THE STATE BAR OF CALIFORNIA

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Title of Report: 2016 Statement of Receipts Collected and Expenditures of the Sections of the State Bar of California

Statutory Citation: Business and Professions Code sections 6145 and 6031.5(a)

Date of Report: April 28, 2017

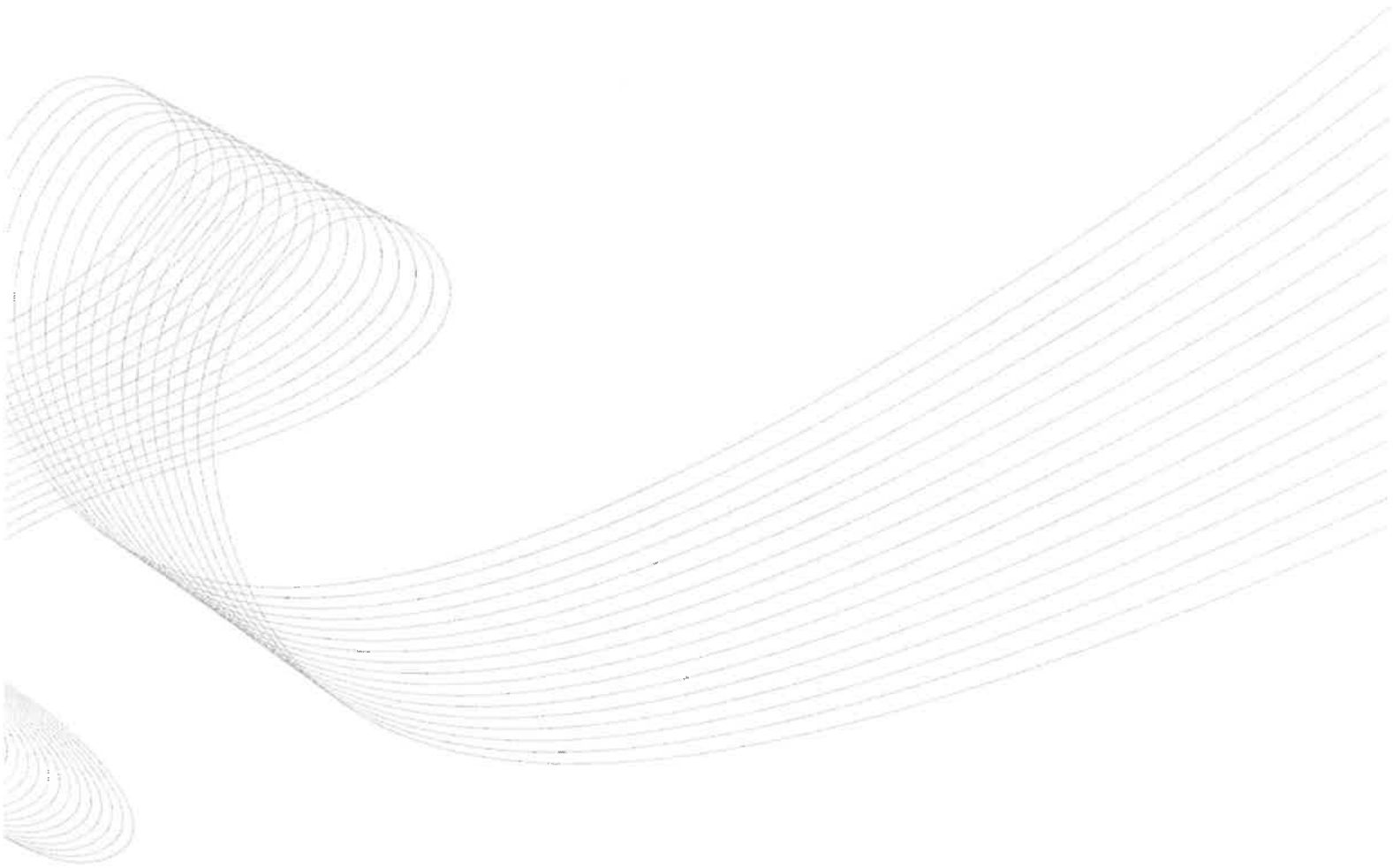
The State Bar of California is submitting its 2016 Statement of Receipts Collected and Expenditures of the Sections (the "Statement") to the Chief Justice of the Supreme Court, and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code sections 6145 and 6031.5(a).

This report consists of Sections' Statement of Receipts Collected and Expenditures for the year ended December 31, 2016, notes to statement and an opinion expressed by an independent auditor based on an examination conducted on Sections' receipts and expenditures. This examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. In the auditor's opinion, the Statement presents, in all material respects, the receipts collected and expenditures of the Sections of the State Bar of California for the year ended December 31, 2016 and complies with Business and Professions Code sections 6145 and 6031.5(a).

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.



Statement of Receipts Collected and
Expenditures of Sections and
Report of Independent Accountants

The State Bar of California

Year Ended December 31, 2016

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT ACCOUNTANTS

To the Boards of Directors
State Bar of California

We have examined the accompanying Statement of Receipts Collected and Expenditures of the Sections of the State Bar of California (the "Statement") for the year ended December 31, 2016 and the State Bar of California's compliance with sections 6145 and 6031.5(a) of The State Bar Act.

The Statement is the responsibility of the State Bar of California's management. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State Bar of California's compliance with specified requirements.

In our opinion, the Statement presents, in all material respects, the receipts collected and expenditures of the Sections of the State Bar of California for the year ended December 31, 2016 and complied with sections 6145 and 6031.5(a) of The State Bar Act, based on the criteria set forth in the note to the Statement.

This report is intended solely for the information and use of the Boards of Directors and Management of State Bar of California, and it 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

Praxity
MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

THE STATE BAR OF CALIFORNIA
STATEMENT OF RECEIPTS COLLECTED AND EXPENDITURES OF SECTIONS
YEAR ENDED DECEMBER 31, 2016

	2016
OPERATING REVENUES	
Membership fees	$ 6,118,886
Seminar/workshop revenue	1,242,678
Advertising revenue	32,345
Convention income	602,766
Grants	20,000
Other	1,144,448
Total operating revenue	9,161,123
NONOPERATING REVENUES	
Investment income	55,228
TOTAL OPERATING AND NONOPERATING REVENUES	9,216,351
OPERATING EXPENSES	
Salary and benefits	2,180,090
Travel and catering	2,738,916
Supplies and postage	271,380
Professional services	458,615
Occupancy	9,684
Telecommunications	58,653
Other outside services	851,658
Buildings and equipment	2,785
Legislative advocacy	121,925
Other expenditures	175,536
Indirect costs	1,350,990
Total operating expenses	8,220,232
OPERATING INCOME	$ 996,119

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF RECEIPTS COLLECTED AND EXPENDITURES OF SECTIONS
YEAR ENDED

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Entity – The State Bar of California ("State Bar") was first formed as a public corporation by the California State Legislature's passage of the State Bar Act on July 29, 1927. On November 8, 1960, voters amended the California Constitution to add the State Bar as a constitutional agency in the judicial branch of government. Membership in the State Bar and payment of an annual membership fee are required as a condition of the practice of law in the State of California.

The State Bar's Sections are voluntary organizations of attorneys and affiliates who share an area of interest. The Sections help their members maintain expertise in their various fields of law, expand their professional contracts, and serve the profession, the public and the legal system. The State Bar's Sections Fund accounts for the activities of sixteen sections, which consist of specific practice areas or areas of professional interest and provide members with a vehicle for communicating with each other, educating themselves, and commenting on relevant legislation. Each Section is governed by an executive committee of members appointed by the State Bar Board of Trustee. The Sections Fund belongs to the Special Revenue Fund Group in the State Bar's fund structure.

Basis of Accounting – To ensure observance of limitations and restrictions placed on the use of resources available to the State Bar, the accounts of the State Bar are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Accounting principles generally accepted in the United States of America are applied by the State Bar in conformance with pronouncements of the Governmental Accounting Standards Board ("GASB"). Amounts in the Statement of Receipts Collected and Expenditures of Sections ("Statement") were derived from the State Bar's audited 2016 financial statements. This Statement presents the receipts collected and expenditures for all sixteen sections in the Sections Fund, on an accrual basis of accounting, where receipts collected and expenditures include accrued amounts.

Use of Estimates – The preparation of the Statement requires management to make estimates and assumptions. Actual results could differ from those estimates. These estimates and assumptions affect the reported amounts of receipts collected and expenditures during the reporting period.

2. BASIS OF PRESENTATION

The accompanying Statement was prepared for the purpose of presenting the receipts collected and expenditures of the Sections in compliance with California Business and Professions ("B&P") Code Sections 6145 and 6031.5. B&P Code Section 6145 requires the State Bar to contract with an independent accounting firm to audit its financial statements each fiscal year. The statute also requires that the audit should examine the receipts collected and expenditures of the State Bar Sections, to ensure that the receipts collected of the Sections are being applied, and their expenditures are being made, in compliance with subdivision (a) of Section 6031.5. Although the Statement is derived from the State Bar's audited 2016 financial statements, the Statement is not a substitute for the financial statements, nor is it intended to be a complete presentation of the State Bar's receipts collected and expenditures in conformity with accounting principles generally accepted in the United States of America. Amounts reported in the Statement can be reconciled with amounts reported in the State Bar's audited 2016 financial statements.

3. DESCRIPTION OF SECTIONS FUND

Revenues – The State Bar's Sections are funded through membership fees and revenue from seminars and workshops. Total revenues for 2016 are $9.1 million. Annual membership fees for each Section range from $85 to $95. In 2016, the Sections had approximately 63,700 members and annual revenues from member fee assessments total $6.1 million. Other program revenues include seminars and workshops revenues, online continuing legal education (CLE) revenues, convention income, advertising income, commissions, rebates and donations, which account for approximately $3 million in 2016.

The State Bar contracted with InReach to manage its online CLE program. Total revenues received from this source in 2016 are $1,039,879. The online CLE program hosted by InReach includes CLE classes developed by both the Sections and non-Sections programs. Both Sections and non-Sections program revenues are included in a Fund (Fund 88) which is part of the Sections group of Funds, instead of being immediately allocated out to the appropriate non-Sections program area. In addition, Fund 88 also serves as a clearinghouse to capture other non-Sections' activities, which include vendor rebates and commissions, royalty fees from insurance policyholders and CLE registration discount. Eighty three percent of the $1,039,879 in InReach revenue was allocated to the appropriate program. A balance of $179,009 remains in Fund 88 for future allocation when final reconciliation is completed in 2017.

The accompanying Statement was prepared for the purpose of presenting the revenues and expenses of the Sections in compliance with California Business and Professions ("B&P") Code Sections 6145 and 6031.5. As a result, inter-fund transfers are not presented in the Statement.

Expenses – Sections Fund's operating expenses include salary and benefits, travel, catering, professional services, legislative advocacy and indirect cost allocation. Total expenses for 2016 are $8.2 million.

Indirect Cost Allocation – The Sections' total operating expenses include $1,350,990 in indirect cost allocation. The State Bar adopted a standardized cost allocation methodology (CAM) which distributes to individual functional programs the central administrative costs captured in the State Bar's support and administrative cost centers including, Human Resources, Finance, Member Billing, Information Technology, Board of Trustees, General Services and General Counsel. The CAM consists of two key procedures: 1) determine support and administrative cost centers and determine the indirect cost pool for allocation; and 2) allocate the indirect cost pool to individual cost centers based on the following allocation bases: full time equivalent, office space occupancy, direct costs and member dues revenues.

A summary of the indirect cost pool, including the specific allocation bases applied to each cost category, and indirect costs allocated to Sections in 2016, is provided on the following page:

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF RECEIPTS COLLECTED
AND EXPENDITURES OF SECTIONS
YEAR ENDED DECEMBER 31, 2016

Administrative Area	Allocation Bases	2016 Total Indirect Costs	2016 Allocated %	2016 Indirect Cost Allocated to Sections
Governance - Board of Trustees	Actual Direct Costs as % of Total State Bar Direct Costs	$ 125,819	9.15%	$ 11,512
Governance - Appointments	# of Appointments	98,627	43.61%	43,011
Governance - Executive Director/Elections/Public Interest Task Force, etc.	Actual Direct Costs as % of Total State Bar Direct Costs	3,306,625	9.15%	302,553
Membership Billing	Revenues	1,595,026	6.63%	105,674
Property Related-SF	Square Footage	4,962,862	7.66%	379,954
Property Related-LA	Square Footage	4,889,073	-	-
General Counsel	FTEs	3,633,314	3.83%	138,975
			CR	(138,975)
Library	# of Attorneys	565,244	-	-
Human Resources	FTEs	1,526,463	3.83%	58,387
Information Technology	FTEs	5,900,554	3.83%	225,697
Finance	Actual Direct Costs as % of Total State Bar Direct Costs	1,762,067	9.15%	161,228
Building-Improvement	Square Footage	548,933	7.66%	42,026
Non-Departmental	Actual Direct Costs as % of Total State Bar Direct Costs	228,949	9.15%	20,948
	Total	**$ 29,143,556**		**$ 1,350,990**