31,147	1,064,649	(1,033,502)
Admissions/bar exam	1,229,273	1,279,645	(50,372)	1,257,627	1,210,308	47,319
Audits		362,882	(362,882)	829	321,710	(320,881)
Bar leaders support		453,172	(453,172)		233,039	(233,039)
Bar News	694,375	968,144	(273,769)	666,271	979,506	(313,235)
Board of governors and office of the executive director	24,160	691,152	(666,992)	21,095	789,129	(768,034)
Communications	2,620	713,114	(710,494)	6,677	638,425	(631,748)
Discipline	76,306	4,336,438	(4,260,132)	69,795	4,383,104	(4,313,309)
Diversity	216	321,723	(321,507)	10,932	405,036	(394,104)
Foundation		146,259	(146,259)			
Human resources		290,502	(290,502)		316,441	(316,441)
Justice programs		453,381	(453,381)		291,525	(291,525)
Law office management assistance program	30,281	203,605	(173,324)	60,875	236,178	(175,303)
Lawyer assistance program	45,465	348,723	(303,258)	49,773	319,487	(269,714)
Legislative	1,923	267,845	(265,922)		270,380	(270,380)
Licensing fees	13,878,419		13,878,419	13,628,445		13,628,445
Licensing and membership records	61,128	574,045	(512,917)	53,701	559,776	(506,075)
Limited practice officers	139,436	86,139	53,297	147,953	126,706	21,247
Mandatory continuing legal education administration	682,932	439,373	243,559	581,922	486,803	95,119
Member benefits	80,362	47,708	32,654	65,098	47,712	17,386
New lawyer education	19,153	182,832	(163,679)	9,151	106,508	(97,357)
Office of general counsel	25	305,438	(305,413)	7	333,220	(333,213)
Office of general counsel disciplinary board		298,480	(298,480)		275,901	(275,901)
Practice of law board		138,910	(138,910)	20	156,121	(156,101)
Professional responsibility program		237,917	(237,917)		309,617	(309,617)
Regulatory services	345,450	207,752	137,698	339,787	272,981	66,806
Resources directory				58,035	42,446	15,589
Sections administration	210,967	274,616	(63,649)	208,886	229,410	(20,524)
Technology		1,113,596	(1,113,596)		1,092,154	(1,092,154)
Young lawyers division	8,702	172,349	(163,647)	9,970	192,908	(182,938)
Unrestricted - General	**$17,797,242**	**$16,323,442**	**$ 1,473,800**	**$17,308,334**	**$16,028,975**	**$ 1,279,359**

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Activities (Continued)
For the Years Ended September 30, 2012 and 2011

	2012			*2011*		
	Revenues	*Expenses*	*Revenues Over (Under) Expenses*	*Revenues*	*Expenses*	*Revenues Over (Under) Expenses*
Unrestricted - Continuing Legal Education:						
Products	$ 753,654	$ 718,416	$ 35,238	$ 679,083	$ 676,438	$ 2,645
Seminars	2,600,251	2,645,687	(45,436)	2,613,335	2,673,006	(59,671)
Unrestricted - Continuing Legal Education	**$ 3,353,905**	**$ 3,364,103**	**$ (10,198)**	**$ 3,292,418**	**$ 3,349,444**	**$ (57,026)**
Unrestricted - Sections Operations	$ 660,968	$ 529,362	$ 131,606	$ 633,926	$ 538,264	$ 95,662
Restricted - Lawyers' Fund for Client Protection	$ 899,429	$ 369,348	$ 530,081	$ 894,778	$ 1,068,282	$ (173,504)
Unrestricted - General	$17,797,244	$16,323,442	$ 1,473,802	$17,308,333	$16,028,974	$ 1,279,359
Unrestricted - Continuing Legal Education	3,353,905	3,364,102	(10,197)	3,292,418	3,349,443	(57,025)
	21,151,149	19,687,544	1,463,605	20,600,751	19,378,417	1,222,334
Unrestricted - Sections Operations	660,968	529,362	131,606	633,926	538,264	95,662
Total Change in Unrestricted Net Assets	**21,812,115**	**20,216,906**	**1,595,209**	**21,234,677**	**19,916,681**	**1,317,996**
Restricted - Lawyers' Fund for Client Protection	899,429	369,348	530,081	894,778	1,068,282	(173,504)
Total Change in Net Assets - All Activities	**$22,711,544**	**$20,586,254**	**$ 2,125,290**	**$22,129,455**	**$20,984,963**	**$ 1,144,492**

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

	Unrestricted			*Restricted*	
	General	*Continuing Legal Education*	*Sections*	*Lawyers' Fund for Client Protection*	*Total*
Balance, September 30, 2010	$ 5,991,957	$ 1,408,491	$ 677,666	$ 434,824	$ 8,512,938
Unrestricted revenues over (under) expenses	1,279,359	(57,026)	95,662		1,317,995
Restricted revenues over expenses				(173,504)	(173,504)
Balance, September 30, 2011	**7,271,316**	**1,351,465**	**773,328**	**261,320**	**9,657,429**
Unrestricted revenues over (under) expenses	1,473,800	(10,198)	131,606		1,595,208
Restricted revenues under expenses				530,081	530,081
Balance, September 30, 2012	**$ 8,745,116**	**$ 1,341,267**	**$ 904,934**	**$ 791,401**	**$ 11,782,718**

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Cash Flows
For the Years Ended September 30, 2012 and 2011

	2012	*2011*
Cash Flows from Operating Activities:		
Cash received from licensing fees	$ 13,938,020	$ 13,662,632
Cash received from CLE products and seminars	3,272,274	3,269,396
Cash received from other activities	5,396,137	5,141,907
Cash paid to employees	(9,707,512)	(9,525,964)
Cash paid to vendors	(10,892,573)	(10,273,503)
Interest received	43,155	50,913
Net Cash Provided by Operating Activities	**2,049,501**	**2,325,381**
Cash Flows from Investing Activities:		
Change in restricted cash and cash equivalents	231,495	(489,747)
Proceeds from sale of investments	9,746,967	11,465,372
Purchase of investments	(10,993,818)	(8,701,345)
Acquisition of property and equipment	(252,642)	(173,861)
Net Cash (Used) Provided by Investing Activities	**(1,267,998)**	**2,100,419**
Net Change in Cash and Cash Equivalents	**781,503**	**4,425,800**
Cash and cash equivalents, beginning of year	6,807,196	2,381,396
Cash and Cash Equivalents, End of Year	**$ 7,588,699**	**$ 6,807,196**
Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities:		
Change in net assets	$ 2,125,289	$ 1,144,491
Adjustments to reconcile change in net assets to net cash flows from operating activities-		
Depreciation	655,367	666,917
Amortization of deferred lease incentive	(166,466)	(166,466)
Unrealized gain on investments	(227,916)	14,050
Change in operating assets and liabilities:		
Receivables	(13,447)	19,314
Desk and course books	(32,410)	(763)
Deferred seminar costs and prepaid expenses	142,767	(26,024)
Accounts payable and accrued expenses	(360,916)	766,680
Unearned seminar revenue	(81,630)	(23,022)
Grants payable		(80,000)
Deferred licensing fees	59,602	34,187
Deferred lease obligation	(24,257)	11,102
Other deferred revenue	(26,482)	(35,085)
Net Cash Provided by Operating Activities	**$ 2,049,501**	**$ 2,325,381**

See accompanying notes.

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - The Washington State Bar Association ("the WSBA") is an instrumentality of the State of Washington operating under the supervisory authority of the Washington State Supreme Court. Operations consist of regulating the practice of law in the state and providing various law-related services to the members and public. Lawyers must be active members of the WSBA in order to practice law in Washington State. A primary source of revenues of the WSBA is license fees which members must pay in order to maintain their membership. License fees follow a pro-rated schedule based on the attorney's years of practice. For 2012 and 2011, the license fee was set at $450 for all attorneys in practice for three years or more, and a pro-rated lower fee for those in practice for fewer than three years. The WSBA's annual budgets are based on maintaining adequate net assets. The WSBA members are primarily Washington State residents.

The WSBA's financial statements are not consolidated with those of the Washington State Bar Foundation ("the Foundation"), a nonprofit organization related to the WSBA, since the organizations are not financially interrelated.

Cash and Equivalents/Investments - Cash and cash equivalents include money market funds and bank deposits. Bank deposits are maintained for ongoing operating expenses and are sometimes in excess of federally insured limits. Certificates of deposit are all federally insured. The WSBA maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The WSBA has not experienced any losses in these accounts.

Unrealized gains and losses, if any, are reported in the statements of activities as increases or decreases in the net assets. Investment balances include common stocks, federally insured certificates of deposit (with original maturities longer than three months), corporate bonds, municipal bond funds and US treasury funds.

Restricted cash and cash equivalents relate to funds restricted for the Lawyers' Fund for Client Protection (see Note 2). Part of the restricted cash and cash equivalents are amounts paid by the general fund on behalf of the Lawyers' Fund for Client Protection.

The composition of cash balances and investments are included in Notes 3 and 4, respectively.

Receivables - Receivables are generally from members and result from *Bar News* advertising, consulting fees, and unpaid fees related to continuing legal education programs. Receivables are unsecured and do not bear interest. Management reviews receivables on a periodic basis and determines the amount estimated to be uncollectible. A reserve for doubtful accounts is then established. Accounts that are determined to be uncollectible are written off against this reserve.

Inventories - Inventory of desk books and audio compact discs is stated at lower of cost (first-in, first-out method) or market.

Property and Equipment - Property and equipment is stated at cost. Depreciation and amortization is computed over the estimated useful lives of the assets, using the straight-line method. The capitalization policy threshold is $2,500.

Leasehold improvements	Life of lease
Equipment, furniture, software and fixtures	1 to 10 years

Note 1 - Continued

The WSBA follows the provisions outlined by accounting standards for accounting for costs of computer software developed or obtained for internal use. The WSBA capitalizes certain direct costs incurred developing internal use software.

Deferred Seminar Costs/Unearned Seminar Revenue - Deferred seminar costs are primarily costs associated with seminar planning and the production of seminar materials. Recognition of these expenses is deferred until the related seminars are presented.

Unearned seminar revenues relates to fees collected for seminars to be conducted in subsequent years. Seminar registration fees are recognized as revenue when the related seminars are presented.

Deferred Licensing Fees - Licensing fees are recognized ratably over the applicable calendar year membership period. Accordingly, fees collected during the WSBA's fiscal year that relate to the fourth quarter of the calendar membership period are included as deferred revenue in these financial statements.

Income Taxes - The WSBA is an organization exempt from federal income taxes because it is an instrumentality of the State of Washington exercising a governmental function.

Net Assets - The WSBA Board of Governors has directed that portions of the WSBA's unrestricted net assets be designated for Sections Operations and for Continuing Legal Education. The total of revenues over expenses for all sections (which represent specialized legal interests) is included in the Sections Operations designated balance. The difference between revenues and expenses for Continuing Legal Education products and seminars is included in the Continuing Legal Education designated balance ("CLE Reserve Fund").

The WSBA has also designated a portion of its general unrestricted net assets at September 30 as follows:

	2012	*2011*
Operating reserve fund	$ 1,500,000	$ 1,500,000
Facilities reserve fund	3,340,000	3,340,000
Capital reserve fund	335,187	382,744
Board program reserve fund	110,455	179,452
	$ 5,285,642	**$ 5,402,196**

The Operating Reserve Fund provides unrestricted funds for any general, unanticipated, but necessary, expenses that may be incurred throughout the year. The goal is to ensure that funds are available in the event of an emergency or an unanticipated decline in revenue.

The Facilities Reserve Fund may be used for refurbishment of the existing leased space or costs to move to another space after the current ten-year lease. Per Board policy, the WSBA contributes $210,000 of its annual net income to the Facilities Reserve Fund so that it will grow to an amount sufficient to meet the needs of a move or refurbishment when the lease expires in 2016. In 2011 the WSBA's Board of Governors approved the allocation of unrestricted net income from FY 2010 to front-load the annual contributions to the Facilities Reserve for FY 2012 and 2013 (a total of $420,000), therefore, no contributions were made to this fund in FY 2012.

Note 1 - Continued

The Capital Reserve Fund is for capital expenditures that the WSBA will incur in the short and long-term. Short-term expenditures include such things as computer and office equipment that will be replaced in two to three years. Long-term expenditures include replacement of major software. For 2011 and 2012, the fund was used for a redesign of the WSBA's website and to purchase video conferencing equipment. No additions were made to the fund in FY 2012.

The Board Program Reserve Fund is to provide funds to cover unanticipated over-expenditures on programs initiated by the Board of Governors and also to fund new programs throughout the year that have not been included in the annual budget. In September 2009, the WSBA Board of Governors voted to use the majority of the funds designated to the Board Program Reserve to fund development staff for the Washington State Bar Foundation (as an "in-kind" contribution from the WSBA) in FY 2011. In FY 2011 the Board of Governors approved the allocation of $90,000 of unrestricted net income from FY 2010 to be added to this reserve fund. In 2012 the Board of Governors approved the use of $75,000 for the Access to Justice Pro Se Project to complete the Plain Language Forms project.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The WSBA has evaluated subsequent events through December 19, 2012, the date on which the financial statements were available to be issued.

Note 2 - Lawyers' Fund for Client Protection

In 1995, the Washington State Supreme Court and the WSBA created the Lawyers' Fund for Client Protection ("the Fund"). The Fund currently receives a $30 mandatory annual assessment from each active member of the WSBA. The Fund may be used only for the purpose of relieving or mitigating a loss sustained by any person due to the dishonesty of, or failure to account for money or property entrusted to, any member of WSBA in connection with the member's practice of law, or while acting as a fiduciary in a matter related to the member's practice of law. The Fund receives a mandatory annual assessment from each active member of the WSBA. As the WSBA's use of the funds is restricted as described above, it is referred to as restricted activities in these financial statements.

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents consist of the following at September 30:

	2012	2011
Unrestricted Cash and Cash Equivalents:		
Bank deposits	$ 813,366	$ 224,952
Money market funds	6,775,333	6,582,244
	$ 7,588,699	**$ 6,807,196**
Restricted Cash and Cash Equivalents:		
Bank deposits	$ 246,426	$ 378,189
Money market funds	819,304	919,036
	$ 1,065,730	**$ 1,297,225**

Note 4 - Investments

Investments consist of the following at September 30:

	2012	2011
Certificates of deposit	$ 4,473,000	$ 3,217,000
Common stock (through managed funds)	964,405	802,997
Bonds	519,624	491,079
Mutual bonds and treasury funds	1,167,372	1,138,558
	$ 7,124,401	**$ 5,649,634**

The following schedule summarizes the returns from investments (and cash balances):

	2012	2011
Interest income - unrestricted	$ 34,155	$ 35,747
Interest income - restricted	268	717
Realized and unrealized gains	244,310	8,734
Fees	(10,886)	(11,392)
Total Investment Return	**$ 267,847**	**$ 33,806**

Note 4 - Continued

Investment income is included as revenue in the following categories in the statements of activities:

	2012	*2011*
Administration	$ 265,571	$ 30,843
Sections operations	2,008	2,246
Lawyers' Fund for Client Protection	268	717
	$ 267,847	**$ 33,806**

Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

	2012	*2011*
Leasehold improvements	$ 2,544,192	$ 2,443,462
Furniture	1,036,314	1,036,314
Office equipment	1,668,315	1,560,552
Software	2,269,764	2,228,791
	7,518,585	7,269,119
Less accumulated depreciation and amortization	(5,552,809)	(4,897,788)
	1,965,776	2,371,331
Software not yet placed into service	29,752	26,922
	$ 1,995,528	**$ 2,398,253**

Note 6 - Qualified Employee Benefit Plan

The WSBA participates in the Washington State Public Employees' Retirement System ("PERS"), a series of defined benefit/defined contribution employee benefit plans sponsored and managed by the State of Washington Department of Retirement Systems ("DRS"). In accordance with PERS, the WSBA and the WSBA's employees make contributions to the plan based on rates established by DRS. Employer contributions for the years ended September 30, 2012 and 2011, were $673,451 and $528,431, respectively.

Note 7 - Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at September 30, 2012 and 2011.

Common Stock - Common stocks are valued at the closing price reported on the active market on which the securities are traded.

Mutual Bond and Treasury Funds - Mutual funds are valued at closing prices in active markets, which represent the net asset value of shares held by the organization at year-end.

Municipal and Other Bonds - Bonds are valued using bid evaluations from similar instruments in actively quoted markets.

Note 7 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets and liabilities measured on a recurring basis at September 30, 2012, were as follows:

	Fair Value Measurements at September 30, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Common Stock-				
Finance/Banking	$ 153,071	$ -	$ -	$ 153,071
Energy	118,312			118,312
Information technology	86,532			86,532
Telecommunications	64,350			64,350
Pharmaceuticals	68,078			68,078
Other industries	474,062			474,062
Total common stock	964,405			964,405
Mutual funds - bonds	1,167,372			1,167,372
Municipal bonds		519,624		519,624
	$ 2,131,777	**$ 519,624**	**$ -**	**$ 2,651,401**

Fair values of assets and liabilities measured on a recurring basis at September 30, 2011, were as follows:

	Fair Value Measurements at September 30, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Common Stock-				
Energy	$ 96,133	$ -	$ -	$ 96,133
Finance/Banking	106,343			106,343
Retail	54,287			54,287
Telecommunications	66,639			66,639
Information technology	88,734			88,734
Other industries	390,861			390,861
Total common stock	802,997			802,997
Mutual funds - bonds	1,138,558			1,138,558
Other bonds		491,079		491,079
	$ 1,941,555	**$ 491,079**	**$ -**	**$ 2,432,634**

Note 7 - Continued

A reconciliation of the investment assets measured at fair value on a recurring basis to total investments follows as of September 30:

	2012	*2011*
Investments recorded at fair value on a recurring basis	$ 2,651,401	$ 2,432,634
Investments recorded at cost	4,473,000	3,217,000
Total Investments	**$ 7,124,401**	**$ 5,649,634**

Note 8 - Lease Commitments

The WSBA signed a lease for office space that it occupied in December 2006. The lease is an operating lease agreement expiring during the year ending September 30, 2017. The lease calls for escalating rent payments each year, resulting in a liability for the differences between the rent payments and rent calculated on a straight-line basis.

In fiscal year 2010, the WSBA signed a lease for space in a building to host continuing legal education seminars. The lease is an operating lease agreement expiring during the year ending September 30, 2015. The lease calls for escalating rent payments each year, resulting in a liability for the differences between the rent payments and rent calculated on a straight-line basis.

In fiscal year 2011, the WSBA signed a lease for office space in Olympia, Washington to house the WSBA's legislative division. The lease is an operating lease agreement expiring September 30, 2016. The lease calls for escalating rent payments each year, resulting in a liability for the differences between the rent payments and rent calculated on a straight-line basis.

Future minimum rental payments under noncancelable operating leases are as follows:

For the Years Ending September 30,	
2013	$ 1,419,963
2014	1,453,480
2015	1,479,619
2016	1,414,476
2017	351,787
Total Minimum Rental Payments	**$ 6,119,325**

Note 8 - Continued

Included in both the WSBA Seattle office space and the continuing legal education space agreements was a lease incentive in which the lessor agreed to pay for $1,263,493 and $200,585 of tenant improvements for each lease, respectively. These amounts are recorded as deferred lease incentives and are amortized over the term of each lease:

Balance at the receipt of incentives	$ 1,464,078
Accumulated amortization	(820,114)
Balance at September 30, 2012	**$ 643,964**

Rent expense (net of amortization of deferred lease incentive) under all lease agreements totaled $1,178,080 and $1,170,075 for the years ended September 30, 2012 and 2011, respectively.

Note 9 - Commitments and Contingencies

Contingencies - The WSBA is subject to various legal proceedings and claims which arise in the ordinary course of its business. Management believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the WSBA.

Commitments - The WSBA is obligated to provide counsel for respondents in disability proceedings, pursuant to the Rule for Enforcement of Lawyer Conduct (ELC) 8.3. Legal fees are incurred as a result of this obligation. In FY 2012, the WSBA paid a total of $96,497 for outside counsel to represent various respondents in disability proceedings. The WSBA has liability for future legal fees related to ongoing and new disability proceedings, but the future cost is not determinable due to the nature of the proceedings. However, the liability is significant enough to mention in the Notes to Financial Statements.

In October 2012, the WSBA approved grants to Gonzaga University School of Law and Seattle University School of Law for the Moderate Means Program. As of September 30, 2012, $145,760 had been budgeted for these grants payable in FY 2013.

Note 10 - Indirect Expenses

The WSBA programs, services, and functions are assigned to functional categories for purposes of budgeting and reporting revenues and expenses. Each category includes direct revenues and expenses for activities within that category and an allocation of indirect expenses which are broken down into three areas: salaries, benefits, and overhead. Salaries are allocated based on the categories in which the employees work. The allocation of benefit expenses are based on the total salaries allocated to the category and the allocation of expenses for overhead is based on the number of full time equivalent employees assigned to each category. The composition of indirect expenses and total direct expenses is as follows:

	2012	*2011*
Indirect expenses-		
Salaries	$ 9,687,466	$ 9,510,015
Employee benefits and payroll taxes	2,942,145	2,779,547
Rent (net of amortization of deferred lease incentive)	1,075,615	1,061,986
Depreciation and amortization	511,026	493,549
Technology and telephone	364,570	399,806
Human resources	92,755	101,926
Insurance	55,478	49,334
Copying and production services	25,494	39,255
Postage	56,404	60,602
Furniture, maintenance, and leasehold improvements	33,981	39,464
Professional fees	134,063	52,061
Business taxes	20,056	20,785
Supplies and equipment	21,302	32,341
Bank supplies	15,197	16,391
	15,035,552	14,657,062
Direct expenses	5,550,702	6,327,901
Total Expenses	**$ 20,586,254**	**$ 20,984,963**