

WASHINGTON STATE BAR ASSOCIATION

Financial Statements

For the Years Ended September 30, 2016 and 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Washington State Bar Association (WSBA), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related 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.



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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, 2016 and 2015, 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.

Clark Nuber P.S.

Certified Public Accountants
January 5, 2017

WASHINGTON STATE BAR ASSOCIATION

Statements of Financial Position
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 4,244,364	\$ 4,213,625
Restricted cash and cash equivalents	3,110,208	2,766,452
Receivables, net	59,984	38,984
Prepaid expenses	233,020	256,621
Desk and course books	403,372	401,345
Deferred seminar costs	88,090	88,162
Investments	4,110,347	5,098,505
Property and equipment, net	<u>1,627,263</u>	<u>1,041,250</u>
Total Assets	<u>\$ 13,876,648</u>	<u>\$ 13,904,944</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 629,769	\$ 853,022
Accrued expenses	444,177	447,305
Lawyers' Fund for Client Protection, committed gifts	344,425	533,578
Deferred licensing fees	3,247,447	2,723,693
Deferred lease obligation and incentive	761,627	552,438
Other deferred revenue	<u>204,281</u>	<u>254,178</u>
Total Liabilities	5,631,726	5,364,214
Net Assets:		
Unrestricted-		
General	3,918,535	5,102,531
Continuing legal education	456,568	53,090
Sections operations	1,212,638	1,229,706
Western States Bar Conference	10,958	11,113
Lawyers' Fund for Client Protection	<u>2,646,223</u>	<u>2,144,290</u>
Total Net Assets	<u>8,244,922</u>	<u>8,540,730</u>
Total Liabilities and Net Assets	<u>\$ 13,876,648</u>	<u>\$ 13,904,944</u>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

**Statements of Activities
For the Years Ended September 30, 2016 and 2015**

	2016			2015		
	Revenues	Expenses	Revenues Over (Under)	Revenues	Expenses	Revenues Over (Under)
			Expenses			Expenses
Unrestricted - General:						
Access to justice board	\$ 1,400	\$ 231,652	\$ (230,252)	\$ 29,044	\$ 269,727	\$ (240,683)
Administration	185,558	1,006,069	(820,511)	19,583	1,023,779	(1,004,196)
Admissions/bar exam	1,297,048	1,150,944	146,104	1,343,400	1,155,713	187,687
Board of governors and office of the executive director		779,044	(779,044)		806,990	(806,990)
Communications	25,290	1,599,578	(1,574,288)	44,337	1,518,388	(1,474,051)
Discipline	155,100	5,485,110	(5,330,010)	153,018	5,370,275	(5,217,257)
Diversity	93,719	401,809	(308,090)	103,676	347,851	(244,175)
Foundation		145,243	(145,243)		160,837	(160,837)
Human resources		353,185	(353,185)		345,149	(345,149)
Law clerk program	104,825	66,600	38,225	97,800	134,757	(36,957)
Law office management assistance program	6,199	299,228	(293,029)	7,072	338,348	(331,276)
Lawyer assistance program	12,080	159,210	(147,130)	17,064	159,451	(142,387)
Legislative		226,436	(226,436)		225,545	(225,545)
Licensing fees	12,819,376		12,819,376	11,133,170		11,133,170
Licensing and membership records	265,784	532,204	(266,420)	295,424	672,702	(377,278)
Limited license legal technician	11,706	207,684	(195,978)	8,181	162,500	(154,319)
Limited practice officers	134,903	194,286	(59,383)	132,562	155,143	(22,581)
Mandatory continuing legal education administration	835,160	618,358	216,802	762,463	548,384	214,079
Member benefits	16,753	72,098	(55,345)	46,169	72,999	(26,830)
Mentorship program		138,543	(138,543)		116,345	(116,345)
New lawyer education	61,403	295,225	(233,822)	119,062	262,193	(143,131)
NW Lawyer	519,051	607,861	(88,810)	548,424	586,967	(38,543)
Office of general counsel	414	671,211	(670,797)	264	653,026	(652,762)
Office of general counsel disciplinary board		361,943	(361,943)		266,869	(266,869)
Practice of law board		96,488	(96,488)		93,302	(93,302)
Professional responsibility program		162,009	(162,009)		212,725	(212,725)
Public service programs	72,833	470,800	(397,967)	107,125	445,349	(338,224)
Sections administration	318,525	401,628	(83,103)	298,165	405,738	(107,573)
Technology		1,386,677	(1,386,677)		1,455,485	(1,455,485)
Total Unrestricted - General	\$ 16,937,127	\$ 18,121,123	\$ (1,183,996)	\$ 15,266,003	\$ 17,966,537	\$ (2,700,534)

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Activities (Continued)
For the Years Ended September 30, 2016 and 2015

	2016			2015		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Unrestricted - Continuing						
Legal Education:						
Products	\$ 1,048,818	\$ 663,101	\$ 385,717	\$ 895,653	\$ 790,587	\$ 105,066
Seminars	1,495,762	1,478,001	17,761	1,948,529	2,458,920	(510,391)
Total Unrestricted - Continuing						
Legal Education	<u>\$ 2,544,580</u>	<u>\$ 2,141,102</u>	<u>\$ 403,478</u>	<u>\$ 2,844,182</u>	<u>\$ 3,249,507</u>	<u>\$ (405,325)</u>
Unrestricted - Sections						
Operations	<u>\$ 710,461</u>	<u>\$ 727,529</u>	<u>\$ (17,068)</u>	<u>\$ 802,103</u>	<u>\$ 646,815</u>	<u>\$ 155,288</u>
Western States Bar Conference	<u>\$ 49,759</u>	<u>\$ 49,914</u>	<u>\$ (155)</u>	<u>\$ 11,193</u>	<u>\$ 80</u>	<u>\$ 11,113</u>
Lawyers' Fund for Client Protection	<u>\$ 1,004,168</u>	<u>\$ 502,235</u>	<u>\$ 501,933</u>	<u>\$ 993,740</u>	<u>\$ 595,461</u>	<u>\$ 398,279</u>
Unrestricted - General	\$ 16,937,127	\$ 18,121,123	\$ (1,183,996)	\$ 15,266,003	\$ 17,966,537	\$ (2,700,534)
Unrestricted - Continuing						
Legal Education	2,544,580	2,141,102	403,478	2,844,182	3,249,507	(405,325)
	19,481,707	20,262,225	(780,518)	18,110,185	21,216,044	(3,105,859)
Unrestricted - Sections Operations	710,461	727,529	(17,068)	802,103	646,815	155,288
Western States Bar Conference	49,759	49,914	(155)	11,193	80	11,113
Lawyers' Fund for Client Protection	1,004,168	502,235	501,933	993,740	595,461	398,279
Total Change in Net						
Assets - All Activities	<u>\$ 21,246,095</u>	<u>\$ 21,541,903</u>	<u>\$ (295,808)</u>	<u>\$ 19,917,221</u>	<u>\$ 22,458,400</u>	<u>\$ (2,541,179)</u>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Changes in Net Assets
For the Years Ended September 30, 2016 and 2015

	Unrestricted					Total
	General	Continuing Legal Education	Sections Operations	Western States Bar Conference	Lawyers' Fund for Client Protection	
Balance, September 30, 2014	\$ 7,803,065	\$ 458,415	\$ 1,074,418	\$ -	\$ 1,746,011	\$ 11,081,909
Unrestricted revenues over (under) expenses	<u>(2,700,534)</u>	<u>(405,325)</u>	<u>155,288</u>	<u>11,113</u>	<u>398,279</u>	<u>(2,541,179)</u>
Balance, September 30, 2015	5,102,531	53,090	1,229,706	11,113	2,144,290	8,540,730
Unrestricted revenues over (under) expenses	<u>(1,183,996)</u>	<u>403,478</u>	<u>(17,068)</u>	<u>(155)</u>	<u>501,933</u>	<u>(295,808)</u>
Balance, September 30, 2016	<u>\$ 3,918,535</u>	<u>\$ 456,568</u>	<u>\$ 1,212,638</u>	<u>\$ 10,958</u>	<u>\$ 2,646,223</u>	<u>\$ 8,244,922</u>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Cash received from licensing fees	\$ 13,343,130	\$ 11,191,559
Cash received from CLE products and seminars	2,528,848	2,511,542
Cash received from other activities	5,786,230	5,928,366
Cash paid to employees	(10,528,374)	(10,582,763)
Cash paid to vendors	(10,835,517)	(10,958,119)
Interest received	40,744	29,562
Net Cash Provided by (Used in) Operating Activities	335,061	(1,879,853)
Cash Flows From Investing Activities:		
Change in restricted cash and cash equivalents	(343,756)	(644,725)
Proceeds from sale of investments	7,816,710	9,522,634
Purchase of investments	(6,670,344)	(8,369,085)
Acquisition of property and equipment	(1,106,932)	(505,333)
Net Cash (Used in) Provided by Investing Activities	(304,322)	3,491
Net Change in Cash and Cash Equivalents	30,739	(1,876,362)
Cash and cash equivalents, beginning of year	4,213,625	6,089,987
Cash and Cash Equivalents, End of Year	\$ 4,244,364	\$ 4,213,625
Reconciliation of Change in Net Assets to Net Cash Flows		
From Operating Activities:		
Change in net assets	\$ (295,808)	\$ (2,541,179)
Adjustments to reconcile change in net assets to net cash flows from operating activities-		
Depreciation	454,292	556,015
Amortization of deferred lease incentive		(52,646)
Unrealized (gain) loss on investments	(158,208)	6,572
Loss on disposal of property and equipment		330,472
Change in operating assets and liabilities:		
Receivables	(21,000)	10,897
Desk and course books	(2,027)	(61,331)
Deferred seminar costs and prepaid expenses	23,673	20,559
Accounts payable and accrued expenses	(348,907)	311,374
Deferred licensing fees	523,754	58,389
Deferred lease obligation and incentive	209,189	(193,497)
Other deferred revenue	(49,897)	(325,478)
Net Cash Provided by (Used in) Operating Activities	\$ 335,061	\$ (1,879,853)
Supplementary Disclosure of Cash Flow Information:		
Property and equipment purchases included in accounts payable	\$ -	\$ 66,627

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements For the Years Ended September 30, 2016 and 2015

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 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 2016, the license fee was set at \$385 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 2015, the license fee was set at \$325 and fees followed the same pro-rated schedule as 2016. 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”), as the organizations are not financially interrelated.

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 common stocks, federally insured certificates of deposit, corporate bonds, municipal bond funds and US treasury funds.

Restricted cash and cash equivalents relate to funds restricted for the Western States Bar Conference and 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 *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 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

WASHINGTON STATE BAR ASSOCIATION

**Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015**

Note 1 - Continued

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 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 revenue 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.

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 time records, direct program expenses, and estimates made by the management of WSBA. The classification of expenses by function is as follows for the years ended September 30:

	<u>2016</u>	<u>2015</u>
Program services	\$ 19,403,604	\$ 20,282,483
Management and general	<u>2,138,299</u>	<u>2,175,917</u>
	<u><u>\$ 21,541,903</u></u>	<u><u>\$ 22,458,400</u></u>

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").

WASHINGTON STATE BAR ASSOCIATION

**Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015**

Note 1 - Continued

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

	<u>2016</u>	<u>2015</u>
Operating reserve fund	\$ 1,500,000	\$ 1,500,000
Facilities reserve fund	2,114,427	3,286,096
Capital reserve fund	250,316	262,645
Board program reserve fund	<u>53,793</u>	<u>53,790</u>
	<u>\$ 3,918,536</u>	<u>\$ 5,102,531</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 was used for refurbishment of existing leased space or costs to move to another space after the prior lease ended. In FY 2015 and 2016, the WSBA extended its lease on space at the Puget Sound Plaza building and made leasehold improvements. Effective October 2016 the minimum reserve of this fund was designated by the board to be \$200,000 to fund refurbishment of existing leased space or costs to move to another space when the current lease expires in December 2026.

The Capital Reserve Fund was established to fund short and long-term capital expenditures such as computers, office equipment and replacement of major software. Effective October 2016, this fund is eliminated because WSBA builds capital needs in to the annual operating budget.

The Board Program Reserve Fund was established to cover unanticipated over-expenditures on programs initiated by the Board of Governors and to fund new programs throughout the year that have not been included in the annual budget. Effective October 2016, this fund is eliminated.

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.

Reclassifications of Prior Year Balances - Certain reclassifications have been made to prior year accounts to conform to the presentation in the current year consolidated financial statements. The reclassifications have no effect on the previously reported change in net assets or net asset balances.

Subsequent Events - The WSBA has evaluated subsequent events through January 5, 2017, the date on which the financial statements were available to be issued.

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Note 2 - Lawyers' Fund for Client Protection

In 1995, the Washington 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 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. 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 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>2016</u>	<u>2015</u>
Unrestricted Cash and Cash Equivalents:		
Bank deposits	\$ 591,897	\$ 429,443
Money market funds	3,652,467	3,784,182
	<u>\$ 4,244,364</u>	<u>\$ 4,213,625</u>
Restricted Cash and Cash Equivalents:		
Bank deposits	\$ 784,535	\$ 1,046,181
Money market funds	2,325,673	1,720,271
	<u>\$ 3,110,208</u>	<u>\$ 2,766,452</u>

Note 4 - Investments

Investments consist of the following at September 30:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	\$ 750,000	\$ 1,730,000
Common stock (through managed funds)		714,422
Bonds	494,757	635,753
Mutual bonds and treasury funds	2,865,590	2,018,330
	<u>\$ 4,110,347</u>	<u>\$ 5,098,505</u>

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Note 4 - Continued

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

	<u>2016</u>	<u>2015</u>
Interest income - unrestricted	\$ 32,388	\$ 29,691
Interest income - restricted	6,460	1,387
Realized and unrealized gains	163,798	3,014
Fees	<u>(5,590)</u>	<u>(9,586)</u>
Total Investment Return	<u>\$ 197,056</u>	<u>\$ 24,506</u>

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

	<u>2016</u>	<u>2015</u>
Administration	\$ 185,241	\$ 19,553
Sections operations	5,355	3,566
Lawyers' Fund for Client Protection	<u>6,460</u>	<u>1,387</u>
	<u>\$ 197,056</u>	<u>\$ 24,506</u>

Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 663,252	\$ 683,137
Furniture	1,045,074	1,036,314
Office equipment	1,825,596	1,901,455
Software	<u>3,584,899</u>	<u>2,546,928</u>
	7,118,821	6,167,834
Less accumulated depreciation and amortization	(5,711,183)	(5,652,729)
Leasehold improvements and software not yet placed into service	<u>219,625</u>	<u>526,145</u>
	<u>\$ 1,627,263</u>	<u>\$ 1,041,250</u>

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements For the Years Ended September 30, 2016 and 2015

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, 2016 and 2015, were \$1,139,017 and \$978,360, 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, 2016 and 2015.

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

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

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

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

Note 7 - Continued

Fair Values Measured on a Recurring Basis - Fair values of assets measured on a recurring basis at September 30, 2016, and 2015, were as follows:

Fair Value Measurements at September 30, 2016				
	Level 1	Level 2	Level 3	Total
Mutual bonds and treasury funds	\$ 2,865,590	\$ -	\$ -	\$ 2,865,590
Municipal bonds		494,757		494,757
	\$ 2,865,590	\$ 494,757	\$ -	\$ 3,360,347

Fair Value Measurements at September 30, 2015				
	Level 1	Level 2	Level 3	Total
Common stock-				
Finance/Banking	\$ 175,610	\$ -	\$ -	\$ 175,610
Information technology	95,622			95,622
Energy	64,458			64,458
Pharmaceuticals	63,985			63,985
Other industries	314,747			314,747
Total common stock	714,422			714,422
Mutual bonds and treasury funds	2,018,330			2,018,330
Other bonds		635,753		635,753
	\$ 2,732,752	\$ 635,753	\$ -	\$ 3,368,505

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

	2016	2015
Investments recorded at fair value on a recurring basis	\$ 3,360,347	\$ 3,368,505
Investments recorded at cost	750,000	1,730,000
Total Investments	\$ 4,110,347	\$ 5,098,505

WASHINGTON STATE BAR ASSOCIATION

**Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015**

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.

In FY 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 that expired in September 30, 2016.

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

For the Years Ended September 30,

2017	\$ 1,503,989
2018	1,554,579
2019	1,605,169
2020	1,655,759
2021	1,698,981
Thereafter	<u>9,747,007</u>
Total Minimum Rental Payments	<u>\$ 17,765,484</u>

Rent expense (net of amortization of deferred lease incentive) under all lease agreements totaled \$1,682,460 and \$1,345,473 for the years ended September 30, 2016 and 2015, 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 2016, the WSBA paid a total of \$133,570 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, 2016, approximately \$250,000 has been budgeted for FY 2017 as grants payable to various organizations, including approximately \$190,000 to Gonzaga University School of Law and Seattle University School of Law for the Moderate Means Program.

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements
For the Years Ended September 30, 2016 and 2015

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:

	<u>2016</u>	<u>2015</u>
Indirect expenses-		
Salaries	\$ 10,503,069	\$ 10,514,813
Employee benefits and payroll taxes	3,571,781	3,489,355
Rent (net of amortization of deferred lease incentive)	1,587,480	1,216,681
Technology and telephone	816,000	697,033
Depreciation and amortization	281,931	406,695
Professional fees	120,616	125,942
Human resources	108,432	101,317
Insurance	103,136	107,285
Supplies and equipment	78,558	71,128
Remodel expense	78,149	151,810
Postage	36,221	36,730
Furniture, maintenance, and leasehold improvements	23,027	22,378
Bank fees	17,167	17,172
Meeting supports expenses	14,658	
Business taxes	12,923	15,183
Copying and production services	9,736	31,284
Loss on assets		321,712
	<u>17,362,884</u>	<u>17,326,518</u>
Direct expenses	<u>4,179,019</u>	<u>5,131,882</u>
Total Expenses	<u>\$ 21,541,903</u>	<u>\$ 22,458,400</u>