

**WASHINGTON STATE BAR ASSOCIATION**

Financial Statements

For the Years Ended September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 4, 2018

WASHINGTON STATE BAR ASSOCIATION

Statements of Financial Position  
September 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 3,804,955	\$ 4,244,364
Restricted cash and cash equivalents	3,773,689	3,110,208
Receivables, net	44,432	59,984
Prepaid expenses	273,599	321,110
Desk and course books	396,271	403,372
Investments	4,189,721	4,110,347
Property and equipment, net	1,763,093	1,627,263
<b>Total Assets</b>	<b>\$ 14,245,760</b>	<b>\$ 13,876,648</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 554,433	\$ 629,769
Accrued expenses	525,182	444,177
Lawyers' Fund for Client Protection, committed gifts	409,411	344,425
Deferred licensing fees	3,304,049	3,247,447
Deferred lease obligation and incentive	921,042	761,627
Other deferred revenue	222,651	204,281
<b>Total Liabilities</b>	<b>5,936,768</b>	<b>5,631,726</b>
<b>Net Assets:</b>		
Unrestricted-		
General	3,363,750	3,918,535
Continuing legal education	485,583	456,568
Sections operations	1,197,727	1,212,638
Western States Bar Conference	19,632	10,958
Client Protection Fund	3,242,300	2,646,223
<b>Total Net Assets</b>	<b>8,308,992</b>	<b>8,244,922</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 14,245,760</b>	<b>\$ 13,876,648</b>

See accompanying notes.

**WASHINGTON STATE BAR ASSOCIATION**

**Statements of Activities  
For the Years Ended September 30, 2017 and 2016**

	2017			2016		
	Revenues	Expenses	Revenues	Revenues	Expenses	Revenues
			Over (Under)			Over (Under)
<b>Unrestricted - General:</b>						
Access to justice board	\$ 9,785	\$ 284,444	\$ (274,659)	\$ 1,400	\$ 231,652	\$ (230,252)
Administration	118,824	1,021,674	(902,850)	185,558	1,006,069	(820,511)
Admissions/bar exam	1,359,865	1,110,933	248,932	1,297,048	1,150,944	146,104
Board of governors and office of the executive director		774,927	(774,927)		779,044	(779,044)
Communications	19,309	1,582,412	(1,563,103)	25,290	1,599,578	(1,574,288)
Discipline	111,472	5,374,154	(5,262,682)	155,100	5,485,110	(5,330,010)
Diversity	90,275	381,269	(290,994)	93,719	401,809	(308,090)
Foundation		154,243	(154,243)		145,243	(145,243)
Human resources		372,786	(372,786)		353,185	(353,185)
Law clerk program	108,050	85,399	22,651	104,825	66,600	38,225
Law office management assistance program	3,510	188,311	(184,801)	6,199	299,228	(293,029)
Lawyer assistance program	8,560	178,314	(169,754)	12,080	159,210	(147,130)
Legislative		198,102	(198,102)		226,436	(226,436)
Licensing fees	13,512,188		13,512,188	12,819,376		12,819,376
Licensing and membership records	333,582	585,230	(251,648)	265,784	532,204	(266,420)
Limited license legal technician	13,448	202,956	(189,508)	11,706	207,684	(195,978)
Limited practice officers	146,986	157,599	(10,613)	134,903	194,286	(59,383)
Mandatory continuing legal education administration	722,297	718,481	3,816	835,160	618,358	216,802
Member benefits	25,870	73,540	(47,670)	16,753	72,098	(55,345)
Mentorship program		155,219	(155,219)		138,543	(138,543)
New lawyer education	36,217	284,623	(248,406)	61,403	295,225	(233,822)
NW Lawyer	544,535	613,747	(69,212)	519,051	607,861	(88,810)
Office of general counsel	150	797,513	(797,363)	414	671,211	(670,797)
Office of general counsel disciplinary board		256,269	(256,269)		361,943	(361,943)
Practice of law board		120,785	(120,785)		96,488	(96,488)
Professional responsibility program		247,054	(247,054)		162,009	(162,009)
Public service programs	94,271	408,451	(314,180)	72,833	470,800	(397,967)
Sections administration	325,655	458,771	(133,116)	318,525	401,628	(83,103)
Technology		1,352,428	(1,352,428)		1,386,677	(1,386,677)
<b>Total Unrestricted - General</b>	<b>\$ 17,584,849</b>	<b>\$ 18,139,634</b>	<b>\$ (554,785)</b>	<b>\$ 16,937,127</b>	<b>\$ 18,121,123</b>	<b>\$ (1,183,996)</b>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Activities (Continued)  
For the Years Ended September 30, 2017 and 2016

	2017			2016		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
<b>Unrestricted - Continuing Legal Education:</b>						
Products	\$ 1,105,317	\$ 633,418	\$ 471,899	\$ 1,048,818	\$ 663,101	\$ 385,717
Seminars	881,401	1,324,285	(442,884)	1,495,762	1,478,001	17,761
<b>Total Unrestricted - Continuing Legal Education</b>	<b>\$ 1,986,718</b>	<b>\$ 1,957,703</b>	<b>\$ 29,015</b>	<b>\$ 2,544,580</b>	<b>\$ 2,141,102</b>	<b>\$ 403,478</b>
<b>Unrestricted - Sections Operations</b>	<b>\$ 660,677</b>	<b>\$ 675,588</b>	<b>\$ (14,911)</b>	<b>\$ 710,461</b>	<b>\$ 727,529</b>	<b>\$ (17,068)</b>
<b>Western States Bar Conference</b>	<b>\$ 67,950</b>	<b>\$ 59,276</b>	<b>\$ 8,674</b>	<b>\$ 49,759</b>	<b>\$ 49,914</b>	<b>\$ (155)</b>
<b>Client Protection Fund</b>	<b>\$ 1,028,663</b>	<b>\$ 432,586</b>	<b>\$ 596,077</b>	<b>\$ 1,004,168</b>	<b>\$ 502,235</b>	<b>\$ 501,933</b>
Unrestricted - General	\$ 17,584,849	\$ 18,139,634	\$ (554,785)	\$ 16,937,127	\$ 18,121,123	\$ (1,183,996)
Unrestricted - Continuing Legal Education	1,986,718	1,957,703	29,015	2,544,580	2,141,102	403,478
	19,571,567	20,097,337	(525,770)	19,481,707	20,262,225	(780,518)
Unrestricted - Sections Operations	660,677	675,588	(14,911)	710,461	727,529	(17,068)
Western States Bar Conference	67,950	59,276	8,674	49,759	49,914	(155)
Client Protection Fund	1,028,663	432,586	596,077	1,004,168	502,235	501,933
<b>Total Change in Net Assets - All Activities</b>	<b>\$ 21,328,857</b>	<b>\$ 21,264,787</b>	<b>\$ 64,070</b>	<b>\$ 21,246,095</b>	<b>\$ 21,541,903</b>	<b>\$ (295,808)</b>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Statements of Changes in Net Assets  
For the Years Ended September 30, 2017 and 2016

	Unrestricted					Total
	General	Continuing Legal Education	Sections Operations	Western States Bar Conference	Client Protection Fund	
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>
<b>Balance, September 30, 2016</b>	<b>3,918,535</b>	<b>456,568</b>	<b>1,212,638</b>	<b>10,958</b>	<b>2,646,223</b>	<b>8,244,922</b>
Unrestricted revenues over (under) expenses	<u>(554,785)</u>	<u>29,015</u>	<u>(14,911)</u>	<u>8,674</u>	<u>596,077</u>	<u>64,070</u>
<b>Balance, September 30, 2017</b>	<b><u>\$ 3,363,750</u></b>	<b><u>\$ 485,583</u></b>	<b><u>\$ 1,197,727</u></b>	<b><u>\$ 19,632</u></b>	<b><u>\$ 3,242,300</u></b>	<b><u>\$ 8,308,992</u></b>

See accompanying notes.



WASHINGTON STATE BAR ASSOCIATION

Statements of Cash Flows  
For the Years Ended September 30, 2017 and 2016

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Cash received from licensing fees	\$ 13,568,790	\$ 13,343,130
Cash received from CLE products and seminars	1,995,134	2,528,848
Cash received from other activities	5,782,954	5,786,230
Cash paid to employees	(10,779,027)	(10,528,374)
Cash paid to vendors	(9,854,372)	(10,835,517)
Interest received	72,503	40,744
<b>Net Cash Provided by Operating Activities</b>	<b>785,982</b>	<b>335,061</b>
<b>Cash Flows From Investing Activities:</b>		
Change in restricted cash and cash equivalents	(663,481)	(343,756)
Proceeds from sale of investments	5,349,257	7,816,710
Purchase of investments	(5,354,748)	(6,670,344)
Acquisition of property and equipment	(556,419)	(1,106,932)
<b>Net Cash Used in Investing Activities</b>	<b>(1,225,391)</b>	<b>(304,322)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(439,409)</b>	<b>30,739</b>
Cash and cash equivalents, beginning of year	4,244,364	4,213,625
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 3,804,955</b>	<b>\$ 4,244,364</b>
<b>Reconciliation of Change in Net Assets to Net Cash Flows</b>		
<b>From Operating Activities:</b>		
Change in net assets	\$ 64,070	\$ (295,808)
Adjustments to reconcile change in net assets to net cash flows from operating activities-		
Depreciation	420,589	454,292
Unrealized gain on investments	(73,883)	(158,208)
Change in operating assets and liabilities:		
Receivables	15,552	(21,000)
Desk and course books	7,101	(2,027)
Prepaid expenses	47,511	23,673
Accounts payable and accrued expenses	70,655	(348,907)
Deferred licensing fees	56,602	523,754
Deferred lease obligation and incentive	159,415	209,189
Other deferred revenue	18,370	(49,897)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 785,982</b>	<b>\$ 335,061</b>

See accompanying notes.

## WASHINGTON STATE BAR ASSOCIATION

### Notes to Financial Statements For the Years Ended September 30, 2017 and 2016

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#### Note 1 - Nature of Operations and Significant Accounting Policies

**Nature of Operations** - The Washington State Bar Association (“the 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 membership. License fees follow a pro-rated schedule based on the attorney member’s years of practice. For 2017 and 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 2017 and 2016, the license fee was set at \$175 for Limited License Legal Technicians and \$110 for all Limited Practice Officers. 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 federally insured certificates of deposit, corporate bonds and municipal bond 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.

**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, 2017 and 2016

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**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 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 Supreme Court 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 FTE allocation, 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>2017</u>	<u>2016</u>
Program services	\$ 19,095,400	\$ 19,403,604
Management and general	<u>2,169,387</u>	<u>2,138,299</u>
	<u><b>\$ 21,264,787</b></u>	<u><b>\$ 21,541,903</b></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").

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

	<u>2017</u>	<u>2016</u>
Operating reserve fund	\$ 1,500,000	\$ 1,500,000
Facilities reserve fund	200,000	2,114,426
Unrestricted general fund	1,663,750	
Capital reserve fund		250,316
Board program reserve fund		<u>53,793</u>
	<u><b>\$ 3,363,750</b></u>	<u><b>\$ 3,918,535</b></u>

## WASHINGTON STATE BAR ASSOCIATION

### Notes to Financial Statements For the Years Ended September 30, 2017 and 2016

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#### Note 1 - Continued

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 1, 2016, this fund is eliminated as WSBA builds capital needs in to the annual operating budget.

The Board Program Reserve Fund was established to fund new programs established by Presidents in conjunction with the Board of Governors that may not have been included in the annual budget. Effective October 2016, this fund is eliminated.

Effective October 2016 the Unrestricted General Fund was established to accumulate net reserves above the Capital 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.

**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 4, 2018, 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"). The Fund currently receives a \$30 mandatory annual assessment from each active attorney 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 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. The Fund receives a mandatory annual assessment from each active attorney 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.

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements  
For the Years Ended September 30, 2017 and 2016

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**Note 3 - Cash and Cash Equivalents**

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

	<u>2017</u>	<u>2016</u>
<b>Unrestricted Cash and Cash Equivalents:</b>		
Bank deposits	\$ 619,266	\$ 591,897
Money market funds	<u>3,185,689</u>	<u>3,652,467</u>
	<b><u>\$ 3,804,955</u></b>	<b><u>\$ 4,244,364</u></b>
<b>Restricted Cash and Cash Equivalents:</b>		
Bank deposits	\$ 1,430,451	\$ 784,535
Money market funds	<u>2,343,238</u>	<u>2,325,673</u>
	<b><u>\$ 3,773,689</u></b>	<b><u>\$ 3,110,208</u></b>

**Note 4 - Investments**

Investments consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Certificates of deposit	\$ 750,000	\$ 750,000
Bonds	498,902	494,757
Mutual bond funds	<u>2,940,819</u>	<u>2,865,590</u>
	<b><u>\$ 4,189,721</u></b>	<b><u>\$ 4,110,347</u></b>

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

	<u>2017</u>	<u>2016</u>
Interest income - unrestricted	\$ 55,663	\$ 32,388
Interest income - restricted	19,722	6,460
Realized and unrealized gains	73,883	163,798
Fees	<u>(6)</u>	<u>(5,590)</u>
<b>Total Investment Return</b>	<b><u>\$ 149,262</u></b>	<b><u>\$ 197,056</u></b>

## WASHINGTON STATE BAR ASSOCIATION

### Notes to Financial Statements For the Years Ended September 30, 2017 and 2016

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#### Note 4 - Continued

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

	<u>2017</u>	<u>2016</u>
Administration	\$ 118,818	\$ 185,241
Sections operations	10,722	5,355
Client Protection Fund	<u>19,722</u>	<u>6,460</u>
	<u><b>\$ 149,262</b></u>	<u><b>\$ 197,056</b></u>

#### Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 663,252	\$ 663,252
Furniture	1,045,074	1,045,074
Office equipment	1,929,731	1,825,596
Software	<u>3,750,033</u>	<u>3,584,899</u>
	7,388,090	7,118,821
Less accumulated depreciation and amortization	(6,131,770)	(5,711,183)
Website development and software not yet placed into service	<u>506,773</u>	<u>219,625</u>
	<u><b>\$ 1,763,093</b></u>	<u><b>\$ 1,627,263</b></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, 2017 and 2016, were \$1,185,716 and \$1,139,017, respectively.

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements  
For the Years Ended September 30, 2017 and 2016

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**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, 2017 and 2016.

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, 2017 and 2016, were as follows:

	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>

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements  
For the Years Ended September 30, 2017 and 2016

Note 7 - Continued

	Fair Value Measurements at September 30, 2016			
	Level 1	Level 2	Level 3	Total
Mutual bond funds	\$ 2,865,590	\$ -	\$ -	\$ 2,865,590
Bonds		494,757		494,757
	<u>\$ 2,865,590</u>	<u>\$ 494,757</u>	<u>\$ -</u>	<u>\$ 3,360,347</u>

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

	2017	2016
Investments recorded at fair value on a recurring basis	\$ 3,439,721	\$ 3,360,347
Investments recorded at cost	750,000	750,000
<b>Total Investments</b>	<u><b>\$ 4,189,721</b></u>	<u><b>\$ 4,110,347</b></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.

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,

2018	\$ 1,554,579
2019	1,605,169
2020	1,655,759
2021	1,706,349
2022	1,749,571
Thereafter	<u>7,997,436</u>
<b>Total Minimum Rental Payments</b>	<u><b>\$ 16,268,863</b></u>

Rent expense (net of amortization of deferred lease incentive) under all lease agreements totaled \$1,809,002 and \$1,682,460 for the years ended September 30, 2017 and 2016, respectively.



## WASHINGTON STATE BAR ASSOCIATION

### Notes to Financial Statements For the Years Ended September 30, 2017 and 2016

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#### 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 2017 and 2016, the WSBA paid a total of \$58,119 and \$133,570, 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, 2017, approximately \$265,000 has been budgeted for FY 2018 as grants payable to various organizations, including approximately \$205,000 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, 2017 and 2016

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**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>2017</u>	<u>2016</u>
Indirect expenses-		
Salaries	\$ 10,671,394	\$ 10,503,069
Employee benefits and payroll taxes	3,673,481	3,571,781
Rent (net of amortization of deferred lease incentive)	1,729,618	1,587,480
Technology and telephone	579,381	816,000
Depreciation and amortization	154,517	281,931
Insurance	131,782	103,136
Human resources	113,293	108,432
Professional fees	88,311	120,616
Supplies and equipment	83,606	78,558
Postage	35,096	36,221
Furniture, maintenance, and leasehold improvements	32,046	23,027
Bank fees	30,910	17,167
Meeting support expenses	12,258	14,658
Copying and production services	11,639	9,736
Business taxes	9,400	12,923
Remodel expense		78,149
	<u>17,356,732</u>	<u>17,362,884</u>
Direct expenses	<u>3,908,055</u>	<u>4,179,019</u>
<b>Total Expenses</b>	<b><u><u>\$ 21,264,787</u></u></b>	<b><u><u>\$ 21,541,903</u></u></b>