

**WASHINGTON STATE BAR ASSOCIATION**

FINANCIAL REPORT

SEPTEMBER 30, 2007

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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statements of financial position of the Washington State Bar Association ("WSBA") as of September 30, 2007 and 2006, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of WSBA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 audits provide 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 WSBA as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

/S/ PETERSON SULLIVAN PLLC

December 27, 2007

**WASHINGTON STATE BAR ASSOCIATION**

**STATEMENTS OF FINANCIAL POSITION**

September 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 9,330,361	\$ 5,597,006
Investments	1,082,198	4,856,539
Restricted cash and cash equivalents	836,890	930,647
Receivables, net of allowance for doubtful accounts and returns of \$10,393 in 2007 and \$5,185 in 2006	68,417	166,480
Desk and course books	60,682	106,189
Deferred seminar costs	234,336	122,600
Prepaid expenses	140,994	120,536
Property and equipment, net	<u>3,345,219</u>	<u>913,893</u>
Total assets	<u>\$ 15,099,097</u>	<u>\$ 12,813,890</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 539,494	\$ 756,753
Lawyers fund for client protection, committed gifts	128,495	91,155
Accrued expenses	376,441	347,740
Unearned seminar revenue	627,175	395,990
Deferred licensing fees	2,645,030	2,514,290
Deferred lease obligation	381,608	
Deferred lease incentive	1,168,731	
Other deferred revenue	<u>220,718</u>	<u>254,935</u>
Total liabilities	6,087,692	4,360,863
Net Assets		
Unrestricted		
General	5,423,398	4,823,814
Continuing legal education	1,991,838	1,954,241
Sections operations	<u>896,930</u>	<u>878,817</u>
Total unrestricted net assets	8,312,166	7,656,872
Restricted		
Lawyers' fund for client protection	<u>699,239</u>	<u>796,155</u>
Total net assets	<u>9,011,405</u>	<u>8,453,027</u>
Total liabilities and net assets	<u>\$ 15,099,097</u>	<u>\$ 12,813,890</u>

See Notes to Financial Statements

# WASHINGTON STATE BAR ASSOCIATION

## STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2007 and 2006

	2007			2006		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
<b>Unrestricted - General</b>						
Access to justice board	\$ 52,585	\$ 404,279	\$ (351,694)	\$ 38,120	\$ 500,099	\$ (461,979)
Administration	592,566	1,159,830	(567,264)	446,997	1,096,426	(649,429)
Admissions/bar exam	1,294,664	932,370	362,294	1,316,340	849,730	466,610
Alternate dispute resolution	4,355	57,361	(53,006)	7,095	56,962	(49,867)
Attorney license fees	10,612,853		10,612,853	10,119,412		10,119,412
Audits	3,654	218,193	(214,539)	2,292	214,936	(212,644)
Bar leaders support	56,418	396,030	(339,612)	60,555	354,637	(294,082)
Board of governors and office of the executive director		690,617	(690,617)		699,328	(699,328)
<i>Bar News</i>	656,748	851,428	(194,680)	630,640	838,762	(208,122)
Communications	6,515	595,284	(588,769)	10,336	629,117	(618,781)
Discipline	92,435	3,646,673	(3,554,238)	161,832	3,384,813	(3,222,981)
Educational outreach		54,955	(54,955)		33,486	(33,486)
Human resources		281,225	(281,225)		236,152	(236,152)
Justice programs		192,122	(192,122)			
Law office management assistance program	59,052	232,834	(173,782)	61,175	236,109	(174,934)
Lawyer assistance program	55,046	413,888	(358,842)	56,105	351,713	(295,608)
Legislative		267,779	(267,779)		243,137	(243,137)
Licensing and membership records	61,048	678,545	(617,497)	79,815	573,804	(493,989)
Limited practice officers	227,339	153,320	74,019	202,708	159,337	43,371
Mandatory continuing legal education administration	590,586	423,440	167,146	512,518	400,465	112,053
Member benefits	8,427	48,018	(39,591)	19,626	68,952	(49,326)
New lawyer education		131,923	(131,923)		68,046	(68,046)
Office of general counsel	786	312,762	(311,976)	672	365,758	(365,086)
Office of general counsel disciplinary board		183,393	(183,393)		45,373	(45,373)
Practice of law board		145,334	(145,334)		147,397	(147,397)
Professional responsibility program	382	223,988	(223,606)		217,924	(217,924)
<i>Resources</i> directory	97,247	45,773	51,474	105,203	44,185	61,018
Sections administration	113,261	133,515	(20,254)	95,914	142,357	(46,443)
Technology		912,596	(912,596)	50	861,255	(861,205)
Young lawyers division	25,416	224,324	(198,908)	53,443	236,769	(183,326)
Other					20,353	(20,353)
Unrestricted - general	\$ 14,611,383	\$ 14,011,799	\$ 599,584	\$ 13,980,848	\$ 13,077,382	\$ 903,466
<b>Unrestricted - Continuing</b>						
<b>Legal Education</b>						
Products	\$ 741,866	\$ 745,099	\$ (3,233)	\$ 784,231	\$ 624,509	\$ 159,722
Seminars	2,216,650	2,175,820	40,830	2,407,612	2,198,119	209,493
Unrestricted - continuing legal education	\$ 2,958,516	\$ 2,920,919	\$ 37,597	\$ 3,191,843	\$ 2,822,628	\$ 369,215
<b>Unrestricted - Sections</b>						
<b>Operations</b>	\$ 566,995	\$ 548,882	\$ 18,113	\$ 556,938	\$ 458,250	\$ 98,688
<b>Restricted -</b>						
Lawyers' fund for client protection	\$ 481,852	\$ 578,768	\$ (96,916)	\$ 476,090	\$ 501,604	\$ (25,514)

See Notes to Financial Statements

**WASHINGTON STATE BAR ASSOCIATION**

**STATEMENTS OF ACTIVITIES**

(Continued)

For the Years Ended September 30, 2007 and 2006

SUMMARY OF ALL ACTIVITIES

	2007			2006		
	Revenues	Expenses	Revenues Over (Under) Expenses	Revenues	Expenses	Revenues Over (Under) Expenses
Unrestricted - General	\$ 14,611,383	\$ 14,011,799	\$ 599,584	\$ 13,980,848	\$ 13,077,382	\$ 903,466
Unrestricted - Continuing Legal Education	2,958,516	2,920,919	37,597	3,191,843	2,822,628	369,215
	17,569,899	16,932,718	637,181	17,172,691	15,900,010	1,272,681
Unrestricted - Sections Operations	566,995	548,882	18,113	556,938	458,250	98,688
Total Change in Unrestricted Net Assets	18,136,894	17,481,600	655,294	17,729,629	16,358,260	1,371,369
Restricted - Lawyers' fund for client protection	481,852	578,768	(96,916)	476,090	501,604	(25,514)
<b>Total Change in Net Assets- All Activities</b>	<b>\$ 18,618,746</b>	<b>\$ 18,060,368</b>	<b>\$ 558,378</b>	<b>\$ 18,205,719</b>	<b>\$ 16,859,864</b>	<b>\$ 1,345,855</b>

See Notes to Financial Statements

**WASHINGTON STATE BAR ASSOCIATION**

**STATEMENTS OF CHANGES IN NET ASSETS**

For the Years Ended September 30, 2007 and 2006

	Unrestricted			Restricted	Total
	General	Continuing Legal Education	Sections Operations	Lawyers' Fund for Client Protection	
Balance, September 30, 2005	\$ 3,920,348	\$ 1,585,026	\$ 780,129	\$ 821,669	\$ 7,107,172
Unrestricted revenues over expenses	903,466	369,215	98,688		1,371,369
Restricted revenues under expenses				(25,514)	(25,514)
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	<u>\$ 5,423,398</u>	<u>\$ 1,991,838</u>	<u>\$ 896,930</u>	<u>\$ 699,239</u>	<u>\$ 9,011,405</u>

See Notes to Financial Statements

## WASHINGTON STATE BAR ASSOCIATION

### STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities		
Cash received from licensing fees	\$ 10,743,593	\$ 10,245,060
Cash received from CLE products and seminars	3,189,701	3,273,353
Cash received from other activities	4,366,121	4,352,222
Cash paid to employees	(7,760,302)	(7,328,749)
Cash paid to vendors	(9,658,459)	(8,868,057)
Interest received	744,984	533,233
	1,625,638	2,207,062
Cash Flows From Investing Activities		
Change in restricted cash and cash equivalents	93,757	(808,189)
Proceeds from sale of investments	15,413,106	22,993,264
Purchase of investments	(11,638,765)	(19,404,874)
Acquisitions of property and equipment	(1,760,381)	(244,990)
	2,107,717	2,535,211
	<b>3,733,355</b>	<b>4,742,273</b>
Cash and cash equivalents, beginning of year	5,597,006	854,733
Cash and cash equivalents, end of year	\$ 9,330,361	\$ 5,597,006
Reconciliation of change in net assets to net cash flows from operating activities		
Change in net assets	\$ 558,378	\$ 1,345,855
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	592,548	595,390
Amortization of deferred lease incentive	(94,762)	
Change in operating assets and liabilities		
Receivables	98,063	(45,084)
Desk and course books	45,507	(15,132)
Deferred costs and prepaid expenses	(132,194)	(34,112)
Accounts payable and accrued expenses	(151,218)	116,912
Unearned seminar revenue	231,185	81,510
Deferred licensing fees	130,740	125,648
Deferred lease obligation	381,608	
Other deferred revenue	(34,217)	36,075
	\$ 1,625,638	\$ 2,207,062

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies

#### **The Organization**

The Washington State Bar Association ("WSBA") 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 the public. Lawyers 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 membership. WSBA's annual budgets are based on maintaining adequate net assets. The WSBA members are primarily Washington State residents.

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

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents/Investments**

Cash and cash equivalents include money market funds, bank deposits, certificates of deposit, and high rated auction securities with original maturities of three months or less. 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 are carried at fair value which generally approximates cost. 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, and corporate notes.

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 primarily 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.

## **Desk and Course Books**

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

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.

## **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 revenue relates to fees collected for seminars to be conducted in subsequent years. Seminar registration fees are recognized as revenue when the related seminars are held.

## **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**

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

WSBA Board of Governors has directed that portions of WSBA's unrestricted net assets be designated for Sections and for Continuing Legal Education. The total of revenues over expenses for all sections (which represent specialized legal interests) is included in the Sections 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 2007 as follows:

Operating reserve fund	\$ 1,234,601
Facilities reserve fund	1,445,000
Capital reserve fund	500,000
Board program reserve fund	<u>275,000</u>
	<u>\$ 3,454,601</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 the following purposes: future rent payments in the last five years of the current ten-year lease, 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 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.

### **Note 2. Lawyers' Fund for Client Protection**

In 1995, the Washington State Supreme Court and 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 these funds is restricted as described above, it is referred to as restricted activities in these financial statements.

### Note 3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following at year-end:

<u>Unrestricted Cash and Cash Equivalents</u>	<u>2007</u>	<u>2006</u>
Bank deposits	\$ 168,683	\$ 764,095
Short-term corporate notes (5 issuers, maturity less than 3 months)		1,765,202
Money market funds	9,161,678	167,709
Auction securities (7 issuers – maturity every 28 days)		2,900,000
	<u>\$ 9,330,361</u>	<u>\$ 5,597,006</u>
 <u>Restricted Cash and Cash Equivalents</u>		
Bank deposits	\$ 98,542	\$ 120,205
Money market funds	738,348	15,442
Auction securities (2 issuers – maturity every 28 days)		700,000
Certificates of deposit (various issuers)		95,000
	<u>\$ 836,890</u>	<u>\$ 930,647</u>

### Note 4. Investments

Investments consist of the following at year-end:

	<u>2007</u>	<u>2006</u>
Certificates of deposit (various issuers)	\$ -	\$ 578,698
Short-term corporate notes		2,798,946
Notes issued by agencies of the U.S. government		1,478,895
Common stock	1,082,198	
	<u>\$ 1,082,198</u>	<u>\$ 4,856,539</u>

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

	<u>2007</u>	<u>2006</u>
Interest income - unrestricted	\$ 632,876	\$ 502,866
Interest income - restricted	36,246	38,449
Total investment return	<u>\$ 669,122</u>	<u>\$ 541,315</u>

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

	<u>2007</u>	<u>2006</u>
Administration	\$ 589,568	\$ 446,390
Sections operations	43,308	56,476
Lawyers' fund for client protection	<u>36,246</u>	<u>38,449</u>
	<u>\$ 669,122</u>	<u>\$ 541,315</u>

### **Note 5. Property and Equipment**

Property and equipment consists of the following at year-end:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ 1,995,237	\$ 91,887
Furniture	1,011,602	1,058,433
Office equipment	1,161,341	1,079,208
Software	<u>1,842,910</u>	<u>1,805,584</u>
	6,011,090	4,035,112
Less accumulated depreciation and amortization	<u>(2,745,158)</u>	<u>(3,329,551)</u>
	3,265,932	705,561
Software not yet placed in service	79,287	90,017
Construction in progress	<u>          </u>	<u>118,315</u>
	<u>\$ 3,345,219</u>	<u>\$ 913,893</u>

### **Note 6. Retirement Plan**

The WSBA provides its employees with access to the Washington State Public Employees' Retirement System ("PERS"), a series of defined benefit/defined contribution 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. Contributions by the WSBA were \$393,017 and \$197,115 for the years ended September 30, 2007 and 2006, respectively.

## Note 7. Operating Leases

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 difference between the rent payments and rent calculated on a straight-line basis.

The future minimum rental payments required under this operating lease for the years ending September 30 are as follows:

2008	\$ 1,005,864
2009	1,076,355
2010	1,105,643
2011	1,176,135
2012	1,205,423
Thereafter	<u>5,713,580</u>
	<u>\$ 11,283,000</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, 2007:

Balance at the receipt of incentive	\$ 1,263,493
Amortization	<u>(94,762)</u>
Balance at September 30, 2007	<u>\$ 1,168,731</u>

Rent expense (net of amortization of deferred lease incentive for 2007) under all lease agreements was \$1,006,173 and \$753,360 for the years ended September 30, 2007 and 2006, 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

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 based on the number of staff assigned to each category. The composition of indirect expenses and total direct expenses is as follows:

	<u>2007</u>	<u>2006</u>
Indirect expenses		
Salaries	\$ 7,730,687	\$ 7,332,709
Employee benefits and payroll taxes	2,228,806	1,950,692
Rent (net of amortization of deferred lease incentive for 2007)	1,006,173	753,360
Depreciation and amortization	545,306	579,897
Technology and telephone	349,162	481,580
Human resources	103,305	89,983
Insurance	62,392	77,948
Office relocation	108,722	59,452
Copying and production services	76,578	57,270
Postage	29,042	43,663
Furniture, maintenance, and leasehold	35,809	34,495
Professional fees	1,430	20,553
Business taxes	6,447	7,790
Supplies and equipment	58,070	6,020
Air quality	238	234
	<u>12,342,167</u>	<u>11,495,646</u>
Direct expenses	<u>5,718,201</u>	<u>5,364,218</u>
Total expenses	<u><u>\$ 18,060,368</u></u>	<u><u>\$ 16,859,864</u></u>