

WASHINGTON STATE BAR ASSOCIATION

Consolidated Financial Statements

For the Years Ended September 30, 2018 and 2017

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Consolidated Statements of Financial Position	3 - 4
Consolidated Statements of Activities	5 - 6
Consolidated Statements of Changes in Net Assets	7
Consolidated Statements of Cash Flows	8
Consolidated Notes to Financial Statements	9 - 19
Supplementary Information:	
Washington State Bar Foundation Statement of Activities	20

Independent Auditor's Report

**To the Board of Governors
Washington State Bar Association
Seattle, Washington**

We have audited the accompanying consolidated financial statements of Washington State Bar Association and Affiliated Foundation (Collectively, WSBA), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WSBA as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Reporting Entity

As discussed in Note 11 to the financial statements, the entity consolidated the activity of a certain previously unconsolidated entity. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Washington State Bar Foundation statement of activities on page 20 and the consolidating information in the consolidated statements of financial position and the consolidated statements of activities are presented for purposes of additional analysis and is not a required part of the financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Certified Public Accountants
January 10, 2019

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statement of Financial Position
September 30, 2018

	Washington State Bar Association	Washington State Bar Foundation	Subtotal	Eliminations	Total
Assets:					
Cash and cash equivalents	\$ 5,432,344	\$ 345,135	\$ 5,777,479	\$ -	\$ 5,777,479
Restricted cash and cash equivalents	4,208,343		4,208,343		4,208,343
Receivables, net	148,219		148,219		148,219
Prepaid expenses	345,240		345,240		345,240
Desk and course books	387,539		387,539		387,539
Investments	3,764,336		3,764,336		3,764,336
Property and equipment, net	1,620,164	14,400	1,634,564		1,634,564
Total Assets	\$ 15,906,185	\$ 359,535	\$ 16,265,720	\$ -	\$ 16,265,720
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 715,702		\$ 715,702		\$ 715,702
Accrued expenses	563,012		563,012		563,012
Client Protection Fund, committed gifts	802,490		802,490		802,490
Deferred licensing fees	3,861,423		3,861,423		3,861,423
Deferred lease obligation and incentive	1,029,869		1,029,869		1,029,869
Other deferred revenue	137,030		137,030		137,030
Total Liabilities	7,109,526		7,109,526		7,109,526
Net Assets:					
Unrestricted-					
General	3,795,860		3,795,860		3,795,860
Continuing Legal Education	604,126		604,126		604,126
Sections Operations	1,160,343		1,160,343		1,160,343
Western States Bar Conference	8,340		8,340		8,340
Client Protection Fund	3,227,990		3,227,990		3,227,990
Washington State Bar Foundation		359,535	359,535		359,535
Total Net Assets	8,796,659	359,535	9,156,194		9,156,194
Total Liabilities and Net Assets	\$ 15,906,185	\$ 359,535	\$ 16,265,720	\$ -	\$ 16,265,720

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statement of Financial Position
September 30, 2017

	Washington State Bar Association	Washington State Bar Foundation	Subtotal	Eliminations	Total As Restated (Note 11)
Assets:					
Cash and cash equivalents	\$ 3,804,955	\$ 264,678	\$ 4,069,633	\$ -	\$ 4,069,633
Restricted cash and cash equivalents	3,773,689		3,773,689		3,773,689
Receivables, net	44,432		44,432		44,432
Prepaid expenses	273,599		273,599		273,599
Desk and course books	396,271		396,271		396,271
Investments	4,189,721		4,189,721		4,189,721
Property and equipment, net	1,763,093	14,400	1,777,493		1,777,493
Total Assets	\$ 14,245,760	\$ 279,078	\$ 14,524,838	\$ -	\$ 14,524,838
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 554,433		\$ 554,433		\$ 554,433
Accrued expenses	525,182		525,182		525,182
Client Protection Fund, committed gifts	409,411		409,411		409,411
Deferred licensing fees	3,304,049		3,304,049		3,304,049
Deferred lease obligation and incentive	921,042		921,042		921,042
Other deferred revenue	222,651		222,651		222,651
Total Liabilities	5,936,768		5,936,768		5,936,768
Net Assets:					
Unrestricted-					
General	3,363,750		3,363,750		3,363,750
Continuing Legal Education	485,583		485,583		485,583
Sections Operations	1,197,727		1,197,727		1,197,727
Western States Bar Conference	19,632		19,632		19,632
Client Protection Fund	3,242,300		3,242,300		3,242,300
Washington State Bar Foundation		279,078	279,078		279,078
Total Net Assets	8,308,992	279,078	8,588,070		8,588,070
Total Liabilities and Net Assets	\$ 14,245,760	\$ 279,078	\$ 14,524,838	\$ -	\$ 14,524,838

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

**Consolidated Statements of Activities
For the Years Ended September 30, 2018 and 2017**

	2018			2017 As Restated (Note 11)		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Unrestricted - General:						
Access to justice board	\$ -	\$ 296,174	\$ (296,174)	\$ 9,785	\$ 284,444	\$ (274,659)
Administration	133,785	1,079,971	(946,186)	118,824	1,021,674	(902,850)
Admissions/bar exam	1,304,910	1,169,013	135,897	1,359,865	1,110,933	248,932
Board of governors and office of the executive director		814,691	(814,691)		774,927	(774,927)
Communications strategies	34,219	614,288	(580,069)	19,309	1,582,412	(1,563,103)
Conference and broadcast services		751,699	(751,699)			
Discipline	104,920	5,607,782	(5,502,862)	111,472	5,374,154	(5,262,682)
Diversity	105,564	433,705	(328,141)	90,275	381,269	(290,994)
Foundation		155,075	(155,075)		154,243	(154,243)
Human resources		380,715	(380,715)		372,786	(372,786)
Law clerk program	128,150	117,045	11,105	108,050	85,399	22,651
Law office management assistance program	12,595		12,595	3,510	188,311	(184,801)
Lawyer assistance program	41,304		41,304	8,560	178,314	(169,754)
Legislative		89,300	(89,300)		198,102	(198,102)
Licensing fees	15,409,137		15,409,137	13,512,188		13,512,188
Licensing and membership records	375,221	703,888	(328,667)	333,582	585,230	(251,648)
Limited license legal technician		255,129	(255,129)	13,448	202,956	(189,508)
Limited practice officers		160,090	(160,090)	146,986	157,599	(10,613)
Mandatory continuing legal education administration	820,413	778,516	41,897	722,297	718,481	3,816
Member assistance program		128,392	(128,392)			
Member benefits	11,115	157,767	(146,652)	25,870	73,540	(47,670)
Mentorship program		109,855	(109,855)		155,219	(155,219)
New lawyer education	143,118		143,118	36,217	284,623	(248,406)
New member programs		277,621	(277,621)			
NW Lawyer	577,759	594,721	(16,962)	544,535	613,747	(69,212)
Office of general counsel	520	714,276	(713,756)	150	797,513	(797,363)
Office of general counsel disciplinary board		275,803	(275,803)		256,269	(256,269)
Outreach and engagement		385,481	(385,481)			
Practice management assistance		203,305	(203,305)			
Practice of law board		119,606	(119,606)		120,785	(120,785)
Professional responsibility program		268,644	(268,644)		247,054	(247,054)
Public service programs	106,141	399,849	(293,708)	94,271	408,451	(314,180)
Publication and design services		163,127	(163,127)			
Sections administration	305,719	449,916	(144,197)	325,655	458,771	(133,116)
Technology		1,527,036	(1,527,036)		1,352,428	(1,352,428)
Total Unrestricted - General	\$ 19,614,590	\$ 19,182,480	\$ 432,110	\$ 17,584,849	\$ 18,139,634	\$ (554,785)

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statements of Activities (Continued)
For the Years Ended September 30, 2018 and 2017

	2018			2017 As Restated (Note 11)		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Unrestricted - Continuing Legal Education:						
Products	\$ 960,963	\$ 232,807	\$ 728,156	\$ 976,989	\$ 329,798	\$ 647,191
Seminars	960,236	1,387,654	(427,418)	881,401	1,324,285	(442,884)
Deskbooks	129,246	311,441	(182,195)	128,328	303,620	(175,292)
Total Unrestricted - Continuing Legal Education	\$ 2,050,445	\$ 1,931,902	\$ 118,543	\$ 1,986,718	\$ 1,957,703	\$ 29,015
Unrestricted - Sections Operations	\$ 618,165	\$ 655,549	\$ (37,384)	\$ 660,677	\$ 675,588	\$ (14,911)
Western States Bar Conference	\$ 43,050	\$ 54,342	\$ (11,292)	\$ 67,950	\$ 59,276	\$ 8,674
Client Protection Fund	\$ 1,068,753	\$ 1,083,063	\$ (14,310)	\$ 1,028,663	\$ 432,586	\$ 596,077
Washington State Bar Foundation	\$ 449,917	\$ 369,460	\$ 80,457	\$ 370,409	\$ 365,367	\$ 5,042
Eliminations	\$ (357,270)	\$ (357,270)	\$ -	\$ (334,416)	\$ (334,416)	\$ -
Unrestricted - General	\$ 19,614,590	\$ 19,182,480	\$ 432,110	\$ 17,584,849	\$ 18,139,634	\$ (554,785)
Unrestricted - Continuing Legal Education	2,050,445	1,931,902	118,543	1,986,718	1,957,703	29,015
	21,665,035	21,114,382	550,653	19,571,567	20,097,337	(525,770)
Unrestricted - Sections Operations	618,165	655,549	(37,384)	660,677	675,588	(14,911)
Western States Bar Conference	43,050	54,342	(11,292)	67,950	59,276	8,674
Client Protection Fund	1,068,753	1,083,063	(14,310)	1,028,663	432,586	596,077
Washington State Bar Foundation	449,917	369,460	80,457	370,409	365,367	5,042
Eliminations	(357,270)	(357,270)	-	(334,416)	(334,416)	-
Total Change in Net Assets - All Activities	\$ 23,487,650	\$ 22,919,526	\$ 568,124	\$ 21,364,850	\$ 21,295,738	\$ 69,112

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

**Consolidated Statements of Changes in Net Assets
For the Years Ended September 30, 2018 and 2017**

	Unrestricted						Total
	General	Continuing Legal Education	Sections Operations	Western States Bar Conference	Client Protection Fund	Washington State Bar Foundation	
Balance, September 30, 2016	\$ 3,918,535	\$ 456,568	\$ 1,212,638	\$ 10,958	\$ 2,646,223	\$ 274,036	\$ 8,518,958
Unrestricted revenues over (under) expenses	(554,785)	29,015	(14,911)	8,674	596,077	5,042	69,112
Balance, September 30, 2017	3,363,750	485,583	1,197,727	19,632	3,242,300	279,078	8,588,070
Unrestricted revenues over (under) expenses	432,110	118,543	(37,384)	(11,292)	(14,310)	80,457	568,124
Balance, September 30, 2018	\$ 3,795,860	\$ 604,126	\$ 1,160,343	\$ 8,340	\$ 3,227,990	\$ 359,535	\$ 9,156,194

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities:		
Cash received from licensing fees	\$ 15,966,511	\$ 13,568,790
Cash received from CLE products and seminars	2,028,708	1,995,134
Cash received from other activities	5,675,541	5,818,542
Cash paid to employees	(11,416,322)	(10,779,027)
Cash paid to vendors	(10,425,879)	(9,884,918)
Interest received	184,856	72,503
Net Cash Provided by Operating Activities	2,013,415	791,024
Cash Flows From Investing Activities:		
Change in restricted cash and cash equivalents	(434,654)	(663,481)
Proceeds from sale of investments	4,779,545	5,349,257
Purchase of investments	(4,337,885)	(5,354,748)
Acquisition of property and equipment	(312,575)	(556,419)
Net Cash Used in Investing Activities	(305,569)	(1,225,391)
Net Change in Cash and Cash Equivalents	1,707,846	(434,367)
Cash and cash equivalents, beginning of year	4,069,633	4,504,000
Cash and Cash Equivalents, End of Year	\$ 5,777,479	\$ 4,069,633
Reconciliation of Change in Net Assets to Net Cash Flows		
From Operating Activities:		
Change in net assets	\$ 568,124	\$ 69,112
Adjustments to reconcile change in net assets to net cash flows from operating activities-		
Depreciation	455,504	420,589
Unrealized gain on investments	(16,275)	(73,883)
Change in operating assets and liabilities:		
Receivables	(103,787)	15,552
Desk and course books	8,732	7,101
Prepaid expenses	(71,641)	47,511
Accounts payable and accrued expenses	592,178	70,655
Deferred licensing fees	557,374	56,602
Deferred lease obligation and incentive	108,827	159,415
Other deferred revenue	(85,621)	18,370
Net Cash Provided by Operating Activities	\$ 2,013,415	\$ 791,024

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements For the Years Ended September 30, 2018 and 2017

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - The Washington State Bar Association (“WSBA”) is an instrumentality of the Supreme Court of the State of Washington operating under the supervisory authority of the Washington Supreme Court. Operations consist of regulating the practice of law in the state under delegated authority of the Washington Supreme Court, and providing various law-related services to the members and public. Lawyers, Limited License Legal Technicians, and Limited Practice Officers 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 licenses. License fees follow a pro-rated schedule based on the attorney member’s years of practice. For 2018 the license fee was set at \$449 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. For 2017, the license fee was set at \$385 and fees followed the same pro-rated schedule as 2018. The WSBA members are primarily Washington State residents.

Principles of Consolidation - These consolidated financial statements consolidate the statements of Washington State Bar Association and Washington State Bar Foundation (collectively, “the WSBA”). Inter-organization accounts and transactions have been eliminated in the consolidation. The Washington State Bar Foundation is a separate legal entity from the Washington State Bar Association and is tax-exempt under section 501(c)(3) of the Internal Revenue Code.

Basis of Presentation - Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the WSBA and/or the passage of time. As of September 30, 2018 and 2017, WSBA had no temporarily restricted net assets.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the WSBA. The donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes. As of September 30, 2018 and 2017, the WSBA had no permanently restricted net assets.

Cash and Cash Equivalents and 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 net assets. Investment balances include federally insured certificates of deposit, corporate bonds, municipal bonds and bond mutual funds.

Restricted cash and cash equivalents relate to funds restricted for the Western States Bar Conference and for the Client Protection Fund (see Note 2). Part of the restricted cash and cash equivalents are amounts paid into the Client Protection Fund.

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

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

Note 1 - Continued

Receivables - Receivables are generally from members and result from *NW Lawyer* 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.

Desk and Course Books - Inventory of desk books 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

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

Deferred Licensing Fees - Licensing fees are recognized ratably over the applicable calendar year 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.

Contributions - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Noncash contributions are reflected in the accompanying consolidated financial statements at the estimated fair value at the date of receipt.

Income Taxes - The WSBA is an organization exempt from federal income taxes because it is an instrumentality of the Supreme Court of the State of Washington exercising a governmental function. Washington State Bar Foundation has been notified by the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Classification of Expenses - The accompanying statements of activities present expenses by natural classification. The classification of expenses into program and general and administrative is based upon FTE allocation, direct program expenses, and estimates made by the management of the WSBA. The classification of expenses by function is as follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Program services	\$ 20,640,760	\$ 19,126,351
Management and general	<u>2,278,766</u>	<u>2,169,387</u>
	<u><u>\$ 22,919,526</u></u>	<u><u>\$ 21,295,738</u></u>

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

Note 1 - Continued

Net Assets - The WSBA Board of Governors has directed that portions of the WSBA's unrestricted net assets be designated for Sections Operations and 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.

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

	<u>2018</u>	<u>2017</u>
Operating reserve fund	\$ 1,500,000	\$ 1,500,000
Facilities reserve fund	450,000	200,000
Unrestricted general fund	<u>1,845,860</u>	<u>1,663,750</u>
	<u>\$ 3,795,860</u>	<u>\$ 3,363,750</u>

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 is used for refurbishment of existing leased space or costs to move to another space after the current lease ends in December 2026. Effective October 2016, the minimum reserve of this fund was designated by the board to be \$200,000. In 2018, the board designated an additional \$250,000 of unrestricted general fund reserves to this fund for a total of \$450,000.

The Unrestricted General Fund was established to accumulate net reserves above the Operating Reserve Fund and Facilities Reserve Fund.

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 January 10, 2019, the date on which the financial statements were available to be issued.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

Note 2 - Client Protection Fund

In 1995, the Washington Supreme Court and the WSBA created the Client Protection Fund (“the Fund”). In fiscal year 2018, as in prior years, the Fund received a \$30 mandatory annual assessment per individual required to pay into the fund (including all active attorney members, pro hac vice applicants, etc.). 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 attorney member of the 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. As the WSBA’s use of the funds is restricted as described above, it is shown as restricted cash and cash equivalents in the assets section of the statements of financial position.

Note 3 - Cash and Cash Equivalents

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

	<u>2018</u>	<u>2017</u>
Unrestricted Cash and Cash Equivalents:		
Bank deposits	\$ 887,719	\$ 833,132
Money market funds	<u>4,889,760</u>	<u>3,236,501</u>
	<u>\$ 5,777,479</u>	<u>\$ 4,069,633</u>
Restricted Cash and Cash Equivalents:		
Bank deposits	\$ 817,787	\$ 1,430,451
Money market funds	<u>3,390,556</u>	<u>2,343,238</u>
	<u>\$ 4,208,343</u>	<u>\$ 3,773,689</u>

Note 4 - Investments

Investments consist of the following at September 30:

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$ 500,000	\$ 750,000
Bonds	300,836	498,902
Mutual bond funds	<u>2,963,500</u>	<u>2,940,819</u>
	<u>\$ 3,764,336</u>	<u>\$ 4,189,721</u>

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

	<u>2018</u>	<u>2017</u>
Interest income - unrestricted	\$ 137,348	\$ 55,663
Interest income - restricted	45,162	19,722
Realized and unrealized gains	16,275	73,883
Fees		<u>(6)</u>
Total Investment Return	<u>\$ 198,785</u>	<u>\$ 149,262</u>

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

Note 4 - Continued

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

	<u>2018</u>	<u>2017</u>
Administration	\$ 117,509	\$ 118,818
Sections operations	19,838	10,722
Client Protection Fund	<u>45,162</u>	<u>19,722</u>
	<u>\$ 182,509</u>	<u>\$ 149,262</u>

Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 728,967	\$ 663,252
Furniture	1,049,101	1,059,474
Office equipment	1,561,505	1,929,731
Software	<u>3,604,876</u>	<u>3,750,033</u>
	6,944,449	7,402,490
Less accumulated depreciation and amortization	(5,356,600)	(6,131,770)
Website development and software not yet placed into service	<u>46,715</u>	<u>506,773</u>
	<u>\$ 1,634,564</u>	<u>\$ 1,777,493</u>

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"). The funding of the plan is analyzed and rates are proposed by the Office of the State Actuary ("OSA") per RCW, Chapter 41.45, and all rates are approved by the legislature. There is a pension funding council that consults with the economic and revenue forecast supervisor and the executive director of the state investment board, for guidance on long-term economic assumptions that are proposed by the OSA. 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, 2018 and 2017, were \$1,396,556 and \$1,185,716, respectively.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

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, 2018 and 2017.

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

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

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at September 30, 2018 and 2017, were as follows:

	Fair Value Measurements at September 30, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual bond funds	\$ 2,963,500	\$ -	\$ -	\$ 2,963,500
Bonds		300,836		300,836
	<u>\$ 2,963,500</u>	<u>\$ 300,836</u>	<u>\$ -</u>	<u>\$ 3,264,336</u>

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

Note 7 - Continued

	Fair Value Measurements at September 30, 2017			
	Level 1	Level 2	Level 3	Total
Mutual bond funds	\$ 2,940,819	\$ -	\$ -	\$ 2,940,819
Bonds		498,902		498,902
	<u>\$ 2,940,819</u>	<u>\$ 498,902</u>	<u>\$ -</u>	<u>\$ 3,439,721</u>

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

	2018	2017
Investments recorded at fair value on a recurring basis	\$ 3,264,336	\$ 3,439,721
Investments recorded at cost	500,000	750,000
Total Investments	<u>\$ 3,764,336</u>	<u>\$ 4,189,721</u>

Note 8 - Lease Commitments

The WSBA signed a lease extension for office space effective March 1, 2015. The lease is an operating lease agreement expiring during the year ending September 30, 2027. 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 Ended September 30,	
2019	\$ 1,605,169
2020	1,655,759
2021	1,698,981
2022	1,749,571
2023	1,800,161
Thereafter	<u>6,197,275</u>
Total Minimum Rental Payments	<u>\$ 14,706,916</u>

Rent expense (net of amortization of deferred lease incentive) under all lease agreements totaled \$1,823,881 and \$1,809,002 for the years ended September 30, 2018 and 2017, respectively.

WASHINGTON STATE BAR ASSOCIATION

**Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017**

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. Subsequent to September 30, 2018, the WSBA received notice of a legal claim that management believes could have a material adverse effect on the financial position or results of operations of the WSBA however it is too early to accurately determine the value of this claim.

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 fiscal year 2018 and 2017, the WSBA paid a total of \$39,750 and \$58,119, respectively, 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.

As of September 30, 2018, approximately \$281,000 has been budgeted for fiscal year 2019 as grants payable to various organizations, including approximately \$208,000 to Gonzaga University School of Law, Seattle University School of Law, and University of Washington for the Moderate Means Program, \$60,000 for Washington Leadership Institute, and \$12,000 for various section grants.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

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 for the years ended:

	<u>2018</u>	<u>2017</u>
Indirect expenses-		
Salaries	\$ 11,344,607	\$ 10,671,394
Employee benefits and payroll taxes	4,025,251	3,673,481
Rent (net of amortization of deferred lease incentive)	1,746,463	1,729,618
Technology and telephone	531,429	579,381
Depreciation and amortization	185,182	154,517
Insurance	139,225	131,782
Human resources	112,671	113,293
Professional fees	197,187	88,311
Supplies and equipment	89,982	83,606
Postage	27,622	35,096
Furniture, maintenance and leasehold improvements	28,739	32,046
Bank fees	32,610	30,910
Meeting support expenses	12,897	12,258
Copying and production services	9,339	11,639
Business taxes	16,629	9,400
	<u>18,499,833</u>	<u>17,356,732</u>
Direct expenses	<u>4,420,139</u>	<u>3,939,006</u>
Total Expenses	<u><u>\$ 22,919,972</u></u>	<u><u>\$ 21,295,738</u></u>

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

Note 11 - Change in Reporting Entity and Restatement of Prior Year Financial Statements

Consolidation of Other Entities - During the year ended September 30, 2018, the WSBA determined that a previously unconsolidated entity should be consolidated. Management has restated the 2017 financial statements to reflect the consolidation of the other entity. The following table provides a reconciliation to the prior year unconsolidated financial statements and the restated activity and balances as of and for the year ended September 30, 2017.

	As Previously Reported	Adjustments due to Consolidation of Other Entity	As Restated
Assets:			
Cash and cash equivalents	\$ 3,804,955	\$ 264,678	\$ 4,069,633
Restricted cash and cash equivalents	3,773,689		3,773,689
Receivables, net	44,432		44,432
Prepaid expenses	273,599		273,599
Desk and course books	396,271		396,271
Investments	4,189,721		4,189,721
Property and equipment, net	1,763,093	14,400	1,777,493
Total Assets	\$ 14,245,760	\$ 279,078	\$ 14,524,838
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 554,433	\$ -	\$ 554,433
Accrued expenses	525,182		525,182
Lawyers' Fund for Client Protection, committed gifts	409,411		409,411
Deferred licensing fees	3,304,049		3,304,049
Deferred lease obligation and incentive	921,042		921,042
Other deferred revenue	222,651		222,651
Total Liabilities	5,936,768		5,936,768
Net Assets:			
Unrestricted-			
General	3,363,750		3,363,750
Continuing legal education	485,583		485,583
Sections operations	1,197,727		1,197,727
Western States Bar Conference	19,632		19,632
Client Protection Fund	3,242,300		3,242,300
Foundation		279,078	279,078
Total Net Assets	8,308,992	279,078	8,588,070
Total Liabilities and Net Assets	\$ 14,245,760	\$ 279,078	\$ 14,524,838

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2018 and 2017

Note 11 - Continued

	<u>Revenues</u>	<u>Adjustments due to Consolidation of Other Entity</u>	<u>Revenues As Restated</u>
Washington State Bar Foundation	\$ -	\$ 370,409	\$ 370,409
Eliminations	\$ -	\$ (334,416)	\$ (334,416)
Total Change in Net Assets - All Activities	\$ 21,328,857	\$ 35,993	\$ 21,364,850

	<u>Expenses</u>	<u>Adjustments due to Consolidation of Other Entity</u>	<u>Expenses As Restated</u>
Washington State Bar Foundation	\$ -	\$ 365,367	\$ 365,367
Eliminations	\$ -	\$ (334,416)	\$ (334,416)
Total Change in Net Assets - All Activities	\$ 21,264,787	\$ 30,951	\$ 21,295,738

	<u>Revenues Over (Under) Expenses</u>	<u>Adjustments due to Consolidation of Other Entity</u>	<u>Revenues Over (Under) Expenses As Restated</u>
Washington State Bar Foundation	\$ -	\$ 5,042	\$ 5,042
Total Change in Net Assets - All Activities	\$ 64,070	\$ 5,042	\$ 69,112

SUPPLEMENTARY INFORMATION

WASHINGTON STATE BAR ASSOCIATION

Washington State Bar Foundation Statement of Activities
For the Year Ended September 30, 2018

Unrestricted Activities

Revenue:

Contributions	\$ 292,115
In-kind revenue from WSBA	155,075
Miscellaneous income	<u>2,727</u>

Total Revenue **449,917**

Expenses:

Program expenses	209,183
In-kind expenses from WSBA	155,075
Operational expenses	<u>5,202</u>

Total Expenses **369,460**

Change in Unrestricted Net Assets **80,457**

Unrestricted Net assets, beginning of year 279,078

Unrestricted Net Assets, End of Year **\$ 359,535**