

Communications to  
Those Charged with Governance

## The State Bar of California

December 31, 2014

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

## COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

To the Board of Trustees  
State Bar of California

We have audited the financial statements of the business-type activity and the Trust for Post-Retirement Welfare Benefit Plan for Executive Staff Employees of the State Bar of California (the "State Bar") as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2015. Professional standards require that we provide you with the following information related to our audit.

### OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter dated January 1, 2014, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We will also report on whether the program fund descriptions, program funds schedule of net position and program funds schedule of revenue, expenses, and changes in net position, presented as supplementary information, are fairly stated, in all material respects, in relation to the financial statements as a whole. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control over financial reporting. Accordingly, we considered the State Bar's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 1, 2014.

**SIGNIFICANT AUDIT FINDINGS AND ISSUES*****Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State Bar are described in Note 2 to the financial statements. There have been no new accounting policies adopted and there were no changes in the application of existing policies during the year ended December 31, 2014. We noted no transactions entered into by the State Bar during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

***Significant Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the State Bar's financial statements were:

- Management's estimated liability for the defined pension benefits is actuarially determined using assumptions on the long-term rate of return on pension plan assets, the discount rate used to determine the present value of benefit obligations and the rate of compensation increase. These assumptions were provided by management. The estimate has been computed using a method that is acceptable under the guidelines set forth in GASB Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*.
- Management's estimated liability for the other postemployment benefits (OPEB) is based on the annual required contribution of the employer, an amount that is actuarially determined. The estimate has been computed using a method that is acceptable under the guidelines set forth in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.
- Management's estimates of the useful lives of capital assets are based on the intended use and are appropriate.

Actual results could differ from these estimates. In accordance with accounting principles generally accepted in the United States of America, any change in these estimates is reflected in the financial statements in the year of change.

***Financial Statement Disclosures***

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Disclosure of participation in the California Public Employees' Retirement System (CalPERS) in Note 8 to the financial statements regarding the funding policy and annual pension cost. Separate information as to funded status and funding progress is not separately determined for the State Bar by CalPERS. Accordingly, such information is not disclosed herein.

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- Disclosure of OPEB in Note 9 regarding the actuarial assumptions utilized in determining the State Bar's net obligation. Note 9 also describes the funded status and funding progress of the OPEB obligation.

***Significant Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements as a whole.

***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the attached management representation letter dated April 29, 2015.

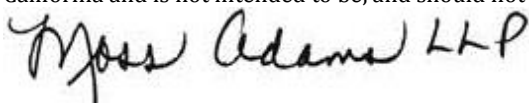
***Management Consultation with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the State Bar's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Significant Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the State Bar's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of the State Bar of California and is not intended to be, and should not be, used by anyone other than these specified parties.



San Francisco, California  
April 29, 2015



# THE STATE BAR OF CALIFORNIA

OFFICE OF FINANCE

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TEL (415) 538-2542

April 29, 2015

Moss Adams LLP  
101 Second Street, Suite 900  
San Francisco, CA 94105

We are providing this letter in connection with your audit of the financial statements of the State Bar of California ("State Bar"), which comprise the statement of net position and the related statement of revenues, expenses, and changes in net position and statement of cash flows as of December 31, 2014 and 2013 and the related notes to the financial statements for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than \$250,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, *as of the date of auditor's report*,

## Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 1, 2014, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware in accordance with U.S. GAAP. We are aware of no related parties affecting the entity's financial statements.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. We are aware of no such instances affecting the entity's financial statements.
8. We have reviewed all recently released accounting pronouncements and have evaluated those that may have any effect on the State Bar in the current and subsequent periods and disclosed as appropriate in the financial statements.

9. The State Bar has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. The following have been properly recorded or disclosed in the financial statements:
  - a. Guarantees, whether written or oral, under which the State Bar is contingently liable. We are aware of no guarantees affecting the entity's financial statements.
  - b. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with Government Accounting Standards Board ("GASB") Codification Section C50, *Claims and Judgments*. Significant estimates are estimates at the statement of net position date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
11. The State Bar has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make The State Bar vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements. We understand that concentrations include individual or group concentrations of contributors, members, lenders, fund-raising events, licenses or other rights, or operating areas or markets. We further understand that severe impact means a significant financially disruptive effect on the normal functioning of the State Bar.
12. We acknowledge our responsibility for presenting the Management's Discussion and Analysis and Supplemental Pension and Postretirement Benefit Information, as required by GASB Codification 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, in accordance with accounting principles generally accepted in the United States of America and we believe the Management's Discussion and Analysis and Supplemental Pension Information are measured and presented in accordance with the prescribed guidelines. The methods of measurement and presentation of the Management's Discussion and Analysis and Supplemental Pension and Postretirement Benefit information have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the required supplementary information.
13. We have not completed the process of evaluating the impact that will result from adopting GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, ("GASB No. 68"); and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* ("GASB No. 71"); as discussed in Note 1. The State Bar is therefore unable to disclose the impact that adopting GASB No. 68, and GASB No. 71 will have on its statement of net position and statement of revenues, expenses, and changes in net position when such statements mentioned above are adopted.
14. We have completed the process of evaluating the impact of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The State Bar has adopted this statement for the year ended December 31, 2014 and there was no impact on the financial statements.
15. We acknowledge our responsibility for presenting the program funds descriptions, program funds schedule of net position, and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with such accounting principles. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

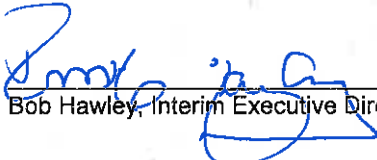
#### Information Provided

16. We have provided you with:

- a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Minutes of the meetings of board of trustees, and committees of trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared;
  - c. Additional information that you have requested from us for the purpose of the audit;
  - d. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
17. All transactions have been properly recorded in the accounting records and are reflected in the financial statements.
18. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
19. We have disclosed to you that we are not aware of any information regarding fraud or suspected fraud that affects the entity and involves—
  - a. Board of trustees,
  - b. Management,
  - c. Employees who have significant roles in internal control, or
  - d. Others when the fraud could have a material effect on the financial statements.
20. We have disclosed to you all information that we are aware of regarding allegations of fraud or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. We are aware of no such item affecting the entity's financial statements.
21. There are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. We are aware of no such instances affecting the entity's financial statements.
22. State Bar has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed to you and reported in the financial statements.
23. State Bar has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
24. We provided complete and accurate data to the California Public Employees' Retirement System (CalPERS) Actuarial Office for their use in the actuarial valuation of the State Bar's pension plan at CalPERS.
25. We provided complete and accurate data to our postretirement benefit plan actuaries, for their use in the actuarial valuation of the State Bar's postretirement benefit plan.
26. We have classified net position as net investments in capital assets, restricted for enabling legislation, restricted for other restrictions, and unrestricted; based on our assessment of the levels of constraints and restriction due to third parties or enabling legislation.
27. We have adequately and appropriately reported any resources with restrictions either on the financial statements, or appropriately disclosed them in the notes to the financial statements.
28. We have adequately and appropriately reported all significant covenants, agreements, commitments, and pledged assets or revenues in relations to its loans payable and capital leases.
29. The State Bar is in compliance with all provisions and covenants under its debt agreements.
30. We did not receive any membership dues that were restricted for long-term purposes.
31. We have appropriately classified all cash and investments as current or restricted on the financial statements.
32. We have appropriately recorded unearned revenue as of December 31, 2014 and 2013, and have appropriately recognized revenue for the years ended December 31, 2014 and 2013.
33. We acknowledge our investment policy is to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the State Bar,

and conforming to all state of California statutes governing the investment of public funds and all resolutions of the Board of Trustees. The State Bar invests a substantial portion of its funds in fixed income securities, which limits the State Bar's exposure to most types of risk.

34. We have appropriately classified restricted cash for debt reserve fund as noncurrent as of December 31, 2014 and 2013, due to the nature of the fund.
35. We are responsible for recording investments in accordance with generally accepted accounting principles, for maintaining internal control over investments, and for establishing valuation methodologies that are appropriate.
36. We have provided to you all documents and board approvals related to fund accounting and inter-fund transfers and we believe our procedures and operations are in accordance with such approvals.
37. Based on management's assessment and discussions with CALPERS, the State Bar OPEB Plan is a "single employer plan", while our CalPERS Pension Plan is a "multiple employer plan."
38. We have ensured that the amount assessed by the State Bar for providing services, including collections, to Sections is reimbursed at the costs of providing them.
39. We have ensured that mandatory membership dues are not used to fund the Sections.
40. We have ensured that the amounts assessed by the State Bar from providing services, including collections to Conference of Delegates of California Bar Associations, are reimbursed at the costs of providing them.
41. We have ensured the mandatory membership dues are not used to fund any successor entity to the Conference of Delegates of California Bar Associations.
42. We have not used mandatory membership fees paid by our members for political or ideological activities not related to the regulation of the legal profession or improvement of the quality of legal services in the State of California.

  
Bob Hawley, Interim Executive Director

  
Sam Quan, Interim Chief Financial Officer

  
Christine Wong, Controller