

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Consolidated Financial Statements

For the Years Ended September 30, 2023 and 2022

Table of Contents

| | Page |
|---|---------|
| Independent Auditor's Report | 1 - 3 |
| Financial Statements: | |
| Consolidated Statements of Financial Position | 4 - 5 |
| Consolidated Statements of Activities and Changes in Net Assets | 6 |
| Consolidated Statements of Functional Expenses | 7 - 8 |
| Consolidated Statements of Cash Flows | 9 |
| Notes to the Consolidated Financial Statements | 10 - 20 |
| Supplementary Information: | |
| Washington State Bar Foundation Statement of Activities | 21 |

Independent Auditor's Report

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

Opinion

We have audited the 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, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the WSBA as of September 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the WSBA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the WSBA adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and related ASUs, for the year ended September 30, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



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

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the WSBA's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 WSBA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the WSBA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 consolidating statement of financial position on page 4 and the statement of activities on page 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark Nuber P.S.

Certified Public Accountants
February 2, 2024

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Consolidated Statement of Financial Position September 30, 2023

| | Washington State Bar Association | Washington State Bar Foundation | Subtotal | Eliminations | Total |
|---|--|---------------------------------------|----------------------|--------------|----------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 8,003,047 | \$ 254,076 | \$ 8,257,123 | \$ - | \$ 8,257,123 |
| Restricted cash and cash equivalents | 2,586,192 | | 2,586,192 | | 2,586,192 |
| Receivables, net | 481,186 | | 481,186 | | 481,186 |
| Prepaid expenses | 415,092 | | 415,092 | | 415,092 |
| Desk and course books | 182,935 | | 182,935 | | 182,935 |
| Investments | 11,669,400 | 196,822 | 11,866,222 | | 11,866,222 |
| Property and equipment, net | 1,399,829 | 14,400 | 1,414,229 | | 1,414,229 |
| Operating lease right-of-use asset | 4,973,949 | | 4,973,949 | | 4,973,949 |
| Total Assets | \$ 29,711,630 | \$ 465,298 | \$ 30,176,928 | \$ - | \$ 30,176,928 |
| Liabilities and Net Assets | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 658,199 | \$ - | \$ 658,199 | \$ - | \$ 658,199 |
| Accrued expenses | 752,857 | | 752,857 | | 752,857 |
| Client Protection Fund, committed gifts | 449,469 | | 449,469 | | 449,469 |
| Deferred licensing fees | 4,160,795 | | 4,160,795 | | 4,160,795 |
| Operating lease liability | 5,789,102 | | 5,789,102 | | 5,789,102 |
| Other deferred revenue | 390,754 | | 390,754 | | 390,754 |
| Total Liabilities | 12,201,176 | | 12,201,176 | | 12,201,176 |
| Net Assets: | | | | | |
| Without donor restrictions- | | | | | |
| General and designated funds | 9,849,483 | | 9,849,483 | | 9,849,483 |
| Continuing legal education | 1,177,163 | | 1,177,163 | | 1,177,163 |
| Sections operations | 1,970,409 | | 1,970,409 | | 1,970,409 |
| Client Protection Fund | 4,513,399 | | 4,513,399 | | 4,513,399 |
| Washington State Bar Foundation | | 465,298 | 465,298 | | 465,298 |
| Total Net Assets | 17,510,454 | 465,298 | 17,975,752 | | 17,975,752 |
| Total Liabilities and Net Assets | \$ 29,711,630 | \$ 465,298 | \$ 30,176,928 | \$ - | \$ 30,176,928 |

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Consolidated Statement of Financial Position September 30, 2022

| | Washington State Bar Association | Washington State Bar Foundation | Subtotal | Eliminations | Total |
|---|--|---------------------------------------|----------------------|--------------|----------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 14,361,666 | \$ 412,437 | \$ 14,774,103 | \$ - | \$ 14,774,103 |
| Restricted cash and cash equivalents | 4,917,392 | | 4,917,392 | | 4,917,392 |
| Receivables, net | 132,030 | | 132,030 | | 132,030 |
| Prepaid expenses | 528,017 | | 528,017 | | 528,017 |
| Desk and course books | 191,648 | | 191,648 | | 191,648 |
| Investments | 1,992,752 | | 1,992,752 | | 1,992,752 |
| Property and equipment, net | 1,119,706 | 14,400 | 1,134,106 | | 1,134,106 |
| Total Assets | \$ 23,243,211 | \$ 426,837 | \$ 23,670,048 | \$ - | \$ 23,670,048 |
| Liabilities and Net Assets | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 760,077 | \$ - | \$ 760,077 | \$ - | \$ 760,077 |
| Grants payable | 7,957 | | 7,957 | | 7,957 |
| Accrued expenses | 696,346 | | 696,346 | | 696,346 |
| Client Protection Fund, committed gifts | 705,248 | | 705,248 | | 705,248 |
| Deferred licensing fees | 4,116,056 | | 4,116,056 | | 4,116,056 |
| Deferred lease obligation and incentive | 959,276 | | 959,276 | | 959,276 |
| Other deferred revenue | 376,786 | | 376,786 | | 376,786 |
| Total Liabilities | 7,621,746 | | 7,621,746 | | 7,621,746 |
| Net Assets: | | | | | |
| Without donor restrictions- | | | | | |
| General and designated funds | 8,713,263 | | 8,713,263 | | 8,713,263 |
| Continuing legal education | 1,042,049 | | 1,042,049 | | 1,042,049 |
| Sections operations | 1,802,651 | | 1,802,651 | | 1,802,651 |
| Client Protection Fund | 4,063,502 | | 4,063,502 | | 4,063,502 |
| Washington State Bar Foundation | | 426,837 | 426,837 | | 426,837 |
| Total Net Assets | 15,621,465 | 426,837 | 16,048,302 | | 16,048,302 |
| Total Liabilities and Net Assets | \$ 23,243,211 | \$ 426,837 | \$ 23,670,048 | \$ - | \$ 23,670,048 |

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

**Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2023 and 2022**

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| Revenues: | | |
| Licensing revenues | \$ 17,048,661 | \$ 17,044,516 |
| Client protection fund member assessments | 715,570 | 704,366 |
| Exam fees | 1,195,909 | 1,225,065 |
| Continuing legal education - products | 952,664 | 1,340,095 |
| Continuing legal education - seminars | 832,936 | 645,144 |
| Contributions and grants | 410,567 | 384,124 |
| Other | 4,864,980 | 4,123,118 |
| | <u>26,021,287</u> | <u>25,466,428</u> |
| Total Revenues | 26,021,287 | 25,466,428 |
| Expenses: | | |
| Salaries, benefits and payroll taxes | 16,784,466 | 16,076,544 |
| Occupancy | 2,067,982 | 2,258,611 |
| Technology | 1,069,314 | 924,502 |
| Sections events | 616,728 | 383,771 |
| Professional services | 532,174 | 380,613 |
| Meetings and travel | 491,820 | 321,478 |
| Grants, sponsorships and donations | 452,516 | 415,965 |
| Supplies | 393,700 | 420,607 |
| Examination fees | 363,434 | 158,273 |
| Gifts to injured clients | 342,424 | 566,947 |
| CLE production | 295,986 | 32,607 |
| Insurance | 266,861 | 395,952 |
| Depreciation and amortization | 188,779 | 238,528 |
| Other | 140,225 | 286,216 |
| Conferences | 44,790 | 77,516 |
| Subscriptions | 42,638 | 158,108 |
| | <u>24,093,837</u> | <u>23,096,238</u> |
| Total Expenses | 24,093,837 | 23,096,238 |
| Total Change in Net Assets Without Donor Restrictions | 1,927,450 | 2,370,190 |
| Net Assets, beginning of year | <u>16,048,302</u> | <u>13,678,112</u> |
| Net Assets, End of Year | <u>\$ 17,975,752</u> | <u>\$ 16,048,302</u> |

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

**Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2023**

| | Program | | | | | | | | | | | 2023 Total |
|--------------------------------------|---------------------|------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|----------------------|------------------------|-------------------|----------------------|
| | Discipline | Client Protection Fund | BOG/OED | Regulatory Services | Communicatio | Advancement | Foundation | Sections | Total Program | Management and General | Fundraising | |
| Salaries, benefits and payroll taxes | \$ 4,536,483 | \$ 140,708 | \$ 668,424 | \$ 2,616,834 | \$ 1,441,403 | \$ 2,209,553 | \$ - | \$ - | \$ 11,613,405 | \$ 5,057,744 | \$ 113,317 | \$ 16,784,466 |
| Occupancy | 554,013 | 17,991 | 49,838 | 308,956 | 183,430 | 303,993 | | | 1,418,221 | 634,458 | 15,303 | 2,067,982 |
| Technology | 293,881 | 9,429 | 26,119 | 161,913 | 97,274 | 240,035 | | | 828,651 | 232,643 | 8,020 | 1,069,314 |
| Sections events | | | | | | 1,493 | | 524,345 | 525,838 | 90,890 | | 616,728 |
| Professional services | 132,204 | 1,066 | 53,884 | 24,154 | 26,653 | 17,800 | | | 255,761 | 271,695 | 4,718 | 532,174 |
| Meetings and travel | 7,278 | 1,125 | 322,927 | 35,516 | 5,173 | 20,709 | | 781 | 393,509 | 97,795 | 516 | 491,820 |
| Grants, sponsorships and donations | | | 79,486 | | | | 107,107 | | 186,593 | 265,923 | | 452,516 |
| Supplies | 9,899 | 321 | 890 | 29,749 | 330,964 | 9,330 | | | 381,153 | 12,242 | 305 | 393,700 |
| Examination fees | | | | 360,404 | | 2,542 | | | 362,946 | 488 | | 363,434 |
| Gifts to injured clients | | 342,424 | | | | | | | 342,424 | | | 342,424 |
| CLE production | 169 | | | | 86,498 | 209,319 | | | 295,986 | | | 295,986 |
| Insurance | 71,492 | 2,322 | 6,431 | 39,869 | 23,670 | 39,229 | | | 183,013 | 81,873 | 1,975 | 266,861 |
| Depreciation and amortization | 42,299 | 1,373 | 3,805 | 54,479 | 14,005 | 23,210 | | | 139,171 | 48,440 | 1,168 | 188,779 |
| Other | 36,135 | 3,879 | 3,251 | 20,687 | 73,270 | 20,718 | | | 157,940 | (18,713) | 998 | 140,225 |
| Conferences | | | 35,574 | 5,680 | | 1,406 | | | 42,660 | 2,130 | | 44,790 |
| Subscriptions | | | 681 | 250 | 9,439 | 1,715 | | | 12,085 | 30,553 | | 42,638 |
| Total Expenses | \$ 5,683,853 | \$ 520,638 | \$ 1,251,310 | \$ 3,658,491 | \$ 2,291,779 | \$ 3,101,052 | \$ 107,107 | \$ 525,126 | \$ 17,139,356 | \$ 6,808,161 | \$ 146,320 | \$ 24,093,837 |

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

**Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2022**

| | Program | | | | | | | | | | 2022 Total | |
|--------------------------------------|---------------------|------------------------|---------------------|---------------------|---------------------|---------------------|------------------|-------------------|----------------------|------------------------|-------------------|----------------------|
| | Discipline | Client Protection Fund | BOG/OED | Regulatory Services | Communicatio | Advancement | Foundation | Sections | Total Program | Management and General | | Fundraising |
| Salaries, benefits and payroll taxes | \$ 4,578,551 | \$ 128,915 | \$ 598,506 | \$ 2,384,326 | \$ 1,357,444 | \$ 2,119,731 | \$ - | \$ - | \$ 11,167,473 | \$ 4,812,719 | \$ 96,352 | \$ 16,076,544 |
| Occupancy | 531,539 | 17,860 | 49,318 | 378,411 | 264,671 | 378,925 | | | 1,620,724 | 623,477 | 14,410 | 2,258,611 |
| Technology | 229,764 | 7,629 | 28,330 | 127,089 | 85,218 | 132,834 | | 1,584 | 612,448 | 302,899 | 9,155 | 924,502 |
| Sections events | | | | | | | | 383,771 | 383,771 | | | 383,771 |
| Professional services | 107,156 | 1,850 | 4,020 | 63,888 | 25,376 | 25,156 | | | 227,446 | 151,989 | 1,178 | 380,613 |
| Meetings and travel | 13,222 | | 205,479 | 55,889 | 6,850 | 27,187 | | | 308,627 | 11,705 | 1,146 | 321,478 |
| Grants, sponsorships and donations | | | | | | 72,659 | 94,346 | 72,500 | 239,505 | 176,460 | | 415,965 |
| Supplies | 20,522 | 689 | 1,904 | 39,658 | 316,351 | 16,781 | | | 395,905 | 24,071 | 631 | 420,607 |
| Examination fees | | | | 158,273 | | | | | 158,273 | | | 158,273 |
| Gifts to injured clients | | 566,947 | | | | | | | 566,947 | | | 566,947 |
| CLE production | | | | | 32,466 | 141 | | | 32,607 | | | 32,607 |
| Insurance | 103,478 | 3,477 | 9,596 | 57,920 | 36,628 | 60,669 | | | 271,768 | 121,379 | 2,805 | 395,952 |
| Depreciation and amortization | 49,747 | 1,672 | 4,616 | 75,116 | 17,608 | 30,070 | | | 178,829 | 58,350 | 1,349 | 238,528 |
| Other | 48,724 | 2,933 | 38,774 | 22,521 | 14,834 | 101,469 | | 2,950 | 232,205 | 53,375 | 636 | 286,216 |
| Conferences | | | 68,341 | | | 2,094 | | 7,081 | 77,516 | | | 77,516 |
| Subscriptions | 60,946 | | 138 | 11,528 | 17,696 | 53,213 | | | 143,521 | 14,587 | | 158,108 |
| Total Expenses | \$ 5,743,649 | \$ 731,972 | \$ 1,009,022 | \$ 3,374,619 | \$ 2,175,142 | \$ 3,020,929 | \$ 94,346 | \$ 467,886 | \$ 16,617,565 | \$ 6,351,011 | \$ 127,662 | \$ 23,096,238 |

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

**Consolidated Statements of Cash Flows
For the Years Ended September 30, 2023 and 2022**

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|-----------------------------|
| Cash Flows From Operating Activities: | | |
| Cash received from licensing fees | \$ 17,093,400 | \$ 17,068,206 |
| Cash received from CLE products and seminars | 1,793,520 | 1,988,535 |
| Cash received from other activities | 5,887,498 | 6,304,642 |
| Cash paid to employees | (12,826,667) | (12,324,988) |
| Cash paid to vendors | (11,305,333) | (10,540,472) |
| Interest received | 956,420 | 146,032 |
| | <u>1,598,838</u> | <u>2,641,955</u> |
| Net Cash Provided by Operating Activities | | |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of investments | 7,914,149 | |
| Purchase of investments | (17,787,619) | (1,992,752) |
| Acquisition of property and equipment | (573,548) | (711,088) |
| | <u>(10,447,018)</u> | <u>(2,703,840)</u> |
| Net Cash Used in Investing Activities | | |
| Net Change in Cash, Cash Equivalents and Restricted Cash | (8,848,180) | (61,885) |
| Cash, cash equivalents and restricted cash, beginning of year | <u>19,691,495</u> | <u>19,753,380</u> |
| Cash, Cash Equivalents and Restricted Cash, End of Year | <u>\$ 10,843,315</u> | <u>\$ 19,691,495</u> |
| <p>The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial position that sums to the total of the same such amounts shown in the consolidated statements of cash flows:</p> | | |
| Cash and cash equivalents | \$ 8,257,123 | \$ 14,774,103 |
| Restricted cash and cash equivalents | <u>2,586,192</u> | <u>4,917,392</u> |
| Total Cash, Cash Equivalents and Restricted Cash Shown in the Consolidated Statements of Cash Flows | <u>\$ 10,843,315</u> | <u>\$ 19,691,495</u> |

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations - 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 WSBA in order to practice law in Washington state. A primary source of revenues of 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 2023 and 2022, 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. WSBA members are primarily Washington state residents.

The Washington State Bar Foundation (“the Foundation”) helps fund WSBA programs that provide legal assistance to Washington state’s most vulnerable populations, match moderate income clients with legal professional who work for reduced fees, and ensure the legal profession reflects the communities it serves and supports all members. The members of the Foundation consist solely of the members of the Board of Governors of WSBA.

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, 2023, and 2022, the 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.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 1 - Continued

Revenue Recognition - The following are the principal activities from which WSBA earns revenue:

Licensing Revenue - The WSBA earns licensing revenue from providing members a license to practice law and access to programs, education and events. Licensing fees are generally due from members by February 1st of the calendar year the license is related to and revenue is recognized over the calendar year membership period.

Client Protection Fund Member Assessment - The WSBA earns revenues by assessing members a mandatory fee for the Client Protection Fund (see Note 2). Fees are paid by members as part of the annual licensing process and recognized as revenue at the point in time they are collected.

Exam Fees - The WSBA earns revenue by administering exams for the legal profession. Applicants remit payment for the exam in advance of the examination date. Revenue is recognized at the point in time the examination is administered. As of September 30, 2023 and 2022, deferred revenue from examination fees totaled \$101,440 and \$101,090, respectively, and is included in other deferred revenue on the consolidated statements of financial position.

Continuing Legal Education - The WSBA provides continuing legal education to the profession through live seminars and products. Revenue is recognized at the point in time a seminar occurs or a CLE product is provided to the customer. Payment is received in advance of the seminar or at the time the product is purchased.

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. 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 and U.S. treasury bills.

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.

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

Receivables - Receivables are generally from members and result from Bar News advertising, consulting fees, and unpaid fees related to continuing legal education programs. Receivables are unsecured, stated at the amount management expects to collect from outstanding balances, and do not bear interest. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance. The valuation allowance is calculated based on days outstanding within the receivables account. Accounts that are determined to be uncollectible are written off against this allowance. There was no allowance considered necessary as of September 30, 2023 or 2022.

Desk and Course Books - Inventory of desk books is stated at lower of cost (first-in, first-out method) or market.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 1 - Continued

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 principles generally accepted in the United States of America (U.S. GAAP) 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 the 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 AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 1 - Continued

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

| | <u>2023</u> | <u>2022</u> |
|-------------------------|----------------------------|----------------------------|
| Operating Reserve Fund | \$ 2,000,000 | \$ 2,000,000 |
| Facilities Reserve Fund | 2,700,000 | 1,000,000 |
| General Fund | <u>5,149,483</u> | <u>5,713,263</u> |
| | <u><u>\$ 9,849,483</u></u> | <u><u>\$ 8,713,263</u></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. In 2023, the Board did not designate any additional reserves to this fund.

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.

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

Operating Leases - Effective October 1, 2022, the WSBA adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASC Topic 842) using the modified retrospective approach with comparative accounting periods continuing to be presented under previous lease guidance (ASC Topic 840). The WSBA has not elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the WSBA accounted for its existing leases under the new guidance, taking into consideration (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the leases would be different in accordance with ASC Topic 842, and (c) whether the unamortized initial direct costs before transition would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Additionally, the WSBA did not elect the practical expedient to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the entity's right-of-use (ROU) assets. As a result of the adoption of the new lease accounting guidance, the WSBA recognized on October 1, 2022 (a) a lease liability of \$7,343,557, (b) a right-of-use asset of \$6,384,281, and (c) removal of deferred rent liabilities of \$959,276.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 1 - Continued

The WSBA determines if an arrangement contains a lease at inception. Operating leases are included in ROU assets and lease liabilities in the consolidated statements of financial position. ROU assets represent a right to use an underlying asset for the lease term and operating lease liabilities represent the WSBA's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The WSBA's leases do not provide an implicit rate of return; thus, the WSBA uses the risk-free discount rate, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date. The WSBA has lease agreements with lease and non-lease components which are accounted for separately. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the WSBA will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. A ROU asset and operating lease liability is not recognized for leases with an initial term of 12 months or less.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The WSBA has evaluated subsequent events through February 2, 2024, the date on which the consolidated 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 2023 and 2022, the Fund received a \$20 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 consolidated statements of financial position and the net assets of the fund are separately presented on the consolidated statements of financial position.

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 a 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 consolidated statement of financial position date and are recorded as Client Protection Fund, committed gifts on the consolidated statements of financial position.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

**Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2023 and 2022**

Note 3 - Cash and Cash Equivalents

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

| | <u>2023</u> | <u>2022</u> |
|--|----------------------------|-----------------------------|
| Unrestricted Cash and Cash Equivalents: | | |
| Bank deposits | \$ 1,108,215 | \$ 1,165,656 |
| Money market funds | <u>7,148,908</u> | <u>13,608,447</u> |
| | <u>\$ 8,257,123</u> | <u>\$ 14,774,103</u> |
| Restricted Cash and Cash Equivalents: | | |
| Bank deposits | \$ 384,022 | \$ 376,657 |
| Money market funds | <u>2,202,170</u> | <u>4,540,735</u> |
| | <u>\$ 2,586,192</u> | <u>\$ 4,917,392</u> |

Note 4 - Investments

Investments consist of the following at September 30:

| | <u>2023</u> | <u>2022</u> |
|-------------------------|-----------------------------|----------------------------|
| Certificates of deposit | \$ 10,910,343 | \$ 1,250,000 |
| U.S. Treasury Bills | <u>955,879</u> | <u>742,752</u> |
| | <u>\$ 11,866,222</u> | <u>\$ 1,992,752</u> |

The following schedule summarizes the returns from investments:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|----------------------------|--------------------------|
| Interest income - unrestricted | \$ 873,953 | \$ 116,053 |
| Interest income - restricted | <u>245,788</u> | <u>35,955</u> |
| | <u>\$ 1,119,741</u> | <u>\$ 152,008</u> |

Investment income is included as other revenue on the consolidated statements of activities.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------------|----------------------------|
| Leasehold improvements | \$ 1,010,058 | \$ 817,170 |
| Furniture | 1,049,101 | 1,049,101 |
| Office equipment | 1,642,727 | 1,669,517 |
| Software | <u>4,120,153</u> | <u>4,163,847</u> |
| | 7,822,039 | 7,699,635 |
| Less accumulated depreciation and amortization | (7,011,469) | (6,893,809) |
| Projects in process | <u>603,659</u> | <u>328,280</u> |
| | <u><u>\$ 1,414,229</u></u> | <u><u>\$ 1,134,106</u></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, 2023 and 2022, were \$1,263,903 and \$1,203,504, respectively.

Note 7 - Fair Value Measurements

U.S. GAAP 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.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

**Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2023 and 2022**

Note 7 - Continued

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, 2023 or 2022.

Certificates of Deposit - Certificates of deposit are valued at face value plus accumulated interest at year end.

U.S. Treasury Bills - U.S. treasury bills 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 were as follows:

| | Fair Value Measurements at September 30, 2023 | | | |
|---|---|-------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Treasury Bills | \$ 955,879 | \$ - | \$ - | \$ 955,879 |
| Investments in the Fair Value Hierarchy | \$ 955,879 | \$ - | \$ - | 955,879 |
| Investments not carried at fair value- Certificates of deposit | | | | 10,910,343 |
| Total Investments | | | | \$11,866,222 |

| | Fair Value Measurements at September 30, 2022 | | | |
|---|---|-------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| U.S. Treasury Bills | \$ 742,752 | \$ - | \$ - | \$ 742,752 |
| Investments in the Fair Value Hierarchy | \$ 742,752 | \$ - | \$ - | 742,752 |
| Investments not carried at fair value- Certificates of deposit | | | | 1,250,000 |
| Total Investments | | | | \$ 1,992,752 |

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 8 - Leases

The WSBA leases office space under a long-term, noncancelable lease agreement which expires during the year ending September 30, 2027. The lease includes payments for common area maintenance, utilities, taxes and insurance that are considered variable lease payments and are excluded from determining the lease liability.

The components of lease expense for the year ended September 30, 2023 are as follows:

| | |
|------------------------------|----------------------------|
| Operating lease cost | <u>\$ 1,656,038</u> |
| Total Leasing Expense | <u>\$ 1,656,038</u> |

Supplemental cash flow information related to leases as of September 30, 2023 is as follows:

| | |
|---|--------------|
| Cash paid for amounts included in the measurement of lease liabilities- Operating cash flows from operating leases | \$ 1,800,161 |
| Right-of-use assets obtained in exchange for operating lease liabilities (due to adoption of FASB ASC Topic 842) | \$ 6,384,281 |
| Weighted-average remaining lease term - operating lease | 3.3 years |
| Weighted-average discount rate - operating lease | 4.20% |

Future minimum payments required under leases as of September 30, 2023 are as follows:

For the Year Ending September 30,

| | |
|--|----------------------------|
| 2024 | \$ 1,850,751 |
| 2025 | 1,901,341 |
| 2026 | 1,951,931 |
| 2027 | <u>493,252</u> |
| Total future minimum lease payments | 6,197,275 |
| Less present value discount | <u>(408,173)</u> |
| Total Operating Lease Liabilities | <u>\$ 5,789,102</u> |

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 8 - Continued

Future minimum rental payments under noncancelable operating leases as of September 30, 2022 are as follows:

For the Year Ending September 30,

| | |
|--------------------------------------|-----------------------------------|
| 2023 | \$ 1,800,161 |
| 2024 | 1,850,751 |
| 2025 | 1,901,341 |
| 2026 | 1,951,931 |
| 2027 | <u>493,253</u> |
| Total Minimum Rental Payments | <u><u>\$ 7,997,437</u></u> |

Rent expense under all lease agreements totaled \$1,656,038 and \$2,031,801 for the years ended September 30, 2023 and 2022, 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 both the fiscal years 2023 and 2022, the WSBA paid a total of \$48,000, 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. As such, no liability has been recognized in accordance with U.S. GAAP as of September 30, 2023 and 2022.

Note 10 - Liquidity and Availability of Financial Assets

As part of the 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, as of both September 30, 2023 and 2022 the WSBA has an operating reserve that had a balance of \$2.0 million. 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 cash and cash equivalents in the consolidated statements of financial position.

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2023 and 2022

Note 10 - Continued

The following reflects the WSBA's financial assets as of the date of the consolidated statements of financial position, reduced by amounts not available for general use within one year 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>2023</u> | <u>2022</u> |
|---|----------------------------|-----------------------------|
| Total cash, cash equivalents and restricted cash | \$ 10,843,315 | \$ 19,691,495 |
| Receivables | <u>481,186</u> | <u>132,030</u> |
| Total financial assets | 11,324,501 | 19,823,525 |
| Contractual restrictions- | | |
| Cash held restricted for Client Protection Fund | (2,586,192) | (4,917,392) |
| Board designations- | | |
| Facilities Reserve Fund | (2,700,000) | (1,000,000) |
| Operating Reserve Fund | <u>(2,000,000)</u> | <u>(2,000,000)</u> |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year | <u>\$ 4,038,309</u> | <u>\$ 11,906,133</u> |

SUPPLEMENTARY INFORMATION

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

**Washington State Bar Foundation Statement of Activities
For the Year Ended September 30, 2023**

Activities Without Donor Restrictions

Revenue:

| | |
|---------------------------|---------------|
| Contributions | \$ 383,928 |
| In-kind revenue from WSBA | 146,915 |
| Miscellaneous income | <u>26,639</u> |

Total Revenue 557,482

Expenses:

| | |
|----------------------------|----------------|
| Program expenses | 372,106 |
| In-kind expenses from WSBA | <u>146,915</u> |

Total Expenses 519,021

Change in Net Assets Without Donor Restrictions 38,461

Net assets without donor restrictions, beginning of year 426,837

Net Assets Without Donor Restrictions, End of Year \$ 465,298