

WASHINGTON STATE BAR ASSOCIATION AND AFFILIATED FOUNDATION

Consolidated Financial Statements

For the Years Ended September 30, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

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.

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.



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

Clark Nuber P.S.

Certified Public Accountants
January 27, 2023

WASHINGTON STATE BAR ASSOCIATION

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

Consolidated Statement of Financial Position
September 30, 2021

	Washington State Bar Association	Washington State Bar Foundation	Subtotal	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 14,540,805	\$ 387,659	\$ 14,928,464	\$ -	\$ 14,928,464
Restricted cash and cash equivalents	4,824,916		4,824,916		4,824,916
Receivables, net	119,661		119,661		119,661
Prepaid expenses	459,234		459,234		459,234
Desk and course books	224,372		224,372		224,372
Property and equipment, net	648,851	14,400	663,251		663,251
Total Assets	\$ 20,817,839	\$ 402,059	\$ 21,219,898	\$ -	\$ 21,219,898
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 749,623	\$ -	\$ 749,623	\$ -	\$ 749,623
Accrued expenses	687,831		687,831		687,831
Client Protection Fund, committed gifts	612,037		612,037		612,037
Deferred licensing fees	4,092,366		4,092,366		4,092,366
Deferred lease obligation and incentive	1,052,809		1,052,809		1,052,809
Other deferred revenue	347,120		347,120		347,120
Total Liabilities	7,541,786		7,541,786		7,541,786
Net Assets:					
Without donor restrictions-					
General and designated funds	7,072,172		7,072,172		7,072,172
Continuing Legal Education	648,792		648,792		648,792
Sections Operations	1,508,843		1,508,843		1,508,843
Client Protection Fund	4,046,246		4,046,246		4,046,246
Washington State Bar Foundation		402,059	402,059		402,059
Total Net Assets	13,276,053	402,059	13,678,112		13,678,112
Total Liabilities and Net Assets	\$ 20,817,839	\$ 402,059	\$ 21,219,898	\$ -	\$ 21,219,898

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues:		
Licensing revenues	\$ 17,044,516	\$ 16,912,694
Client protection fund member assessments	704,366	363,280
Exam fees	1,225,065	1,202,631
Continuing legal education - products	1,340,095	641,818
Continuing legal education - seminars	645,144	882,020
Contributions and grants	384,124	394,451
Other	4,123,118	3,621,974
	<u>25,466,428</u>	<u>24,018,868</u>
Total Revenues	25,466,428	24,018,868
Expenses:		
Salaries, benefits and payroll taxes	16,076,544	15,303,987
Occupancy	2,258,611	2,036,747
Technology	924,502	934,245
Gifts to injured clients	566,947	499,637
Supplies	420,607	433,793
Grants, sponsorships and donations	415,965	372,249
Professional services	380,613	332,309
Other	286,216	392,923
Depreciation and amortization	238,528	368,250
Insurance	395,952	327,956
Sections events	383,771	251,832
Meetings and travel	321,478	254,926
Examination fees	158,273	150,200
Subscriptions	158,108	151,460
Conferences	77,516	75,245
CLE production	32,607	72,127
	<u>23,096,238</u>	<u>21,957,886</u>
Total Expenses	23,096,238	21,957,886
Total Change in Net Assets Without Donor Restrictions	2,370,190	2,060,982
Net Assets, beginning of year	13,678,112	11,727,302
Cumulative effect of adopting new accounting pronouncement (Note 10)		(110,172)
	<u>16,048,302</u>	<u>13,678,112</u>
Net Assets, End of Year	\$ 16,048,302	\$ 13,678,112

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

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
Gifts to injured clients		566,947							566,947			566,947
Supplies	20,522	689	1,904	39,658	316,351	16,781			395,905	24,071	631	420,607
Grants, sponsorships and donations						72,659	94,346	72,500	239,505	176,460		415,965
Insurance	103,478	3,477	9,596	57,920	36,628	60,669			271,768	121,379	2,805	395,952
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
Other	48,724	2,933	38,774	22,521	14,834	101,469		2,950	232,205	53,375	636	286,216
Depreciation and amortization	49,747	1,672	4,616	75,116	17,608	30,070			178,829	58,350	1,349	238,528
Examination fees				158,273					158,273			158,273
Subscriptions	60,946		138	11,528	17,696	53,213			143,521	14,587		158,108
Conferences			68,341			2,094		7,081	77,516			77,516
CLE production					32,466	141			32,607			32,607
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

Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2021

	Program										2021 Total	
	Discipline	Client Protection Fund	BOG/OED	Regulatory Services	Communicatio	Advancement	Foundation	Sections	Total Program	Management and General		Fundraising
Salaries, benefits and payroll taxes	\$ 4,642,110	\$ 119,743	\$ 713,817	\$ 2,004,282	\$ 1,319,757	\$ 2,124,364	\$ -	\$ -	\$ 10,924,073	\$ 4,286,085	\$ 93,829	\$ 15,303,987
Occupancy	519,387	17,171	66,563	287,877	231,517	357,416			1,479,931	542,732	14,084	2,036,747
Technology	215,605	7,055	27,349	110,846	80,103	130,253		1,471	572,682	352,776	8,787	934,245
Gifts to injured clients		499,637							499,637			499,637
Supplies	18,632	610	2,365	31,957	342,848	17,490			413,902	19,280	611	433,793
Other	17,920	2,642	32,839	50,507	104,541	168,555		600	377,604	14,966	353	392,923
Depreciation and amortization	55,437	1,833	7,105	187,926	19,502	37,016			308,819	57,928	1,503	368,250
Grants, sponsorships and donations						236,670	80,879	54,700	372,249			372,249
Professional services	76,888	1,422	5,276	38,055	40,483	41,034			203,158	128,035	1,116	332,309
Insurance	88,064	2,911	11,286	45,733	30,979	53,748			232,721	92,847	2,388	327,956
Meetings and travel	11,138		200,771	947	18,294	12,021			243,171	11,524	231	254,926
Sections events								251,832	251,832			251,832
Subscriptions	58,374		133	10,852	19,305	47,856			136,520	14,940		151,460
Examination fees				150,200					150,200			150,200
Conferences			46,958			27,587		700	75,245			75,245
CLE production					71,893	234			72,127			72,127
Total Expenses	\$ 5,703,555	\$ 653,024	\$ 1,114,462	\$ 2,919,182	\$ 2,279,222	\$ 3,254,244	\$ 80,879	\$ 309,303	\$ 16,313,871	\$ 5,521,113	\$ 122,902	\$ 21,957,886

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

**Consolidated Statements of Cash Flows
For the Years Ended September 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities:		
Cash received from licensing fees	\$ 17,068,206	\$ 16,970,094
Cash received from CLE products and seminars	1,988,535	1,671,636
Cash received from other activities	6,304,642	5,370,197
Cash paid to employees	(12,324,988)	(11,459,787)
Cash paid to vendors	(10,540,472)	(9,954,944)
Interest received	146,032	9,889
	<u>2,641,955</u>	<u>2,607,085</u>
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities:		
Purchase of investments	(1,992,752)	
Acquisition of property and equipment	(711,088)	(171,877)
	<u>(2,703,840)</u>	<u>(171,877)</u>
Net Cash Used in Investing Activities		
Net Change in Cash, Cash Equivalents and Restricted Cash	(61,885)	2,435,208
Cash, cash equivalents and restricted cash, beginning of year	<u>19,753,380</u>	<u>17,318,172</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 19,691,495</u>	<u>\$ 19,753,380</u>
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:		
Cash and cash equivalents	\$ 14,774,103	\$ 14,928,464
Restricted cash and cash equivalents	<u>4,917,392</u>	<u>4,824,916</u>
Total Cash, Cash Equivalents and Restricted Cash Shown in the Consolidated Statements of Cash Flows	<u>\$ 19,691,495</u>	<u>\$ 19,753,380</u>

See accompanying notes.

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2022 and 2021

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 2022 and 2021, 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, 2022, and 2021, 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.

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.

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2022 and 2021

Note 1 - Continued

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, 2022 and 2021, deferred revenue from examination fees totaled \$101,090 and \$108,080, 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, 2022 or 2021.

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

Property and Equipment - Property and equipment is stated at cost. Depreciation and amortization is computed over the estimated useful lives of the assets, using the straight-line method. The capitalization policy threshold is \$2,500.

Leasehold improvements	Life of lease
Equipment, furniture, software and fixtures	1 to 10 years

The WSBA follows the provisions outlined by accounting 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.

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2022 and 2021

Note 1 - Continued

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.

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

	<u>2022</u>	<u>2021</u>
Operating Reserve Fund	\$ 2,000,000	\$ 1,500,000
Facilities Reserve Fund	1,000,000	1,050,000
General Fund	<u>5,713,263</u>	<u>4,522,172</u>
	<u><u>\$ 8,713,263</u></u>	<u><u>\$ 7,072,172</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 2022, the Board designated an additional \$500,000 of reserves to this fund to total \$2,000,000.

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.

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2022 and 2021

Note 1 - Continued

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 January 27, 2023, 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 2022 and 2021, the Fund received a \$20 and \$10, respectively, 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.

Note 3 - Cash and Cash Equivalents

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

	<u>2022</u>	<u>2021</u>
Unrestricted Cash and Cash Equivalents:		
Bank deposits	\$ 1,165,656	\$ 699,141
Money market funds	<u>13,608,447</u>	<u>14,229,323</u>
	<u>\$ 14,774,103</u>	<u>\$ 14,928,464</u>
Restricted Cash and Cash Equivalents:		
Bank deposits	\$ 376,657	\$ 310,634
Money market funds	<u>4,540,735</u>	<u>4,514,282</u>
	<u>\$ 4,917,392</u>	<u>\$ 4,824,916</u>

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements
For the Years Ended September 30, 2022 and 2021

Note 4 - Investments

Investments consist of the following at September 30:

	<u>2022</u>	<u>2021</u>
Certificates of deposit	\$ 1,250,000	\$ -
US Treasury Bills	742,752	
	<u>\$ 1,992,752</u>	<u>\$ -</u>

The following schedule summarizes the returns from investments:

	<u>2022</u>	<u>2021</u>
Interest income - unrestricted	\$ 116,053	\$ 4,999
Interest income - restricted	35,955	4,890
	<u>\$ 152,008</u>	<u>\$ 9,889</u>

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

Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 817,170	\$ 728,967
Furniture	1,049,101	1,049,101
Office equipment	1,669,517	1,605,864
Software	4,163,847	3,872,247
	7,699,635	7,256,179
Less accumulated depreciation and amortization	(6,893,809)	(6,653,576)
Projects in process	328,280	60,648
	<u>\$ 1,134,106</u>	<u>\$ 663,251</u>

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2022 and 2021

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, 2022 and 2021, were \$1,203,504 and \$1,350,056 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.

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, 2022 or 2021.

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

US Treasury Bills - US treasury bills are valued using bid evaluations from similar instruments in actively quoted markets.

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2022 and 2021

Note 7 - Continued

Fair Values Measured on a Recurring Basis - There were no investments measured at fair value at September 30, 2021.

Fair values of assets measured on a recurring basis at September 30, 2022 were as follows:

	Fair Value Measurements at September 30, 2022			
	Level 1	Level 2	Level 3	Total
US Treasury Bills	\$ 742,752	\$ -	\$ -	\$ 742,752
	<u>\$ 742,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 742,752</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.

Future minimum rental payments under noncancelable operating leases 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>\$ 7,997,437</u>

Rent expense under all lease agreements totaled \$2,031,801 and \$1,945,821 for the years ended September 30, 2022 and 2021, 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 2022 and 2021, 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, 2022 and 2021.

WASHINGTON STATE BAR ASSOCIATION

Notes to the Consolidated Financial Statements For the Years Ended September 30, 2022 and 2021

Note 10 - Adoption of New Accounting Pronouncement

During the year ended September 30, 2021, the WSBA adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)* and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The primary effect of adoption of these ASUs for the WSBA is a change in the timing of revenue recognition of sections membership dues resulting in section membership dues being recognized over the membership period. Previously the WSBA recognized sections dues revenue at the time members registered for the section membership. The WSBA elected to adopt the changes from these ASUs using the modified retrospective method. Results for the year ended September 30, 2020 are not adjusted and continue to be reported in accordance with the prior accounting guidance. The WSBA recorded a cumulative effect adjustment in the consolidated statement of activities in the amount of \$110,172 for the year ended September 30, 2021, to decrease net assets. The decrease represents revenue that was recognized as earned at September 30, 2020 that are now to be recognized as earned.

Note 11 - 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 September 30, 2022 and 2021 the WSBA has an operating reserve that had a balance of \$2.0 million and \$1.5 million, respectively. This is a governing board-designated reserve with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. The operating reserve funds are held in lower-risk cash and money market securities. The operating reserve balance is included in the cash and cash equivalents in the consolidated statements of financial position.

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>2022</u>	<u>2021</u>
Total cash, cash equivalents and restricted cash	\$ 19,691,495	\$ 19,753,380
Receivables	132,030	119,661
Total financial assets	19,823,525	19,873,041
Contractual restrictions-		
Cash held restricted for Client Protection Fund	(4,917,392)	(4,824,916)
Board designations-		
Facilities Reserve Fund	(1,000,000)	(1,050,000)
Operating Reserve Fund	(2,000,000)	(1,500,000)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 11,906,133</u>	<u>\$ 12,498,125</u>

SUPPLEMENTARY INFORMATION

WASHINGTON STATE BAR ASSOCIATION

Washington State Bar Foundation Statement of Activities
For the Year Ended September 30, 2022

Activities Without Donor Restrictions

Revenue:

Contributions	\$ 378,313
In-kind revenue from WSBA	127,662
Miscellaneous income	<u>5,811</u>

Total Revenue **511,786**

Expenses:

Program expenses	359,346
In-kind expenses from WSBA	<u>127,662</u>

Total Expenses **487,008**

Change in Net Assets Without Donor Restrictions **24,778**

Net assets without donor restrictions, beginning of year 402,059

Net Assets Without Donor Restrictions, End of Year **\$ 426,837**