

AGENDA ITEM E

DATE: September 29, 2015

TO: Members, Planning and Budget Committee

FROM: Leah Wilson, Chief Operating Officer
Christine Wong, Director of Finance

SUBJECT: Reserve Policy Planning Update

BACKGROUND

This agenda item presents an update on ongoing efforts to create a new Reserve Policy for the State Bar.

As part of its planning and oversight function, and in response to concerns raised in the June 2015 State Audit about the Bar's fund balances and reserves, this Committee initiated an assessment of the State Bar's existing fund structure, reserve policy and use of fund accounting in appropriately segregating earmarked resources. For this effort the Bar engaged the services of William Statler, an independent consultant with expertise in governmental and municipal accounting.

This independent fund accounting review was completed in August 2015 and has been presented to this committee. In his report, Mr. Statler concluded that the State Bar is appropriately using fund accounting in accordance with Generally Accepted Accounting Principles (GAAP) in recording and presenting its financial transactions; and that the State Bar appropriately accounts for the financial operations of its programs as Enterprise Funds. Along with this key finding, the report also provides an overview of GAAP and financial reporting principles for state and local governments; and includes findings and recommendations regarding inter-fund transactions, fund consolidation and restructuring, external and internal financial reporting, budget practices, and reserves. (See Agenda Item A.)

Staff has worked with Mr. Statler on a thorough analysis of the Bar's current fund structure and basis of financial statement presentation. Based on this work, staff has presented to this committee, for action, a recommendation to adopt a new fund structure, dividing the Bar's Program Funds into three categories - externally restricted funds, special revenue funds, and a consolidated general fund. In addition, the Bar will continue to maintain one Fiduciary Fund. This new structure is in accordance with generally accepted accounting principles. (See Agenda Item B.)

Following adoption of a new fund structure, a reserve policy can be developed which, if adopted, will be applied to the new fund structure.

In the past two months, staff worked with Mr. Statler and completed a detailed analysis of State Bar reserves that provided a summary of revenues, expenditures and working capital (reserves) for all of the State Bar's funds based on the 2014 audited financial statements. Staff also

assessed the State Bar's current reserves, methodological issues under GAAP, and key principles for effective reserve policies.

Staff is continuing this analysis, which will include an assessment of the Bar's ability to maintain unrestricted, uncommitted reserves in each of its program funds based on the structured risk assessment methodology developed by the Government Finance Officers Association. Staff will also have preliminary discussions with key stakeholders about the ongoing process of determining appropriate reserve targets and policies on the use of reserves. Staff will provide a further update on these activities at the November Board meeting.