



# The State Bar of California

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## **OPEN SESSION AGENDA ITEM 50-5 MAY 2020**

**DATE:** May 14, 2020

**TO:** Members, Board of Trustees

**FROM:** John Adams, Chief Financial Officer

**SUBJECT:** Report of Action Taken by the Audit Committee – Receipt and Filing of Annual Financial Statements and Report of Independent Auditors Pursuant to Business and Professions Code Section 6145(a)

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### **EXECUTIVE SUMMARY**

This is a report of action taken on April 28, 2020, by the Board's Audit Committee to receive and approve filing of the Audited Financial Statements for year ended December 31, 2019. Business and Professions Code section 6145(a) requires the statements to be sent by April 30 of each year to the Board of Trustees, the Chief Justice of the Supreme Court, and the Assembly and Senate Committees on Judiciary.

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### **BACKGROUND**

The State Bar's annual financial audit was conducted by the independent accounting firm of Macias Gini & O'Connell. They have issued their reports on the following financial statements for the year ended December 31, 2019.

- Annual Audited Financial Statements; and
- Statement of Expenditures of Mandatory Fees.

The auditor's opinion on each of these financial statements is unmodified. Both sets of financial statements and related auditor's reports are required to be filed with the State Legislature and Supreme Court by April 30 of each year.

The Audit Committee Charter assigns responsibility to the Audit Committee to review reports of external auditors. The Board action requested is simply to receive, not to approve, the audited statements. The audited statements must be submitted to the Legislature and Supreme Court by the deadline regardless of any Board action.

On April 28, 2020, the Audit Committee had a publicly noticed meeting with David Bullock, the audit partner of Macias Gini & O'Connell, to review and discuss the financial statements and auditor's report. On April 30, 2020, the Audit Committee Chair directed staff to file the audited financial statements for year ended December 31, 2019 with the Legislature and Supreme Court. Staff completed the legislative filing of the audited statements listed above. The State Bar's Annual Audited Financial Statements for the year ended December 31, 2019, are available on the website under Reports ([2019 Financial Statement and Independent Auditor's Report](#)).

## **DISCUSSION**

### **A. Annual Audited Financial Statements**

Business and Professions Code section 6145(a) require the State Bar to undergo an audit of its financial statements by an independent accounting firm each year. The audit is to be completed and submitted to the Board of Trustees, the Chief Justice of the Supreme Court, and to the Assembly and Senate Committees on Judiciary by April 30 each year.

The Business and Professions Code also requires the Annual Audited Financial Statements to be certified under oath by the chief financial officer of the State Bar. This certification has been completed by John Adams, Chief Financial Officer.

### **B. Statement of Expenditures of Mandatory Fees**

To comply with the constitutional requirements for collection of mandatory licensee fees under *Keller v. State Bar of California*, 496 U.S. 1 (1990), the State Bar must prepare each year an audited statement of its major categories of expenses showing that no mandatory fees were used for political or ideological activities not "necessarily or reasonably incurred for the purpose of regulating the legal profession or improving the quality of legal services available to the people of the State." The purpose of the Statement of Expenses of Mandatory Fees is to provide an explanation of the mandatory licensing fees that each State Bar licensee must pay under state law in order to practice law in California. It describes and separates expenses of mandatory licensing fees by program into "chargeable" and "nonchargeable" categories.

Because of the deductions for the full expenses of these programs and the State Bar's policy to fund them solely with voluntary revenues received from licensees electing not to take the deductions, the statement does not present any "nonchargeable" activities that are supported by the mandatory portion of the annual licensing fees. The statement is prepared using the State Bar's most recently completed audited financial statement and shows the major categories of expenses with a brief description of each category so that each State Bar licensee may gauge whether the expense is justified under the Keller standard. An independent auditor must verify the Statement of Expenses of Mandatory Fees.

The Statement of Expenses of Mandatory Licensing Fees is published by posting on the [State Bar website](#). and notice in the annual licensee billing statement to bar licensees.

### **FISCAL/PERSONNEL IMPACT**

None

### **AMENDMENTS TO RULES OF THE STATE BAR**

None

### **AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL**

None

### **STRATEGIC PLAN GOALS & OBJECTIVES**

None - Compliance

### **RECOMMENDATIONS**

**Should the Board of Trustees concur in the proposed action, passage of the following resolution is recommended:**

**RESOLVED**, that the Board of Trustees hereby affirms the action taken by the Board Audit Committee on April 28, 2020, when it received and reviewed draft financial statements and adopted a resolution directing staff to submit the Audited Financial Statements for Years Ended December 31, 2019 to the Legislature and Supreme Court on behalf of the Board of Trustees, as it is authorized to do; and it is

**FURTHER RESOLVED**, that when the billing of the 2021 license fees is mailed to licensees of the State Bar, staff is directed to post the Statement of Expenditures of Mandatory Fees for the year ended December 31, 2019, on the State Bar's website.

### **ATTACHMENT(S) LIST**

None