

WASHINGTON STATE BAR ASSOCIATION

Financial Statements with
Independent Auditors' Report

September 30, 2008 and 2007

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*Independent Auditors' Report**Board of Governors
Washington State Bar Association
Seattle, Washington*Certified Public
Accountants
and Consultants

We have audited the balance sheet of Washington State Bar Association (the "Association") as of September 30, 2008 and the related statements of activities, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association as of and for the year ended September 30, 2007, were audited by another auditor whose report dated December 27, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington State Bar Association as of September 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants
December 19, 2008

WASHINGTON STATE BAR ASSOCIATION

Statements of Financial Position

	<i>September 30,</i>	<u>2008</u>	<u>2007</u>
Assets:			
Cash and cash equivalents	\$	7,584,284	\$ 9,330,361
Restricted cash and cash equivalents		660,049	836,890
Receivables, net of allowance for doubtful accounts and returns of \$4,113 in 2008 and \$10,393 in 2007		84,613	68,417
Prepaid expenses		180,098	140,994
Desk and course books		90,234	60,682
Deferred seminar costs		288,253	234,336
Investments		3,148,221	1,082,198
Property and equipment, net		2,922,330	3,345,219
Total assets	\$	<u>14,958,082</u>	\$ <u>15,099,097</u>
Liabilities And Net Assets			
Liabilities			
Accounts payable	\$	576,697	\$ 539,494
Accrued expenses		396,831	376,441
Lawyers fund for client protection, committed gifts		801,343	128,495
Unearned seminar revenue		363,628	627,175
Deferred licensing fees		2,780,840	2,645,030
Deferred lease obligation		554,272	381,608
Deferred lease incentive		1,042,381	1,168,731
Other deferred revenue		216,343	220,718
Total liabilities		<u>6,732,335</u>	<u>6,087,692</u>
Net Assets			
Unrestricted			
General		5,240,955	5,423,398
Continuing legal education		1,947,887	1,991,838
Sections operations		805,101	896,930
Total unrestricted net assets		7,993,943	8,312,166
Restricted			
Lawyer's fund for client protection		231,804	699,239
Total net assets		<u>8,225,747</u>	<u>9,011,405</u>
Total liabilities and net assets	\$	<u>14,958,082</u>	\$ <u>15,099,097</u>

The accompanying notes are an integral part of the financial statements

WASHINGTON STATE BAR ASSOCIATION

Statements of Activities

	2008			2007		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Unrestricted - General						
Access to justice board	\$ 29,320	\$ 400,996	\$ (371,676)	\$ 52,585	\$ 404,279	\$ (351,694)
Administration	46,323	1,205,971	(1,159,648)	592,566	1,159,830	(567,264)
Admissions/bar exam	1,010,768	1,040,297	(29,529)	1,294,664	932,370	362,294
Alternate dispute resolution	7,175	56,935	(49,760)	4,355	57,361	(53,006)
Audits	2,038	205,960	(203,922)	3,654	218,193	(214,539)
Bar leaders support	1,890	277,526	(275,636)	56,418	396,030	(339,612)
Board of governors and office of the executive director	34,475	792,578	(758,103)		690,617	(690,617)
Bar News	710,414	931,715	(221,301)	656,748	851,428	(194,680)
Communications	10,733	555,746	(545,013)	6,515	595,284	(588,769)
Discipline	134,492	3,896,106	(3,761,614)	92,435	3,646,673	(3,554,238)
Human resources		298,616	(298,616)		281,225	(281,225)
Justice programs		181,163	(181,163)		192,122	(192,122)
Law office management assistance program	39,832	242,716	(202,884)	59,052	232,834	(173,782)
Lawyer assistance program	54,584	419,128	(364,544)	55,046	413,888	(358,842)
Legislative		238,704	(238,704)		267,779	(267,779)
Licensing fees	11,115,256		11,115,256	10,612,853		10,612,853
Licensing and membership records	60,926	545,771	(484,845)	61,048	678,545	(617,497)
Limited practice officers	197,851	155,926	41,925	227,339	153,320	74,019
Mandatory continuing legal education administration	588,094	458,870	129,224	590,586	423,440	167,146
Member benefits	81,000	47,712	33,288	8,427	48,018	(39,591)
New lawyer education		46,068	(46,068)		131,923	(131,923)
Office of general counsel	3,030	378,870	(375,840)	786	312,762	(311,976)
Office of general counsel disciplinary board		191,530	(191,530)		183,393	(183,393)
Outreach and education	24,870	291,812	(266,942)		54,955	(54,955)
Practice of law board		148,041	(148,041)		145,334	(145,334)
Professional responsibility program		182,491	(182,491)	382	223,988	(223,606)
Regulatory services	251,065	221,103	29,962			
Resources directory	81,884	45,636	36,248	97,247	45,773	51,474
Sections administration	103,896	158,471	(54,575)	113,261	133,515	(20,254)
Technology		964,814	(964,814)		912,596	(912,596)
Young lawyers division	22,685	213,772	(191,087)	25,416	224,324	(198,908)
	<u>\$ 14,612,601</u>	<u>\$ 14,795,044</u>	<u>\$ (182,443.00)</u>	<u>\$ 14,611,383</u>	<u>\$ 14,011,799</u>	<u>\$ 599,584</u>

Continued

The accompanying notes are an integral part of the financial statements

WASHINGTON STATE BAR ASSOCIATION

Statements of Activities
(Continued)

For the Years Ended September 30,	2008			2007		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Unrestricted - Continuing Legal Education						
Products	553,126	587,616	(34,490)	741,866	745,099	(3,233)
Seminars	2,317,060	2,326,521	(9,461)	2,216,650	2,175,820	40,830
Unrestricted - Continuing Legal Education	<u>\$ 2,870,186</u>	<u>\$ 2,914,137</u>	<u>\$ (43,951)</u>	<u>\$ 2,958,516</u>	<u>\$ 2,920,919</u>	<u>\$ 37,597</u>
Unrestricted - Sections Operations	<u>\$ 443,806</u>	<u>\$ 535,635</u>	<u>\$ (91,829)</u>	<u>\$ 566,995</u>	<u>\$ 548,882</u>	<u>\$ 18,113</u>
Restricted - Lawyers' Fund for Client Protection	<u>\$ 475,529</u>	<u>\$ 942,964</u>	<u>\$ (467,435)</u>	<u>\$ 481,852</u>	<u>\$ 578,768</u>	<u>\$ (96,916)</u>
Unrestricted - General	\$ 14,612,601	\$ 14,795,044	\$ (182,443)	\$ 14,611,383	\$ 14,011,799	\$ 599,584
Unrestricted - Continuing Legal Education	<u>2,870,186</u>	<u>2,914,137</u>	<u>(43,951)</u>	<u>2,958,516</u>	<u>2,920,919</u>	<u>37,597</u>
	17,482,787	17,709,181	(226,394)	17,569,899	16,932,718	637,181
Unrestricted - Sections Operations	<u>443,806</u>	<u>535,635</u>	<u>(91,829)</u>	<u>566,995</u>	<u>548,882</u>	<u>18,113</u>
Total Change in Unrestricted Net Assets	17,926,593	18,244,816	(318,223)	18,136,894	17,481,600	655,294
Restricted - Lawyers' Fund for Client Protection	<u>475,529</u>	<u>942,964</u>	<u>(467,435)</u>	<u>481,852</u>	<u>578,768</u>	<u>(96,916)</u>
Total Change in Net Assets - All Activities	<u>\$ 18,402,122</u>	<u>\$ 19,187,780</u>	<u>\$ (785,658)</u>	<u>\$ 18,618,746</u>	<u>\$ 18,060,368</u>	<u>\$ 558,378</u>

The accompanying notes are an integral part of the financial statements

WASHINGTON STATE BAR ASSOCIATION

Statements of Changes in Net Assets

	<i>General</i>	<i>Unrestricted Continuing Legal Education</i>	<i>Sections Operations</i>	<i>Restricted Lawyers' Fund for Client Protection</i>	<i>Total</i>
Balance, September 30, 2006	\$ 4,823,814	\$ 1,954,241	\$ 878,817	\$ 796,155	\$ 8,453,027
Unrestricted revenues over expenses	599,584	37,597	18,113		655,294
Restricted revenues under expenses				(96,916)	(96,916)
Balance, September 30, 2007	5,423,398	1,991,838	896,930	699,239	9,011,405
Unrestricted revenues under expenses	(182,443)	(43,951)	(91,829)		(318,223)
Restricted revenues under expenses				(467,435)	(467,435)
Balance, September 30, 2008	<u>\$ 5,240,955</u>	<u>\$ 1,947,887</u>	<u>\$ 805,101</u>	<u>\$ 231,804</u>	<u>\$ 8,225,747</u>

The accompanying notes are an integral part of the financial statements

WASHINGTON STATE BAR ASSOCIATION

Statements of Cash Flows

<i>For the Years Ended September 30,</i>	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Cash received from licensing fees	\$ 11,251,066	\$ 10,743,593
Cash received from CLE products and seminars	2,606,639	3,189,701
Cash received from other activities	4,015,859	4,366,121
Cash paid to employees	(8,573,249)	(7,760,302)
Cash paid to vendors	(9,029,147)	(9,658,459)
Interest received	380,250	744,984
Net Cash Provided by Operating Activities	651,418	1,625,638
Cash Flows from Investing Activities:		
Change in restricted cash and cash equivalents	176,841	93,757
Proceeds from sale of investments	2,902,330	15,413,106
Purchase of investments	(5,262,090)	(11,638,765)
Acquisition of property and equipment	(214,576)	(1,760,381)
Net Cash (Used) Provided by Investing Activities	(2,397,495)	2,107,717
Net Change in Cash	(1,746,077)	3,733,355
Cash balance, beginning of year	9,330,361	5,597,006
Cash Balance, End of Year	\$ 7,584,284	\$ 9,330,361
Reconciliation of Change in Net Assets to Net Cash Flows from Operating Activities		
Change in net assets	\$ (785,658)	\$ 558,378
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	589,527	592,548
Amortization of deferred lease incentive	(126,350)	(94,762)
Unrealized loss on investments	293,737	
Loss on disposal of software	47,938	
Change in operating assets and liabilities		
Receivables	(16,196)	98,063
Desk and course books	(29,552)	45,507
Deferred costs and prepaid expenses	(93,021)	(132,194)
Accounts payable and accrued expenses	730,441	(151,218)
Unearned seminar revenue	(263,547)	231,185
Deferred licensing fees	135,810	130,740
Deferred lease obligation	172,664	381,608
Other deferred revenue	(4,375)	(34,217)
Net Cash Provided by Operating Activities	\$ 651,418	\$ 1,625,638

The accompanying notes are an integral part of the financial statements

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations – The Washington State Bar Association (WSBA) (“the Company”) is an instrumentality of the State of Washington entity operating under the supervisory authority of the Washington State Supreme Court. Operations consist of regulating the practice of law in the state and providing various law-related services to the members and public. Lawyers must be active members of the WSBA in order to practice law in Washington State. A primary source of revenues of the WSBA is license fees which members must pay in order to maintain their membership. The WSBA’s annual budgets are based on maintaining adequate net assets. The WSBA members are primarily Washington State residents.

The WSBA’s financial statements are not consolidated with those of the Washington State Bar Foundation (“the Foundation”), a nonprofit organization related to the WSBA, since the organizations are not financially interrelated.

Cash and Equivalents/Investments - Cash and cash equivalents include money market funds and bank deposits. Bank deposits are maintained for ongoing operating expenses and are sometimes in excess of federally insured limits. Certificates of deposit are all federally insured. Auction securities are not federally insured.

Investments in marketable securities are carried at fair value determined using quoted market prices, which generally approximates cost. Investments in non-marketable securities are stated at the lower of cost or net realizable value. Unrealized gains and losses, if any, are reported in the statements of activities as increases or decreases in the net assets. Investment balances include common stocks, federally insured certificates of deposit (with original maturities longer than three months), high-rated government sponsored notes, corporate notes, and high-rated auction securities.

Restricted cash and cash equivalents and restricted investments relate to funds restricted for the Lawyers’ Fund for Client Protection. See Note 2.

The composition of cash balances and investments are broken down in Note 3 and Note 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 and do not bear interest. Management reviews receivables on a periodic basis and determines the amount estimated to be uncollectible. A reserve for doubtful accounts is then established. Accounts that are determined to be uncollectible are written off against this reserve.

Inventories - Inventory of desk books and CDs 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, generally three to ten years, using the straight-line method. The capitalization policy threshold is \$2,500.

Leasehold improvements	7 to 10 years (life of lease)
Equipment, furniture and fixtures	1 to 10 years

The WSBA follows the provisions outlined in Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*, related to the treatment of these types of costs. The WSBA capitalizes certain direct costs incurred developing internal use software.

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements

Note 1 - Continued

Deferred Seminar Costs/Unearned Seminar Revenue - Deferred costs are primarily costs associated with seminar planning and the production of seminar materials. Recognition of these expenses is deferred until the related seminars are presented.

Unearned seminar revenues relates to fees collected for seminars to be conducted in subsequent years. Seminar registration fees are recognized as revenue when the related seminars are presented.

Deferred Licensing Fees - Licensing fees are recognized ratably over the applicable calendar year membership period. Accordingly, fees collected during WSBA's fiscal year that relate to the fourth quarter of the calendar membership period are included as deferred revenue in these financial statements.

Income Taxes - The WSBA is an organization exempt from federal income taxes because it is an instrumentality of the State of Washington exercising a governmental function.

Net Assets - The WSBA Board of Governors has directed that portions of WSBA's unrestricted net assets be designated for Sections Operations and for Continuing Legal Education. The total of revenues over expenses for all sections (which represent specialized legal interests) is included in the Sections Operations designated balance. The difference between revenues and expenses for Continuing Legal Education products and seminars is included in the Continuing Legal Education designated balance.

WSBA has also designated a portion of its general unrestricted net assets in 2008 as follows:

Operating reserve fund	\$ 1,500,000
Facilities reserve fund	2,500,000
Capital reserve fund	500,000
Board program reserve fund	<u>175,000</u>
	<u>\$ 4,675,000</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 continue to maintain and build this reserve to ensure that funds are available in the event of an emergency.

The facilities reserve fund may be used for refurbishment of the existing leased space or costs to move to another space after the current ten-year lease.

The capital reserve fund is for capital expenditures that the WSBA will incur in the short and long-term. Short-term expenditures include such things as computer and office equipment that will be replaced in two to three years. Long-term expenditures include replacement of major software.

The board program reserve fund is to provide funds to cover unanticipated over-expenditures on programs initiated by the Board of Governors and also to fund new programs throughout the year that have not been included in the annual budget.

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.

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements

Note 1 - Continued

Reclassifications - Certain reclassifications have been made to the current year financial statements which affect the consistency of presentation as compared to the prior year amounts. Specifically, some revenues and expense amounts in the Admissions and Licensing and Membership Records categories were allocated to the Regulatory Services Department category in 2008 resulting in variances in line items in the statements of activities. These changes had no effect on net assets of either period.

Note 2 - Lawyer's Fund for Client Protection

In 1995, the Washington State Supreme Court and the WSBA created the Lawyers' Fund for Client Protection ("the Fund"). The Fund may be used only for the purpose of relieving or mitigating a loss sustained by any person due to the dishonesty of, or failure to account for money or property entrusted to, any member of WSBA in connection with the member's practice of law, or while acting as a fiduciary in a matter related to the member's practice of law. The Fund receives a mandatory annual assessment from each active WSBA member. As WSBA's use of the funds is restricted as described above, it is referred to as restricted activities in these financial statements.

Note 3 - Cash and Cash Equivalents

Unrestricted Cash and Cash Equivalents	<u>2008</u>	<u>2007</u>
Bank deposits	\$ 204,749	\$ 168,683
Money market funds	<u>7,379,535</u>	<u>9,161,678</u>
	<u>\$ 7,584,284</u>	<u>\$ 9,330,361</u>
Restricted Cash and Cash Equivalents		
Bank deposits	\$ 20,002	\$ 98,542
Money market funds	<u>640,047</u>	<u>738,348</u>
	<u>\$ 660,049</u>	<u>\$ 836,890</u>

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements

Note 4 - Investments

Investments consist of the following at year end:

	<u>2008</u>	<u>2007</u>
Certificates of deposit	\$ 979,000	\$ -
Common stock (through managed funds)	844,221	1,082,198
Auction securities (3 issuers – maturity every 7 to 28 days)	<u>1,325,000</u>	<u> </u>
	<u>\$ 3,148,221</u>	<u>\$ 1,082,198</u>

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

	<u>2008</u>	<u>2007</u>
Interest income - unrestricted	\$ 366,251	\$ 632,876
Interest income - restricted	26,349	36,246
Realized and unrealized losses	<u>(293,737)</u>	<u> </u>
Total investment return	<u>\$ 98,863</u>	<u>\$ 669,122</u>

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

	<u>2008</u>	<u>2007</u>
Administration	\$ 44,310	\$ 589,568
Sections operations	28,204	43,308
Lawyers' fund for client protection	<u>26,349</u>	<u>36,246</u>
	<u>\$ 98,863</u>	<u>\$ 669,122</u>
	<u>\$ 2,922,330</u>	<u>\$ 3,345,219</u>

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements

Note 5 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 2,059,068	\$ 1,995,237
Furniture	1,011,602	1,011,602
Office equipment	1,230,609	1,161,341
Software	<u>1,935,929</u>	<u>1,842,910</u>
	6,237,208	6,011,090
Less: accumulated depreciation and amortization	<u>(3,317,058)</u>	<u>(2,745,158)</u>
	2,920,150	3,265,932
Software not yet placed into service	<u>2,180</u>	<u>79,287</u>
	<u>\$ 2,992,330</u>	<u>\$ 3,345,219</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"). In accordance with PERS, the WSBA and WSBA employees make contributions to the plan based on rates established by DRS. Employer contributions for the years ended September 30, 2008 and 2007 were \$540,268 and \$393,017, respectively.

Note 7 - Lease Commitments

The WSBA signed a lease for new office space that it occupied in December 2006. The lease is an operating lease agreement expiring during the year ending September 30, 2017. 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 as of September 30 under non-cancelable operating leases are as follows:

<i>Years Ending September 30,</i>	
2009	\$ 1,076,355
2010	1,105,643
2011	1,176,135
2012	1,205,423
2013	1,275,914
Thereafter	<u>4,437,658</u>
Total minimum rental payments	<u>\$ 10,277,128</u>

Included in this agreement was a lease incentive in which the lessor agreed to pay for \$1,263,493 of tenant improvements. This is recorded as deferred lease incentives and is amortized over the term of the lease. Activity in the deferred lease incentive balance was as follows for the year ended September 30, 2008:

WASHINGTON STATE BAR ASSOCIATION

Notes to Financial Statements

Note 7 - Continued

Balance at the receipt of incentive	\$ 1,263,493
Amortization	<u>(221,111)</u>
Balance at September 30, 2008	<u>\$ 1,042,382</u>

Rent expense (net of amortization of deferred lease incentive) under all lease agreements totaled \$1,072,573 and \$1,006,173 for the years ended September 30, 2008 and 2007, respectively.

Note 8 - 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 WSBA.

Note 9 - Indirect Expenses

The WSBA programs, services, and functions are assigned to functional categories for purposes of budgeting and reporting revenues and expenses. Each category includes direct revenues and expenses for activities within that category and an allocation of indirect expenses which are broken down into three areas: salaries, benefits, and overhead. Salaries are allocated based on the categories in which the employees work. The allocation of benefit expenses are based on the total salaries allocated to the category and the allocation of expenses for overhead is based on the number of full time equivalent employees assigned to each category. The composition of indirect expenses and total direct expenses is as follows:

	<u>2008</u>	<u>2007</u>
Indirect expenses		
Salaries	\$ 8,537,068	\$ 7,730,687
Employee benefits and payroll taxes	2,461,285	2,228,806
Rent (net of amortization of deferred lease incentive)	1,072,573	1,006,173
Depreciation and amortization	534,378	545,306
Technology and telephone	284,301	349,162
Human resources	82,889	103,305
Insurance	52,198	62,392
Office relocation		108,722
Copying and production services	72,139	76,578
Postage	93,252	29,042
Furniture, maintenance, and leasehold improvements	42,003	35,809
Professional fees	34,111	1,430
Business taxes	5,914	6,447
Supplies and equipment	57,599	58,070
Bank fees	15,144	
Air quality	<u>182</u>	<u>238</u>
	13,345,036	12,342,167
Direct expenses	<u>5,842,744</u>	<u>5,718,201</u>
Total expenses	<u>\$ 19,187,780</u>	<u>\$ 18,060,368</u>