THE STATE BAR OF CALIFORNIA

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Title of Report: 2016 Financial Statement and Independent Auditor's Report of the State Bar of California

Statutory Citation: Business and Professions Code section 6145

Date of Report: April 28, 2017

The State Bar of California is submitting its 2016 Financial Statement and Independent Auditor's Report to the Chief Justice of the Supreme Court, and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145. This financial statement is certified under oath by the Treasurer of the State Bar.

This report consists of an independent auditor's report, management's discussion and analysis, the basic financial statements, the notes to the basic financial statements, and the required supplementary information. The basic financial statements provide information and understanding of the State Bar's Enterprise Fund.

This report is based on an audit conducted by an independent auditor for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's financial statements as a whole. In the auditor's opinion, the State Bar's financial statements present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

In addition, the management's discussion and analysis section of the financial statements presents the highlights of financial activities and financial position of the State Bar. The analysis is designed to provide readers with information that the State Bar's management believes to be necessary to an understanding of its financial condition, changes in financial condition and results of operations.

The full report is available at:

http://www.calbar.ca.gov/AboutUs/Reports.aspx

A printed copy of the report may be obtained by calling 916-442-8018.

THE STATE BAR OF CALIFORNIA

OFFICE OF FINANCE

180 HOWARD STREET, SAN FRANCISCO, CALIFORNIA 94105-1639 TEL (415) 538-2200

April 27, 2017

I, HEREBY CERTIFY UNDER OATH THAT THE ATTACHED FINANCIAL STATEMENT IS THE ANNUAL AUDITOR'S REPORT OF THE STATE BAR OF CALIFORNIA FOR THE YEAR ENDED DECEMBER 31, 2016 AND WAS PREPARED BY MOSS ADAMS LLP.

STATE BAR OF CALIFORNIA
JASON LEE
TREASURER

THE STATE BAR OF CALIFORNIA

Financial Statements and
Report of Independent Auditors
For the Years Ended December 31, 2016 and 2015
and Supplementary Information
For the Year Ended December 31, 2016

MOSS-ADAMS LLP

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
State Bar of California

Report on the Financial Statements

We have audited the accompanying financial statements of the State Bar of California ("State Bar") as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the State Bar as of December 31, 2016 and 2015, and the respective changes in net position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Praxity

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of pension liability, the schedule of plan fiduciary net position – pension, the schedule of plan contribution – pension, the schedule of funding progress – post-retirement welfare benefits trust, and the schedule of employer contributions – post-retirement welfare benefit trust, on pages 3 through 11 and 36 through 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's basic financial statements. The program fund descriptions, program funds schedule of net position, and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, on pages 38 through 44, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The program fund descriptions, program funds schedule of net position, and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Moss Adams LLP

San Francisco, California
April 27, 2017

THE STATE BAR OF CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS – Unaudited
YEARS ENDED DECEMBER 31, 2016 AND 2015

Introduction

Management's Discussion and Analysis ("MD&A") is presented as a supplement to the financial statements and is based on currently known facts, decisions, and conditions that existed as of the date of the report of independent auditors. This discussion and analysis presents the highlights of financial activities and financial position for the State Bar of California ("State Bar"). The analysis is designed to provide readers with information that the State Bar's management believes to be necessary to obtain an understanding of its financial condition, changes in financial condition, and results of operations. It is intended to help readers see the State Bar through the eyes of management. It is further designed to provide context for the financial statements and information about the State Bar's operations and cash flows.

The State Bar of California

Created by the state legislature in 1927, the State Bar is a public corporation within the judicial branch of government, serving as an arm of the California Supreme Court. In 1960, California voters approved a ballot measure adding the State Bar as an entity in the State Constitution. The State Bar's programs are financed primarily by fees paid by attorneys and applicants to practice law. At the end of 2016, the State Bar had approximately 261,600 members, an increase of 1% compared to 257,600 members in 2015.

Membership fees for 2016 and 2015 were set by the State Legislature at $430, for active members and $155, for inactive members. The membership fees are allocated to the following funds:

	2016		2015	
	Active Fee	Inactive Fee	Active Fee	Inactive Fee
General Fund	$ 305	$ 65	$ 305	$ 65
General Fund-Discipline Activity	25	25	25	25
Legal Services Trust Fund *	40	40	40	40
Legislative Activity Fund *	5	5	5	5
Bar Relations and Elimination of Bias Fund *	5	5	5	5
Client Security Fund	40	10	40	10
Lawyers Assistance Program Fund	10	5	10	5
Total	$ 430	$ 155	$ 430	$ 155

* Optional fees; member may deduct from annual membership fee.

Financial Statement Overview

The State Bar's financial report consists of MD&A, the basic financial statements, the notes to the basic financial statements, and the required supplementary information. The basic financial statements provide information and understanding of the State Bar's Enterprise. The basic financial statements and related information are organized in this report as follows:

The Statement of Net Position – presents the financial position of the State Bar at the end of the fiscal year. The statement reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the difference as net position. The net position section is displayed in three components – restricted; invested in capital assets; and unrestricted. Changes in net position over time is an indicator of whether the financial condition of the organization is improving or declining.

The Statement of Revenues, Expenses, and Changes in Net Position – discloses the sources of revenues, the various expenses, and the impact on net position for the State Bar.

The Statement of Cash Flows – reflects the sources and uses of cash for the State Bar using the direct method which includes a reconciliation of operating income to net cash provided by or used in operating activities.

Notes to the Financial Statements – provides integral information needed to explain the basis for the financial statement presentation and numbers used with the basic financial statements.

Required Supplementary Information – presents schedule of pension liability, schedule of plan fiduciary net position–pension, schedule of plan contribution-pension, schedule of funding progress – post retirement welfare benefits trust, and the schedule of employer contributions – post retirement welfare benefits trust.

Financial Highlights

Statement of Net Position

The following is a summary comparison of the State Bar's Statement of Net Position as of December 31, 2016, 2015, and 2014:

	2016	2015	2014
Cash, cash equivalents, and investments	$ 125,914,483	$ 88,211,785	$ 74,275,634
Restricted cash	7,105,000	4,610,000	4,610,000
Other assets	22,761,108	13,954,687	15,320,188
Capital assets, net	96,275,743	97,005,537	101,426,742
Deferred outflows of resources	33,237,651	15,671,481	2,060,055
Total assets and deferred outflows of resources	$ 285,293,985	$ 219,453,490	$ 197,692,619
Current liabilities	$ 29,499,769	$ 38,415,869	$ 35,373,546
Noncurrent liabilities	27,524,829	20,505,895	22,210,828
Net pension liability	59,917,510	31,156,962	18,880,140
Deferred inflows of resources	11,970,255	18,176,995	18,917,265
Total liabilities and deferred inflows of resources	$ 128,912,363	$ 108,255,721	$ 95,381,779
Net position			
Net investments in capital assets	$ 66,937,664	$ 75,308,441	$ 74,555,912
Restricted for:			
Enabling legislation	81,634,880	38,606,540	25,671,871
Other restrictions	20,519,187	17,880,052	17,608,270
Restatement due to GASB 68 Implementation	-	-	(35,737,350)
Unrestricted	(12,710,109)	(20,597,264)	20,212,137
Total net position	$ 156,381,622	$ 111,197,769	$ 102,310,840

Fiscal Year 2016 Compared to Fiscal Year 2015

Below are the major financial indicators for the fiscal year 2016 as compared to 2015:

Description	2016 (in $ M)	2015 (in $ M)	Changes (in $ M)	Changes in %	Notes
Total Assets	$ 285.3	$ 219.5	$ 65.8	30.0%	(1)
Cash & Investment	133	92.8	40.2	43.3%	(1.b)
Accounts Receivable	9.9	2.2	7.7	350.0%	(1)
OPEB Plan Asset	10.8	9.8	1.0	10.2%	(1)
Total Liabilities	128.9	108.3	20.6	19.0%	(2)
GASB 68 Deferred Outflows of Resources (Assets)	33.2	15.7	17.5	111.5%	(1.a)
GASB 68 Deferred Inflows of Resources (Liabilities)	12	18.2	(6.2)	(34.1%)	(2), (2.a)
GASB 68 Net Pension Liabilities	60	31.2	28.8	92.3%	(2.a)
Loan Payable	29.3	21.3	8.0	37.6%	(2.b)
Unearned Income	13.1	27	(13.9)	(51.5%)	(1.e)
Total Revenues	193.5	150.6	42.9	28.5%	(4)
Member Dues/Donation	85.4	84.7	0.7	0.8%	(4)
GF Member Dues	66.4	65.7	0.7	1.1%	Attachment 5
Bank Settlement Grant	44.7	6.1	38.6	632.8%	(1.c)
Total Expenditures	148.4	141.7	6.7	4.7%	(5)
Personnel Costs	68.7	65.6	3.1	4.7%	(5)
Indirect Cost Allocation	29.1	29.8	(0.7)	(2.3%)	(5)
OCTC	38.7	38.4	0.3	0.8%	Attachment 6
State Bar Court	11.7	11.9	(0.2)	(1.7%)	Attachment 6
Governance	3.5	2	1.5	75.0%	Attachment 6
CSF Payout	8	6	2.0	33.3%	Attachment 6
Travel & Training	4.7	5.5	(0.8)	(14.5%)	(5)
Professional Services	3.5	4.5	(1.0)	(22.2%)	(5)

Assets and Deferred Outflows of Resources – As of December 31, 2016, the State Bar's total assets and deferred outflows of resources were $285.3 million, up by $65.8 million or 30% compared to $219.5 million last year. The increase is due to a combination of 1) a $40.2 million increase in cash, restricted cash, and investment balances in 2016; 2) a $17.5 million increase in deferred outflows of resources from the Governmental Accounting Standards Board Statement No. 68 ("GASB 68") pension liability adjustments; 3) a $7.7 million increase in Equal Access Fund ("EAF") grant receivable; 4) a $1.0 million increase in the OPEB Plan asset; partially offset by 5) a $0.7 million net decrease in capital assets due to normal depreciation.

The State Bar records deferred outflows of resources in its financial statements for consumption of net pension assets that is applicable to future reporting periods. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension reporting under GASB 68 and this financial statement element is distinct from its assets. As of December 31, 2016, the deferred outflows of resources were $33.2 million, increased by $17.5 million compared to $15.7 million last year. See accompanying note 8 to the financial statements for additional information.

Fiscal Year 2016 Compared to Fiscal Year 2015 (Continued)

Cash, restricted cash, and investment consisted of balances in demand deposit accounts, money market accounts, the State Bar's share of California's Local Agency Investment Fund ("LAIF") and investment securities. As of December 31, 2016, the combined cash, restricted cash and investment balances were $133.0 million, up by $40.2 million or 43.31% compared to $92.8 million last year. The higher cash balance in 2016 is due to a combination of 1) a $44.7 million additional bank settlement grants awarded to the Legal Service Trust Fund ("LSTF") Program in 2016; 2) a $10.0 million private loan obtained for a tenant improvement project; partially offset by 3) a $13.9 million decrease in unearned fees collected in advance. Details are summarized as follows:

a) $44.7 million Bank Settlement Grant – In March 2016, the LSTF Program received a $44.7 million bank settlement grant award as a result of a settlement between the U.S. Department of Justice and Bank of America. Bank of America awarded the LSTF Program for administration of grants to legal services organizations to provide foreclosure prevention legal assistance and community redevelopment legal assistance. The LSTF Program Commission approved a grant distribution plan to spend down the grant money in 2016 and future years. Approximately $0.7 million of this grant was distributed to eligible legal services organizations in 2016.

b) $10.0 million Tenant Improvement Loan – In March 2016, the State Bar obtained a $10 million loan to finance a tenant improvement project at its San Francisco location; there are currently three unoccupied floors in that building. The purpose of this investment is to renovate the space to appropriate rental quality to generate future incomes. This loan is secured by a debt service reserve fund totaling approximately $2.5 million. Taken together with the Los Angeles building debt service reserve, over $7.1 million is currently classified as restricted cash in the financial statements. See accompanying notes 5 and 7 to the financial statements for additional details.

c) $13.9 million decrease in unearned fees collected in advance – Dues collected in advance as of December 31, 2016 are $13.1 million compared to $27 million in 2015. They decreased significantly by $13.9 million due to a lower assessment level for the 2017 fee bill and a delay in starting the 2017 billing cycle. The State Bar's billing cycle normally begins on December 1 and ends on February 1. Dues collected in the month of December are recorded as unearned fees collected in advance for year-end financial statement presentation. For the 2017 fee bill process, the California Legislature adjourned its 2015-2016 Regular Session without having enacted a fee bill authorizing the State Bar to collect from active members the basic annual membership fee of $315. As a result, the State Bar submitted a petition with the Supreme Court to issue an order authorizing an interim 2017 special regulatory assessment in the amount of $297. This assessment level is a 5.7% or $18 decrease compared to $315 last year. The 2017 billing cycle started on December 7, a week later than the normal cycle.

Capital assets consisted of land, buildings, building and leasehold improvements, tenant improvement, office equipment, and furniture and fixtures, net of accumulated depreciation. Net capital assets balance as of December 31, 2016, was $96.2 million, a $0.8 million decrease compared to $97.0 million last year. The decrease is due to normal depreciation and amortization of tenant improvement costs, partially offset by capital expenditures incurred in 2016. See accompanying note 5 to the financial statements for additional details.

Other assets consisted of interest receivable, prepayments, grants receivable, other receivable, and the Other Postemployment Benefits ("OPEB") assets. The combined balance as of December 31, 2016, was $22.7 million, up by $8.7 million or 62.1% compared to $14.0 million last year. The increase is due to a $1.0 million increase in OPEB assets due to normal annual required contribution to the OPEB Plan and a $7.7 million increase in EAF grant receivable due to a delay in releasing the EAF grant by the California Judicial Council. This $7.7 million EAF grant was received in January 2017 instead of in December 2016.

Fiscal Year 2016 Compared to Fiscal Year 2015 (Continued)

Liabilities and Deferred Inflows of Resources – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendor accounts, unearned fees collected in advance, grants payable, loans payable, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 adjustments. As of December 31, 2016, State Bar's total liabilities and deferred inflows of resources were $128.9 million, up by $20.6 million or 19.1% compared to $108.3 million last year. The increase is due to a combination of 1) a $28.7 million increase in pension liabilities; 2) an $8 million net increase in loan payable; 3) a $4 million increase in accounts payable and other liabilities; partially offset by 4) a $13.9 million decrease in unearned fees collected in advance as discussed above and 5) a $6.2 million decrease in deferred inflows of resources from GASB 68 adjustments.

The State Bar's total pension liability as of December 31, 2016 was $337.8 million and the plan fiduciary net position was $277.9 million. The plan fiduciary net position as a percentage of the total pension liabilities is 82.3%. The unfunded net pension liabilities were $59.9 million, or 17.7% as a percentage of the total pension liabilities. Compared to the $31.2 million net pension liabilities in 2015, the 2016 net pension liabilities increased by $28.7 million or 92.3%. Deferred inflows of resources as of December 31, 2016 are $12.0 million, decreased by $6.2 million compared to $18.2 million last year. The deferred inflows of resources balance represents acquisition of the pension net assets that is applicable to future reporting. This balance consisted of actuarially determined deferred inflows of resources as it relates to pension under GASB 68 and this financial statement element is distinct from its liabilities. See accompanying note 8 to the financial statements for additional information. Total current and long-term loan payable as of December 31, 2016 was $29.3 million, up by $7.9 million or 36.91% compared to $21.4 million last year. The increase is due to a $10 million loan the State Bar obtained for the tenant improvement project as discussed above. The $10 million increase was partially offset by the loan repayments made in 2016. See accompanying note 7 to the financial statements for additional details.

Accounts payable and other liabilities as of December 31, 2016 were $14.0 million, increased by $4.0 million or 40% compare to $10.0 million last year. The increase is due primarily to timing of payments to vendors and grantees

Net Position – This component of the statement of net position consisted of restricted net position, net investments in capital assets, and unrestricted net position. The State Bar's total net position as of December 31, 2016 is $156.4 million, up by $45.2 million or 40.6% compared to $111.2 million in 2015. The increase represents the excess of revenues over expense from various programs as explained below:

Restricted Net Position – The part of net position that is subject to internal constraints and external constraints imposed by grantors, or law through constitutional provisions or enabling legislation – increased by $45.7 million or 80.8% from $56.5 million in 2015 to $102.2 million in 2016. The increase is due largely to the $44.7 million bank settlement grant awarded to the LSTF Program in 2016 as discussed above

Net Investments in Capital Assets – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of mortgages or borrowings that are attributable to the acquisition, construction, and improvement of those assets decreased by $8.4 million or 11% from $75.3 million in 2015 to $66.9 million in 2016. The net decrease is due to loan repayment and normal depreciation of capital assets.

Fiscal Year 2016 Compared to Fiscal Year 2015 (Continued)

Negative Unrestricted Net Position – The part of net assets/liabilities that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. A majority of unrestricted net position are captured under the Consolidated General Fund. As of December 31, 2016, the negative unrestricted net position was $12.7 million, a decrease of $7.9 million or 38.3% compared to $20.6 million negative unrestricted net position in 2015. The changes are due largely to the current year surplus in the Consolidated General Fund.

Fiscal Year 2015 Compared to Fiscal Year 2014

Assets and Deferred Outflows of Resources – As of December 31, 2015, the State Bar's total assets and deferred outflows of resources were $219.5 million, up by $21.8 million or 11.0% compared to $197.7 million last year. The increase is due to a combination of 1) a $13.6 million increase in deferred outflows of resources due to implementation of GASB 68; 2) a $13.9 million increase in cash & investment; 3) a $3 million increase in the OPEB plan asset; partially offset by 4) a $4.4 million decrease in capital assets due to normal depreciation and 5) a $4.4 million net decrease in prepayments and grant receivables.

Cash, investments, and restricted cash consisted of balances in demand deposit accounts, money market accounts, the State Bar's share of California's LAIF, and investment securities. For the year ended December 31, 2015, the combined cash and investment balance was $88.2 million, up by $13.9 million or 18.8% compared to $74.3 million last year. The higher cash balance in 2015 was due to a combination of 1) a $2.8 million increase in member due revenues as a result of the $10 increase in the optional contribution to legal services and normal growth of membership from new admittees; 2) a $2.6 million increase in member dues collected in advance of the 2016 billing cycle; 3) a $2.4 million increase in various program revenues, including examination application fees, trust account revenue, law practices/Sections fees and legal specialization fees; and 4) $6.1 million from two Interest on Lawyer Trust Accounts ("IOLTA") settlement grants from Bank of America and CitiGroup.

Capital assets consisted of land, buildings, building and leasehold improvements, tenant improvement, office equipment, and furniture and fixtures, net of accumulated depreciation. Net capital assets balance as of December 31, 2015, was $97.0 million, a $4.4 million decrease compared to $101.4 million last year. The decrease is due to normal depreciation and amortization of tenant improvement costs.

Other assets consisted of interest receivable, prepayments, grants receivable, other receivable, and the OPEB asset. The combined balance as of December 31, 2015, was $13.9 million, down slightly by $1.4 million or 8.9% compared to $15.3 million last year. The decrease is due to a $4.4 million decrease in other receivable and grant prepayments as a result of timing of payments of the IOLTA and Equal Access Fund ("EAF") grants; partially offset by a $3 million increase in the OPEB plan asset. The 2015 first quarter grant payments for the LSTF and EAF programs were prepaid in December 2014.

Liabilities and Deferred Inflows of Resources – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendor accounts, unearned fees collected in advance, grants payable, loans payable, net pension liability and employee vacation and sick leave accruals. As of December 31, 2015, State Bar's total liabilities and deferred inflows of resources were $108.3 million, up by $12.9 million or 13.5% compared to $95.4 million last year. The increase is a result of an $11.6 million increase of pension liabilities and changes in deferred inflows of resources from GASB 68 implementation, and a $2.6 million increase in unearned membership dues collected in advance, partially offset by a $1.3 million reduction in the loan payable from the repayment of the Los Angeles building mortgage.

Fiscal Year 2015 Compared to Fiscal Year 2014 (Continued)

Net Position – This component of the statement of net position consists of restricted net position, net investments in capital assets, and unrestricted net position. The State Bar's total net position as of December 31, 2015 is $111.2 million, up by $8.9 million or 8.7% compared to $102.3 million in 2014. In addition, due to the implementation of GASB 68, the 2014 beginning net position was restated and decreased by $35.7 million.

Restricted Net Position – The part of net position that is subject to internal constraints and external constraints imposed by grantors, or law through constitutional provisions or enabling legislation increased by $13.1 million or 30.2% from $43.3 million at the end of 2014 to $56.4 million at the end of 2015. The increase is due to the reclassification of net position in 2015 and a $6.1 million grant settlement received in the Legal Service Trust Fund as explained above.

Net Investments in Capital Assets – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of mortgages or borrowings that are attributable to the acquisition, construction, and improvement of those assets increased by $0.7 million from $74.6 million in 2014 to $75.3 million in 2015. The net increase is due to reclassification of the 2015 net position, offsetting by the loan repayment and normal depreciation.

Unrestricted Net Position – The part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. The unrestricted net position for 2014 was restated and decreased by $35.7 million due to the implementation of GASB 68. As of December 31, 2015, the negative unrestricted net position was $20.6 million

Statements of Revenues and Expenses

Following is a summary comparison of the State Bar's statements of revenues and expenses for the years ended December 31, 2016, 2015, and 2014:

	2016	2015	2014
OPERATING REVENUES			
Program revenues	$ 141,847,127	$ 138,176,755	$ 133,126,981
Settlement grants	44,778,670	6,085,197	-
Affinity Insurance revenue	2,283,203	2,428,236	1,724,857
Other revenue	2,866,328	2,950,427	3,037,169
Total operating revenues	191,775,328	149,640,615	137,889,007
OPERATING EXPENSES			
Program expenses	136,465,085	130,275,809	119,019,936
General and administration	11,885,012	11,405,729	12,815,039
Total operating expenses	148,350,097	141,681,538	131,834,975
OPERATING INCOME	43,425,231	7,959,077	6,054,032
NONOPERATING REVENUES	1,758,622	927,852	1,117,183
CHANGE IN NET POSITION	45,183,853	8,886,929	7,171,215
NET POSITION - beginning of year	111,197,769	102,310,840	130,876,975
Restatement due to GASB 68 implementation	-	-	(35,737,350)
NET POSITION - end of year	$ 156,381,622	$ 111,197,769	$ 102,310,840

Fiscal Year 2016 Compared to Fiscal Year 2015

Operating and Non-operating Revenues – For the year ended December 31, 2016, the State Bar's total operating and non-operating revenues were $193.5 million, up by $42.9 million or 28.5% compared to $150.6 million in 2015. The increase is due largely to the bank settlement grant awarded to the LSTF Program as discussed above. Member dues and donations increased slightly by approximately $1.0 million or 1.2% from $85.2 million last year to $86.2 million in 2016. The increase is due primarily to normal growth in membership.

Operating Expenses – For fiscal year 2016, the State Bar's total operating expenses were $148.4 million, an increase of $6.7 million or 4.7% from $141.7 million last year. The increase is due to a combination of 1) a $2.9 million increase in grant expenses due to an increase of Equal Access Grant received in 2016; 2) a $2.0 million increase in Client Security Fund payouts due to the Board's action to transfer a $2.1 million to this Fund to reduce payout processing time; and 3) a $3.1 million increase in personnel and benefit costs due to step and merit increases for existing staff. Personnel costs in 2015 were lower than normal because several key senior executive positions were vacant until late 2015. The increase of operating costs are partially offset by cost savings in building improvement due to project delay. In addition, in response to budget cuts in 2016, there are cost savings in other operational areas including professional services, travel, catering and temporary help.

Fiscal Year 2015 Compared to Fiscal Year 2014

Operating and non-operating Revenues – For the year ended December 31, 2015, the State Bar's total operating and non-operating revenues were $150.6 million, up by $11.6 million or 8.4% compared to $139.0 million in 2014. The increase is due to a combination of 1) a $2.8 million increase in membership revenue as a result of the $10 increase in the optional contribution to legal services and overall growth in the membership due to new admittees; 2) a $6.1 million settlement grant received from Bank of America and CitiGroup in the Legal Service Trust Fund; and 3) a $2.7 million increase in various program funds due to fee increases in 2015.

Operating Expenses – In 2014 the general and administration expense was restated and decreased by $2.1 million to reflect the implementation of GASB 68. For fiscal year 2015, the State Bar's total operating expenses were $141.6 million, an increase of $9.8 million or 7.4% compared to $131.8 million in 2014. The increase is due to a combination of 1) a $1.6 million increase in general operation due to higher operating expenses and personnel costs as a result of step increases and cost of living adjustment; 2) an $11.4 million increase in IOLTA and EAF grant distribution, partially offset by a $3.2 million decrease in the Client Security Fund application payouts. IOLTA and EAF grant expenses in 2014 were lower than a normal year due to the Board's action in March in 2014 to restructure the grant program to align the IOLTA grant year to a calendar year.

Additional information on the State Bar's capital assets and loans payable can be found in notes 5 and 7, respectively, of the financial statements.

Economic Factors Facing the State Bar

In August 2016, the California Legislature adjourned its 2015-2016 Regular Session without having enacted a fee bill authorizing the State Bar to collect from active members the basic annual member ship fee of $315 for 2017 billing cycle. As a result, and pursuant to the State Bar's request, the Supreme Court issued an order authorizing an interim 2017 special regulatory assessment in the amount of $297. This assessment level reflected full support for the State Bar's core discipline functions and the related administrative support costs, with limited or no funding provided for a small number of programs in the General Fund. The $297 special assessment, though an $18 per member reduction from the 2016 authorized level overall, includes a $9 per member, or $1.67 million, increase in funding for the Office of the Chief Trial Counsel. In addition, the Court did not approve two "opt out" provision, one $5 opt out for Elimination of Bias/Bar Relations and another $5 for Legislative Activities.

In addition to the immediate fiscal pressure from the 2017 special assessment, an important context for the 2017 budget is the impending transition of the State Bar Sections to a stand-alone independent entity. The fiscal impact of this transition will necessarily be a focal point of the Bar's 2018 budget. To address its budget shortfall and achieve a balanced budget, the State Bar's 2017 budget is reliant on the use of reserves and cost reduction.

Over the following year, the Bar is committed to continue identifying measures to ensure core programs remain intact, while increasing operating efficiencies and identifying additional resources available to support key discipline system reform efforts.

Financial Contact

The State Bar's financial statements are designed to present readers with a general overview of the State Bar's finances and to demonstrate the State Bar's accountability. If you have any questions about the report or need additional financial information, please contact the State Bar's Chief Financial Officer, Christine Wong at Christine.wong@calbar.ca.gov.

THE STATE BAR OF CALIFORNIA
BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 54,641,715	$ 66,356,858
Investments	71,272,768	21,854,927
Accounts and other receivables, net of allowance for uncollectible accounts of $1,797,802 in 2016 and $1,803,811 in 2015	10,124,557	2,260,004
Other current assets	1,844,281	1,902,412
Total current assets	137,883,321	92,374,201
Noncurrent assets		
Restricted cash	7,105,000	4,610,000
Other postemployment benefits assets	10,792,270	9,792,271
Capital assets		
Nondepreciable	19,537,615	19,537,615
Depreciable, net	76,738,128	77,467,922
Total noncurrent assets	114,173,013	111,407,808
Total assets	252,056,334	203,782,009
Deferred outflows of resources	33,237,651	15,671,481
Total assets and deferred outflows of resources	$ 285,293,985	$ 219,453,490
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities	$ 14,069,495	$ 10,007,847
Unearned fees collected in advance	13,107,536	26,977,263
Loans payable	2,305,985	1,414,006
Grants payable	16,753	16,753
Total current liabilities	29,499,769	38,415,869
Noncurrent liabilities		
Loans payable	27,032,094	19,944,519
Compensated absences	492,735	561,376
Net pension liability	59,917,510	31,156,962
Total noncurrent liabilities	87,442,339	51,662,857
Total liabilities	116,942,108	90,078,726
Deferred inflows of resources	11,970,255	18,176,995
Total liabilities and deferred inflows of resources	$ 128,912,363	$ 108,255,721
NET POSITION		
Net investments in capital assets	$ 66,937,664	$ 75,308,441
Restricted for:		
Enabling legislation	81,634,880	38,606,540
Other restrictions	20,519,187	17,880,052
Unrestricted	(12,710,109)	(20,597,264)
Total net position	$ 156,381,622	$ 111,197,769

See accompanying notes to the financial statements.

THE STATE BAR OF CALIFORNIA
BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Membership fees and donations	$ 86,166,914	$ 85,181,801
Examination application fees	19,283,821	19,433,946
Trust account revenue	6,439,199	5,584,435
Law practices (sections) fees	6,118,886	5,891,380
Seminar/workshop revenue	1,257,660	1,532,465
Advertising revenue	162,981	216,390
Convention income	1,200,752	1,102,141
Legal specialization fees	2,081,540	2,538,384
Law corporation registration fees	1,475,984	1,499,333
Continuing legal education fees	1,074,090	971,849
Grant revenue	12,785,300	10,523,350
EAF AB145 filing fee revenue	3,800,000	3,701,281
Settlement grants	44,778,670	6,085,197
Affinity Insurance revenue	2,283,203	2,428,236
Other revenue	2,866,328	2,950,427
Total operating revenues	191,775,328	149,640,615
OPERATING EXPENSES		
Chief Trial Counsel	38,708,988	38,414,925
State Bar Court	11,649,273	11,902,970
Member Records & Compliance	3,727,687	3,215,159
Professional Competence	2,449,873	2,350,938
Probation	1,346,297	1,333,861
Mandatory Fee Arbitration	881,755	828,658
Judicial Evaluation	923,581	856,744
Commission on Access to Justice	20,571	16,631
Center on Access to Justice	1,731,845	1,662,404
California Young Lawyers Association	201,726	316,518
Communications	1,378,107	1,714,205
Governance	3,531,920	2,060,055
Lawyer Assistance Program	1,543,878	1,632,537
Client Security Fund	9,028,984	7,745,688
Admissions	20,312,066	20,072,708
Grants	30,808,302	27,870,122
Sections	8,220,232	8,281,686
General and Administration	11,885,012	11,405,729
Total operating expenses	148,350,097	141,681,538
OPERATING INCOME	43,425,231	7,959,077
NONOPERATING REVENUES		
Investment income	703,186	185,745
Rental income	1,938,029	1,683,779
Interest expense on loan	(882,593)	(941,672)
Total nonoperating revenues	1,758,622	927,852
CHANGE IN NET POSITION	45,183,853	8,886,929
NET POSITION—beginning of year	111,197,769	102,310,840
NET POSITION—end of year	$ 156,381,622	$ 111,197,769

See accompanying notes to the financial statements.

THE STATE BAR OF CALIFORNIA
BUSINESS-TYPE ACTIVITY – ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from members, applicants, grants, and other professionals	$ 170,041,048	$ 152,887,289
Payments to suppliers	(81,781,687)	(75,145,076)
Payments to employees	(54,686,080)	(63,420,523)
Net cash provided by operating activities	33,573,281	14,321,690
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	16,034,258	38,854,087
Purchases of investments	(65,452,099)	(15,042,502)
Interest received from investments	703,185	185,745
Cash received from rental income	1,938,029	1,683,779
Net cash (used in) provided by investing activities	(46,776,627)	25,681,109
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(3,113,758)	(38,838)
Sale of capital assets	-	85,605
Proceeds from loan agreement	10,000,000	-
Payment of obligations under loan agreement	(2,020,446)	(1,360,158)
Interest paid on debt	(882,593)	(941,672)
Net cash provided by (used in) capital and related financing activities	3,983,203	(2,255,063)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,220,143)	37,747,736
CASH AND CASH EQUIVALENTS—Beginning of year	70,966,858	33,219,122
CASH AND CASH EQUIVALENTS—End of year	$ 61,746,715	$ 70,966,858
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 43,425,231	$ 7,959,077
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,843,552	4,374,438
Changes in assets and liabilities		
Deferred inflows and outflows of resources related to pension	(23,772,910)	(14,351,696)
Net pension liability	28,760,548	12,276,822
Accounts and other receivables	(7,864,553)	661,758
Other postemployment benefits assets	(999,999)	(3,013,544)
Other current assets	58,131	3,717,287
Accounts payable and other liabilities	3,993,008	112,632
Unearned fees collected in advance	(13,869,727)	2,584,916
Net cash provided by operating activities	$ 33,573,281	$ 14,321,690

See accompanying notes to the financial statements.

1. DESCRIPTION OF ENTITY

The State Bar of California ("State Bar") is a public corporation established by the California Legislature on July 29, 1927. In 1960, a constitutional amendment was approved, which added the State Bar as a constitutional agency in the judicial branch of government. Membership in the State Bar is required in order to practice law in the State of California ("State"). The State Bar's activities relate primarily to admission, discipline, and regulation of attorneys, and to other programs that enhance lawyer ethics and competence or improve the quality of legal service and the justice system. The State Bar has engaged in such functions as administering the bar examination, formulating rules of professional conduct, disciplining members for misconduct, administering mandated continuing legal education requirements, administering other regulatory provisions affecting the profession or the practice of law, conducting a variety of education programs for members and the public, studying and recommending changes in legislation, cooperating with the Judicial Council, and providing various member services.

The State Bar's reporting entity includes a blended component unit – the State Bar Access and Education Foundation (the "Foundation"), a nonprofit public benefit corporation established in 2013 that conducts activities that are charitable and educational on behalf of the State Bar. The Foundation is governed by a Board of Directors that consists of the Executive Director, Deputy Executive Director and Assistant Secretary. The State Bar provides administrative services to the Foundation in a third party, trustee capacity. Because its financial and operational relationship with the State Bar was closely integrated, the Foundation was included in the State Bar's financial statements as a blended component unit in 2014 and 2015. The Foundation was subsequently dissolved in March 2016.

2. BASIS OF PRESENTATION

The basic financial statements, providing information of the State Bar, have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The State Bar follows the "business-type" activities reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* that provides a comprehensive look at the State Bar's financial activities.

The State Bar reports all business-type activities as one consolidated unitary enterprise fund. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the related cash flows. The State Bar's consolidated financial statements represent a mix of 23 General and non-General Fund funding sources supporting over 40 distinct functions within the organization. Pursuant to Board action in 2015, all of these sources can be categorized as one of the three Fund types, for internal tracking purposes:

a) Consolidated General Fund

The Consolidated General Fund accounts for spendable financial resources that can be used generally to support most aspects of the Bar's operations. The Consolidated General Fund consists of nine sub-funds:

- Unconsolidated General Fund ("UGF")
- Howard Building Fund
- Legal and Education Development Fund
- Los Angeles Facility Fund

2. BASIS OF PRESENTATION (Continued)

- Public Protection Fund
- Support and Administration Fund
- Technology Improvement Fund
- Fixed Assets Fund
- Benefits Reserve Fund

b) Restricted Fund Group

Restricted Program Funds account for activities and financial resources that can only be used for specific purposes or when constraints are placed on the use of resources imposed externally through legislation or similar external restrictions. The State Bar has ten funds in this group:

- Legislative Activities Fund
- Elimination of Bias/Bar Relations Fund
- Lawyer Assistance Program Fund
- Legal Specialization Fund
- Client Security Fund
- IT Special Assessment Fund
- Legal Service Trust Fund
- Equal Access Fund
- Justice GAP Fund
- Bank Settlement Fund

c) Special Revenue Fund Group

The Special Revenue Program Funds account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The State Bar has four funds in this group:

- Admissions Fund
- Annual Meeting Fund
- Grants Fund
- Sections Fund

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State Bar conform to accounting principles generally accepted in the United States of America as applicable to government units. The following is a summary of the significant accounting policies:

Cash and Cash Equivalents – Cash and cash equivalents includes all cash and liquid investments with initial maturity of three months or less at the date of purchase. At December 31, 2016 and 2015, cash equivalents consisted of demand deposit accounts, money market accounts, and deposits in the California LAIF.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments – The State of California's statutes and the State Bar's investment policy authorize the State Bar to invest its cash surplus in U.S. Treasury obligations, obligations of U.S. agencies, bankers' acceptances, collateralized bank deposits, negotiable certificates of deposit, commercial paper, repurchase agreements secured by U.S. Treasury or agency obligations, reverse repurchase agreements, corporate bonds, medium term notes, and mortgage backed securities. Investment transactions are recorded on the trade date, and all investments are reported at estimated fair value. The fair value represents the amount the State Bar could reasonably expect to receive for an investment in a current sale between a willing buyer and seller. The fair value of investments is obtained by using quotations from independent published sources.

Restricted cash – The State Bar's loan agreement contains certain covenants that include the maintenance of a $7.1 million and $4.6 million deposit with Bank of America as a debt service reserve fund, which is classified as restricted cash as of December 31, 2016 and 2015, respectively.

Capital Assets – Capital assets are stated at cost, net of accumulated depreciation and amortization, determined using the straight-line method over the estimated useful lives of forty years for buildings, ten years for furniture and fixtures, and from four to seven years for equipment and software. Leasehold improvements and equipment acquired under capital leases are amortized over the shorter of the term of the lease or the useful life of the equipment. The State Bar's policy is to capitalize acquisitions of capital assets with a useful life greater than one year and a cost of $5,000 or more.

Unearned Fees Collected in Advance – Unearned fees collected in advance are recognized as income when earned. Accordingly, fees are recorded as revenue in the year to which the fees apply. Fees received but not yet earned are recorded as unearned fees collected in advance in the accompanying statements of net position.

Operating Revenues and Expenses – Operating revenues and expenses consist primarily of income earned or expenses incurred related to admission, discipline and regulation of attorneys, and other programs that enhance lawyer ethics and competence or improve the quality of legal services and the justice system. All other amounts are considered nonoperating. Expenses incurred for purposes for which restricted and unrestricted assets are available are first satisfied with restricted assets, to the extent available.

Nonoperating Revenues – Nonoperating revenues consist of investment income, realized and unrealized gains or losses on investments, rental income, and interest expense on loan.

The Legal Services Trust Fund Program – The Legal Services Trust Fund Program administers three funds: Interest on Lawyers' Trust Accounts ("IOLTA"), the state Equal Access Fund ("EAF") and the Justice Gap Fund. These funds are granted to nonprofit organizations that provide free civil legal services to low-income Californians. The Legal Services Trust Fund receives interest on attorney-client trust accounts. Revenue is recognized as income when earned, and grant expense is recognized in the period in which the Legal Services Trust Fund Commission awards the grants. EAF receives grants from the State Judicial Council. Grant revenue and corresponding expense are recognized as income and expense in the year to which the grants apply, based on the grant contracts. The Justice Gap Fund receives contributions from members. Revenue is recognized as income when received.

Accounts and Other Receivables – Accounts and other receivables consist of rental income receivable and State Bar Journal display advertising income receivable. Revenue is recognized as income when earned in the period to which the revenue applies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – Compensated absences reports the noncurrent portion for earned but unused vacation and sick leave benefits. State Bar employees have a vested interest in accrued compensated absences.

Net Pension Liability – Net pension liability is reported in accordance with the provisions of, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. See note 8 for related disclosures.

Other Postemployment Benefits – Other postemployment benefits are reported in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. See note 9 for related disclosures.

Client Security Fund ("CSF") Application – CSF application liabilities are determined in accordance with Business and Professions Code section 6140.5. This section authorizes the State Bar to establish the CSF to "relieve or mitigate pecuniary losses caused by the dishonest conduct of those active members of the bar." Payment from CSF is completely discretionary. The State Bar is free to prescribe applicable regulations and conditions for payments and no applicant to the program has any right to payment. In 2012, the State Bar conducted a legal analysis of CSF and the governing rules of the program and determined that when a CSF application is finally approved by the Committee, it will be recognized as an outstanding obligation in the State Bar's financial statement. There are 4,253 applications pending for processing as of December 31, 2016, in the amount of $50.9 million, and for December 31, 2015, there were 5,465 pending applications in the amount of $49.8 million. As of December 31, 2016, estimated application payout amount is $23.5 million based on a rolling average of 24 month historical applications payout ratio of 46.2%. Cash and investments available for application reimbursement in the CSF were approximately $1.4 million as of December 31, 2016.

Restricted Net Position – Restricted net position reflects the net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, trust agreements, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Restricted net position was $102.1 million as of December 31, 2016, of which $81.6 million was restricted by enabling legislation; and $56.4 million as of December 31, 2015, of which $38.6 million was restricted by enabling legislation.

Net Investments in Capital Assets – Net investments in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of mortgages, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted Net Position – Unrestricted net position includes all resources for which management or the Board of Trustees holds discretion over their use in advancement of the State Bar's objectives. The Unrestricted Net Positions were negative $12.7 million as of December 31, 2016, and negative $20.6 million as of December 31, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. These estimates and assumptions affect the reported amounts of assets and liabilities, the 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.

Reclassifications – Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Implementation of New Accounting Standards

GASB Statement No. 72 – In February 2015, GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for period beginning after June 15, 2015. As of December 31, 2016, the State Bar has implemented GASB Statement No. 72. See accompanying note 4 to the financial statements for additional information.

GASB Statement No 73 – In June 2015, GASB issued GASB Statement No. 73, *Accounting and Financial Reporting For Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. This Statement establishes requirements for defined contribution pensions that are not within the scope of GASB Statement 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement extend the approach to accounting and financial reporting established in GASB Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by GASB Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. The requirements of this Statement are effective for financial statements for period beginning after June 15, 2015. The State Bar has evaluated this pronouncement and determined that GASB Statement No. 73 has no impact to its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 75 – In June 2015, GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.* This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 75, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The requirements of this Statement are effective for financial statements for period beginning after June 15, 2017. The State Bar will evaluate this pronouncement and determine the impact to its 2018 financial statements.

GASB Statement No. 79 – In December 2015, GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. The requirements of this Statement are effective for financial statements for period beginning after December 15, 2015. The State Bar has evaluated this pronouncement and determined that GASB Statement No. 79 has no impact to its financial statements.

GASB Statement No. 80 – In January 2016, GASB issued GASB Statement No. 80, *Blending Requirements For Certain Component Units – an amendment of GASB Statement No. 14.* This Statement clarifies the financial statement presentation requirements for certain component units and it amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The State Bas will evaluate this pronouncement and determine the fiscal impact to its 2017 financial statements.

GASB Statement No. 82 – In March 2016, GASB issued GASB Statement No. 82 *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 is not effective for the State Bar until fiscal year ending December 31, 2017. The State Bar will evaluate this pronouncement and determine the fiscal impact to its 2017 financial statements.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents – Cash and cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. Cash equivalents consisted of demand deposit accounts, money market accounts, and deposits in LAIF. As of December 31, 2016, the carrying amount of the State Bar's deposits was $54,641,715 and the bank balance was $56,776,211. At December 31, 2015, the carrying amount of the State Bar's deposits was $66,356,858 and the bank balance was $62,116,115. The difference between the carrying amount and the bank balance represents outstanding checks and deposits in transit. The State Bar's deposits were insured up to $250,000 by the Federal Deposit Insurance Corporation and the balance in excess of $250,000 was fully collateralized.

The State Bar invests in the LAIF. LAIF is part of the State of California Pooled Money Investment Account ("PMIA"). The value of the pool shares in LAIF is determined on an amortized cost basis, which approximates fair value. PMIA is not SEC-registered and is not rated, but is required to invest according to the California State Code. The Local Investment Advisory Board, which consists of five members designated by state statutes, has oversight responsibility for LAIF.

As of December 31, 2016, the PMIA balance was $73.7 billion, of which 97.3% is invested in nonderivative financial products with 0.5% in structured notes and 2.2% in asset-backed securities. The total amount invested by all public agencies in LAIF was $21.6 billion, and the State Bar's investment in LAIF was $43.9 million. The average maturity of PMIA investments was 171 days as of December 31, 2016. As of December 31, 2015, the PMIA balance was $65.6 billion, of which 98.2% is invested in nonderivative financial products with 0.3% in structured notes and 1.5% in asset-backed securities. The total amount invested by all public agencies in LAIF was $20.3 billion, and the State Bar's investment in LAIF was $49.1 million. The average maturity of PMIA investments was 179 days as of December 31, 2015.

Investments – It is the investment policy of the State Bar 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 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. Investment of funds is governed by the State Bar's investment policy, as discussed under note 3.

Investments by type as of December 31, 2016 and 2015, are as follows:

	2016	2015
U.S. government agencies	$ 68,121,327	$ 20,968,350
Certificate of deposit	-	745,032
Corporate bonds	2,993,220	-
Equity securities	158,221	141,545
Total investments	$ 71,272,768	$ 21,854,927

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, interest rate risk, and credit risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Fair Value of Investments – GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument.

GASB Statement No. 72 applies to financial reports of all state and local governmental entities and the requirements of this Statement are effective for reporting periods beginning after June 15, 2015. The State Bar has adopted GASB Statement No. 72 for the year ended December 31, 2016 and recognized a three-tiered fair value hierarchy, as follows:

Level 1 – Quoted prices active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market actively and that are significant to the fair value of the assets or liabilities.

The fair value measurements of investments for December 31, 2016 and 2015, are as follows:

		Fair Value Measurements Using		
Description	**12/31/2016**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level				
U.S. government securities				
Government agencies	$ 68,121,327	$ -	$ 68,121,327	$ -
Corporate, municipal and foreign bonds				
Corporate bonds	2,993,220	-	2,993,220	-
Common stock				
Common stock	158,221	158,221	-	-
Total investments measured at fair value	$ 71,272,768	$ 158,221	$ 71,114,547	$ -

		Fair Value Measurements Using		
Description	**12/31/2015**	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level				
U.S. government securities				
Government agencies	$ 20,968,350	$ -	$ 20,968,350	$ -
Certficates of deposit				
Certficates of deposit	745,032	-	745,032	-
Common stock				
Common stock	141,545	141,545	-	-
Total investments measured at fair value	$ 21,854,927	$ 141,545	$ 21,713,382	$ -

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Government securities and corporate bonds classified in Level 2 are valued using the following approaches:

- U.S. Treasuries, U.S. Agencies, and Commercial Paper: quoted prices for identical securities in markets that are not active;
- Corporate and Municipal Bonds: quoted prices for similar securities in active markets;
- Repurchase Agreements, Negotiable Certificates of Deposit, and Collateralized Debt Obligations: matrix pricing based on the securities' relationship to benchmark quoted prices;
- Money Market, Bond, and Equity Mutual Funds: published fair value per share (unit) for each fund.

Custodial Credit Risk – The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The California Government Code and the State Bar's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments; however, the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state laws (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Concentration of Credit Risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the State Bar to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. The investment policy of the State Bar contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total State Bar's investments subject to concentration of credit risk are as follows:

Issuer	Investment Type	2016 Fair Value	2015 Fair Value
Federal Home Loan Bank	U.S. government agencies	$ 10,995,420	$ 5,995,170
Federal Farm Credit Bank	U.S. government agencies	$ 27,916,940	$ 5,990,220
Federal Home Loan Mortgage Corp	U.S. government agencies	$ 29,208,967	$ 8,982,960

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The terms of a debt investment may cause its fair value to be highly sensitive to changes in interest rates. Fixed income security investments subject to interest rate risk at December 31, 2016 and 2015, are as follows:

	Fair Value	Fair Value as a Percentage of Fixed Income Securities	Weighted Average Maturity (Years)
December 31, 2016			
U.S. government agencies	$ 68,121,327	95.8%	1.11
Corporate Bonds	2,993,220	4.2%	0.04
	$ 71,114,547	100%	
December 31, 2015			
U.S. government agencies	$ 20,968,350	100%	0.77

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the State Bar's investment policy limit the State Bar's investment in commercial paper to the rating of P-1 or better by Moody's Investors Service, or A-1 or higher by Standard & Poor's; corporate bonds to the rating of A by Moody's Investors Service or Standards & Poor's; and mutual funds to institutions rated within the top two ratings of a nationally recognized rating service. No limits are placed on U.S. government agency securities.

Fixed income security investments that are subject to credit risk at December 31, 2016 and 2015, are as follows:

	2016		2015	
	Fair Value	Fair Value as a Percentage of Fixed Income Securities	Fair Value	Fair Value as a Percentage of Fixed Income Securities
S & P's rating				
AA+	$ 68,121,327	95.8%	$ 20,968,350	100.0%
AA-	2,993,220	4.2%	-	-
Total fixed income securities	$ 71,114,547	100.0%	$ 20,968,350	100.0%

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015, are as follows:

	Balance January 1, 2016	Increases	Decreases	Balance December 31, 2016
Capital assets, not being depreciated:				
Land	$ 19,537,615	$ -	$ -	$ 19,537,615
Total capital assets, not being depreciated	19,537,615	-	-	19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	88,601,937	-	-	88,601,937
180 Howard tenant improvements	2,665,729	3,113,758	-	5,779,487
Equipment and software	8,623,120	-	-	8,623,120
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	105,402,885	3,113,758	-	108,516,643
Less accumulated depreciation for:				
Buildings and leasehold improvements	(18,029,505)	(2,255,419)	-	(20,284,924)
180 Howard tenant improvements	(791,834)	(422,876)	-	(1,214,710)
Equipment and software	(6,705,285)	(781,585)	-	(7,486,870)
Furniture and fixtures	(2,408,339)	(383,672)	-	(2,792,011)
Total accumulated depreciation	(27,934,963)	(3,843,552)	-	(31,778,515)
Total capital assets, being depreciated, net	77,467,922	(729,794)	-	76,738,128
Capital assets, net	$ 97,005,537	$ (729,794)	$ -	$ 96,275,743

	Balance January 1, 2015	Increases	Decreases	Balance December 31, 2015
Capital assets, not being depreciated:				
Land	$ 19,537,615	$ -	$ -	$ 19,537,615
Total capital assets, not being depreciated	19,537,615	-	-	19,537,615
Capital assets, being depreciated:				
Buildings and leasehold improvements	88,601,937	-	-	88,601,937
180 Howard tenant improvements	2,712,496	38,838	(85,605)	2,665,729
Equipment and software	8,623,120	-	-	8,623,120
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	105,449,652	38,838	(85,605)	105,402,885
Less accumulated depreciation for:				
Buildings and leasehold improvements	(15,774,087)	(2,255,418)	-	(18,029,505)
180 Howard tenant improvements	-	(791,834)		(791,834)
Equipment and software	(5,761,771)	(943,514)	-	(6,705,285)
Furniture and fixtures	(2,024,667)	(383,672)	-	(2,408,339)
Total accumulated depreciation	(23,560,525)	(4,374,438)	-	(27,934,963)
Total capital assets, being depreciated, net	81,889,127	(4,335,600)	(85,605)	77,467,922
Capital assets, net	$ 101,426,742	$ (4,335,600)	$ (85,605)	$ 97,005,537

Depreciation expense for the years ended December 31, 2016 and 2015 was $3,843,552 and $4,374,438, respectively.

5. CAPITAL ASSETS (Continued)

Assembly Bill ("AB") No. 3049 was signed into law in July 2008, and authorized a $10 special assessment fee in the State Bar's membership fee beginning in 2009 and ending by December 31, 2013. AB 3049 required that all fees collected under this provision from January 1, 2009, be accumulated and reserved in a special fund for the construction, purchase or lease of a facility in southern California upon the expiration of the State Bar's existing lease of a facility in Los Angeles in January 2014.

To meet the requirements of AB 3049, in November 2012, the State Bar purchased real property located at 845 South Figueroa Street in Los Angeles for $50 million. To finance this purchase, the State Bar sold its parking lot in Los Angeles for $29 million, and also entered into a 15-year loan agreement in the amount of $25.5 million with Bank of America, N.A. The construction on this property was completed and in operating in January 2014.

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

At December 31, 2016 and 2015, current accounts payable and other liabilities consisted of the following:

	2016	2015
Accounts payable	$ 9,141,952	$ 5,402,928
Compensated absences	3,571,125	3,584,113
Other liabilities	1,356,418	1,020,806
Total accounts payable and other liabilities	$ 14,069,495	$ 10,007,847

Obligations that are due within a year are presented as current liabilities in the statements of net position. Compensated absences include noncurrent portions that are due beyond one year. The table below provides additional information for these balances:

	Balance January 1, 2016	Additions	Retirements	Balance December 31, 2016	Amount Due within One Year
Compensated absences	$ 4,145,489	$ 4,229,949	$ (4,311,578)	$ 4,063,860	$ 3,571,125

	Balance January 1, 2015	Additions	Retirements	Balance December 31, 2015	Amount Due within One Year
Compensated absences	$ 4,239,224	$ 4,490,837	$ (4,584,572)	$ 4,145,489	$ 3,584,113

7. LOAN PAYABLE

On November 1, 2012, the State Bar entered into a Real Estate Loan Agreement in the amount of $25,500,000 with Bank of America, N.A. for the purpose of financing the costs of purchasing real property located at 845 South Figueroa Street, Los Angeles, California 90017. The loan bears a tax-exempt fixed rate of 4.26% per year and is due on November 1, 2027, with a fiscal monthly payment of $191,802. The loan agreement contains certain covenants including the maintenance of a $4.6 million deposit with Bank of America as debt service reserve fund, and requirements to provide financial information and statements. In addition, on April 22, 2016, the State Bar entered into a Real Estate Loan Agreement in the amount of $10,000,000 with Bank of America, N.A. for the purpose of financing the costs of Tenant Improvement located at 180 Howard Street, San Francisco, CA 94105. The loan bears a tax-exempt fixed rate of 4.26% per year and is due on April 1, 2026, with a fiscal monthly payment of $104,218. The loan agreement contains certain covenants including the maintenance of a $2.5 million deposit with Bank of America as debt service reserve fund, and requirements to provide financial information and statements. Taken together with the Los Angeles building debt service reserve, over $7.1 million is currently encumbered as a capital obligation security. As of December 31, 2016, the outstanding loan balance of the San Francisco loan and the Los Angeles loan were $9,398,798 and $19,939,281, respectively.

	San Francisco	Los Angeles	Total
Term loan - Bank of America, December 31, 2015	$ -	$ 21,358,525	$ 21,358,525
Additions	10,000,000	-	10,000,000
Repayments	(601,202)	(1,419,244)	(2,020,446)
Balance as of December 31, 2016	$ 9,398,798	$ 19,939,281	$ 29,338,079
Current loan payable	$ 830,552	$ 1,475,433	$ 2,305,985
Noncurrent loan payable	8,568,246	18,463,848	27,032,094
Balance as of December 31, 2016	$ 9,398,798	$ 19,939,281	$ 29,338,079

The annual repayment schedule as of December 31, 2016, is as follows:

Year Ending December 31,	Principal	Interest
2017	$ 2,305,985	$ 1,246,248
2018	2,409,275	1,142,959
2019	2,517,199	1,035,034
2020	2,629,965	922,268
2021	2,747,791	804,442
2022-2026	14,662,301	2,072,415
2027-2029	2,065,563	44,256
Total	$ 29,338,079	$ 7,267,622

8. PENSION PLAN

Plan Description – The State Bar's defined benefit plan, the Miscellaneous Plan of the State Bar of California ("Plan"), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating entities within the State of California. All full-time State Bar employees must participate in the Plan. Benefits vest after five years of service. Benefit provisions under the Plan are established by State statute. The State Bar has contracted with CalPERS for employee retirement benefits since the 1950's. Amendments to the Plan are authorized by resolution of the Board of Trustees. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members who are hired prior to January 1, 2013, with five years of total service are eligible to retire at age 50 and members who were hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52. As of December 31, 2016, the State Bar's pension plan included 531 active members and 422 retirees and beneficiaries received benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The State Bar has the right to modify the pension plan provisions prospectively at its discretion.

The Plan's provisions and benefits in effect at December 31, 2016, are summarized as follows:

	Miscellaneous	
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.0%	6.5%
Required employer contribution rates	8.798% - 9.952%	8.798% - 9.952%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The State Bar of California is required to contribute the difference between the actuarially determined rate and the contribution of employees.

8. PENSION PLAN (Continued)

Net Pension Liability – The net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability for the Plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016 using standard procedures. A summary of principal assumptions and methods used to determine the pension liability is shown below.

Actuarial assumptions – the total pension liability in the June 30, 2016, actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	30-Jun-15
Measurement Date	30-Jun-16
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all Funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015, valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund ("PERF"). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management ("ALM") review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and 68 calculations through at least the 2018 fiscal year.

8. PENSION PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11 to 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Current Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

8. PENSION PLAN (Continued)

Changes in the Net Pension Liability – The changes in the Net Pension Liability for the Miscellaneous Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**
Balance at June 30, 2015	$ 311,622,656	$ 280,465,694	$ 31,156,962
Changes in the year:			
Service cost	$ 7,565,782	$ -	$ 7,565,782
Interest on the total pension liability	24,173,396	-	24,173,396
Differences between actual and expected	-	-	-
experience	6,742,939	-	6,742,939
Contribution - employer	-	4,864,102	(4,864,102)
Contribution - employee	-	3,437,015	(3,437,015)
Net investment income	-	1,591,381	(1,591,381)
Administrative expenses	-	(170,929)	170,929
Benefit payments, including refunds of employee contributions	(12,312,756)	(12,312,756)	-
Net changes	26,169,361	(2,591,187)	28,760,548
Balance at June 30, 2016	$ 337,792,017	$ 277,874,507	$ 59,917,510

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the State Bar, calculated using the discount rate for each Plan, as well as what the Local Government's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decease 6.65%	**Current Discount Rate 7.65%**	**1% Increase 8.65%**
Plan's net pension liability	$ 104,943,200	$ 59,917,510	$ 22,427,595

8. PENSION PLAN (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For the year ended December 31, 2016, the State Bar recognized pension expense of $10,230,754 and deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ (2,511,622)
Differences between actual and expected experience	5,614,104	-
Contributions made after the measurement date: June 30, 2016	2,962,064	-
Net differences between protected and actual earning on plan investments	24,661,483	(9,458,633)
Total	$ 33,237,651	$ (11,970,255)

$2,962,064 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2017	$ 3,013,431
2018	3,325,326
2019	8,033,187
2020	3,933,388
2021	-
Thereafter	-
	$ 18,305,332

9. OTHER POSTEMPLOYMENT BENEFITS ("OPEB")

Plan Description – The State Bar administers a single-employer defined benefit Post-Retirement Welfare Benefits Plan for Executive Staff Employees ("OPEB Plan"). The OPEB Plan provides postretirement health care benefits for its eligible executive staff employees. Under the provisions of the OPEB Plan, a committee ("Committee") was established to operate and administer the OPEB Plan in accordance with the terms of the OPEB Plan. The Committee is composed of the Treasurer of the Board of Trustees, the President of the Board of Trustees, and the Executive Director, or their designees.

9. OTHER POSTEMPLOYMENT BENEFITS ("OPEB") (Continued)

For executive staff employed as of August 19, 2006, eligibility requires 15 years of services to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires 15 years of service to the State Bar as a regular employee, with at least the last ten years of service preceding retirement as an executive staff employee. The employee must also elect to receive retirement benefits effective within 120 days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age. The OPEB Plan included 49 and 54 active executive staff employees as of December 31, 2016 and 2015, respectively, and 69 and 62 retirees and beneficiaries received benefits as of December 31, 2016 and 2015, respectively. The State Bar has the right to modify plan provisions prospectively at its discretion.

On December 15, 2008, the State Bar created an irrevocable trust for the OPEB Plan ("OPEB Trust") to set aside assets to fund the cost of retiree health care benefits to eligible executive employees. The OPEB Trust was administered by the State Bar and was presented as a fiduciary fund in the State Bar's financial statements. Separate financial statements are not prepared for the OPEB Trust. In December 2012, the State Bar began to transfer funds from the OPEB Trust managed by Wells Fargo Bank to a higher-yielding California Employers' Retiree Benefit Trust ("CERBT") managed by CalPERS and, on an ongoing basis, to make annual transfers to the CERBT to pay the State Bar's Annual Required Contribution ("ARC"), as determined by the State Bar's actuary. The first $3 million OPEB asset transfer to CalPERS was completed in December 2012, and the remaining OPEB assets balance of $11.4 million was transferred to CalPERS in 2013. In 2014, there were no assets in the OPEB Trust. The State Bar decided to leave the trust dormant rather than terminating it so that there is flexibility to reactivate it in the future if necessary. CalPERS issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, California, 95814.

Funding Policy – Contributions to the OPEB Plan are made by the State Bar at the Committee's direction. Based on actuarial valuations of the OPEB Plan as of June 30, 2015, the annual required contributions is $902,819 for both years ended December 31, 2016 and 2015.

Annual OPEB Cost and Net OPEB Asset – The following table shows the calculation of the annual required contribution, annual OPEB cost, the amount contributed to the OPEB Plan, and changes in the State Bar's OPEB asset.

	2016	2015
Determination of Net OPEB Asset		
Annual required contribution (ARC)	$ 902,819	$ 902,819
Interest on prior year net OPEB asset	(587,536)	(406,724)
Adjustment to ARC	671,131	464,592
Annual OPEB cost	986,414	960,687
State Bar contributions made	1,986,413	3,974,231
Increase in net OPEB asset	999,999	3,013,544
Net OPEB asset - January 1	9,792,271	6,778,727
Net OPEB asset - December 31	$ 10,792,270	$ 9,792,271

9. OTHER POSTEMPLOYMENT BENEFITS ("OPEB") (Continued)

The following table shows the annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan and the net OPEB asset for the last three years.

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
12/31/16	$ 986,414	201.4%	$ 10,792,270
12/31/15	$ 960,687	413.7%	$ 9,792,271
12/31/14	$ 1,714,251	131.2%	$ 6,778,727

Funded Status and Funding Progress—As of June 30, 2015, the most recent actuarial valuation date, the plan was 83.0% funded. The actuarial accrued liability for the benefits was $22.6 million and the actuarial value of assets based on market value was $18.8 million, resulting in an unfunded accrued liability of $3.8 million.

Actuarial accrued liability (AAL)	$ 22,645,246
Actuarial value of plan assets (Valuation basis: Market)	18,788,226
Unfunded actuarial accrued liability (UAAL)	$ 3,857,020
Funded ratio (actuarial value of plan assets/AAL)	83.0%
Annual covered payroll (active plan members)	$ 8,751,565
UAAL as percentage of annual covered payroll	44.1%

Actuarial Cost Method and Assumptions – Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress – Post Retirement Welfare Benefits Trust, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

Projections of benefits are based on the types of benefits provided under the substantive plan (the plan as understood by the employer and plan member) at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Accordingly, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Annual required contributions for the year ended December 31, 2016 and 2015, were based on the actuarial valuation as of June 30, 2015. The actuarial methods and significant assumptions used in both actuarial valuations are the same unless otherwise specified. The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees. In determining the annual required contribution, the unfunded actuarial accrued liability is amortized on an open basis as a level dollar amount over 30 years.

9. OTHER POSTEMPLOYMENT BENEFITS ("OPEB") (Continued)

The actuarial valuation as of June 30, 2015, assumed a 6.0% rate of return and an annual vision cost trend rate of 4%. The medical cost trend rate started at 4% in calendar year 2016, graded down by 0.25% to an ultimate rate of 4.5% in 2070 and beyond. The actuarial valuation as of June 30, 2013, assumed a 6.0% rate of return and an annual vision cost trend rate of 4%. The medical cost trend rate of 7.25% in calendar year 2014, to an ultimate rate of 4.5% in 2079 and beyond.

10. RISK MANAGEMENT

The State Bar is exposed to various risks of loss, including those related to property loss or damage, torts, errors and omissions, employee theft, and workers' compensation. The State Bar has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The State Bar's Office of General Services and Office of General Counsel review risks to which the State Bar is exposed and ensure that sufficient insurance coverage is in place.

11. COMMITMENTS AND CONTINGENCIES

Litigation – The State Bar is a defendant in various lawsuits. It is management's opinion, based on the advice of legal counsel, that the outcome of these matters will not have a material adverse effect on the financial position and results of operations of the State Bar. However, the outcome of certain lawsuits and tort claims related to disciplinary actions against members, attorney malpractice, and employee wrongful termination and discrimination is considered indeterminable and the range of possible loss is uncertain. As such, no provision has been recorded in the financial statements as of December 31, 2016 and 2015.

Leases – The State Bar leases certain office space at its primary facilities in San Francisco and Los Angeles, California, to tenants under various lease agreements. The carrying amounts of the leased portions of the San Francisco and Los Angeles buildings have not been determined. Future minimum lease revenue under these noncancelable operating leases at December 31, 2016, are as follows:

	Future Minimum Revenue	
Year Ending December 31,	San Francisco	Los Angeles
2017	$ 1,521,213	$ 396,656
2018	1,529,568	396,656
2019	1,078,021	396,656
2020	788,914	396,656
2021	159,616	396,656
Thereafter	186,104	5,468,895
	$ 5,263,436	$ 7,452,175

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THE STATE BAR OF CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

Schedule of Pension Liability

Measurement Period Ended June 30	2016	2015
TOTAL PENSION LIABILITY		
Service Cost	$ 7,565,782	$ 7,286,606
Interest on total pension liability	24,173,396	22,279,424
Differences between expected and actual experience	6,742,939	1,619,738
Changes in assumptions	-	(5,466,470)
Benefit payments, including refunds of employee contributions	(12,312,756)	(11,068,730)
Net change in total pension liability	26,169,361	14,650,568
Total pension liability - beginning	311,622,656	296,972,088
Total pension liability - ending	$ 337,792,017	$ 311,622,656

Schedule of Plan Fiduciary Net Position – Pension

Contributions - employer	$ 4,864,102	$ 4,167,567
Contributions - employee	3,437,015	3,387,652
Net investment income	1,591,381	6,203,991
Benefit payments, including refunds of employee contributions	(12,312,756)	(11,068,730)
Administrative expenses	(170,929)	(316,734)
Net change in plan fiduciary net position	(2,591,187)	2,373,746
Plan fiduciary net position - beginning	280,465,694	278,091,948
Plan fiduciary net position - ending	$ 277,874,507	$ 280,465,694
Net pension liability - ending	$ 59,917,510	$ 31,156,962
Plan fiduciary net position as a percentage of the total pension liability	82.26%	90.00%
Covered - employee payroll	$ 48,452,015	$ 47,369,513
Net pension liability as percentage of covered-employee payroll	123.66%	65.77%

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension administrative expense.)

Schedule of Plan Contribution

The measurement period is for the year ended December 31,

Employer Fiscal Year End	2016	2015
Actuarially Determined Contribution	$ 4,864,102	$ 4,167,567
Covered-employee payroll	$ 52,783,553	$ 52,555,557
Contributions as a percentage of covered-employee payroll	9.22%	7.93%

The schedule of funding progress presents a consolidated snapshot of the State Bar's ability to meet current and future liabilities with its plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the pension plan. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

Schedule of Funding Progress – Post-Retirement Welfare Benefits Trust

The following table shows a schedule of funding progress required under GASB Statement No. 45.

Valuation date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
June 30, 2015	$ 22,645,246	$ 18,788,226	$ 3,857,020	83.0%	$ 8,751,565	44.1%
June 30, 2013	$ 25,857,708	$ 14,251,590	$ 11,606,118	55.1%	$ 8,433,008	137.6%
June 30, 2011	$ 22,669,821	$ 14,376,544	$ 8,293,277	63.4%	$ 6,969,210	119.0%

Schedule of Employer Contributions – Post-Retirement Welfare Benefits Trust

The following table shows the ARC and the percentage of ARC contributed to the OPEB Plan for the last three years.

Year Ended	Annual Required Contribution	Percent Contributed
12/31/16	$ 902,819	220.0%
12/31/15	$ 902,819	440.2%
12/31/14	$ 1,660,946	135.4%

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PROGRAM FUND DESCRIPTIONS

The State Bar maintains separate program funds. For financial statement purposes, the State Bar follows the "business-type" activities reporting requirement of GASB Statement No. 34 and all program funds are consolidated into one Enterprise Fund. For internal management reporting purposes, in 2015, nine program funds including the General Fund were consolidated into one Consolidated General Fund.

Consolidated General Fund – All revenues, expenses and other uses of sub-funds are accounted for in the General Fund. These funds are generally available for State Bar purposes, subject to budget priorities set by the Board. For internal management reporting purposes, the Consolidated General Fund consists of the following sub-funds:

- General Fund
- Howard Building Fund
- Legal and Education Development Fund
- Los Angeles Facility Fund
- Public Protection Fund
- Support and Administration Fund
- Technology Improvement Fund
- Fixed Assets Fund
- Benefits Reserve Fund

Other Program Funds

Admissions – The Admissions Fund accounts for fees and expenses related to administering the bar examination and other requirements for the admission to the practice of law in the State of California.

Annual Meeting – The Annual Meeting Fund accounts for Annual Meeting registration fees and expenses. The Annual Meeting Fund allocates its revenue and expenses among itself, the Conference of Delegates of California Bar Associations which operates as an independent entity, and the Sections Fund.

Bank Settlement – In March 2016, the State Bar's Legal Service Trust Fund Program received a $44.7 million bank settlement grant award as a result of a settlement between the U.S. Department of Justice and Bank of America. A separate program fund is established to track future grant distribution activities. The LSTF Commission approved a grant distribution plan to spend down the grant money in 2016 and future years. Approximately $0.7 million of this grant was distributed to eligible legal services organizations in 2016.

Sections – Accounts for the activities of sixteen sections, which consist of specific practice areas or areas of professional interest and provides members with a vehicle for communicating with each other, educating themselves, and commenting on relevant legislation. Resources are provided through assessments of the sections' membership and revenue from seminars and workshops.

Client Security – The Client Security Fund maintains funds from which members' clients can be reimbursed for pecuniary losses resulting from dishonest conduct on the part of their attorneys. Such reimbursement is discretionary and, currently, is not to exceed $100,000 per application for reimbursement on any one transaction, as prescribed by the Board of Trustees. Obligations are accrued in the statement of net positions based on final approved applications by the Client Security Fund Commission. This fund is replenished through annual assessments of $40 per active member and $10 per inactive member.

PROGRAM FUND DESCRIPTIONS (Continued)

Elimination of Bias and Bar Relations– The Elimination of Bias and Bar Relations Fund supports certain programs similar to those once undertaken by the Legal Services, Program Development and Bar Relations Offices. This fund is supported by a fee of $5 and is part of the annual membership fees; however, members have the option to not remit this fee.

Equal Access– Since 1999, the California Budget Act has included funds to provide free legal services in civil matters for indigent Californians. The funds are in the budget of the State Judicial Council for grants to be administered by the State Bar's Legal Services Trust Fund Commission through the Equal Access fund. The Administrative Office of the Courts contracts with the State Bar for the administration of these funds, which currently consist of grants to approximately 100 nonprofit legal aid organizations, and reimburses the State Bar for its administrative expenses.

In 2005, the Uniform Civil Fees and Standard Fee Schedule Act (AB 145) was approved by the Legislature and the Governor. The Act established a new distribution of $4.80 per filing to the Equal Access Fund. These revenues were collected by the trial courts starting in January 2006 to fund grants to nonprofit legal aid organizations for the grant year.

Grants– The Grants Fund is used to account for the various grants received and special projects undertaken by the State Bar.

Information Technology Special Assessment – The Information Technology Special Assessment Fund is used to upgrade the information technology system, including purchasing and maintenance costs of both computer hardware and software. This fund is supported by a special assessment fee of $10 and is part of annual membership fees to all active members, which sunsetted after December 31, 2013.

Justice Gap– The Justice Gap Fund is used to help close the justice gap for needy Californians by voluntary donations to legal aid, pursuant to AB 2301. Members may contribute more or less than the recommended donation or elect to make no donation.

Lawyers Assistance Program– The Lawyers Assistance Program Fund was established for the protection of the public, the courts and the legal profession by providing education, remedial, and rehabilitative programs to those members of the State Bar who are in need of assistance as a result of disability related to substance abuse or mental illness. This fund is replenished through annual assessments of $10 per active member and $5 per inactive member.

Legal Services Trust– Used to expand the availability and improve the quality of existing free legal services in civil matters to indigent persons and to initiate new programs that would provide such services. Under this program, interest earned on certain client trust accounts held by California attorneys is legally required to be forwarded to the State Bar and, after deduction of the State Bar's administrative costs, the remainder is to be distributed as grants. In addition, the Trust Fund is supplemented by an increase in the annual fee mandated by Section 6140.03 of the Business and Professions Code. In 2015, section 6140.3 allocated $40 of the membership fee to the Trust Fund. Under the legislation, members may elect to reduce their fees by this amount if they choose not to support the activities authorized under this bill. The funding associated with the $40 optional fee will be directed to the State Bar's Legal Services Trust Fund Program for distribution to nonprofit organizations that provide free civil legal services to low-income Californians.

PROGRAM FUND DESCRIPTIONS (Continued)

Legal Specialization– The Legal Specialization Fund accounts for the certification of legal specialists in areas of family law; criminal law, taxation law, immigration and nationality law, workers' compensation law, personal and small business bankruptcy law, estate planning, trust and probate law, and appellate law. Resources are provided by application fees, certification fees, recertification fees and annual membership fees.

Legislative Activities– The Legislative Activities Fund accounts for the consideration of measures that are deemed outside the parameters established in Keller vs. the State Bar, the purview determination and any litigation in support or defense of that lobbying. Such activities are funded by members electing to support these activities. This fee of $5 is part of the membership fees; however, members have the option to not remit this fee.

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF NET POSITION
DECEMBER 31, 2016

	Consolidated General Fund	Admissions	Annual Meeting	Grants	Sections
ASSETS					
Current assets					
Cash and cash equivalents	$ 54,641,715	$ -	$ -	$ -	$ -
Investments	71,272,768	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of $1,797,802	618,082	-	-	-	-
Interfund receivable	22,567,576	8,760,659	-	452,173	8,616,524
Other current assets	1,571,159	272,303	-	-	819
Total current assets	150,671,300	9,032,962	-	452,173	8,617,343
Noncurrent assets					
Restricted cash	7,105,000	-	-	-	-
Other postemployment benefits assets	10,792,270	-	-	-	-
Capital assets					
Nondepreciable	19,537,615	-	-	-	-
Depreciable, net	76,738,128	-	-	-	-
Total noncurrent assets	114,173,013	-	-	-	-
Total assets	264,844,313	9,032,962	-	452,173	8,617,343
Deferred outflows of resources	33,237,651	-	-	-	-
Total assets and deferred outflows of resources	298,081,964	9,032,962	-	452,173	8,617,343
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	6,292,363	248,394	15,738	-	117,240
Interfund payable	108,727,602	-	65,224	-	-
Unearned fees collected in advance	6,289,664	4,626,016	-	-	602,385
Loans payable	2,305,985	-	-	-	-
Grants payable	-	-	-	-	-
Total current liabilities	123,615,614	4,874,410	80,962	-	719,625
Noncurrent liabilities					
Loans payable	27,032,094	-	-	-	-
Compensated absences	403,489	33,202	2,052	-	11,627
Net pension liability	59,917,510	-	-	-	-
Total noncurrent liabilities	87,353,093	33,202	2,052	-	11,627
Total liabilities	210,968,707	4,907,612	83,014	-	731,252
Deferred inflows of resources	11,970,255	-	-	-	-
Total liabilities and deferred inflows of resources	222,938,962	4,907,612	83,014	-	731,252
NET POSITION					
Net investment in capital assets	66,937,664	-	-	-	-
Restricted for:	-				
Enabling legislation	1,230,154	4,125,350	-	-	7,886,091
Other restrictions	19,602,279	-	-	452,173	-
Unrestricted	(12,627,095)	-	(83,014)	-	-
Total net position	$ 75,143,002	$ 4,125,350	$ (83,014)	$ 452,173	$ 7,886,091

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF NET POSITION
DECEMBER 31, 2016

	Client Security	Elimination of Bias and Bar Relations	Equal Access	Information Technology Special Assessment	Justice Gap Fund	Lawyers Assistance Program
ASSETS						
Current assets						
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -
Investments	-	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of $1,797,802	-	-	8,866,400	-	-	-
Interfund receivable	2,253,667	519,599	-	1,216,759	1,659,420	3,221,913
Other current assets	-	-	-	-	-	-
Total current assets	2,253,667	519,599	8,866,400	1,216,759	1,659,420	3,221,913
Noncurrent assets						
Restricted cash	-	-	-	-	-	-
Other postemployment benefits assets	-	-	-	-	-	-
Capital assets						
Nondepreciable	-	-	-	-	-	-
Depreciable, net	-	-	-	-	-	-
Total noncurrent assets	-	-	-	-	-	-
Total assets	2,253,667	519,599	8,866,400	1,216,759	1,659,420	3,221,913
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	2,253,667	519,599	8,866,400	1,216,759	1,659,420	3,221,913
LIABILITIES						
Current liabilities						
Accounts payable and other liabilities	90,118	39,577	7,076,765	-	-	41,438
Interfund payable	-	-	36,360	-	-	-
Unearned fees collected in advance	724,301	9,573	-	-	-	191,636
Loans payable	-	-	-	-	-	-
Grants payable	-	-	-	-	-	-
Total current liabilities	814,419	49,150	7,113,125	-	-	233,074
Noncurrent liabilities						
Loans payable	-	-	-	-	-	-
Compensated absences	12,978	5,714	-	-	-	5,681
Net pension liability	-	-	-	-	-	-
Total noncurrent liabilities	12,978	5,714	-	-	-	5,681
Total liabilities	827,397	54,864	7,113,125	-	-	238,755
Deferred inflows of resources	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	827,397	54,864	7,113,125	-	-	238,755
NET POSITION						
Net investment in capital assets	-	-	-	-	-	-
Restricted for:						
Enabling legislation	1,426,270	-	1,753,275	1,216,759	1,659,420	2,983,158
Other restrictions	-	464,735	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total net position	$ 1,426,270	$ 464,735	$ 1,753,275	$ 1,216,759	$ 1,659,420	$ 2,983,158

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF NET POSITION
DECEMBER 31, 2016

Lawyers Assistance Program	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Interfund Elimination	Total	
							ASSETS
							Current assets
$ -	$ -	$ -	$ -	$ -	$ -	$ 54,641,715	Cash and cash equivalents
-	-	-	-	-	-	71,272,768	Investments
						-	Accounts and other receivables,
-	-	640,075	-	-	-	10,124,557	net of allowance for uncollectible accounts of $1,797,802
3,221,913	611,309	8,689,342	6,147,506	44,112,739	(108,829,186)	-	Interfund receivable
-	-	-	-	-	-	1,844,281	Other current assets
3,221,913	611,309	9,329,417	6,147,506	44,112,739	(108,829,186)	137,883,321	Total current assets
							Noncurrent assets
-	-	-	-	-	-	7,105,000	Restricted cash
-	-	-	-	-	-	10,792,270	Other postemployment benefits assets
						-	Capital assets
-	-	-	-	-	-	19,537,615	Nondepreciable
-	-	-	-	-	-	76,738,128	Depreciable, net
-	-	-	-	-	-	114,173,013	Total noncurrent assets
3,221,913	611,309	9,329,417	6,147,506	44,112,739	(108,829,186)	252,056,334	Total assets
-	-	-	-	-	-	33,237,651	Deferred outflows of resources
3,221,913	611,309	9,329,417	6,147,506	44,112,739	(108,829,186)	285,293,985	Total assets and deferred outflows of resources
							LIABILITIES
							Current liabilities
41,438	41,522	57,570	38,770	10,000	-	14,069,495	Accounts payable and other liabilities
-	-	-	-	-	(108,829,186)	-	Interfund payable
191,636	17,438	646,523	-	-	-	13,107,536	Unearned fees collected in advance
-	-	-	-	-	-	2,305,985	Loans payable
-	-	16,753	-	-	-	16,753	Grants payable
233,074	58,960	720,846	38,770	10,000	(108,829,186)	29,499,769	Total current liabilities
							Noncurrent liabilities
-	-	-	-	-	-	27,032,094	Loans payable
5,681	5,820	7,341	4,831	-	-	492,735	Compensated absences
-	-	-	-	-	-	59,917,510	Net pension liability
5,681	5,820	7,341	4,831	-	-	87,442,339	Total noncurrent liabilities
238,755	64,780	728,187	43,601	10,000	(108,829,186)	116,942,108	Total liabilities
-	-	-	-	-	-	11,970,255	Deferred inflows of resources
238,755	64,780	728,187	43,601	10,000	(108,829,186)	128,912,363	Total liabilities and deferred inflows of resources
							NET POSITION
-	-	-	-	-	-	66,937,664	Net investment in capital assets
							Restricted for:
2,983,158	546,529	8,601,230	6,103,905	44,102,739	-	81,634,880	Enabling legislation
-	-	-	-	-	-	20,519,187	Other restrictions
-	-	-	-	-	-	(12,710,109)	Unrestricted
$ 2,983,158	$ 546,529	$ 8,601,230	$ 6,103,905	$ 44,102,739	$ -	$ 156,381,622	Total net position

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
DECEMBER 31, 2016

	Consolidated General Fund	Admissions	Annual Meeting	Grants	Sections
OPERATING REVENUES					
Membership fees and donations	$ 66,978,337	$ 202,264	$ -	$ -	$ -
Examination application fees	-	19,283,821	-	-	-
Trust account revenue	-	-	-	-	-
Law practices (sections) fees	-	-	-	-	6,118,886
Seminar/workshop revenue	10,550	-	-	-	1,242,678
Advertising revenue	108,811	-	21,825	-	32,345
Convention income	-	-	597,986	-	602,766
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	1,475,984	-	-	-	-
Continuing legal education fees	805,130	256,885	-	-	-
Grant revenue	-	-	-	118,300	20,000
EAF AB145 filing fee revenue	-	-	-	-	-
Settlement Grants	-	-	-	-	-
Affinity Insurance revenue	2,283,203	-	-	-	-
Other revenue	514,730	671,863	59,390	-	1,144,448
Total operating revenues	72,176,745	20,414,833	679,201	118,300	9,161,123
OPERATING EXPENSES					
Chief Trial Counsel	38,708,988	-	-	-	-
State Bar Court	11,649,273	-	-	-	-
Member Records & Compliance	3,727,687	-	-	-	-
Professional Comptence	2,449,873	-	-	-	-
Probation	1,346,297	-	-	-	-
Mandatory Fee Arbitration	881,755	-	-	-	-
Judicial Evaluation	923,581	-	-	-	-
Commission on Access to Justice	20,571	-	-	-	-
Center on Access to Justice	1,731,845	-	-	-	-
California Young Lawyers Association	201,726	-	-	-	-
Communications	1,378,107	-	-	-	-
Governance	3,531,920	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-
Client Security Fund	-	-	-	-	-
Admissions	-	20,312,066	-	-	-
Grants	-	-	-	10,000	-
Sections	-	-	-	-	8,220,232
General and Administration	6,116,973	-	711,084	30,659	-
Total operating expenses	72,668,596	20,312,066	711,084	40,659	8,220,232
OPERATING INCOME/(LOSS)	(491,851)	102,767	(31,883)	77,641	940,891
NONOPERATING REVENUES					
Investment income	298,022	46,410	4,374	-	55,228
Rental income	1,938,029	-	-	-	-
Interest expense on loan	(882,593)	-	-	-	-
Total nonoperating revenues	1,353,458	46,410	4,374	-	55,228
INCOME/(LOSS) BEFORE TRANSFERS	861,607	149,177	(27,509)	77,641	996,119
Transfers in	2,418,109	-	14,413	-	7,490
Transfers out	(1,054,910)	(1,240)	-	-	(1,710,677)
Change in net position	2,224,806	147,937	(13,096)	77,641	(707,068)
NET POSITION—beginning of year	72,918,196	3,977,413	(69,918)	374,532	8,593,159
NET POSITION—end of year	$ 75,143,002	$ 4,125,350	$ (83,014)	$ 452,173	$ 7,886,091

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)
DECEMBER 31, 2016

	Client Security	Elimination of Bias and Bar Relations	Equal Access	Information Technology Special Assessment	Justice Gap
OPERATING REVENUES					
Membership fees and donations	$ 7,787,097	$ 801,360	$ -	$ -	$ 1,161,470
Examination application fees	-	-	-	-	-
Trust account revenue	-	-	-	-	-
Law practices (sections) fees	-	-	-	-	-
Seminar/workshop revenue	-	4,432	-	-	-
Advertising revenue	-	-	-	-	-
Convention income	-	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	-	-	-	-	-
Continuing legal education fees	-	-	-	-	-
Grant revenue	-	5,000	12,642,000	-	-
EAF AB145 filing fee revenue	-	-	3,800,000	-	-
Settlement Grants	-	-	-	-	-
Affinity Insurance revenue	-	-	-	-	-
Other revenue	14,650	-	457,500	-	-
Total operating revenues	7,801,747	810,792	16,899,500	-	1,161,470
OPERATING EXPENSES					
Chief Trial Counsel	-	-	-	-	-
State Bar Court	-	-	-	-	-
Member Records & Compliance	-	-	-	-	-
Professional Comptence	-	-	-	-	-
Probation	-	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-	-
Judicial Evaluation	-	-	-	-	-
Commission on Access to Justice	-	-	-	-	-
Center on Access to Justice	-	-	-	-	-
California Young Lawyers Association	-	-	-	-	-
Communications	-	-	-	-	-
Governance	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-
Client Security Fund	9,028,984	-	-	-	-
Admissions	-	-	-	-	-
Grants	-	-	14,837,423	-	-
Sections	-	-	-	-	-
General and Administration	-	1,037,861	472,127	-	18,336
Total operating expenses	9,028,984	1,037,861	15,309,550	-	18,336
OPERATING INCOME/(LOSS)	(1,227,237)	(227,069)	1,589,950	-	1,143,134
NONOPERATING REVENUES					
Investment income	29,932	4,203	2,392	5,566	3,785
Rental income	-	-	-	-	-
Interest expense on loan	-	-	-	-	-
Total nonoperating revenues	29,932	4,203	2,392	5,566	3,785
INCOME/(LOSS) BEFORE TRANSFERS	(1,197,305)	(222,866)	1,592,342	5,566	1,146,919
Transfers in	424,380	89,457	-	-	-
Transfers out	(1,245)	(429)	-	-	-
Change in Net Position	(774,170)	(133,838)	1,592,342	5,566	1,146,919
NET POSITION—beginning of year	2,200,440	598,573	160,933	1,211,193	512,501
NET POSITION—end of year	$ 1,426,270	$ 464,735	$ 1,753,275	$ 1,216,759	$ 1,659,420

THE STATE BAR OF CALIFORNIA
SUPPLEMENTARY INFORMATION
PROGRAM FUNDS SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)
DECEMBER 31, 2016

Lawyers Assistance Program	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Interfund Elimination	Total	
							OPERATING REVENUES
$ 2,046,465	$ 781,170	$ 6,408,751	$ -	$ -	$ -	$ 86,166,914	Membership fees and donations
-	-	-	-	-	-	19,283,821	Examination application fees
-	-	6,439,199	-	-	-	6,439,199	Trust account revenue
-	-	-	-	-	-	6,118,886	Law practices (sections) fees
-	-	-	-	-	-	1,257,660	Seminar/workshop revenue
-	-	-	-	-	-	162,981	Advertising revenue
-	-	-	-	-	-	1,200,752	Convention income
-	-	-	2,081,540	-	-	2,081,540	Legal specialization fees
-	-	-	-	-	-	1,475,984	Law corporation registration fees
-	-	-	12,075	-	-	1,074,090	Continuing legal education fees
-	-	-	-	-	-	12,785,300	Grant revenue
-	-	-	-	-	-	3,800,000	EAF AB145 filing fee revenue
-	-	-	-	44,778,670	-	44,778,670	Settlement Grants
-	-	-	-	-	-	2,283,203	Affinity Insurance revenue
-	-	-	3,747	-	-	2,866,328	Other revenue
2,046,465	781,170	12,847,950	2,097,362	44,778,670	-	191,775,328	Total operating revenues
							OPERATING EXPENSES
-	-	-	-	-	-	38,708,988	Chief Trial Counsel
-	-	-	-	-	-	11,649,273	State Bar Court
-	-	-	-	-	-	3,727,687	Member Records & Compliance
-	-	-	-	-	-	2,449,873	Professional Comptence
-	-	-	-	-	-	1,346,297	Probation
-	-	-	-	-	-	881,755	Mandatory Fee Arbitration
-	-	-	-	-	-	923,581	Judicial Evaluation
-	-	-	-	-	-	20,571	Commission on Access to Justice
-	-	-	-	-	-	1,731,845	Center on Access to Justice
-	-	-	-	-	-	201,726	California Young Lawyers Association
-	-	-	-	-	-	1,378,107	Communications
-	-	-	-	-	-	3,531,920	Governance
1,543,878	-	-	-	-	-	1,543,878	Lawyer Assistance Program
-	-	-	-	-	-	9,028,984	Client Security Fund
-	-	-	-	-	-	20,312,066	Admissions
-	-	15,220,879	-	740,000	-	30,808,302	Grants
-	-	-	-	-	-	8,220,232	Sections
-	532,163	1,438,722	1,435,809	91,278	-	11,885,012	General and Administration
1,543,878	532,163	16,659,601	1,435,809	831,278	-	148,350,097	Total operating expenses
502,587	249,007	(3,811,651)	661,553	43,947,392	-	43,425,231	OPERATING INCOME/(LOSS)
							NONOPERATING REVENUES
10,464	3,853	53,156	30,454	155,347	-	703,186	Investment income
-	-	-	-	-	-	1,938,029	Rental income
-	-	-	-	-	-	(882,593)	Interest expense on loan
10,464	3,853	53,156	30,454	155,347	-	1,758,622	Total nonoperating revenues
513,051	252,860	(3,758,495)	692,007	44,102,739	-	45,183,853	INCOME/(LOSS) BEFORE TRANSFERS
239,331	-	-	300	-	(3,193,480)	-	Transfers in
(2,244)	(420,680)	-	(2,055)	-	3,193,480	-	Transfers out
750,138	(167,820)	(3,758,495)	690,252	44,102,739	-	45,183,853	Change in net position
2,233,020	714,349	12,359,725	5,413,653	-	-	111,197,769	NET POSITION—beginning of year
$ 2,983,158	$ 546,529	$ 8,601,230	$ 6,103,905	$ 44,102,739	$ -	$ 156,381,622	NET POSITION—end of year

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Communications to
Those Charged with Governance

The State Bar of California

December 31, 2016

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

MOSS-ADAMS LLP
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 of the State Bar of California (the "State Bar") as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 27, 2017. 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 contract dated February 1, 2017, 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 contract dated February 1, 2017 and the audit planning meeting with your Audit Committee on January 16, 2017.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

MOSS-ADAMS LLP

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. During the year, the State Bar adopted Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASBB Statement 68 and Amendments to Certain Provisions of GASB 67 and 68*, and GASB Statement No. 79, *Certain External Investment Pools and pool Participants.* There have been no other new accounting policies adopted and there were no changes in the application of existing policies during the year ended December 31, 2016. 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 increases. These assumptions were provided by management from California Public Employees' Retirement System ("CalPERS") and management of the State Bar concurs with the assumptions. The estimate has been computed using a method that is acceptable under the guidelines set forth in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and Financial Reporting for Pensions,* GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and GASB Statement No. 73, *Accounting and financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASBB Statement 68 and Amendments to Certain Provisions of GASB 67 and 68.*

- 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 management of State Bar concurs with the assumptions. 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 deemed reasonable.

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.

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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 are:

- Disclosure of changes in the pension liability, and pension expense in Note 8 to the financial statements.
- Disclosure of Pension in Note 8 regarding the actuarial assumptions utilized in determining the State Bar's net pension liability.
- 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. There were no misstatements detected as a result of audit procedures.

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 27, 2017.

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.

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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.

Moss Adams LLP

San Francisco, California
April 27, 2017

THE STATE BAR OF CALIFORNIA

OFFICE OF THE EXECUTIVE DIRECTOR
Elizabeth R. Parker, Executive Director

180 HOWARD STREET, SAN FRANCISCO, CA 94105-1639
Tel: (415) 538-2275 Fax: (415) 538-2305
E-mail: Elizabeth.parker@calbar.ca.gov

April 27, 2017

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, 2016, and 2015, 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 United States generally accounting principles (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 $284,000 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.

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*, we confirm the following.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 1, 2014, and as modified by First Amendment of the agreement dated January 20, 2017, 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 is 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 agree with the findings of specialists in evaluating the liabilities for pension costs, health benefits, workers' compensation, and professional liability expenses and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

14. We believe that the actuarial assumptions and methods used to measure pension and post-retirement medical liabilities and costs for financial accounting purposes are appropriate in the circumstances.

15. The State Bar's pension plan contribution was authorized and the contribution is within accordance of the plan documents as of December 31, 2016 and 2015.

16. 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. If 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, not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon. We understand that audited financial statements are deemed to be readily available if a third party user can obtain the audited financial statements without any further action by us. For example, financial statements on our Web site may be considered readily available, but being available upon request is not considered readily available.

Information Provided

17. 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.
18. All transactions have been properly recorded in the accounting records and are reflected in the financial statements.
19. 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.
20. 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.
21. 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.
22. 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.
23. The 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.
24. 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.
25. 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.
26. 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.
27. 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.
28. 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.
29. 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.
30. The State Bar is in compliance with all provisions and covenants under its debt agreements.
31. We did not receive any membership dues that were restricted for long-term purposes.
32. We have appropriately classified all cash and investments as current or restricted on the financial statements.
33. We have appropriately recorded unearned revenue as of December 31, 2016, and 2015, and have appropriately recognized revenue for the years ended December 31, 2016 and 2015.

34. 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 statues 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.

35. We have appropriately classified restricted cash for debt reserve fund as noncurrent as of December 31, 2016 and 2015, due to the nature of the fund.

36. 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.

37. 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.

38. 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 an "agent multiple employer plan.

39. 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.

40. We have ensured that mandatory membership dues are not used to fund the Sections.

41. 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.

42. We have ensured the mandatory membership dues are not used to fund any successor entity to the Conference of Delegates of California Bar Associations.

43. 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.

44. The State Bar Access and Education Foundation, previously included as a blended component in the financial statements of the State Bar was dissolved in March 2016. This has been properly reflected and disclosed in the financial statements.

45. There are 4,253 Client Security Fund applications pending for processing as of December 31, 2016, in the amount of $50.9 million, and for December 31, 2015, there were 5,465 pending applications in the amount of $49.8 million. As of December 31, 2016, estimated application payout amount is $23.5 million based on a rolling average of 24 month historical applications payout ratio of 46.2%. Cash and investments available for application reimbursement in the CSF were approximately $1.4 million as of December 31, 2016.

46. Restricted net position was $102.1 million as of December 31, 2016, of which $81.6 million was restricted by enabling legislation; and $56.4 million as of December 31, 2015, of which $38.6 million was restricted by enabling legislation.

47. As of December 31, 2016, the PMIA balance was $73.7 billion, of which 97.3% is invested in nonderivative financial products with 0.5% in structured notes and 2.2% in asset-backed securities. The total amount invested by all public agencies in LAIF was $21.6 billion, and the State Bar's investment in LAIF was $43.9 million. The average maturity of PMIA investments was 171 days as of December 31, 2016.

48. It is the investment policy of the State Bar 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.

49. For executive staff employed as of August 19, 2006, eligibility requires fifteen years of service to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires fifteen years of service to the State Bar as a regular employee, with at least the last ten years of service preceding retirement as an executive staff employee. The employee must also elect to receive retirement benefits effective within one hundred twenty days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age. The OPEB Plan included forty-nine and fifty-four active executive staff employees as of December 31, 2016 and 2015, respectively, and sixty-nine and sixty-two retirees and beneficiaries received benefits as of December 31, 2016 and 2015, respectively. The State Bar has the right to modify plan provisions prospectively at its discretion.

50. Annual required contributions for the year ended December 31, 2016 and 2015, were based on the actuarial valuation as of June 30, 2015. The actuarial methods and significant assumptions used in both actuarial valuations are the same unless otherwise specified. The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees. In determining the annual required contribution, the unfunded actuarial accrued liability is amortized on an open basis as a level dollar amount over 30 years.

51. The actuarial valuation as of June 30, 2015, assumed a 6.0% rate of return and an annual vision cost trend rate of 4%. The medical cost trend rate started at 4% in calendar year 2016, graded down by 0.25% to an ultimate rate of 4.5% in 2070 and beyond. The actuarial valuation as of June 30, 2013, assumed a 6.0% rate of return and an annual vision cost trend rate of 4%. The medical cost trend rate of 7.25% in calendar year 2014, to an ultimate rate of 4.5% in 2079 and beyond.

52. The State Bar is exposed to various risks of loss, including those related to property loss or damage, torts, errors and omissions, employee theft, and workers' compensation. The State Bar has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The State Bar's Office of General Services and Office of General Counsel review risks to which the State Bar is exposed and ensure that sufficient insurance coverage is in place.

Elizabeth Parker

Elizabeth Parker, Executive Director & Chief Executive Officer

Leah Wilson, Chief Operations Officer

Christine Wong, Chief Financial Officer

Communication of
Internal Control Related Matters

The State Bar of California

December 31, 2016

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS

To the Board of Trustees
State Bar of California

In planning and performing our audit of the financial statements of the State Bar of California (the "State Bar"), as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State Bar's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given the limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Moss Adams LLP

San Francisco, California
April 27, 2017

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