

WASHINGTON STATE BAR ASSOCIATION

Special Report on the Fiscal Year 2021 Budget Summary

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Independent Accountant's Report on Applying Agreed-Upon Procedures

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

At your request, we have performed certain agreed-upon procedures, as enumerated below, with respect to the Washington State Bar Association (WSBA) Fiscal Year 2021 Budget Summary for the year ending September 30, 2021. These procedures, which were agreed to by management of the WSBA, were performed solely to assist you in evaluating the consistency of the presentation of the Fiscal Year 2021 Budget Summary of revenues and expenses by budget category (2021 Budget) included in Exhibit A, with presentation of the Fiscal Year 2020 Budget Summary of revenues and expenses for the fiscal year ended September 30, 2020 (2020 Budget) included in Exhibit B, and the presentation of revenues and expenses in the audited Statement of Activities for the fiscal year ended September 30, 2019 (2019 Statement of Activities) included in Exhibit C. This report is prepared to comply with Keller vs. State Bar of California, 496 U.S. 1 (1990), which prohibits using compulsory fees of any member who objects to that use for political or ideological activities that are not germane, or reasonably related, to regulating the legal profession or improving the quality of legal services ("nonchargeable" activities). Objecting members are offered a "Keller deduction" that represents the estimated portion of fees that is used for "nonchargeable" activities. The Keller deduction is calculated prospectively based on the coming year's budget and the previous year's political activity. The Special Report on the Budget Summary reports on the presentation of the coming year's budget, which is used to compute the Keller deduction, with the previous year's financial statements and current year budget by explaining differences in categories, budgeting methodologies, and significant revenues and expenses. The WSBA's management is responsible for the 2021 and 2020 Budgets and the 2019 Statement of Activities.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the WSBA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We totaled all columns and rows of the 2021 and 2020 Budgets and the 2019 Statement of Activities to verify the mathematical accuracy.

Findings

None



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2. We compared the 2021 Budget category descriptions to the 2020 Budget and the 2019 Statement of Activities category descriptions and explained differences.

Findings

The WSBA changed the following categories in the 2021 Budget compared to the 2020 Budget:

Advancement, Communications and Regulatory Services - These are new Cost Centers established to accumulate the management and directors time allocated to meetings and trainings for the respective departments.

Bar News - The NW Lawyer cost center was renamed to Bar News.

Service Center - This Cost Center replaced the Conference and Broadcast Services Cost Center.

The WSBA changed the following categories in the 2021 Budget compared to the 2019 Statement of Activities:

Board of Governors and Office of the Executive Director - In the September 2019 Board of Governors meeting, it was approved to separate the Board of Governors and Office of Executive Director into two distinct cost centers beginning in fiscal year 2020.

3. We inquired of management if there were any differences in the methodology used to budget for revenue and expense amounts for each category for the 2021 Budget as compared to the methodology used to budget for revenue and expense amounts for each category for the 2020 Budget and to account for revenue and expenses in the 2019 Statement of Activities.

Findings

The WSBA noted no differences in the methodology used to budget for revenue or expense amounts for each category for the 2021 Budget as compared to the methodology used to budget for revenue and expense amounts for each category for the 2020 Budget and to account for revenues and expenses in the 2019 Statement of Activities.

4. We compared total revenues and total expenses by category in the 2021 Budget to the total revenues and total expenses by category in the 2020 Budget and noted differences in amounts both greater than \$100,000 and 20%. We also compared the total revenues and total expenses by category in the 2021 Budget to total revenues and total expenses by category reported on the 2019 Statement of Activities and noted differences in amounts both greater than \$100,000 and 20%. We inquired of management for an explanation of those differences.

Findings

The following categories showed differences greater than \$100,000 and 20%:

Comparison of 2021 Budget to 2020 Budget

	2021 Budget	2020 Budget	Differences	
			Amount	Percentage
Communications Strategies				
a. Expense	\$ 529,932	\$ 667,155	\$ (137,223)	-21%
Conference and Broadcast Services				
b. Expense	\$ -	\$ 825,263	\$ (825,263)	-100%
Diversity				
c. Expense	\$ 352,230	\$ 596,488	\$ (244,258)	-41%
Human Resources				
d. Expense	\$ 458,623	\$ 229,115	\$ 229,508	100%
Limited Practice Officers				
e. Expense	\$ 78,015	\$ 179,287	\$ (101,272)	-56%
Mandatory CLE Administration				
f. Revenue	\$ 767,950	\$ 1,042,800	\$ (274,850)	-26%
g. Expense	\$ 621,839	\$ 936,467	\$ (314,628)	-34%
Office of the Executive Director				
h. Expense	\$ 715,909	\$ 373,441	\$ 342,468	92%
Outreach and Engagement				
i. Expense	\$ 289,235	\$ 423,554	\$ (134,319)	-32%
Sections Administration				
j. Expense	\$ 298,790	\$ 549,309	\$ (250,519)	-46%
Regulatory services				
k. Expense	\$ 506,486	\$ -	\$ 506,486	100%
Communications				
l. Expense	\$ 222,622	\$ -	\$ 222,622	100%
Advancement				
m. Expense	\$ 235,893	\$ -	\$ 235,893	100%
Service center				
n. Expense	\$ 745,843	\$ -	\$ 745,843	100%

Management's explanations for the differences are as follows:

- a. The decrease in the Communication and Strategies expense is due to the Apex dinner not occurring in FY2021, therefore there will be a reduction of direct expenses. In FY20, there was \$70,000 budgeted to this dinner.
- b. The Conference and Broadcast Services Cost Center has been eliminated. The expenses relating to this are now in the Service Center Cost Center.
- c. Diversity expenses decreased as a result of an overall reduction in indirect expenses, leading to lower salary expense as well as a reduction of 0.18 FTE's.
- d. The increase in Human Resources is due to an increase in staff training. In addition, there was an allowance of \$200,000 that was moved from this Cost Center and allocated among all Cost Centers in FY2020.
- e. Limited Practice Officers expense decreased as a result of a reduction of .59 FTE's, leading to lower salary expense, as well as an overall decrease in indirect expenses.
- f. Mandatory CLE Administration revenue decreased due to the WA State Supreme Court extending the deadline for completing MCLE's to 12/31/2021 for earning the credits and 2/1/22 for certifying the credits, therefore less are expected to occur in FY2021.
- g. The decrease in Mandatory CLE Administration expense is due to a reduction in direct expenses due to the WA State Supreme Court extending the deadline for MCLE completion (12/31/2021 for earning the credits and 2/1/2022 for certifying the credits).
- h. Office of the Executive Director expense increased as a result of an increase of 0.63 FTE's, leading to higher salary expense, as well as an overall increase in indirect expenses.
- i. The decrease in Outreach and Engagement expense is due to a reduction of 0.73 FTE's leading to lower salary expense, as well as an overall decrease in indirect expenses.
- j. The decrease in Sections Administration expense is due to a reduction of 1.56 FTE's leading to a lower salary expense, as well as an overall decrease in indirect expenses.
- k. The increase in the Regulatory Services expense Cost Center is due to the Cost Center being new in FY2021. The expenses associated with this Cost Center are for management and director's time allocated to meetings and trainings for the Regulatory Service Department. These expenses are not associated with any other Cost Center.

- l. The increase in the Communications expense is due to the Cost Center being new in FY2021. The expenses associated with this Cost Center are for management and director’s time allocated to meetings and trainings for the Communications Department. These expenses are not associated with any other Cost Center.

- m. The increase in the Advancement expense is due to the Cost Center being new in FY2021. The expenses associated with this Cost Center are for management and director’s time allocated to meetings and trainings for the Advancement Department. These expenses are not associated with any other Cost Center.

- n. The Service Center increase is due to the Cost Center being new in FY2021 and the expenses from the Conference and Broadcast Services Cost Center being relocated here.

Comparison of 2021 Budget to 2019 Statement of Activities

	2021 Budget	2019 SOA	Difference	
			Amount	Percentage
Administration				
a. Revenue	\$ 100,000	\$ 329,633	\$ (229,633)	-70%
Board of Governors				
b. Expense	\$ 617,037	\$ 861,652	\$ (244,615)	-28%
Client Protection Fund				
c. Revenue	\$ 529,540	\$ 1,119,308	\$ (589,768)	-53%
d. Expense	\$ 658,099	\$ 531,155	\$ 126,944	24%
Conference and Broadcast Services				
e. Expense	\$ -	\$ 810,316	\$ (810,316)	-100%
Deskbooks				
f. Expense	\$ 327,149	\$ 447,743	\$ (120,594)	-27%
Diversity				
g. Expense	\$ 352,230	\$ 564,348	\$ (212,118)	-38%

	2021 Budget	2019 SOA	Difference	
			Amount	Percentage
Limited License Legal Technician h. Expense	\$ 124,048	\$ 238,650	\$ (114,602)	-48%
Limited Practice Officers i. Revenue	\$ 195,300	\$ -	\$ 195,300	100%
Mandatory CLE Administration j. Revenue	\$ 767,950	\$ 1,186,632	\$ (418,682)	-35%
k. Expense	\$ 621,839	\$ 875,796	\$ (253,957)	-29%
Office of the Executive Director l. Expense	\$ 715,909	\$ -	\$ 715,909	100%
Office of General Counsel m. Expense	\$ 971,131	\$ 798,253	\$ 172,878	22%
Outreach and Engagement n. Expense	\$ 289,235	\$ 397,645	\$ (108,410)	-27%
Sections Administration o. Expense	\$ 298,790	\$ 526,293	\$ (227,503)	-43%
Regulatory services p. Expense	\$ 506,486	\$ -	\$ 506,486	100%
Communications q. Expense	\$ 222,622	\$ -	\$ 222,622	100%
Advancement r. Expense	\$ 235,893	\$ -	\$ 235,893	100%
Sections Operations s. Expense	\$ 865,167	\$ 587,501	\$ 277,666	47%
Service Center t. Expense	\$ 745,843	\$ -	\$ 745,843	100%

Management's explanations for the differences are as follows:

- a. The decrease in Administration revenue is due to interest rates significantly dropping in FY2020 and are expected to remain low in FY2021.
- b. The Board of Governors expense decrease is due to a reorganization of the Cost Center in FY20. Expenses relating to the Executive Director are now in its own Cost Center titled Office of the Executive Director. The cost center includes the full cost of the position of Executive Director, travel, outreach, and other related expenses, which were previously included in the Board of Governors and Office of the Executive Director cost center.
- c. For FY2021, the Client Protection Fund member assessment fee was reduced from \$30 down to \$10 for the year.

- d. The Client Protection Fund's largest expense is for "Gifts to Injured Clients." This expense varies each year as it is depending on the number and type of applications received and approved by the Client Protection Fund Board and the WSBA Board of Governors. Over the past few years, the WSBA has budgeted \$400,000 to \$700,000 for this expense when actual gifts have ranged from \$200,000 to over \$900,000 so a variance is to be expected.
- e. The decrease in Conference and Broadcast Services is due to Conference and Broadcast Services Cost Center being eliminated. The associated costs are now included in the Service Center Cost Center.
- f. The Deskbooks expense decreased due to a reduction of 0.53 FTE's.
- g. The diversity expense decreased due to a reduction of 1.59 FTE's as well as the Diversity & Public Service Programs Manager position being eliminated. WSBA budgeted \$95,000 to this position historically.
- h. The Limited License Legal Technician expense decreased due to in FY2020, the WA Supreme Court voting to eliminate this program effective 7/31/2021. The budget has been significantly reduced to only support the program until its end date.
- i. The increase in the revenue is due to the approval of a separate Limited Practice Officers cost center beginning in fiscal year 2020. Those revenues were previously budgeted for in the Licensing cost center.
- j. The Mandatory CLE Administration revenue decreased due to the WA State Supreme Court extending the deadline for completing MCLE's to 12/31/2021 for earning credits, 2/1/2022 for certifying the credits, therefore less are expected to occur in FY2021.
- k. The Mandatory CLE Administration expense decreased expense is due to a reduction in direct expenses due to the WA State Supreme Court extending the deadline for MCLE completion (12/31/2021 for earning the credits and 2/1/2022 for certifying the credits), as well as an overall reduction in indirect expenses.
- l. The Office of the Executive Director expense increased due to it being a new Cost Center in FY2020. The expenses were previously in the Board of Governors Cost Center.
- m. The increase of the Office of General Counsel expense is due to an increase of 0.63 FTE's.
- n. The decrease in Outreach and Engagement expense is due to a decrease of 0.73 FTE's.
- o. The decrease in Sections Administration expense is due to a decrease of 1.57 FTE's.

- p. The increase in the Regulatory Services expense is due to the Cost Center being new in FY2021. The expenses associated with this Cost Center are for management and director's time allocated to meetings and trainings for the Regulatory Service Department. These expenses are not associated with any other Cost Center.
- q. The increase in the Communications expense is due to the Cost Center being new in FY2021. The expenses associated with this Cost Center are for management and director's time allocated to meetings and trainings for the Communications Department. These expenses are not associated with any other Cost Center.
- r. The increase in the Advancement expense Cost Center is due to the Cost Center being new in FY2021. The expenses associated with this Cost Center are for Management and Director's time allocated to meetings and trainings for the Advancement Department. These expenses are not associated with any other Cost Center.
- s. The Sections Operations expense increased due to the spending down of excess fund balances in order to comply with WSBA's Fiscal Policies. According to the WSBA fiscal policies, each section shall maintain a fund balance equal to at least 6 months of expenses but no more than 2 years of expenses. As a large number of the 29 sections funds have more than 2 years of expenses, they were asked to budget FY2021 with a plan for spending down these funds.
- t. The Service Center expense increase is due to the Cost Center being new in FY2021 and the expenses from the Conference and Broadcast Services Cost Center being relocated here.

We were not engaged to and did not conduct an examination; the objective of which would be the expression of an opinion on the accompanying 2021 and 2020 Budgets. Accordingly, we do not express an opinion on whether the budgets are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the budgets and actual results as events and circumstances frequently do not occur as expected and those differences may be material. We expressed an unmodified opinion on the WSBA's financial statements as of and for the year ended September 30, 2019. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

This report is intended solely for the information and use of management and members of the WSBA and is not intended to be and should not be used by anyone other than these specified parties.

Clark Nuber P.S.

Certified Public Accountants
January 27, 2021

EXHIBIT A

WASHINGTON STATE BAR ASSOCIATION

Fiscal Year 2021 Budget Summary

<u>Cost Centers</u>	<u>Revenue</u>	<u>Expense</u>	<u>Net</u>
Access to justice board	\$ -	\$ 262,789	\$ (262,789)
Administration	100,000	1,085,404	(985,404)
Admissions / bar exam	1,134,375	1,166,506	(32,131)
Advancement		235,893	(235,893)
Bar news	468,350	795,164	(326,814)
Board of governors		617,037	(617,037)
Communications strategies		529,932	(529,932)
Communications		222,622	(222,622)
Discipline	97,500	6,020,854	(5,923,354)
Diversity	135,374	352,230	(216,856)
Foundation		134,526	(134,526)
Human resources		458,623	(458,623)
Law clerk program	193,000	105,778	87,222
Legislative		159,159	(159,159)
Licensing	16,531,113		16,531,113
Licensing and membership records	336,450	605,700	(269,250)
Limited license legal technician	23,267	124,048	(100,781)
Limited practice officers	195,300	78,015	117,285
Mandatory continuing legal education administration	767,950	621,839	146,111
Member assistance program	8,000	92,913	(84,913)
Member benefits	28,000	323,286	(295,286)
Member services and engagement	154,250	539,733	(385,483)
Office of the executive director		715,909	(715,909)
Office of general counsel		971,131	(971,131)
Office of general counsel disciplinary board		256,294	(256,294)
Outreach and engagement		289,235	(289,235)
Practice of law board		45,875	(45,875)
Professional responsibility program		283,834	(283,834)
Public service programs	130,200	396,414	(266,214)
Publication and design services		104,573	(104,573)
Regulatory services		506,486	(506,486)
Sections administration	300,000	298,790	1,210
Service center		745,843	(745,843)
Technology		1,659,474	(1,659,474)
Total General Fund	20,603,129	20,805,909	(202,780)
Operating Loss for FY 2021			(202,780)
Percent change from FY 2020 budget	-1%	-3%	
Depreciation			408,234
Straight line rent			1,951,000
Capital labor			(160,000)
Net Cash Flow From FY 2021 Operations			1,996,454
Continuing legal education	1,682,000	1,575,010	106,990
Deskbooks	158,000	327,149	(169,149)
Continuing Legal Education	1,840,000	1,902,159	(62,159)
Operating Loss for FY 2021			(62,159)
Percent change from FY 2020 budget	-8%	-5%	
Sections Operations	585,779	865,167	(279,388)
Client Protection Fund	529,540	658,099	(128,559)
	\$ 23,558,448	\$ 24,231,334	\$ (672,886)

EXHIBIT B

WASHINGTON STATE BAR ASSOCIATION

Fiscal Year 2020 Budget Summary - Original

<u>Cost Centers</u>	<u>Revenue</u>	<u>Expense</u>	<u>Net</u>
Access to justice board	\$ 2,100	\$ 308,421	\$ (306,321)
Administration	100,000	1,205,747	(1,105,747)
Admissions / bar exam	1,407,000	1,378,230	28,770
Board of governors		565,062	(565,062)
Communications strategies	40,000	667,155	(627,155)
Conference and broadcast services		825,263	(825,263)
Discipline	110,500	6,127,687	(6,017,187)
Diversity	135,374	596,488	(461,114)
Foundation		165,232	(165,232)
Human resources		229,115	(229,115)
Law clerk program	174,700	176,429	(1,729)
Legislative		160,404	(160,404)
Licensing	16,200,000		16,200,000
Licensing and membership records	325,000	673,627	(348,627)
Limited license legal technician	27,605	221,630	(194,025)
Limited practice officers	212,390	179,287	33,103
Mandatory continuing legal education administration	1,042,800	936,467	106,333
Member assistance program	6,750	149,931	(143,181)
Member services and engagement	138,300	610,356	(472,056)
Member benefits	21,000	279,008	(258,008)
NW lawyer	461,350	717,494	(256,144)
Office of the executive director		373,441	(373,441)
Office of general counsel		991,073	(991,073)
Office of general counsel disciplinary board		293,824	(293,824)
Outreach and engagement		423,554	(423,554)
Practice of law board		79,261	(79,261)
Professional responsibility program		271,171	(271,171)
Public service programs	128,100	454,630	(326,530)
Publication and design services		140,741	(140,741)
Sections administration	300,000	549,309	(249,309)
Technology		1,674,849	(1,674,849)
Total General Fund	20,832,969	21,424,886	(591,917)
Operating Loss for FY 2020			(591,917)
Percent change from FY 2019 budget	3%	5%	
Depreciation			4,750
Straight line rent			42,455
Capital labor			141,000
Net Cash Flow From FY 2020 Operations			(403,712)
Continuing legal education	1,824,000	1,659,116	164,884
Deskbooks	165,500	353,698	(188,198)
Continuing Legal Education	1,989,500	2,012,814	(23,314)
Operating Loss for FY 2020			(23,314)
Percent change from FY 2019 budget	-2%	10%	
Sections Operations	606,544	843,966	(237,422)
Client Protection Fund	1,023,000	648,686	374,314
	\$ 24,452,013	\$ 24,930,352	\$ (478,339)

EXHIBIT C

WASHINGTON STATE BAR ASSOCIATION

**Statement of Activities
For the Year Ended September 30, 2019**

	2019		Revenues Over (Under) Expenses
	Revenues	Expenses	
Without Donor Restriction Activities General:			
Access to justice board	\$ 7,500	\$ 316,068	\$ (308,568)
Administration	329,633	1,121,711	(792,078)
Admissions / bar exam	1,332,120	1,234,053	98,067
Board of governors and office of the executive director		861,652	(861,652)
Communications strategies	25,318	646,811	(621,493)
Conference and broadcast services		810,316	(810,316)
Discipline	90,087	5,731,477	(5,641,390)
Diversity	143,774	564,348	(420,574)
Foundation		155,523	(155,523)
Human resources		391,398	(391,398)
Law clerk program	168,403	143,734	24,669
Legislative		151,200	(151,200)
Licensing	16,217,283		16,217,283
Licensing and membership records	404,990	671,534	(266,544)
Limited license legal technician	25,508	238,650	(213,142)
Limited practice officers		161,672	(161,672)
Mandatory continuing legal education administration	1,186,632	875,796	310,836
Member assistance program	12,719	141,795	(129,076)
Member benefits	20,249	250,200	(229,951)
Member services and engagement	168,117	517,406	(349,289)
NW Lawyer	561,142	744,322	(183,180)
Office of general counsel	342	798,253	(797,911)
Office of general counsel disciplinary board		249,394	(249,394)
Outreach and engagement		397,645	(397,645)
Practice of law board		59,672	(59,672)
Professional responsibility program		268,132	(268,132)
Public service programs	139,504	365,302	(225,798)
Publication and design services		151,045	(151,045)
Sections administration	294,638	526,293	(231,655)
Technology		1,641,879	(1,641,879)
Total General	\$ 21,127,959	\$ 20,187,281	\$ 940,678
Continuing Legal Education:			
Products	\$ 921,793	\$ 246,672	\$ 675,121
Seminars	878,683	1,341,746	(463,063)
Deskbooks	157,844	447,743	(289,899)
Total Continuing Legal Education	\$ 1,958,320	\$ 2,036,161	\$ (77,841)
Sections Operations	\$ 548,382	\$ 587,501	\$ (39,119)
Western States Bar Conference	\$ 67,858	\$ 76,198	\$ (8,340)
Client Protection Fund	\$ 1,119,308	\$ 531,155	\$ 588,153