



The State Bar *of California*

OPEN SESSION AGENDA ITEM 50-3 MAY 2019

DATE: May 17, 2019

TO: Members, Board of Trustees

FROM: John Adams, Chief Financial Officer

SUBJECT: Report of Action Taken by Audit Committee on Behalf of the Board of Trustees:
Receive and Order Filed the Audited Financial Statement for Year Ending 2018

EXECUTIVE SUMMARY

This is a report of action taken on April 29, 2019 by the Board Audit Committee Chair and Vice Chair to receive and approve filing of the Audited Financial Statements for year ended December 31, 2018. Business and Professions (B&P) Code section 6145(a) requires the statements to be sent by April 30 of each year to the Board of Trustees, the Chief Justice of the Supreme Court, and the Assembly and Senate Committees on Judiciary.

BACKGROUND

The State Bar's annual financial audit was conducted by the independent accounting firm of Macias Gini & O'Connell. They have issued their reports on the following financial statements for the year ended December 31, 2018.

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

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

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

On April 25 & 29, 2019, the Audit Committee Chair and Vice Chair had conference calls with David Bullock, the audit partner of Macias Gini & O'Connell, to review and discuss the financial statements and auditor's report. On April 29, 2019, they authorized staff to file the audited financial statements for year ended December 31, 2018 with the Legislature and Supreme Court. On April 30, staff completed the legislative filing of the audited statements listed above. The reports were presented to the Audit Committee on May 16, 2019 for discussion.

The State Bar's Annual Audited Financial Statements for the year ended December 31, 2018, along with the independent auditor's report from Macias Gini & O'Connell are available on the website under Reports ([2018 Financial Statement and Independent Auditor's Report](#)).

DISCUSSION

A. Annual Audited Financial Statements

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

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

B. Statement of Expenditures of Mandatory Fees

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

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

FISCAL/PERSONNEL IMPACT

None

RULE AMENDMENTS

None

BOARD BOOK AMENDMENTS

None

STRATEGIC PLAN GOALS & OBJECTIVES

None - compliance

RECOMMENDATIONS

It is recommended that the Board of Trustees affirm the filing of the State Bar's audited statements and related auditor's reports for the year ended December 31, 2018 with the State Legislature and the Supreme Court. It is further recommended that the Board authorize publication of the Statement of Expenditures of Mandatory Fees for the year ended December 31, 2018 when the 2019 annual billing statements are mailed to licensees by posting the statement and related auditor's report on the State Bar website.

WHEREAS, the Board's Audit Committee Chair and Co-Chair are authorized to review the draft audited statements and direct staff to submit them to the Legislature and Supreme Court on behalf of the Board of Trustees;

AND WHEREAS, on April 25, 2019, the Board Audit Committee Chair and Co-Chair received the draft financial statements and directed staff on April 29, 2019 to file the audited statements for year ended December 31, 2018, with the Legislature and Supreme Court; it is hereby

RESOLVED, that the Board of Trustees hereby affirms the action taken by the Audit Committee Chair and Co-Chair, on behalf of the Board; and it is

FURTHER RESOLVED, that upon the recommendation of the Audit Committee, the Board hereby receives the Annual Audited Financial Statements and the Statement of Expenditures of Mandatory Fees for the year ended December 31, 2018, and the accompanying independent auditor's reports, copies of which can be found on the website under reports; and it is

FURTHER RESOLVED, that when the billing of the 2020 license fees is mailed to licensees of the State Bar, staff is directed to post the Statement of Expenditures of Mandatory Fees for the year ended December 31, 2018 on the State Bar's website.