

WASHINGTON STATE BAR ASSOCIATION

Consolidated Financial Statements

For the Years Ended September 30, 2020 and 2019

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 Functional Expenses	8 - 9
Consolidated Statements of Cash Flows	10
Consolidated Notes to Financial Statements	11 - 17
Supplementary Information:	
Washington State Bar Foundation Statement of Activities	18

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, the WSBA), which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities, changes in net assets, functional expenses 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the WSBA as of September 30, 2020 and 2019, and the changes in its net assets and its 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 financial statements as a whole. The Washington State Bar Foundation statement of activities on page 18 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. 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 27, 2021

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statement of Financial Position
September 30, 2020

	Washington State Bar Association	Washington State Bar Foundation	Subtotal	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 12,133,482	\$ 312,087	\$ 12,445,569	\$ -	\$ 12,445,569
Restricted cash and cash equivalents	4,872,603		4,872,603		4,872,603
Receivables, net	69,282		69,282		69,282
Prepaid expenses	637,789		637,789		637,789
Desk and course books	317,061		317,061		317,061
Property and equipment, net	941,080	14,400	955,480		955,480
Total Assets	<u>\$ 18,971,297</u>	<u>\$ 326,487</u>	<u>\$ 19,297,784</u>	<u>\$ -</u>	<u>\$ 19,297,784</u>
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 998,045	\$ -	\$ 998,045	\$ -	\$ 998,045
Accrued expenses	663,862		663,862		663,862
Client Protection Fund, committed gifts	536,836		536,836		536,836
Deferred licensing fees	4,034,966		4,034,966		4,034,966
Deferred lease obligation and incentive	1,095,752		1,095,752		1,095,752
Other deferred revenue	241,021		241,021		241,021
Total Liabilities	7,570,482		7,570,482		7,570,482
Net Assets:					
Without donor restrictions-					
General	5,528,234		5,528,234		5,528,234
Continuing Legal Education	469,241		469,241		469,241
Sections Operations	1,210,210		1,210,210		1,210,210
Client Protection Fund	4,193,130		4,193,130		4,193,130
Washington State Bar Foundation		326,487	326,487		326,487
Total Net Assets	<u>11,400,815</u>	<u>326,487</u>	<u>11,727,302</u>		<u>11,727,302</u>
Total Liabilities and Net Assets	<u>\$ 18,971,297</u>	<u>\$ 326,487</u>	<u>\$ 19,297,784</u>	<u>\$ -</u>	<u>\$ 19,297,784</u>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statement of Financial Position
September 30, 2019

	Washington State Bar Association	Washington State Bar Foundation	Subtotal	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 9,373,905	\$ 301,238	\$ 9,675,143	\$ -	\$ 9,675,143
Restricted cash and cash equivalents	4,415,790		4,415,790		4,415,790
Receivables, net	81,040		81,040		81,040
Prepaid expenses	424,394		424,394		424,394
Desk and course books	271,953		271,953		271,953
Investments	990,000		990,000		990,000
Property and equipment, net	1,301,842	14,400	1,316,242		1,316,242
Total Assets	\$ 16,858,924	\$ 315,638	\$ 17,174,562	\$ -	\$ 17,174,562
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 634,611	\$ -	\$ 634,611	\$ -	\$ 634,611
Accrued expenses	532,726		532,726		532,726
Client Protection Fund, committed gifts	291,399		291,399		291,399
Deferred licensing fees	3,937,476		3,937,476		3,937,476
Deferred lease obligation and incentive	1,088,106		1,088,106		1,088,106
Other deferred revenue	174,416		174,416		174,416
Total Liabilities	6,658,734		6,658,734		6,658,734
Net Assets:					
Without donor restrictions-					
General	4,736,538		4,736,538		4,736,538
Continuing Legal Education	526,285		526,285		526,285
Sections Operations	1,121,224		1,121,224		1,121,224
Client Protection Fund	3,816,143		3,816,143		3,816,143
Washington State Bar Foundation		315,638	315,638		315,638
Total Net Assets	10,200,190	315,638	10,515,828		10,515,828
Total Liabilities and Net Assets	\$ 16,858,924	\$ 315,638	\$ 17,174,562	\$ -	\$ 17,174,562

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statements of Activities
For the Years Ended September 30, 2020 and 2019

	2020			2019		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Without Donor Restriction Activities						
General:						
Access to justice board	\$ -	\$ 266,117	\$ (266,117)	\$ 7,500	\$ 316,068	\$ (308,568)
Administration	122,531	1,108,144	(985,613)	329,633	1,121,711	(792,078)
Admissions/bar exam	1,206,660	1,137,118	69,542	1,332,120	1,234,053	98,067
Board of governors		283,695	(283,695)		861,652	(861,652)
Communications strategies	2,643	583,038	(580,395)	25,318	646,811	(621,493)
Conference and broadcast services		776,220	(776,220)		810,316	(810,316)
COVID-19		43,641	(43,641)			
Discipline	119,337	5,944,702	(5,825,365)	90,087	5,731,477	(5,641,390)
Diversity	125,000	437,525	(312,525)	143,774	564,348	(420,574)
Foundation		140,318	(140,318)		155,523	(155,523)
Human resources		473,243	(473,243)		391,398	(391,398)
Law clerk program	192,183	170,655	21,528	168,403	143,734	24,669
Legislative		160,118	(160,118)		151,200	(151,200)
Licensing fees	16,511,947		16,511,947	16,217,283		16,217,283
Licensing and membership records	378,965	671,502	(292,537)	404,990	671,534	(266,544)
Limited license legal technician	22,433	191,267	(168,834)	25,508	238,650	(213,142)
Limited practice officers	201,070	159,007	42,063		161,672	(161,672)
Mandatory continuing legal education administration	1,094,650	923,934	170,716	1,186,632	875,796	310,836
Member assistance program	10,110	142,451	(132,341)	12,719	141,795	(129,076)
Member benefits	23,344	320,435	(297,091)	20,249	250,200	(229,951)
Member services and engagement	143,420	573,888	(430,468)	168,117	517,406	
NW Lawyer	582,542	809,218	(226,676)	561,142	744,322	(183,180)
Office of the executive director		496,809	(496,809)			
Office of general counsel	4	843,890	(843,886)	342	798,253	(797,911)
Office of general counsel disciplinary board		265,837	(265,837)		249,394	(249,394)
Outreach and engagement		359,875	(359,875)		397,645	(397,645)
Practice of law board		66,045	(66,045)		59,672	(59,672)
Professional responsibility program		263,562	(263,562)		268,132	(268,132)
Public service programs	135,099	422,809	(287,710)	139,504	365,302	(225,798)
Publication and design services		133,188	(133,188)		151,045	(151,045)
Sections administration	290,119	428,986	(138,867)	294,638	526,293	(231,655)
Technology		1,773,124	(1,773,124)		1,641,879	(1,641,879)
Total General	\$ 21,162,057	\$ 20,370,361	\$ 791,696	\$ 21,127,959	\$ 20,187,281	\$ 940,678

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statements of Activities (Continued)
For the Years Ended September 30, 2020 and 2019

	2020			2019		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Continuing Legal Education:						
Products	\$ 780,453	\$ 239,472	\$ 540,981	\$ 921,793	\$ 246,672	\$ 675,121
Seminars	668,208	1,138,305	(470,097)	878,683	1,341,746	(463,063)
Deskbooks	220,594	348,522	(127,928)	157,844	447,743	(289,899)
Total Continuing Legal Education	\$ 1,669,255	\$ 1,726,299	\$ (57,044)	\$ 1,958,320	\$ 2,036,161	\$ (77,841)
Sections Operations	\$ 562,558	\$ 473,572	\$ 88,986	\$ 548,382	\$ 587,501	\$ (39,119)
Western States Bar Conference	\$ -	\$ -	\$ -	\$ 67,858	\$ 76,198	\$ (8,340)
Client Protection Fund	\$ 1,114,588	\$ 737,601	\$ 376,987	\$ 1,119,308	\$ 531,155	\$ 588,153
Washington State Bar Foundation	\$ 449,070	\$ 438,221	\$ 10,849	\$ 474,058	\$ 517,955	\$ (43,897)
Eliminations	\$ (400,318)	\$ (400,318)	\$ -	\$ (435,809)	\$ (435,809)	\$ -
General	\$ 21,162,057	\$ 20,370,361	\$ 791,696	\$ 21,127,959	\$ 20,187,281	\$ 940,678
Continuing Legal Education	1,669,255	1,726,299	(57,044)	1,958,320	2,036,161	(77,841)
	22,831,312	22,096,660	734,652	23,086,279	22,223,442	862,837
Sections Operations	562,558	473,572	88,986	548,382	587,501	(39,119)
Western States Bar Conference				67,858	76,198	(8,340)
Client Protection Fund	1,114,588	737,601	376,987	1,119,308	531,155	588,153
Washington State Bar Foundation	449,070	438,221	10,849	474,058	517,955	(43,897)
Eliminations	(400,318)	(400,318)		(435,809)	(435,809)	
Total Change in Net Assets - All Activities	\$ 24,557,210	\$ 23,345,736	\$ 1,211,474	\$ 24,860,076	\$ 23,500,442	\$ 1,359,634

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statements of Changes in Net Assets
For the Years Ended September 30, 2020 and 2019

	Without Donor Restrictions						Total
	General	Continuing Legal Education	Sections Operations	Western States Bar Conference	Client Protection Fund	Washington State Bar Foundation	
Balance, September 30, 2018	\$ 3,795,860	\$ 604,126	\$ 1,160,343	\$ 8,340	\$ 3,227,990	\$ 359,535	\$ 9,156,194
Change in net assets without donor restrictions	940,678	(77,841)	(39,119)	(8,340)	588,153	(43,897)	1,359,634
Balance, September 30, 2019	4,736,538	526,285	1,121,224		3,816,143	315,638	10,515,828
Change in net assets without donor restrictions	791,696	(57,044)	88,986		376,987	10,849	1,211,474
Balance, September 30, 2020	\$ 5,528,234	\$ 469,241	\$ 1,210,210	\$ -	\$ 4,193,130	\$ 326,487	\$ 11,727,302

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2020

	Program										Management and General	Fundraising	2020 Total
	Discipline	Client Protection Fund	BOG/OED	Regulatory Services	Communication	Advancement	Foundation	Sections	Total Program				
Salaries, benefits and payroll taxes	\$ 4,744,995	\$ 109,471	\$ 554,734	\$ 2,140,824	\$ 1,894,196	\$ 2,427,927	\$ -	\$ -	\$ 11,872,147	\$ 3,856,667	\$ 107,738	\$ 15,836,552	
Occupancy	519,472	16,629	34,447	372,478	334,598	419,929			1,697,553	460,477	14,848	2,172,878	
Technology	213,312	6,754	17,282	110,487	125,936	147,495		3,038	624,304	220,654	8,030	852,988	
Professional services	194,693	5,588	9,062	109,509	93,106	103,242			515,200	201,247	3,906	720,353	
Gifts to injured clients		591,449							591,449			591,449	
Other	13,858	2,522	844	6,214	139,887	357,805		800	521,930	62,499	278	584,707	
Depreciation and amortization	61,443	1,894	3,922	295,171	34,039	47,140			443,609	52,433	1,691	497,733	
Supplies	23,937	765	1,584	37,197	344,776	33,992			442,251	21,175	860	464,286	
Grants, sponsorships and donations					2,110	231,595	37,904	63,049	334,658			334,658	
Insurance	89,203	2,529	6,639	43,429	46,007	56,788			244,595	78,623	2,425	325,643	
Sections events						(72,500)		396,247	323,747			323,747	
Meetings and travel	28,253		71,846	41,575	35,546	16,661			193,881	11,968	542	206,391	
Subscriptions	55,537		144	6,779	18,991	53,998			135,449	14,193		149,642	
CLE production					100,988	631			101,619			101,619	
Conferences			80,000			2,833		10,438	93,271			93,271	
Examination fees				89,819					89,819			89,819	
Total Expenses	\$ 5,944,703	\$ 737,601	\$ 780,504	\$ 3,253,482	\$ 3,170,180	\$ 3,827,536	\$ 37,904	\$ 473,572	\$ 18,225,482	\$ 4,979,936	\$ 140,318	\$ 23,345,736	

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2019

	Program											2019 Total	
	Discipline	Client Protection Fund	BOG/OED	Regulatory Services	Communication	Advancement	Foundation	Sections	Western States Bar Conference	Total Program	Management and General		Fundraising
Salaries, benefits and payroll taxes	\$ 4,643,911	\$ 116,707	\$ 539,701	\$ 2,136,279	\$ 1,828,903	\$ 2,927,078	\$ -	\$ -	\$ -	\$ 12,192,579	\$ 3,532,068	\$ 123,349	\$ 15,847,996
Occupancy	492,145	16,681	147,047	346,912	335,744	608,154			49,561	1,996,244	413,947	15,346	2,425,537
Professional services	182,050	5,403	8,328	163,742	72,885	122,462				554,870	200,256	5,909	761,035
Technology	166,576	5,646	11,066	87,488	86,133	133,513				490,422	140,108	5,194	635,724
Sections events								587,501	6,952	594,453			594,453
Supplies	38,542	1,196	2,602	44,263	363,606	74,496	12,716			537,421	28,216	1,857	567,494
Depreciation and amortization	64,367	1,922	3,768	293,530	29,327	52,306				445,220	47,705	1,769	494,694
Other			1,125	13,847	96,856	309,991			19,183	441,002	4,130		445,132
Gifts to injured clients		382,228							1	382,229	33		382,262
Grants, sponsorships and donations						275,506	69,430			344,936			344,936
Meetings and travel	31,920		56,035	54,850	46,085	116,788			501	306,179	3,605	836	310,620
Examination fees				163,024		4,157				167,181			167,181
Insurance	40,467	1,372	2,688	21,254	20,925	32,435				119,141	34,037	1,262	154,440
Subscriptions	71,499			250	20,874	54,170				146,793			146,793
Conferences			89,292			24,578				113,870			113,870
CLE production						108,275				108,275			108,275
Total Expenses	\$ 5,731,477	\$ 531,155	\$ 861,652	\$ 3,325,439	\$ 2,901,338	\$ 4,843,909	\$ 82,146	\$ 587,501	\$ 76,198	\$ 18,940,815	\$ 4,404,105	\$ 155,522	\$ 23,500,442

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Cash received from licensing fees	\$ 16,609,437	\$ 16,293,336
Cash received from CLE products and seminars	1,676,869	1,991,860
Cash received from other activities	6,252,590	6,428,614
Cash paid to employees	(11,671,584)	(11,744,319)
Cash paid to vendors	(10,687,270)	(11,795,185)
Interest received	194,167	326,884
	<u>2,374,209</u>	<u>1,501,190</u>
Net Cash Provided by Operating Activities	2,374,209	1,501,190
Cash Flows From Investing Activities:		
Proceeds from sale of investments	990,000	7,260,293
Purchase of investments		(4,480,000)
Acquisition of property and equipment	(136,970)	(176,372)
	<u>853,030</u>	<u>2,603,921</u>
Net Cash Provided by Investing Activities	853,030	2,603,921
Net Change in Cash, Cash Equivalents and Restricted Cash	3,227,239	4,105,111
Cash, cash equivalents and restricted cash, beginning of year	<u>14,090,933</u>	<u>9,985,822</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 17,318,172</u>	<u>\$ 14,090,933</u>
The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sums to the total of the same such amounts shown in the statement of cash flows:		
Cash and cash equivalents	12,445,569	9,675,143
Restricted cash and cash equivalents	<u>4,872,603</u>	<u>4,415,790</u>
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	<u>\$ 17,318,172</u>	<u>\$ 14,090,933</u>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements For the Years Ended September 30, 2020 and 2019

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 2020, the license fee was set at \$458 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 2019, the license fee was set at \$453 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 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, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the WSBA and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets whose use is limited by donor-imposed time and/or purpose restrictions. As of September 30, 2020, and 2019, WSBA had no net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as net assets released from restriction. Contributions with externally imposed restrictions that are met in the same year as received are reported as revenues of the net assets without donor restrictions class.

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 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 deposits recorded at cost plus accrued interest.

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

WASHINGTON STATE BAR ASSOCIATION

**Consolidated Notes to Financial Statements
For the Years Ended September 30, 2020 and 2019**

Note 1 - Continued

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

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 - Contributions are recognized as revenue when the donor imposed conditions, if any, have been met. All contributions are considered to be without donor restriction 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 financial statements report certain categories of expenses that are attributable to programs and supporting services of WSBA. Those expenses include employee benefits and taxes, occupancy, indirect professional services, depreciation and amortization and technology expenses. These expenses are allocated based on the number of full time equivalents included in each program or supporting service.

Net Assets - The WSBA Board of Governors has directed that portions of the WSBA's net assets without donor restrictions 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.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2020 and 2019

Note 1 - Continued

The WSBA has also designated a portion of its net assets without donor restrictions at September 30 as follows:

	<u>2020</u>	<u>2019</u>
Operating Reserve Fund	\$ 1,500,000	\$ 1,500,000
Facilities Reserve Fund	550,000	550,000
General Fund	<u>3,478,234</u>	<u>2,686,538</u>
	<u>\$ 5,528,234</u>	<u>\$ 4,736,538</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. In 2019, the board designated an additional \$100,000 of reserves to this fund to total \$550,000.

The 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.

New Accounting Pronouncement - During the year ended September 30, 2020, WSBA adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash*, which requires the statement of cash flow to explain the change during the period in total cash, cash equivalents and restricted cash. The statements of cash flows reflect this change as of September 30, 2020 and 2019.

Subsequent Events - The WSBA has evaluated subsequent events through January 27, 2021, the date on which the financial statements were available to be issued.

Note 2 - Client Protection Fund

In 1995, the Washington Supreme Court and the WSBA created the Client Protection Fund ("the Fund"). In fiscal years 2020 and 2019, 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.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2020 and 2019

Note 2 - Continued

The Client Protection Fund is administered pursuant to Admission to Practice Rule 15 and Procedural Rules adopted by the Board of Governors and approved by the Supreme Court. A client or a person in a fiduciary relationship with an licensed legal professional (LLP) who files a grievance with the WSBA that alleges a dishonest taking of funds or property by a LLP, may be provided with an application form to apply for a gift from the Fund. The WSBA recognizes gifts from the Fund at the time an application is approved by the Client Protection Board or Trustees and applicants are advised of the decision. Gifts from the Fund are expected to be paid within one year from the statement of financial position date and are recorded as Client Protection Fund, committed gifts on the Statements of Financial Position.

Note 3 - Cash and Cash Equivalents

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

	<u>2020</u>	<u>2019</u>
Unrestricted Cash and Cash Equivalents:		
Bank deposits	\$ 461,278	\$ 1,084,555
Money market funds	11,984,291	8,590,588
	<u>\$ 12,445,569</u>	<u>\$ 9,675,143</u>
Restricted Cash and Cash Equivalents:		
Bank deposits	\$ 659,736	\$ 348,164
Money market funds	4,212,867	4,067,626
	<u>\$ 4,872,603</u>	<u>\$ 4,415,790</u>

Note 4 - Investments

Investments consist of the following at September 30:

	<u>2020</u>	<u>2019</u>
Certificates of deposit	<u>\$ -</u>	<u>\$ 990,000</u>

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

	<u>2020</u>	<u>2019</u>
Interest income - unrestricted	\$ 133,653	\$ 257,879
Interest income - restricted	46,587	79,981
Realized and unrealized gains	89,447	98,447
Total Investment Return	<u>\$ 180,240</u>	<u>\$ 436,307</u>

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements For the Years Ended September 30, 2020 and 2019

Note 4 - Continued

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

	<u>2020</u>	<u>2019</u>
Administration	\$ 122,531	\$ 329,633
Sections operations	11,142	26,693
Client Protection Fund	<u>46,567</u>	<u>79,981</u>
	<u>\$ 180,240</u>	<u>\$ 436,307</u>

Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 728,967	\$ 728,967
Furniture	1,049,101	1,049,101
Office equipment	1,553,768	1,617,468
Software	<u>3,813,114</u>	<u>3,671,749</u>
	7,144,950	7,067,285
Less accumulated depreciation and amortization	(6,285,325)	(5,851,294)
Projects in process	<u>95,855</u>	<u>100,251</u>
	<u>\$ 955,480</u>	<u>\$ 1,316,242</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, 2020 and 2019, were \$1,424,716 and \$1,439,570, respectively.

Note 7 - 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.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2020 and 2019

Note 7 - Continued

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

For the Years Ended September 30,

2021	\$ 1,698,981
2022	1,749,571
2023	1,800,161
2024	1,850,751
2025	1,901,341
Thereafter	<u>2,445,183</u>

Total Minimum Rental Payments

\$ 11,445,988

Rent expense (net of amortization of deferred lease incentive) under all lease agreements totaled \$1,972,222 and \$1,944,492 for the years ended September 30, 2020 and 2019, respectively.

Note 8 - 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 fiscal years 2020 and 2019, the WSBA paid a total of \$48,234 and \$40,000, 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 the Financial Statements.

Note 9 - Liquidity and Availability of Financial Assets

As part of WSBA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the WSBA has an operating reserve that had a balance of \$1.5 million at September 30, 2020 and 2019. This is a governing board-designated reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. The operating reserve funds are held in lower-risk cash and money market securities. The operating reserve balance is included in the cash and cash equivalents line on the statement of financial position.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Notes to Financial Statements
For the Years Ended September 30, 2020 and 2019

Note 9 - Continued

The following reflects the WSBA's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long-term investing in the operating and facilities reserve funds that could be drawn upon if the governing board approves that action.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents-	\$ 17,318,172	\$ 14,090,933
Receivables	69,282	81,040
Investments		<u>990,000</u>
Total financial assets	17,387,454	15,161,973
Contractual restrictions-		
Cash held restricted for Client Protection Fund	(4,872,603)	(4,415,790)
Board designations-		
Facilities reserve fund	(550,000)	(550,000)
Operating reserve fund	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 10,464,851</u>	<u>\$ 8,696,183</u>

SUPPLEMENTARY INFORMATION

WASHINGTON STATE BAR ASSOCIATION

Washington State Bar Foundation Statement of Activities
For the Year Ended September 30, 2020

Without Donor Restrictions Activities

Revenue:

Contributions	\$ 302,831
In-kind revenue from WSBA	140,318
Miscellaneous income	<u>5,921</u>

Total Revenue **449,070**

Expenses:

Program expenses	297,903
In-kind expenses from WSBA	<u>140,318</u>

Total Expenses **438,221**

Change in Net Assets Without Donor Restrictions **10,849**

Net assets without donor restrictions, beginning of year 315,638

Net Assets Without Donor Restrictions, End of Year **\$ 326,487**