

The State Bar of California

# REQUEST FOR PROPOSAL



This document is a Request for Proposal (“RFP”) for Professional Auditing and Accounting Services for the Board of Governors of the State Bar of California.

Please submit 5 copies of your proposal no later than 5 p.m. on June 14, 2007 to:

The State Bar of California  
180 Howard Street  
San Francisco, CA 94105-1639

Attn: Peggy Van Horn  
Chief Financial Officer  
415-538-2353

Alternatively, you may email your proposal and all required attachments before the deadline to [peggy.vanhorn@calbar.ca.gov](mailto:peggy.vanhorn@calbar.ca.gov).

## **I. INTRODUCTION**

The State Bar of California (“the State Bar”) is seeking proposals for independent auditing services for its annual financial statements including its statement of chargeable/non-chargeable expenses for the years 2007-2011. The State Bar desires to contract for a minimum period of three years, with two (2) additional one-year options to renew agreement. By state law, the State Bar’s annual audit must be performed by an independent national or regional firm with at least five (5) years of governmental auditing experience. Regional is generally defined as auditors having multiple offices located within the western United States.

The State Bar, created in 1927 by the Legislature and adopted into the California Constitution in 1960, is a public corporation within the judicial branch of state government. It is a unified, or integrated bar, which means that membership is mandatory for all attorneys who are licensed to practice law in the state. The State Bar serves as an administrative arm of the California Supreme Court, overseeing the regulation, admission and discipline of lawyers licensed in the State. The State Bar serves a membership of attorneys numbering over 202,000. In addition to its mandated licensing and disciplinary and certification functions, the State Bar offers a number of other programs designed to assist, educate and protect its members and the

public. The State Bar has approximately four (4) business locations within the state, all located within the greater Los Angeles, or Sacramento or San Francisco areas.

### **Background Information**

The State Bar's fiscal year begins on January 1 and ends on December 31. The State Bar currently has 630 authorized fulltime employees and an annual budget of approximately \$135 million. The accounting and financial reporting functions of the State Bar are centralized. It follows the “business-type” activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Bar’s financial activities. The proprietary fund model is followed, and the full accrual basis of accounting is used. The statements of the State Bar include the State Bar Education Foundation as a blended component unit. A copy of the State Bar's *Financial Statements for the Year Ended December 31, 2006 and the Independent Auditors' Report* are attached as Appendix A. A copy of the *Statement of Chargeable and Nonchargeable Expenses for the Year Ended December 31, 2004 and Independent Auditors' Report* is attached as Appendix E.

Additional information regarding the State Bar can be found in this document, section IV: Organizational Structure. More information can be found in “*The State Bar of California – What Does It Do, How Does It Work?*” available on the State Bar’s website at [http://calbar.ca.gov/state/calbar/calbar\\_home\\_generic](http://calbar.ca.gov/state/calbar/calbar_home_generic).

## **II. GENERAL INFORMATION**

The submission requirements for this RFP are set forth below. A proposal shall constitute an irrevocable offer for 60 business days following the deadline for its submission. Reference to a certain number of days in this RFP shall mean business days unless otherwise specified.

### **A. Submission Requirements**

To be considered responsive, a proposal must contain the following, referenced by number and in the order below:

1. An overview of the firm, outlining:
  - a) the firm’s qualifications, including specific experience with GASB, governmental units and not-for-profit entities
  - b) biographical sketches of the partners and staff who will be assigned to the engagement
  - c) client references from governmental entities

- d) proof of liability insurance
- e) agreement to indemnify the State Bar from any liability resulting from the auditor's work on this engagement

If a joint venture between firms is proposed, the qualifications of each firm comprising the joint venture or consortium should be separately identified and the firm that is to serve as the principal auditor should be noted, if applicable.

- 2. Copies of business licenses, professional certifications or other credentials, together with evidence that bidder, if a corporation, is in good standing and qualified to conduct business in California.
- 3. Information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations including confirmation that bidder has not been suspended or debarred from performing government audits or any other government activity.
- 4. A general description of the techniques, approaches and methods to be used in completing the project. The proposal should set forth a work plan, including an explanation of the audit methodology to be followed to perform the services required in Section III: Statement of Work. Bidders will be required to provide the following information on their audit approach:
  - a. Proposed segmentation of the engagement
  - b. Level of staff and number of hours to be assigned to each proposed segment of the engagement
  - c. Extent of use of ERP software in the engagement
  - d. Type and extent of analytical procedures to be used in the engagement
  - e. Approach to be taken to gain and document an understanding of the State Bar's internal control structure
  - f. Approach to be taken in determining laws and regulations that will be subject to audit test work
  - g. Identification and description of any anticipated potential audit problems, the firm's approach to resolving the problem and any

special assistance that will be requested from the State Bar

- h. Planned use of specialists if any
- 5. A detailed cost proposal, itemized as indicated in Appendices B1-B5, including a total all-inclusive annual bid for each year containing both professional fees and expenses. Out-of-pocket expenses for firm personnel (e.g., travel, lodging and subsistence) will be reimbursed at the rates used by the State Bar and its employees (see Appendix C). All expense reimbursements will be charged against the total all-inclusive maximum price submitted by the firm. As the State Bar may award a contract based on the initial offer, a bidder should make its initial offer on the most favorable terms available. The State Bar reserves the right, however, to have discussions with those bidders falling within a competitive range, and to request revised pricing offers from them and to make an award or conduct negotiations thereafter.
- 6. A written acknowledgement of the acceptance of the Contracting Requirements set forth in section V of this RFP. Specific terms may be reserved for future negotiation, but must be clearly identified and reasons given for the reservation.

Proposals which fail to address each of the submission requirements above may be deemed non-responsive and will not be further considered.

## **B. Rejection of Proposals**

**The State Bar reserves the right in its sole discretion to reject any or all proposals in whole or in part, without incurring any cost or liability whatsoever.** All proposals will be reviewed for completeness of the submission requirements. If a proposal fails to meet a material requirement of the RFP, or if it is incomplete or contains irregularities, the proposal may be rejected. A deviation is material to the extent that a proposal is not in substantial accord with RFP requirements.

Immaterial deviations may cause a bid to be rejected. The State Bar may or may not waive an immaterial deviation or defect in a proposal. The State Bar's waiver of an immaterial deviation or defect shall in no way modify the RFP or excuse a bidder from full compliance with the RFP requirements.

## **C. Evaluation Process**

An evaluation team will review in detail all proposals. During the evaluation process, the State Bar may require a bidder's representative to answer questions with regard to the proposal and/or require certain bidders to make a formal presentation to the evaluation team and/or the State Bar's Audit Committee. Interviews, if necessary, will be conducted during the week of June 25, schedules permitting.

If a large number of proposals are received, the State Bar reserves the right to initially evaluate the proposals based on review of previous governmental audit experience and advance the five (5) most experienced firms to the final full evaluation process as defined below.

**The following criteria will be used in the reviewing and comparing the five (5) leading candidates. The weight to be assigned to each criterion appears following each item.**

1. Responsiveness of the proposal to the submission requirements set forth in the RFP (10%).
2. Agreement with the State Bar's contracting requirements (5%).
3. The technical ability, capacity, and flexibility of the bidder to perform the contract in a timely manner and on budget, as verified by, e.g., the quality of any demonstration, client references, demonstrated success in auditing public sector entities with similar requirements and any other contracts with the State Bar (30%).
4. Proposed audit strategy (25%).
5. The total cost of the proposal (30%).

#### **D. Award and Execution of Contract**

The State Bar of California expects to notify the firm submitting the successful proposal by July 25, 2007. Selection will be made by the Audit Committee with approval by the Board of Governors. Upon selection, the State Bar and the selected firm will enter into good faith negotiations on a contract.

No contract or agreement, express or implied, shall exist or be binding on the State Bar before the execution of a written contract by both parties. If agreement on the terms of such a contract cannot be reached after a period deemed reasonable by the State Bar in its sole discretion, the State Bar may enter into negotiations and sign a contract with any other bidder who submitted timely, responsive and responsible proposals to this RFP.

Questions regarding the State Bar's award of any business on the basis of proposals submitted in response to the RFP, or on any other matter in connection with the selection process, should be addressed in writing to Andrew Conover, Finance Manager, at [andrew.conover@calbar.ca.gov](mailto:andrew.conover@calbar.ca.gov).

Where written notice is required in this RFP, the notice must be sent by U.S. mail and either facsimile or e-mail.

**E. Errors in the RFP**

If a bidder discovers any ambiguity, conflict, discrepancy, omission, or other error in the RFP, the bidder should immediately provide the State Bar with written notice of the problem and request that the RFP be clarified or modified. Without disclosing the source of the request, the State Bar may modify the document prior to the date fixed for submission of proposals by issuing an addendum to all potential bidders to whom the RFP was sent.

If prior to the date fixed for submissions, a bidder knows of or should have known of an error in the RFP but fails to notify the State Bar of the error, the bidder shall bid at its own risk, and if, awarded the contract, shall not be entitled to additional compensation or time by reason of the error or its later correction.

**F. Questions Regarding the RFP**

Questions regarding the RFP may be addressed in writing to Peggy Van Horn at [peggy.vanhorn@calbar.ca.gov](mailto:peggy.vanhorn@calbar.ca.gov). All questions must be submitted no later than 5 days prior to the date for submission of proposals. Questions and answers regarding the RFP may be shared with all bidders known to be interested in submitting a proposal.

If a question relates to a proprietary aspect of its proposal and the question would expose proprietary information if disclosed to competitors, the bidder may submit the question in writing, conspicuously marking it as "CONFIDENTIAL." With the question, the bidder must submit a statement explaining why the question is sensitive. If the State Bar concurs that the disclosure of the question or answer would expose proprietary information, the question will be answered, and both the question and answer will be kept in confidence. If the State Bar does not concur regarding the proprietary nature of the question, the question will not be answered in this manner and the bidder will be notified.

A bidder who believes that one or more of the RFP's requirements is onerous or unfair, or unnecessarily precludes less costly or alternative solutions, may submit a written request that the RFP be changed. The request must set forth the recommended change and reason for proposing the change. The State Bar must receive any such request no later than 10 days before the deadline for submitting proposals.

**G. Addenda**

The State Bar may modify the RFP prior to the date fixed for submission by posting, mailing, emailing or faxing an addendum to the bidders known to be interested in submitting a proposal. If any bidder determines that an addendum unnecessarily

restricts its ability to bid, it must notify the State Bar in writing no later than 10 days before the deadline for submitting proposals.

#### **H. Withdrawal and Resubmission/Modification of Proposals**

A proposal may be withdrawn at any time prior to the deadline for submitting proposals by notifying the State Bar in writing of its withdrawal. The notice must be signed by the bidder. The bidder may thereafter submit a new or modified proposal, provided that it is received at the State Bar no later than the deadline.

Modification offered in any other manner, oral or written, will not be considered. Proposals cannot be changed after the evaluation process begins.

#### **I. Protest Procedure**

A bidder may protest the award if it meets all the following conditions:

1. The bidder has submitted a proposal that it believes is or should have been the highest-scored bidder, under the criteria set forth above;
2. The bidder believes that its proposal meets the State Bar's administrative and technical requirements, proposes services of proven quality and performance, and offers a competitive cost to the State Bar; and
3. The bidder believes that the State Bar has incorrectly selected another bidder.

A bidder qualified to protest should contact Andrew Conover, Finance Manager, (415) 538-2207, to attempt an informal resolution. If this contact is unable to resolve the protest to the bidder's satisfaction, the bidder must file a written protest within 5 days of the notice of intention to award the contract. The written protest must state the facts surrounding the issue and the reasons the bidder believes the award to be invalid. The protest must be sent by certified or registered mail or delivered personally to:

The State Bar of California  
180 Howard Street  
San Francisco, CA 94105-1639

Attention: Peggy Van Horn, Chief Financial Officer

Protests will be reviewed and decided by the State Bar's Award Protest Team within 30 days after the State Bar issues written acknowledgment of the protest. In the event that a protest is filed, the contract award will be postponed pending resolution of the protest.

**J. News Releases**

News releases pertaining to the award of a contract may not be made without the prior written approval of the State Bar.

**K. Disposition of Materials**

All materials submitted in response to an RFP will become the property of the State Bar of California and will be returned only at the State Bar's option and at the expense of the bidder. One copy of each proposal will be retained for official files and become a public record. Specific limited pages of a proposal, not including proposed cost and compensation, may be marked as proprietary and confidential. The bidder's consent will be requested before release of such pages to non-State Bar personnel. By submitting a proposal, a bidder agrees to these terms and waives any right to pursue a cause of action for damages incurred as a result of the release of any information contained in a proposal.

**III. STATEMENT OF WORK**

**A. Scope of Work to be Performed**

California Business and Professions Code § 6145 requires the State Bar to contract with a an independent national or regional public accounting firm to audit its financial statements each fiscal year. The statute requires a copy of the audit and financial statement to be submitted to the State Bar's Board of Governors and to specified public officials within 120 days of the close of the State Bar's fiscal year, which is the calendar year. Any audit of the State Bar's financial statements must be completed no later than April 15th of each year.

**B. Auditing Standards To Be Followed**

To meet the requirements of this request for proposals, the audit shall be performed in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants.

**C. Reports to be Issued**

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue a report on the fair presentation of the financial statements in conformity with generally accepted accounting principles. The auditor shall communicate in a letter to management any reportable conditions found during the audit. A reportable condition shall be defined as a significant deficiency in the design or operation of the internal control structure, which could adversely affect the organization's ability to record, process, summarize, and report financial data

consistent with the assertions of management in the financial statements. In addition, the following conditions shall be considered reportable:

1. **Irregularities and illegal acts.** Auditors shall be required to make an immediate, written report of all irregularities and illegal acts of which they become aware to the following parties:
  - a. Executive Director
  - b. Chief Financial Officer
  - c. Audit Committee Chair
  
2. **Reporting to the audit committee.** Auditors shall assure themselves that the State Bar's audit committee is informed of each of the following:
  - a. The auditor's responsibility under generally accepted auditing standards
  - b. Significant accounting policies
  - c. Management judgments and accounting estimates
  - d. Significant audit adjustments
  - e. Other information in documents containing audited financial statements
  - f. Disagreements with management
  - g. Management consultation with other accountants
  - h. Major issues discussed with management prior to retention
  - i. Difficulties encountered in performing the audit

#### **D. Special Considerations**

In addition to the audit of the State Bar's financial statements, the auditor will conduct and prepare a special financial report and audit called the *Statement of Chargeable and Nonchargeable Expenses*. This audit is required by the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar cannot use mandatory fees paid by its members for political or ideological activities not related to regulation of the legal profession or improvement of the quality of legal services in California. Activities related to the regulation of the legal profession are described as chargeable, and all members can be compelled to support them. Activities falling outside of the regulation of the legal profession are nonchargeable. Under the Keller decision, the State Bar is required to offer those members who choose not to support nonchargeable activities an advance deduction of dues. The amount to be offered as a deduction is determined by reviewing the State Bar's last available audited financial statement. The Statement of Chargeable and Nonchargeable Expenses is an audit of this calculation of chargeable and nonchargeable expenses based on the last available audited financial statement.

#### **E. Presentation of Audit Reports/Deliverables**

The accounting firm shall provide 25 bound copies of the auditor's report and the financial statements and schedules, 25 copies of the management letter , and 25 copies of the *Statement of Chargeable and Nonchargeable Expenses* no later than April 15 2008, 2009, 2010, (2011, 2012). The partner in charge of the audit shall be required to attend one public meeting at which the audit report will be discussed.

**F. Rates for Additional Professional Services**

If it should become necessary for State Bar to request the auditor to render any additional services to either supplement the services requested in this RFP or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between the State Bar and the firm. Any such additional work agreed to between State Bar and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in Appendices B1-B5: Itemized Cost Proposal.

**G. Manner of Payment**

Progress payments will be made on the basis of hours of work completed during the course of the engagement and out-of-pocket expenses incurred in accordance with the firm's dollar cost bid proposal. Interim billing shall cover a period of not less than a calendar month.

**H. Working Paper Retention and Access to Working Papers**

All working papers and reports must be retained, at the auditor's expense, for a minimum of three (3) years, unless the firm is notified in writing by the State Bar of the need to extend the retention period. In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

**IV. ORGANIZATIONAL STRUCTURE**

**A. Contact Persons/Organizational Chart**

The auditor's principal contact with the State Bar will be Peggy Van Horn, Chief Financial Officer, or a designated representative, who will coordinate the assistance to be provided by the State Bar to the auditor. An organizational chart with a list of key personnel with the location of their principal offices is attached as Appendix D.

**B. Fund Structure**

The State Bar utilizes the proprietary fund model for its annual financial report. For internal purposes, the State Bar's operations are divided into one General Fund and twenty restricted funds.

**C. Budgetary Basis of Accounting**

The State Bar prepares its budgets on a basis consistent with generally accepted accounting principles.

**D. Retirement Plans**

The State Bar's defined benefit 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 the California Public Employee's Retirement System, 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.

**E. Post-retirement Benefits**

The State Bar provides certain health care and life insurance benefits for retired employees attaining specific age and service requirements. The benefit plans are not pre-funded, no employee contributions are made to the plan and the State Bar has the right to modify plan provisions prospectively at its discretion.

**F. Component Units**

The State Bar Education Foundation, a nonprofit public benefit corporation, is included in the State Bar's financial statements because this foundation is a blended component unit of the State Bar and the State Bar is financially accountable for the Education Foundation.

**G. Assistance to Be Provided**

The finance department staff and responsible management personnel will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of lead schedules and confirmations will be the responsibility of the State Bar. IT personnel will also be available to provide systems documentation and explanations. The State Bar will provide the auditor with reasonable conference room work space, tables and chairs. The auditor will also be provided with access to telephone lines, photocopying facilities and facsimile machines. Report preparation, editing and printing shall be the responsibility of the auditor.

## **H. Computer Systems**

The financial software used by the State Bar is PeopleSoft Enterprise One (B9, service pack 2-L1) now a division of Oracle, Inc. Enterprise applications installed are *Workforce Management, Payroll, General Ledger, Accounts Receivable, Accounts Payables, Fixed Assets and Procurement*. The enterprise systems database is SQL Server 2000 (Enterprise Edition) and runs on a total of seven (7) servers under two (2) separate configurations.

## **I. Availability of Prior Audit Reports and Working Papers**

Interested bidders who wish to review prior years' audit reports and management letters should contact Christine Wong, Finance Manager, at 180 Howard Street San Francisco CA 94105. The State Bar will use its best efforts to make prior audit reports and supporting working papers available to bidders to aid their response to this request for proposals.

## **V. CONTRACTING REQUIREMENTS**

Upon selection of a vendor, the terms set forth in this RFP are to be embodied in a definitive agreement containing such additional covenants and other provisions as may be mutually acceptable. The State Bar contemplates that, in addition to the terms described above in this RFP, final agreement between the State Bar and the selected vendor will include, without limitation, the following terms. Submission of a proposal shall constitute agreement to contract on these terms, except for any term specifically reserved in the proposal for future negotiation.

### **A. Time of Essence**

Time is of the essence with respect to Vendor's performance of the services and equipment to be provided in the final agreement.

### **B. Warranties and Representations**

Vendor will warrant and represent that it possesses such expertise, experience and resources to perform the scope of services required in a diligent, timely and professional manner consistent with the standards of the industry. Vendor will supply at all times an adequate number of well-qualified personnel to perform the work. Vendor will provide a contact person available and authorized to remedy any non-conformity with this warranty.

### **C. Equipment, Tools, Supplies**

The Vendor will supply all equipment, tools, supplies, offices, personnel, instrumentalities, transportation, support services and insurance required. The Vendor is not required to purchase, rent or hire any equipment, tools, supplies, offices,

transportation, personnel, insurance or instrumentalities from the State Bar.

**D. Indemnity Obligations of Vendor**

To the fullest extent permitted by law, the Vendor will agree to protect, indemnify, defend and hold the State Bar and the State Bar's Board of Governors, officers, employees, agents and representatives and each of their successors and assigns (the "Indemnities") entirely harmless from and against any and all claims, actions, demands, proceedings, liabilities, damages, judgments, fines, penalties, settlements, costs and charges, including, without limitation, attorneys' fees and expenses, arising directly or indirectly from or in connection with (a) any breach of the agreement, (b) any actual or alleged negligent act, negligent error or omission, intentional misconduct of, or violation of any law by Vendor, the Vendor's employees, subcontractors, agents, representatives or assigns (collectively, the "Vendor's Agents") in the performance or non-performance of the professional services required to be performed by the Vendor under the agreement; or (c) the State Bar's enforcement of its rights under this indemnity provision. The Vendor will agree that its obligations under this indemnity will survive the expiration and termination of this agreement.

**E. Insurance Obligations of Vendor**

The Vendor will provide proof of commercial general liability insurance, workers' compensation coverage, comprehensive automobile liability, and professional liability insurance coverage in amounts agreeable to the State Bar. Proposal will keep the coverage in full force and effect during the term of this agreement, at the Vendor's own cost and expense.

**F. Termination**

1. **At Will.** The agreement will be terminated by the State Bar, in its sole and complete discretion, upon thirty (30) days written notice to Vendor. In the event of termination pursuant to this section, the vendor's sole compensation will be for that portion of services performed or goods delivered up to the date of termination, together with reimbursable expenses, if any then due. Vendor will not be paid for any services, goods or reimbursable expenses associated with any work or service not specifically authorized by the State Bar.
2. **Authorization of Funds.** If the term of the agreement extends into fiscal year(s) subsequent to that in which it is signed, it is understood that the continuation of this contract is subject to the authorization of sufficient funding for such purpose by the California State Legislature. If sufficient funds are not so authorized, the parties mutually agree that the contract may be terminated or amended as appropriate in response to the reduction in funding. If the agreement is terminated, Contractor

agrees to take back any affected equipment, products, software, or hardware furnished under this contract, and relieve the State Bar of any further obligation, except for the State Bar's obligation to pay for services already performed pursuant to the agreement.

3. **Default by Vendor.** The agreement may be terminated by the State Bar upon thirty (30) days written notice to the Vendor in the event the Vendor is in default under any of its provisions. In the event the agreement is terminated due to the default by the Vendor, the Vendor will not be entitled to receive any compensation for services performed or for any reimbursable expenses incurred, and the State Bar will have the right to have the services completed by other parties and the Vendor will reimburse the State Bar for the actual costs to complete the services in excess of the balance of the fee and reimbursable expenses, if any, provided for in the agreement. Any such act by the State Bar will not be deemed a waiver of any other right or remedy of the State Bar, including, without limitation, the State Bar's right to consequential damages caused directly or indirectly by the Vendor's default.
4. **Automatic Termination.** The agreement will automatically terminate on the occurrence of any of the following events: (a) bankruptcy or insolvency of either party; (b) sale of the business of either party; (c) failure to comply with federal, state or local laws, regulations or requirements, or (d) expiration of the agreement.

#### **G. Confidentiality and Publicity**

The Vendor will retain all confidential information provided by the State Bar in the strictest confidence and will neither use it nor disclose it to anyone other than employees requiring the information to perform services under this agreement without the prior written consent of the State Bar. The State Bar retains the right to enjoin any unauthorized disclosure in an appropriate court of law. The Vendor will not issue any public announcements concerning the State Bar without the prior written consent of the State Bar.

#### **H. Compliance with Laws**

The Vendor agrees to comply with all applicable federal, state, and local laws and regulations, including but not limited to the provisions of the Fair Employment and Housing Act (Govt. Code, § 12900 et seq.) and any applicable regulations promulgated there under (Cal. Code of Regs., tit. 2, § 72850.0 et seq.). Vendor agrees to include the non-discrimination and compliance provisions of this clause in any and all subcontracts to perform work under the agreement.

#### **I. Assignment/Subcontracting**

1. **Assignment.** The Vendor will not assign or transfer its interest, in whole or in part, under the agreement, without the written consent of the State Bar, which consent may be granted or withheld in the sole and absolute discretion of the State Bar.
2. **Subcontracting.** The Vendor may subcontract with other qualified firms or individuals as required to complete all, or a portion of, the delivery of equipment and services, with the prior written approval of the State Bar. The Vendor will clearly describe the reason for using any subcontractors, the specific role each subcontractor will play in the project, and the relationship between the Vendor and its subcontractor to be maintained during the term of the agreement. No subcontract will be approved unless the Vendor provides a written guarantee that the Vendor's firm will be contractually obligated to assume all project responsibilities and the insurance requirements set forth above.

## **J. General Provisions**

1. **Force Majeure.** Neither party will be deemed in default of the agreement or any provision hereunder to the extent that any delay or failure in the performance of the obligations of such party (other than the payment of money) results from any significant and material causes beyond its reasonable control and without fault or negligence by such party. Examples of such causes include, but are not limited to, (1) acts of God or public enemy, (2) acts of the government in either its sovereign or contractual capacity, (3) fires, (4) floods, (5) epidemics, (6) quarantine restrictions, (7) strikes, (8) embargoes, (9) earthquakes, and (10) unusually severe weather.
2. **Governing Law.** The agreement will be governed by the laws of the State of California without giving effect to its principles of conflict of laws.
3. **Attorneys' Fees.** In the event either party institutes any action or proceeding against the other party relating to this agreement, the unsuccessful party in such action or proceeding will reimburse the successful party for its disbursements incurred in connection therewith and for its reasonable attorneys' fees as fixed by the court. In addition to the foregoing award of attorneys' fees to the successful party, the successful party in any lawsuit shall be entitled to collect or enforce the judgment. This provision is separate and several and shall survive the merger of the agreement into any judgment.
4. **License.** In those instances where required, the Vendor represents and warrants that the Vendor holds a license, permit or special license to perform the services pursuant to this agreement, as required by law, or

employs or works under the general supervision of the holder of such license, permit or special license and shall keep and maintain all such licenses, permits or special licenses in good standing and in full force and effect at all times while the Vendor is performing the services pursuant to the agreement.

***The State Bar of  
California***

*Financial Statements for the Years Ended  
December 31, 2006 and 2005, Supplemental  
Information for the Year Ended December 31, 2006  
and Independent Auditors' Reports*

# THE STATE BAR OF CALIFORNIA

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Deloitte & Touche LLP  
Suite 400  
2868 Prospect Park Dr.  
Rancho Cordova, CA 95670-6065  
USA

Tel: +1 916 288 3100  
Fax: +1 916 288 3131  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

The Board of Governors  
The State Bar of California  
San Francisco, California

We have audited the accompanying balance sheets of The State Bar of California (the "State Bar") as of December 31, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the State Bar's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the State Bar as of December 31, 2006 and 2005, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the State Bar's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the State Bar's basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2006, on pages 25 through 28 is presented for the purpose of additional analysis and is not a required part of the basic 2006 financial statements. This supplementary information is the responsibility of the State Bar's management. Such information has been subjected to the auditing procedures applied by us in the audit of the basic 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2006 financial statements taken as a whole.

*Deloitte + Touche LLP*

April 10, 2007

## THE STATE BAR OF CALIFORNIA

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Management's Discussion and Analysis is based on currently known facts, decisions, and conditions that existed as of the date of the issuance of this report. This discussion and analysis presents the highlights of financial activities and financial position for the State Bar of California (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. 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.

#### Introduction and Overview—The State Bar of California

Created by the state legislature in 1927, the State Bar of California 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 primary purpose of the State Bar is to serve as an administrative adjunct to the California Supreme Court in all matters pertaining to the admission, discipline and regulation of California lawyers. The State Bar Act and California court rules vest in the State Bar the duty to regulate the legal profession, formulate and elevate educational and professional standards, raise the quality of legal services, advance the science of jurisprudence and aid in the improvement of the administration of justice.

The State Bar is a unified bar, meaning that membership is mandatory for all attorneys who are licensed to practice law in the state of California. The State Bar is governed by a twenty-three member Board of Governors. Fifteen members are lawyers elected by members of the State Bar. A sixteenth member is elected by the California Young Lawyers Association Board of Directors. Six "public" or non-lawyer members are appointed to the Board of Governors – four by the governor of California, one by the state Senate Committee on Rules and one by the Speaker of the Assembly. The twenty third member of the Board of Governors is the State Bar president, who is elected by the other board members to serve a fourth year as the State Bar's chief officer.

The State Bar's programs are financed primarily by fees paid by attorneys and applicants to practice law. At the end of 2006, the State Bar had approximately 205,000 members, making it the largest unified state bar in the country. Membership fees for 2006 were set by the State Legislature at \$395 for active members and \$115 for inactive members. The membership fees are allocated to the following funds:

	<u>Active Fee</u>	<u>Inactive Fee</u>
General Fund	\$ 335	\$ 90
Client Security Fund	40	10
Building Fund	10	10
Lawyers Assistance Program Fund	10	5
Total	<u>\$ 395</u>	<u>\$ 115</u>

For internal reporting purposes, the State Bar's programs are segregated into 21 separate funds. The largest fund, the General Fund, contains six major programs. These include discipline and adjudication,

communications, administration of justice, governance, administration of the profession, and program development. In 2006, the discipline and adjudication program had operating expenses of \$44.4 million, representing 81.6% of all operating expenses within the General Fund.

The enclosed financial statements present the financial position, results of operations and changes in net assets, and cash flows of the State Bar on a combined basis. The accompanying supplemental information as of and for the year ended December 31, 2006 (pages 25 through 28) presents the financial position and results of operations and changes in net assets of the State Bar's separate funds.

## Fiscal Year 2006 Compared to Fiscal Year 2005

### Condensed Balance Sheets

The following table presents the condensed balance sheets of the State Bar as of December 31, 2006 and 2005 and the change from year to year:

	2006	2005	Change
<b>ASSETS</b>			
Cash, cash equivalents and investments	\$ 81,169,987	\$ 69,403,245	\$ 11,766,742
Other assets	3,534,450	3,409,498	124,952
Capital assets—net	<u>37,579,573</u>	<u>36,734,854</u>	<u>844,719</u>
<b>TOTAL ASSETS</b>	<u>\$ 122,284,010</u>	<u>\$ 109,547,597</u>	<u>\$ 12,736,413</u>
<b>LIABILITIES &amp; NET ASSETS</b>			
Liabilities:			
Current liabilities	\$ 39,594,597	\$ 38,914,171	\$ 680,426
Noncurrent liabilities	<u>7,836,527</u>	<u>6,715,918</u>	<u>1,120,609</u>
Total liabilities	<u>47,431,124</u>	<u>45,630,089</u>	<u>1,801,035</u>
Net assets:			
Restricted	31,869,716	27,097,649	4,772,067
Invested in capital assets, net of related debt	36,421,411	34,052,296	2,369,115
Unrestricted	<u>6,561,759</u>	<u>2,767,563</u>	<u>3,794,196</u>
Total net assets	<u>74,852,886</u>	<u>63,917,508</u>	<u>10,935,378</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 122,284,010</u>	<u>\$ 109,547,597</u>	<u>\$ 12,736,413</u>

*Assets*—Cash, cash equivalents and investments increased by \$11.8 million from \$69.4 million as of the end of 2005 to \$81.2 million as of the end of 2006 representing a 17.0% increase. This increase is primarily attributable to the receipt of an additional \$6.1 million in member dues resulting from the 2006 fee increases and changes in scaling criteria; a \$2.3 million increase in investment income; a \$2.0 million increase in the Legal Services Trust Fund Interest on Lawyer Trust Accounts program (“IOLTA”); and a \$2.2 million increase in bar examination application fees. The above increases were offset by a decrease of \$0.8 million due to declines in Convention income, legal specialization fees, and continuing legal education fees.

Capital assets increased \$0.8 million from \$36.7 million in 2005 to \$37.5 million in 2006. The 2.2% increase is attributable to additions of building improvements and office equipment of \$2.6 million, offset by normal depreciation on capital assets of \$1.8 million.

Total assets increased \$12.7 million from \$109.6 million as of the end of 2005 to \$122.3 million as of the end of 2006 representing an 11.7% increase.

**Liabilities**—Total liabilities increased by approximately \$1.8 million from \$45.6 million as of the end of 2005 to \$47.4 million as of the end of 2006. The 3.9% increase is due primarily to an increase in post retirement benefits of \$1.8 million; an increase in unearned membership fees of \$1.2 million, and a minimal increase in the grant payable and accounts payable for \$0.4 million. These increases were partially offset by a decrease in long-term debt of \$1.6 million due to scheduled payments.

**Net assets**—Net assets increased \$10.9 million as a result of the combined excess of revenues over expenses for 2006. Funds reporting a deficiency of revenues over expenses were: Discipline, Elimination of Bias, Equal Access, Grants, Legal Specialization, Legal Activities, Fixed Asset, and Technology Improvement. All of these funds were budgeted to spend down accumulated reserve funds during 2006 representing the planned drawdown of net assets for programmatic or technology funds.

#### Condensed Statements of Revenues and Expenses

The following table presents the statements of revenues and expenses for the State Bar for the years ended December 31, 2006 and 2005 and the change from year to year:

	2006	2005	Change
<b>OPERATING REVENUES:</b>			
Fund revenues	\$ 119,022,503	\$ 106,707,835	\$ 12,314,668
Other	<u>5,585,850</u>	<u>3,940,734</u>	<u>1,645,116</u>
Total operating revenues	<u>124,608,353</u>	<u>110,648,569</u>	<u>13,959,784</u>
<b>OPERATING EXPENSES:</b>			
Program expenses	103,315,783	96,700,308	6,615,475
General and administration	<u>15,658,231</u>	<u>15,540,214</u>	<u>118,017</u>
Total operating expenses	<u>118,974,014</u>	<u>112,240,522</u>	<u>6,733,492</u>
OPERATING INCOME (LOSS)	5,634,339	(1,591,953)	7,226,292
NONOPERATING REVENUES	<u>5,301,039</u>	<u>2,653,832</u>	<u>2,647,207</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 10,935,378</u>	<u>\$ 1,061,879</u>	<u>\$ 9,873,499</u>

**Operating Revenues**—Total operating revenues increased \$14.0 million or 12.6% from \$110.6 million in 2005 to \$124.6 million in 2006.

Fund revenues increased by \$12.3 million or 11.5% from \$106.7 million in 2005 to \$119.0 million in 2006 due primarily to the following:

- Membership revenue increased by 10.5% or \$6.1 million as a result of fee increases enacted in 2006 as well as changes in scaling eligibility requirements that reduced the revenue loss associated with low income scaling.
- Examination application fees increased by 16.3% or \$2.2 million due to an increase in applicants and fees for the California Bar Examination.
- The IOLTA trust account revenue increased by 14.3% or \$2.0 million due to a combination of increased deposits held in trust by attorneys on behalf of their clients and higher short-term interest earnings on these deposits.
- The Equal Access Fund grant revenue increased by 20.8% or \$2.0 million, due primarily to the receipt of new filing fee revenue resulting from the Uniform Civil Fees and Standard Fee Schedule Act passed in 2005.

Other revenue increased by \$1.6 million or 41.0% from \$3.9 million in 2005 to \$5.5 million in 2006 due primarily to an increase in certificate fees, school visitation, transcript fees and campus sponsorships.

*Operating Expenses*—Total operating expenses increased by \$6.7 million or 6.0% during 2006 due primarily to an increase in employee salaries, fringe benefits and an increase in both IOLTA and Equal Access Fund grants awarded to eligible participants.

### Fiscal Year 2005 Compared to Fiscal Year 2004

#### Condensed Balance Sheets

The following table presents the condensed balance sheets of the State Bar as of December 31, 2005 and 2004 and the change from year to year:

	2005	2004	Change
<b>ASSETS</b>			
Cash, cash equivalents and investments	\$ 69,403,245	\$ 62,624,094	\$ 6,779,151
Other assets	3,409,498	3,158,469	251,029
Capital assets—net	<u>36,734,854</u>	<u>38,114,199</u>	<u>(1,379,345)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 109,547,597</u></b>	<b><u>\$ 103,896,762</u></b>	<b><u>\$ 5,650,835</u></b>
<b>LIABILITIES &amp; NET ASSETS</b>			
Liabilities:			
Current liabilities	\$ 38,914,171	\$ 34,090,184	\$ 4,823,987
Noncurrent liabilities	<u>6,715,918</u>	<u>6,950,949</u>	<u>(235,031)</u>
Total liabilities	<u>45,630,089</u>	<u>41,041,133</u>	<u>4,588,956</u>
Net assets:			
Restricted	27,097,649	26,131,352	966,297
Invested in capital assets, net of related debt	34,052,296	34,089,394	(37,098)
Unrestricted	<u>2,767,563</u>	<u>2,634,883</u>	<u>132,680</u>
Total net assets	<u>63,917,508</u>	<u>62,855,629</u>	<u>1,061,879</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 109,547,597</u></b>	<b><u>\$ 103,896,762</u></b>	<b><u>\$ 5,650,835</u></b>

Appendix A

*Assets*—Cash, cash equivalents and investments increased by \$6.8 million from \$62.6 million as of the end of 2004 to \$69.4 million as of the end of 2005 representing a 10.9% increase. This increase is primarily attributable to the receipt of an additional \$1.9 million in unearned membership fees; a \$3.3 million increase in the Legal Services Trust Fund Interest on Lawyer Trust Accounts program (“IOLTA”); and \$1.4 million in increased bar examination application fees.

Capital assets decreased \$1.4 million from \$38.1 million in 2004 to \$36.7 in 2005. The 3.7% decrease is attributable to normal depreciation on capital assets.

Total assets increased \$5.6 million from \$103.9 million as of the end of 2004 to \$109.5 million as of the end of 2005 representing a 5.4% increase.

*Liabilities*—Total liabilities increased by approximately \$4.5 million from \$41.1 million as of the end of 2004 to \$45.6 million as of the end of 2005. The 10.9% increase is primarily due to an increase in current liabilities of \$4.8 million, which can be attributed to increases of \$1.9 million in unearned membership fees; \$1.7 million in the accounts payable and accrued liabilities; \$1.0 million in grants payable; and a minimal increase in the current portion of long term debt. These current liabilities were offset by a decrease in long term debt of \$1.6 million, due to scheduled payments and an increase in post retirement benefits of \$1.4 million, due to continued increases in health care costs.

*Net assets*—Net assets increased \$1.1 million as a result of the combined excess of revenues over expenses for 2005. Funds reporting a deficiency of revenues over expenses were: Annual Meeting, Client Security, Discipline, Education Foundation, Equal Access, Legal Education and Development, Legislative Activities, Support and Administration and Technology Improvement. All of these funds were budgeted to spend down accumulated reserve funds during 2005 representing the planned drawdown of net assets for programmatic or technology funds.

### Condensed Statements of Revenues and Expenses

The following table presents the statements of revenues and expenses for the State Bar for the years ended December 31, 2005 and 2004 and the change from year to year:

	2005	2004	Change
<b>OPERATING REVENUES:</b>			
Fund revenues	\$ 106,707,835	\$ 99,519,081	\$ 7,188,754
Other	3,940,734	4,018,456	(77,722)
Total operating revenues	<u>110,648,569</u>	<u>103,537,537</u>	<u>7,111,032</u>
<b>OPERATING EXPENSES:</b>			
Program expenses	96,700,308	89,613,086	7,087,222
General and administration	15,540,214	16,060,718	(520,504)
Total operating expenses	<u>112,240,522</u>	<u>105,673,804</u>	<u>6,566,718</u>
OPERATING (LOSS) INCOME	<u>(1,591,953)</u>	<u>(2,136,267)</u>	<u>544,314</u>
NONOPERATING REVENUES	<u>2,653,832</u>	<u>1,661,451</u>	<u>992,381</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ 1,061,879</u>	<u>\$ (474,816)</u>	<u>\$ 1,536,695</u>

**Operating Revenues**—Fund revenues increased by \$7.2 million due to a myriad of reasons, such as membership revenues, which increased 4.1% or \$2.3 million from \$55.8 million for the year ended December 31, 2004 to \$58.1 million for the year, ended December 31, 2005. The membership fee increase is due to a modest increase in attorney members and the implementation of multi-jurisdictional practice programs. These programs, administered by the Office of Certification under the authority of rules of court, allow out of state licensed attorneys to practice on a limited basis in California.

Examination fees for bar applicants increased by 10.9% or \$1.4 million due to a 4% increase enacted for 2005 and an overall increase in applicants for all the various bar examinations.

Trust account revenue increased by 30.9% or \$3.3 million due to the combination of an increase in deposits held in trust by attorneys on behalf on their clients and higher short-term interest earnings on these deposits.

**Operating Expenses**—Total operating expenses increased \$6.6 million or 6.2% during 2005 due primarily to increased personnel costs including salary, payroll and fringe benefits and an increase in IOLTA grants awarded to eligible participants.

### **Economic Factors Facing the State Bar**

Each year, the California State Legislature approves a State Bar Dues Bill that authorizes the State Bar to charge the annual mandatory membership fee that is set by the Board of Governors to pay for discipline and other State Bar functions.

In the spring of 2005, the State Bar sought legislative approval for a two-year dues bill and fee increases for both the active and inactive fees. On September 22, 2005, Governor Schwarzenegger signed into law AB 1529 which extended for two years the State Bar's authority to charge the annual mandatory membership dues for attorneys and authorized increased dues to ensure the Bar's ongoing ability to fund its services. AB 1529 also significantly changed the criteria for low income scaling of active dues.

The new legislation authorized increases in dues for active members in 2006 by \$5, to a total of \$395. The additional \$5 was dedicated to the Client Security Fund, a program that reimburses client victims up to \$50,000 for losses due to attorney theft when disciplinary action has been taken against the attorney. In 2007, the authorized dues increase to \$400. The \$5 increase will be used to support the General Fund.

The dues for inactive members, which had not been raised since their inception almost 20 years ago, were increased from \$50 to \$115 in 2006. Of the \$65 increase, \$50 was allocated to the General Fund, \$10 to the Client Security Fund and \$5 to the Lawyer Assistance Program. In 2007, inactive fees increased to \$125 with the additional \$10 allocated to the General Fund. The increased inactive dues more accurately reflect the services, benefits, and regulatory obligations of inactive attorneys.

The State Bar's Fee Bill for 2008 has been introduced as SB 686 authored by Senator Ellen Corbett. As is customary, SB 686 is currently a spot bill containing only technical provisions to conform State Bar Act provisions to the recent renumbering of California Rules of Court. The State Bar is in ongoing discussions with Senator Corbett and other key legislators over both the level of dues and the period the fee bill will cover. The Bar is proposing a 6.25% increase in active fees to \$425 that would remain constant for 2008, 2009, and 2010. This level of dues reflects the fact that dues have been virtually stagnant since the 1997 veto. The proposed dues levels assume no increases in authorized staffing levels. Modest increases in personnel costs as a result of negotiated increases, cost of living adjustments and health and retirement costs are included. The fee increase as proposed by the Bar will also allow the organization to make its first significant investment in modernizing its technology resources in more than 8 years.

**Financial Contact**

The State Bar of California'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 at 180 Howard Street, San Francisco, California 94105.

# THE STATE BAR OF CALIFORNIA

## BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

ASSETS	2006	2005
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 52,090,737	\$ 32,426,433
Accounts and other receivables	2,333,747	2,323,473
Other current assets	<u>1,200,703</u>	<u>1,086,025</u>
Total current assets	<u>55,625,187</u>	<u>35,835,931</u>
<b>NONCURRENT ASSETS:</b>		
Capital assets—net	37,579,573	36,734,854
Investments	<u>29,079,250</u>	<u>36,976,812</u>
Total noncurrent assets	<u>66,658,823</u>	<u>73,711,666</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>122,284,010</u></b>	<b>\$ <u>109,547,597</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 13,832,196	\$ 13,578,761
Unearned fees collected in advance	21,776,183	20,636,474
Grants payable	3,300,920	3,093,419
Current portion of long term debt	<u>685,298</u>	<u>1,605,517</u>
Total current liabilities	<u>39,594,597</u>	<u>38,914,171</u>
<b>NONCURRENT LIABILITIES:</b>		
Accrued postretirement benefits	7,390,618	5,638,877
Long term debt	<u>445,909</u>	<u>1,077,041</u>
Total noncurrent liabilities	<u>7,836,527</u>	<u>6,715,918</u>
Total liabilities	<u>47,431,124</u>	<u>45,630,089</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>NET ASSETS:</b>		
Restricted	31,869,716	27,097,649
Invested in capital assets—net of related debt	36,421,411	34,052,296
Unrestricted	<u>6,561,759</u>	<u>2,767,563</u>
Total net assets	<u>74,852,886</u>	<u>63,917,508</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>122,284,010</u></b>	<b>\$ <u>109,547,597</u></b>

See notes to financial statements.

# THE STATE BAR OF CALIFORNIA

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<b>OPERATING REVENUES:</b>		
Membership fees	\$ 64,147,081	\$ 58,050,292
Examination application fees	16,067,846	13,814,591
Trust account revenue	15,835,597	13,859,291
Law practices (Sections) fees	4,251,136	4,216,434
Seminar/workshop revenue	1,525,259	1,032,347
CalBar Journal revenue	1,292,226	1,265,780
Convention income	971,188	1,003,123
Legal specialization fees	874,675	1,064,439
Law corporation registration fees	654,289	646,940
Continuing legal education fees	1,357,305	1,412,923
Grants	12,045,901	10,341,675
Other	<u>5,585,850</u>	<u>3,940,734</u>
Total operating revenues	<u>124,608,353</u>	<u>110,648,569</u>
<b>OPERATING EXPENSES:</b>		
Discipline and adjudication	44,441,527	42,479,938
Examination costs and administration	15,056,230	13,824,150
Grants	24,147,603	21,678,572
Law practices (Sections)	4,487,397	3,722,491
Claims—net of reimbursements	4,270,463	4,277,923
Communications	2,624,012	2,523,661
Administration of justice	701,509	750,247
Governance	3,372,330	3,571,544
Administration of the profession	2,811,883	2,629,044
Program development	1,402,829	1,242,738
General and administration	<u>15,658,231</u>	<u>15,540,214</u>
Total operating expenses	<u>118,974,014</u>	<u>112,240,522</u>
<b>OPERATING INCOME (LOSS)</b>	<u>5,634,339</u>	<u>(1,591,953)</u>
<b>NONOPERATING REVENUES:</b>		
Investment income	4,346,750	2,034,342
Rental income	955,318	799,665
Loss on disposal of capital assets	<u>(1,029)</u>	<u>(180,175)</u>
Total nonoperating revenues, net	<u>5,301,039</u>	<u>2,653,832</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	10,935,378	1,061,879
<b>NET ASSETS—Beginning of year</b>	<u>63,917,508</u>	<u>62,855,629</u>
<b>NET ASSETS—End of year</b>	<u>\$ 74,852,886</u>	<u>\$ 63,917,508</u>

See notes to financial statements.

## THE STATE BAR OF CALIFORNIA

### STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from members, applicants, grants and other professionals	\$ 125,737,788	\$ 112,319,572
Payments to suppliers	(56,150,310)	(49,717,446)
Payments to employees	(58,817,467)	(56,450,792)
	<u>10,770,011</u>	<u>6,151,334</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturity and sale of investments	54,929,125	60,296,841
Purchases of investments	(44,301,023)	(83,342,369)
Interest on investments, net	1,616,204	819,639
Cash received from rental income	955,324	799,665
	<u>13,199,630</u>	<u>(21,426,224)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(2,647,526)	(690,424)
Proceeds from sale of capital assets	-	2,451
Payment of obligations under debt agreements	(1,551,351)	(1,342,465)
Interest paid on debt	(106,460)	(175,752)
	<u>(4,305,337)</u>	<u>(2,206,190)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>19,664,304</b>	<b>(17,481,080)</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<b><u>32,426,433</u></b>	<b><u>49,907,513</u></b>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<b><u>\$ 52,090,737</u></b>	<b><u>\$ 32,426,433</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 5,634,339	\$ (1,591,953)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:		
Depreciation and amortization	1,801,778	1,887,143
Increase in postretirement obligation	1,751,741	1,365,472
Interest expense on debt	106,460	175,752
Changes in assets and liabilities:		
Accounts and other receivables	(10,274)	(215,705)
Other current assets	(114,678)	(35,324)
Accounts payable and accrued liabilities	253,435	1,716,072
Unearned fees collected in advance	1,139,709	1,886,708
Grants payable	207,501	963,169
	<u>10,770,011</u>	<u>6,151,334</u>
<b>Cash provided by operating activities</b>	<b><u>\$ 10,770,011</u></b>	<b><u>\$ 6,151,334</u></b>

See notes to financial statements.

# THE STATE BAR OF CALIFORNIA

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

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### 1. DESCRIPTION OF ENTITY

The State Bar of California (the "State Bar") is a public corporation established by the California Legislature on June 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. 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 Education Foundation (the "Education Foundation"), a nonprofit public benefit corporation, is included in the State Bar's financial statements because this foundation is a blended component unit of the State Bar, and the State Bar is financially accountable for the Education Foundation.

The Foundation of the State Bar of California (the "Foundation"), a nonprofit public benefit corporation, is not reflected in the accompanying financial statements because the State Bar is not financially accountable for the Foundation.

### 2. BASIS OF PRESENTATION

The basic financial statements 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 of California follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Bar's financial activities.

Additionally, the State Bar of California follows all Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARB") issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the proprietary fund model is followed, and the full accrual basis of accounting is used.

The accompanying financial statements present the assets, liabilities, revenues, expenses, and net assets of the State Bar on a combined basis. The assets, liabilities, revenues, expenses and net assets of the State Bar's internal funds are presented in the Supplementary Information on pages 25 through 28 for the year ended December 31, 2006.

**General Fund**—The General Fund accounts for membership fees and resources of the State Bar not related to other fund activities. The General Fund also accounts for the revenues and expenses of maintaining, operating and supporting the attorney discipline system.

**Admissions Fund**—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 Fund**—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.

**Building Fund**—The Building Fund is used to account for the State Bar's physical facilities, including purchasing, constructing and equipping furnishings, land and buildings. Resources are provided through \$10 assessments of all active and inactive members as part of the annual membership fee.

**Certification Activities Fund**—The Certification Activities Fund administers and regulates the programs related to the practice of law: Mandatory Continuing Legal Education, Lawyer Referral Services (Certification and Regulation), Law Corporations, Counsel Pro HAC Vice, Out-of-State Attorney Arbitration Counsel, Foreign Legal Consultants, Limited Liability Partnerships, Practical Training of Law Students and Special Masters. Funding is provided by fees, penalties and other payments authorized by statute or court rule.

**Client Security Fund**—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 \$50,000 per application for reimbursement on any one transaction, as prescribed by the Board of Governors. Management of the State Bar has estimated the ultimate reimbursement by the State Bar related to claims submitted as of December 31, 2006 and 2005 to be \$4,105,784 and \$4,552,496, respectively, and such amounts are accrued in the accompanying balance sheets. This fund is replenished through annual assessments of \$40 of every active member, and \$10 of every inactive member.

**Discipline Fund**—The Discipline Fund was established principally to account for revenues and expenses of maintaining, operating and supporting the attorney discipline system. Resources were largely composed of the special regulatory assessment set by the Supreme Court in its December 3, 1998 order and rule requiring every active member to pay \$173 to maintain minimum funding of the discipline program until the enactment of legislation authorizing the collection of membership fees and regular funding. Given the enactment of legislation in 2000, the activities supporting the attorney discipline system are currently accounted for in the General Fund. At December 31, 2006 and 2005, the Discipline Fund includes \$1,152,290 and \$1,399,909, respectively, representing a carryover of the balance of the revenue from the pre 2000 \$173 special regulatory assessment, which will be used for future discipline-related projects.

**Education Foundation Fund**—The Education Foundation Fund accounts for the activities of the State Bar Education Foundation, which includes organizing and administering certain educational programs and activities conducted by the State Bar.

**Elimination of Bias and Bar Relations Fund**—The Bar Relations Elimination of Bias 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 Fund***—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 was approved by the Legislature and the Governor. The Act established a new distribution of \$4.80 per filing fee to the Equal Access Fund. These revenues were collected by the trial courts starting in January 2006. As of December 31, 2006, filing fees of approximately \$2.5 million have been received and distributed to the nonprofit legal aid organizations for the grant year.

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

***Lawyers Assistance Program Fund***—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. The program is funded by an annual \$10 fee assessment as part of the membership fee to active members and \$5 fee to inactive members.

***Legal Education and Development Fund***—The Legal Education and Development Fund uses certain monies traditionally deposited in the Lawyers Education and Development Fund for competency based education programs whose major purpose shall be to reduce the severity and frequency of professional liability claims.

***Legal Services Trust Fund***—The Legal Services Trust Fund is 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 administration costs, the remainder is to be distributed as grants.

Grants payable at year end represent the unpaid balance of the grants approved by the Board of Governors for the period July 1 through June 30 of the following year. Additional revenue to fund these grants is received during the following period from January 1 through June 30.

***Legal Specialization Fund***—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 Fund***—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.

**Public Protection Fund**—The Public Protection Fund was established to assure continuity of the State Bar’s disciplinary system and its other essential public protection programs.

**Sections Fund**—The Sections Fund accounts for the activities of sixteen sections consisting 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. The supplementary information for the Sections Fund included on pages 25 through 28 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the State Bar’s management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements.

**Support and Administration Fund**—The Support and Administrative Fund was created to account for all indirect costs. Indirect costs are those expenses that benefit multiple programs or that cannot be matched with a single program, such as General Counsel, Finance, Human Resources, Real Property Operations and Information Technology.

**Technology Improvements Fund**—The Technology Improvements Fund was established to fund technology projects that the State Bar had previously funded through the General Fund.

**Fixed Assets Fund**—The Fixed Assets Fund accounts for all completed capital assets. Fixed assets financed by debt or capital leases remain in the fund carrying the related obligations. When the obligations are repaid, the net book value of the related fixed assets is transferred to the Fixed Assets Fund.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Cash and cash equivalents** include all cash and liquid investments with remaining maturity of three months or less at date of purchase. At December 31, 2006 and 2005, cash equivalents consisted of money market accounts and the California Local Agency Investment Fund (“LAIF”).

The State Bar is a voluntary participant in the LAIF, which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the State Bar’s deposits in this pool is reported based upon the State Bar’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

**Investments** are stated at estimated fair value based on quoted market prices. The net increase (decrease) in the fair value of investments includes both realized and unrealized gains and losses.

**Capital assets** are stated at cost, less accumulated depreciation and amortization, provided on the straight-line basis over the estimated useful lives of forty years for buildings, ten years for furniture and fixtures, and from four to seven years for equipment. 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. Capital assets with a useful life greater than one year and a cost of \$5,000 or more are capitalized.

**Accrued postretirement benefits** represent the liability recognized on the State Bar financial statements for certain health care and life insurance benefits for retired employees (see Note 8).

**Revenue Recognition and 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 balance sheet.

**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 net assets are available are satisfied with restricted net assets, to the extent available.

**Grant Revenue, Expense and Grants Payable**—Grant revenue is recognized in the year in which payment is received from the grantor. Grant expense is recognized in the year in which the Legal Services Trust Fund Commission approves the grants. Grants payable represent unpaid installments on approved grants.

**Income taxes**—The State Bar is a governmental entity and, as such, is not required to pay federal or state income taxes.

**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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Restricted Net Assets** represent the net assets of all funds other than the General Fund.

**New Accounting Standards**—In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions Plans*, effective for periods beginning after December 15, 2006. Statement No. 45 improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Management of the State Bar has not completed the process of evaluating the impact that will result from adopting Statement No. 45.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of Statement No. 34, effective for periods beginning after June 15, 2005. Statement No. 46 clarifies that 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. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. The State Bar adopted the provisions of Statement No. 46 effective January 1, 2006. The adoption of this statement did not have a significant impact on its financial position or results of operations.

**Reclassifications**—Certain amounts reported in the 2005 financial statements and related notes have been reclassified to conform to 2006 presentation.

The State Bar's deposits in the LAIF as of December 31, 2005 have been reclassified from investments to cash and cash equivalents, consistent with the presentation as of December 31, 2006. The effect of the reclassification on the 2005 financial statements was an increase in cash and cash equivalents by \$17,588,748 and a corresponding decrease in investments for the same amount.

#### 4. CASH, CASH EQUIVALENTS AND INVESTMENTS

*Cash and cash equivalents*—At December 31, 2006, the carrying amount of the State Bar's deposits was \$52,090,737 and the bank balance was \$52,274,093. Of the bank balance, \$100,000 was covered by federal depository insurance and \$52,174,093 was uninsured and uncollateralized. At December 31, 2005, the carrying amount of the State Bar's deposits was \$32,426,433 and the bank balance was \$33,468,300. Of the bank balance, \$100,000 was covered by federal depository insurance and \$33,368,300 was uninsured and uncollateralized.

*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 of California statutes governing the investment of public funds and all Resolutions of the Board of Governors. The State Bar invests a substantial portion of its funds in fixed income securities, which limits the Bar's exposure to most types of risk. Investment of funds is authorized by the Board of Governors, generally, to certain types of investment securities, including direct obligations of the U.S. Government and its agencies, long term investment agreements which are issued by institutions rated within the top two ratings of a nationally recognized rating service, and other financial instruments.

Investments by type at December 31, consist of the following:

	2006	2005
	<u>Fair Value Totals</u>	<u>Fair Value Totals</u>
U.S. government and agencies	\$ 23,230,627	\$ 19,111,495
Corporate bonds	4,351,299	15,541,968
Mutual Funds	776,539	708,340
Equity securities	720,785	615,321
Negotiable certificates of deposit	-	999,688
Total investments	<u>\$ 29,079,250</u>	<u>\$ 36,976,812</u>

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk and interest rate 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.

*Custodial Credit Risk* is the risk that in the event of the failure of the custodian, the investments may not be returned to it. The California Government Code and the State Bar of California's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits: 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 market 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.

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At December 31, 2006 and 2005, the following investments of the State Bar were subject to custodial concentration risk and were held by the same broker-dealer (counterparty) that was used by the State Bar to purchase the securities:

	2006	2005
	<u>Fair Value Totals</u>	<u>Fair Value Totals</u>
U.S. government and agencies	\$ 23,230,627	\$ 19,111,495
Corporate bonds	4,351,299	15,541,968
Mutual Funds	776,539	708,340
Equity securities	546,447	471,457
Total	<u>\$ 28,904,912</u>	<u>\$ 35,833,260</u>

**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:

<u>Issuer</u>	<u>Investment Type</u>	2006 <u>Fair Value Totals</u>	2005 <u>Fair Value Totals</u>
Federal Home Loan Bank	U.S. agency securities	\$ 16,952,265	\$ 12,829,546
Federal National Mortgage Association	U.S. agency securities	4,204,875	3,977,781
Federal Farm Credit Bank	U.S. agency securities	1,962,215	2,157,423
General Electric Capital Corporation	Corporate bond	-	3,076,288
Merrill Lynch and Company, Inc.	Corporate bond	-	2,054,578
International Lease Finance Corporation	Corporate bond	-	2,034,418
Huntington National Bank	Corporate bond	-	1,978,751
Bottling Group LLC	Corporate bond	-	1,971,708

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**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, 2006 and 2005 are as follows:

	Market Value December 31, 2006	Percentage of All Fixed Income Securities	Portfolio Weighted Average Maturity
Fixed income security type			
U.S. government and agencies	\$ 23,230,627	84.2%	1.94
Corporate bonds	4,351,299	15.8%	0.38
	<u>\$ 27,581,926</u>	<u>100.0%</u>	

	Market Value December 31, 2005	Percentage of All Fixed Income Securities	Portfolio Weighted Average Maturity
Fixed income security type			
U.S. government and agencies	\$ 19,111,495	53.6%	2.66
Corporate bonds	15,541,968	43.6%	0.92
Negotiable certificates of deposit	999,688	2.8%	0.32
Total	<u>\$ 35,653,151</u>	<u>100.0%</u>	

**Credit Risk** is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Fixed income securities are subject to credit risk, except obligations of the U.S. government or those explicitly guaranteed by the U.S. government.

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

	2006		2005	
	Fair Value	Fair Value as a Percentage of Total Debt Security Investments	Fair Value	Fair Value as a Percentage of Total Debt Security Investments
Fixed income securities -				
Moody's Rating:				
AAA	\$ 24,311,884	88.1%	\$ 22,187,783	62.2%
AA3	2,257,927	8.2%	5,310,561	14.9%
AA2	99,838	0.3%	97,963	0.3%
AA1	201,582	0.7%	198,036	0.6%
A3	252,980	0.9%	2,119,340	5.9%
A2	273,117	1.0%	2,174,014	6.1%
A1	184,598	0.7%	3,565,454	10.0%
Total fixed income securities	<u>\$ 27,581,926</u>	<u>100.0%</u>	<u>\$ 35,653,151</u>	<u>100.0%</u>

## 5. CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2006 and 2005 is as follows:

	Balance December 31, 2005	Additions	Deletions	Balance December 31, 2006
Land	\$ 4,596,490	\$ -	\$ -	\$ 4,596,490
Buildings and leasehold improvements	36,006,392	2,233,895	-	38,240,287
Equipment	2,947,002	413,631	(1,475)	3,359,158
Furniture and fixtures	1,675,389	-	-	1,675,389
Total	45,225,273	2,647,526	(1,475)	47,871,324
Accumulated depreciation	<u>(8,490,419)</u>	<u>(1,801,778)</u>	<u>446</u>	<u>(10,291,751)</u>
Capital assets—net	<u>\$ 36,734,854</u>	<u>\$ 845,748</u>	<u>\$ (1,029)</u>	<u>\$ 37,579,573</u>

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Land	\$ 4,596,490	\$ -	\$ -	\$ 4,596,490
Buildings and leasehold improvements	36,034,460	11,872	(39,940)	36,006,392
Equipment	7,523,296	678,552	(5,254,846)	2,947,002
Furniture and fixtures	3,662,960	-	(1,987,571)	1,675,389
Total	51,817,206	690,424	(7,282,357)	45,225,273
Accumulated depreciation	<u>(13,703,007)</u>	<u>(1,887,143)</u>	<u>7,099,731</u>	<u>(8,490,419)</u>
Capital assets—net	<u>\$ 38,114,199</u>	<u>\$ (1,196,719)</u>	<u>\$ (182,626)</u>	<u>\$ 36,734,854</u>

Depreciation and amortization expense for the years ended December 31, 2006 and 2005 was \$1,801,778 and \$1,887,143, respectively.

## 6. OBLIGATIONS UNDER DEBT AGREEMENTS

Obligations under debt agreements at December 31 consisted of the following:

	2006	2005
Term loan under \$1,300,000 note payable to bank for 180 Howard Street to finance leasehold improvements, due in monthly interest only payments of \$6,067 at 5.6% from August 30, 2004 to July 31, 2006. Principal repayment began on August 30, 2006, due in monthly installments of \$54,167 including interest at 5.6% with the final installment due on July 31, 2008.	\$ 1,083,333	\$ 1,300,000
Obligations under a capital lease agreement, due in monthly installments of \$10,557 through March 2008, with imputed interest of 5.39%, collateralized by equipment.	47,874	88,085
Term loan under \$10,891,069 note payable to bank for 180 Howard Street, due in monthly installments of \$117,600 including interest at 5.39% was retired during August 2006, collateralized by real property.	-	1,294,473
Total obligations under debt agreements	<u>\$ 1,131,207</u>	<u>\$ 2,682,558</u>

Debt service requirements to maturity are as follows:

	Principal	Interest	Total
2007	\$ 685,298	\$ 44,661	\$ 729,959
2008	<u>445,909</u>	<u>7,375</u>	<u>453,284</u>
Total	<u>\$ 1,131,207</u>	<u>\$ 52,036</u>	<u>\$ 1,183,243</u>

A summary of changes in obligations under debt agreements during the years ended December 31, 2006 and 2005 is as follows:

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
Term loan	\$ 1,294,473	\$ -	\$ (1,294,473)	\$ -
Obligations under a capital lease agreement	88,085	-	(40,211)	47,874
Term loan—Wells Fargo Bank leasehold improvement	<u>1,300,000</u>	<u>-</u>	<u>(216,667)</u>	<u>1,083,333</u>
Total obligations under debt agreements	<u>\$ 2,682,558</u>	<u>\$ -</u>	<u>\$ (1,551,351)</u>	<u>\$ 1,131,207</u>

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	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Term loan	\$ 2,597,512	\$ -	\$ (1,303,039)	\$ 1,294,473
Obligations under a capital lease agreement	127,512	-	(39,427)	88,085
Term loan—Wells Fargo Bank leasehold improvement	<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>1,300,000</u>
Total obligations under debt agreements	<u>\$ 4,025,024</u>	<u>\$ -</u>	<u>\$ (1,342,466)</u>	<u>\$ 2,682,558</u>

Interest expense for the years ended December 31, 2006 and 2005 was \$99,601 and \$175,968, respectively.

## 7. PENSION PLAN

**Plan Description**—The State Bar’s defined benefit plan, the Miscellaneous Plan of the State Bar of California (the “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 the 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 CalPERS. Benefits vest after five years of service. State Bar employees who retire at age 50 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.426% of their average annual salary during their last three years of employment for each year of credited service. The rate incrementally increases for each successive year before retirement to a maximum of 2.418% at age 63. These benefit provisions and all other requirements are established by state statute.

CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for CalPERS. That report may be obtained from the CalPERS Executive Office at 400 Q Street, Sacramento, California, USA 95814.

**Funding Policy**—State Bar employees are required to contribute 7% of their annual covered salary (less allowable CalPERS deductions). The State Bar is required to contribute the remaining amounts necessary to fund the benefits for its members. The actuarial funding method used for the Plan is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. There was a required employer contribution for the years ended December 31, 2006, 2005 and 2004 of \$5,803,055, \$5,622,306, and \$2,407,686, respectively. The contribution requirements of the Plan members are established by state statute, and the employer contribution rate is established and may be amended by CalPERS.

**Annual Pension Cost**—Annual Pension Cost (“APC”) is equal to the Annual Required Contribution (“ARC”) plus an adjustment for the cumulative difference between the APC and the actual plan contributions for the year. The Net Pension Obligation (“NPO”) is the cumulative difference between the APC and ARC. There was no NPO for the year ended December 31, 2006, 2005 and 2004, as the ARC by both the employees and the State Bar in the amount of \$7,277,325, \$6,781,479, and \$5,272,487, respectively was equal to the actual amounts contributed for 2006, 2005 and 2004, respectively. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% per year, depending on age, service and type of employment, (c) payroll growth of

3.25%, and (d) individual salary growth assumptions based on a merit scale varying by duration of employment coupled with an annual production growth of 0.25%. Assumptions (a), (b) and (d) included an inflation component of 3.0%. The actuarial value of CalPERS assets attributable to the State Bar was determined using the Asset Valuation Method in order to smooth the effects of short-term volatility in the market value of investments. All changes in liability due to Plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized as a level percentage of pay over a closed 20-year period.

### *Funded Status of Plan*

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Deficiency	Funded Ratio	Annual Covered Payroll	Deficiency Assets as a % of Payroll
June 30, 2005	\$ 154,989,374	\$ 147,383,323	\$ (7,606,051)	95.1%	\$ 37,974,788	-20.0%
June 30, 2004	\$ 143,924,985	\$ 134,570,738	\$ (9,354,247)	93.5%	\$ 37,374,856	-25.0%
June 30, 2003	\$ 133,005,937	\$ 124,016,352	\$ (8,989,585)	93.2%	\$ 38,314,551	-23.5%

## 8. POSTRETIREMENT BENEFITS

The State Bar provides postretirement health care benefits to retired State Bar executives. 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. Sixty-seven retirees meet those eligibility requirements as of December 31, 2006 and 2005. The postretirement benefits are funded on a pay-as-you-go basis by the State Bar and are not required to be pre-funded by the plan. Employee contributions are not required to be made to the plan and the State Bar has the right to modify plan provisions prospectively at its discretion.

The funding status of postretirement benefit obligations as of December 31 was as follows:

	2006	2005
Accumulated postretirement benefit obligation:		
Retirees	\$ 7,915,152	\$ 6,326,512
Actives eligible	6,008,337	5,194,735
Other active participants	<u>3,692,492</u>	<u>4,381,698</u>
Total accumulated postretirement benefit obligation	17,615,981	15,902,945
Unrecognized loss	<u>(10,225,363)</u>	<u>(10,264,068)</u>
Net postretirement liability	<u>\$ 7,390,618</u>	<u>\$ 5,638,877</u>

Net periodic postretirement benefit costs for 2006 and 2005 included the following components:

	2006	2005
Service cost	\$ 525,392	\$ 390,202
Interest cost	880,790	711,017
Amortization of losses	-	-
Benefits paid	<u>692,793</u>	<u>519,853</u>
Total	<u>\$ 2,098,975</u>	<u>\$ 1,621,072</u>

The weighted average discount rate used in determining the accumulated postretirement benefit obligation for the years ended December 31, 2006 and 2005 was 5.9% and 5.6%, respectively.

## 9. DEFERRED COMPENSATION PLAN

The State Bar has a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan, available to all full-time or regular part-time employees who have completed three full months of employment, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

Total contributions to and earnings of the deferred compensation plan for the years ended December 31, 2006 and 2005 were \$3,817,738 and \$2,821,957 respectively. The assets of the deferred compensation plan are held in a trust under the administration of a third-party trustee. Accordingly, the assets and liabilities of the deferred compensation plan are not reflected on the accompanying balance sheets. The assets of the deferred compensation plan (not covered by independent auditors' report), consisting primarily of open-ended mutual funds, were \$19,852,538 and \$16,034,800 as of December 31, 2006 and 2005, respectively.

## 10. 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.

**Leases**—The State Bar is obligated under various noncancelable operating leases for office space. The lease terms range between three and ten years. In addition, the State Bar leases certain office space at its primary facility in San Francisco, California to tenants under various lease agreements. As of December 31, 2006, the carrying value of the building was \$38,240,287 with accumulated depreciation of \$7,424,603. Future minimum lease obligations and future minimum revenue under these noncancelable operating leases at December 31, 2006 are as follows:

Year Ending December 31	Future Minimum Revenue	Future Minimum Lease Obligations
2007	\$ 1,134,678	\$ 3,503,525
2008	1,123,744	3,505,640
2009	858,385	3,815,593
2010	527,960	3,812,582
2011	526,104	3,747,889
Thereafter	<u>1,446,786</u>	<u>7,647,641</u>
Total	<u>\$ 5,617,657</u>	<u>\$ 26,032,870</u>

Expense under operating leases for the years ended December 31, 2006 and 2005 was \$3,608,983 and \$3,597,382, respectively.

\* \* \* \* \*

THE STATE BAR OF CALIFORNIA

SUPPLEMENTARY INFORMATION—FUNDS BALANCE SHEET, DECEMBER 31, 2006

ASSETS	General Fund	Admissions	Annual Meeting	Building	Certification Activities	Client Security	Discipline	Education Foundation	Elimination of Bias and Bar Relations	Equal Access	Grants	Lawyers Assistance Program
<b>CURRENT ASSETS:</b>												
Cash and cash equivalents	\$ 52,090,687	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts and other receivables	502,833	111								165,672	228,405	
Interfund receivable	7,838,531	7,838,531	112,368	645,976	2,630,772	7,708,942	1,152,290	498,558	939,374	245,115		401,494
Other current assets	775,592	60,700		102,713								
Total current assets	53,369,112	7,899,392	112,368	748,689	2,630,772	7,708,942	1,152,290	498,558	939,374	410,787	228,405	401,494
<b>NONCURRENT ASSETS:</b>												
Capital assets—net	49,538			16,030,479								
Investments	29,079,250											
Total noncurrent assets	29,128,788			16,030,479								
<b>TOTAL ASSETS</b>	<b>\$ 82,497,900</b>	<b>\$ 7,899,392</b>	<b>\$ 112,368</b>	<b>\$ 16,779,168</b>	<b>\$ 2,630,772</b>	<b>\$ 7,708,942</b>	<b>\$ 1,152,290</b>	<b>\$ 498,558</b>	<b>\$ 939,374</b>	<b>\$ 410,787</b>	<b>\$ 228,405</b>	<b>\$ 401,494</b>
<b>LIABILITIES AND NET ASSETS</b>												
<b>CURRENT LIABILITIES:</b>												
Accounts payable and accrued liabilities	\$ 8,358,665	\$ 264,151	\$ 63,791	\$ 56,486	\$ 38,216	\$ 4,169,885	\$ -	\$ -	\$ 10,818	\$ -	\$ -	\$ 25,057
Interfund payable	45,015,927										146,122	4,268
Unearned fees collected in advance	15,121,394	3,963,507		384,030		1,213,463						
Grants payable												
Current portion of long term debt	35,298			650,000								
Total current liabilities	68,531,284	4,227,658	63,791	1,090,516	38,216	5,383,348			10,818		146,122	29,325
<b>NONCURRENT LIABILITIES:</b>												
Accrued postretirement benefits	7,390,618											
Long term debt	12,576			433,333								
Total noncurrent liabilities	7,403,194			433,333								
Total liabilities	75,934,478	4,227,658	63,791	1,523,849	38,216	5,383,348			10,818		146,122	29,325
<b>NET ASSETS (DEFICIT):</b>												
Restricted		3,671,734	48,577	308,173	2,592,556	2,325,594	1,152,290	498,558	928,556	410,787	82,283	372,169
Invested in capital assets—net of related debt	1,663			14,947,146								
Unrestricted	6,561,759											
Total net assets	6,563,422	3,671,734	48,577	15,255,319	2,592,556	2,325,594	1,152,290	498,558	928,556	410,787	82,283	372,169
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 82,497,900</b>	<b>\$ 7,899,392</b>	<b>\$ 112,368</b>	<b>\$ 16,779,168</b>	<b>\$ 2,630,772</b>	<b>\$ 7,708,942</b>	<b>\$ 1,152,290</b>	<b>\$ 498,558</b>	<b>\$ 939,374</b>	<b>\$ 410,787</b>	<b>\$ 228,405</b>	<b>\$ 401,494</b>

(Continued)

# THE STATE BAR OF CALIFORNIA

## SUPPLEMENTARY INFORMATION—FUNDS BALANCE SHEET, DECEMBER 31, 2006

	Legal Education & Development	Legal Services Trust	Legal Specialization	Legislative Activities	Public Protection	Sections	Support and Admin.	Technology Improvements	Fixed Asset Fund	Interfund Elimination	Total
<b>ASSETS</b>											
<b>CURRENT ASSETS:</b>											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,090,737
Accounts and other receivables	690,996	1,436,726	2,065,948	836,580	5,826,572	5,760,827	429,043	316,928		(45,189,003)	2,333,747
Interfund receivable	27,568						234,130				
Other current assets											1,200,703
Total current assets	718,564	8,525,415	2,065,948	836,580	5,826,572	5,760,827	663,173	316,928		(45,189,003)	55,625,187
<b>NONCURRENT ASSETS:</b>											
Capital assets—net									21,499,556		37,579,573
Investments											29,075,250
Total noncurrent assets									21,499,556		66,654,823
<b>TOTAL ASSETS</b>	718,564	8,525,415	2,065,948	836,580	5,826,572	5,760,827	663,173	316,928	21,499,556	(45,189,003)	122,284,010
<b>LIABILITIES AND NET ASSETS</b>											
<b>CURRENT LIABILITIES:</b>											
Accounts payable and accrued liabilities	2,281	47,086	4,209	58,441	-	86,587	646,523	-	-	-	13,832,196
Interfund payable						856,926			26,954	(45,189,003)	21,776,183
Unearned fees collected in advance			232,595								3,900,920
Grants payable		3,300,920									682,298
Current portion of long term debt											
Total current liabilities	2,281	3,348,006	236,804	58,441	-	943,513	646,523	-	26,954	(45,189,003)	39,594,597
<b>NONCURRENT LIABILITIES:</b>											
Accrued postretirement benefits											7,390,618
Long term debt											445,909
Total noncurrent liabilities											7,836,527
<b>NET ASSETS (DEFICIT):</b>											
Restricted											47,431,124
Invested in capital assets—net of related debt	718,564	5,177,409	1,829,144	778,139	5,826,572	4,817,314	16,650	316,928			31,869,716
Unrestricted											36,421,411
Total net assets	718,564	5,177,409	1,829,144	778,139	5,826,572	4,817,314	16,650	316,928	21,472,602		6,561,759
<b>TOTAL LIABILITIES AND NET ASSETS</b>	718,564	8,525,415	2,065,948	836,580	5,826,572	5,760,827	663,173	316,928	21,499,556	(45,189,003)	122,284,010

(Continued)

THE STATE BAR OF CALIFORNIA

SUPPLEMENTARY INFORMATION—FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2006

	General Fund	Admissions	Annual Meeting	Building	Certification Activities	Client Security	Discipline	Education Foundation	Elimination of Bias and Bar Relations	Equal Access	Grants
<b>OPERATING REVENUES:</b>											
Membership fees	\$ 53,449,021	\$ -	\$ -	\$ 1,844,988	\$ -	\$ 6,349,590	\$ -	\$ -	\$ 772,970	\$ -	\$ -
Examination application fees		16,067,188							638		
Traust account revenue											
Law practices (Sections) fees	5,026		13,310					1,358,971	24,113		
Seminar/workshop revenue	1,292,226		747,861					188,251			
CalBar Journal revenue											
Convention income											
Legal specialization fees											
Law corp. registration fees	390,789				654,289						
Continuing legal education fees					949,471						
Grants											
Other	1,192,749	425,966	153,066	11,000	334,094	5,103		376,993	50,250	11,302,400	692,251
<b>Total operating revenues</b>	<b>56,329,811</b>	<b>16,493,154</b>	<b>914,237</b>	<b>1,855,988</b>	<b>1,937,854</b>	<b>6,354,693</b>		<b>1,924,215</b>	<b>847,991</b>	<b>11,654,886</b>	<b>692,251</b>
<b>OPERATING EXPENSES:</b>											
Discipline and adjudication	44,441,527										
Examination costs and administration		15,056,230									
Grants											
Law practices (Sections)											
Claims, net of reimbursements	2,624,012										
Communications	701,509						4,270,463		11,440,761		
Administration of justice	3,372,330										
Governance	1,293,622				1,518,261						
Administration of the profession	1,402,829										
Program development	585,776										
General and administration			808,300	1,734,703		1,666,082		1,895,748	936,970	322,888	713,796
<b>Total operating expenses</b>	<b>54,421,605</b>	<b>15,056,230</b>	<b>808,300</b>	<b>1,734,703</b>	<b>1,518,261</b>	<b>5,936,545</b>		<b>1,895,748</b>	<b>936,970</b>	<b>11,763,649</b>	<b>713,796</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,908,206</b>	<b>1,436,924</b>	<b>105,937</b>	<b>121,285</b>	<b>419,593</b>	<b>418,148</b>		<b>28,467</b>	<b>(88,979)</b>	<b>(108,763)</b>	<b>(21,545)</b>
<b>NONOPERATING REVENUES:</b>											
Investment income	1,877,904	364,873	7,766	121,441	116,257	427,548	61,170	29,008	59,867	34,652	
Rental income				954,055							
<b>Total nonoperating revenues</b>	<b>1,877,904</b>	<b>364,873</b>	<b>7,766</b>	<b>1,075,496</b>	<b>116,257</b>	<b>427,548</b>	<b>61,170</b>	<b>29,008</b>	<b>59,867</b>	<b>34,652</b>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>3,786,110</b>	<b>1,801,797</b>	<b>113,703</b>	<b>1,196,781</b>	<b>535,850</b>	<b>845,696</b>	<b>(200,463)</b>	<b>57,475</b>	<b>(29,112)</b>	<b>(74,111)</b>	<b>(21,545)</b>
<b>NET ASSETS—Beginning of year</b>	<b>2,777,312</b>	<b>1,869,937</b>	<b>(65,126)</b>	<b>16,292,434</b>	<b>2,056,706</b>	<b>1,479,898</b>	<b>1,399,909</b>	<b>441,083</b>	<b>957,668</b>	<b>484,898</b>	<b>103,828</b>
<b>INTERFUND TRANSFERS</b>				<b>(2,233,896)</b>			<b>(47,156)</b>				
<b>NET ASSETS—End of year</b>	<b>6,563,422</b>	<b>3,671,734</b>	<b>48,577</b>	<b>15,255,319</b>	<b>2,592,556</b>	<b>2,325,594</b>	<b>1,152,290</b>	<b>498,558</b>	<b>928,556</b>	<b>410,787</b>	<b>82,283</b>

(Continued)

THE STATE BAR OF CALIFORNIA

SUPPLEMENTARY INFORMATION—FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED DECEMBER 31, 2006

	Lawyers Assistance Program	Legal Education & Development	Legal Services Trust	Legal Specialization	Legislative Activities	Public Protection	Sections	Support and Admin.	Technology Improvements	Fixed Asset Fund	Total
<b>OPERATING REVENUES:</b>											
Membership fees	\$ 951,462	\$ -	\$ -	\$ -	\$ 757,887	\$ -	\$ -	\$ 21,163	\$ -	\$ -	\$ 64,147,081
Examination application fees			15,835,597								16,067,846
Trust account revenue							4,251,136				15,835,597
Law practices (Sections) fees							123,839				4,251,136
Seminar/workshop revenue											1,525,259
CalBar Journal revenue											1,292,226
Convention income							35,076				971,188
Legal specialization fees			84,425	874,675							874,675
Law corp. registration fees				17,045							654,289
Continuing legal education fees				2,437							1,357,305
Grants	1,050,714	1,008,464	84,425	2,437			400,876	187,477			12,045,901
Other	2,002,176	1,008,464	15,920,022	894,157	757,887		4,811,927	208,640			5,585,850
Total operating revenues											124,608,353
<b>OPERATING EXPENSES:</b>											
Discipline and adjudication											44,441,527
Examination costs and administration			12,706,842								15,056,230
Grants							4,487,397				24,147,603
Law practices (Sections)											4,487,397
Claims, net of reimbursements											4,270,463
Communications											2,624,012
Administration of justice											701,509
Governance											3,372,330
Administration of the profession											2,811,883
Program development											1,402,829
General and administration	1,973,623	845,401	849,922	1,010,380	839,508			(423)	18,533	1,195,391	15,658,231
Total operating expenses	1,973,623	845,401	13,556,764	1,010,380	839,508		4,487,397	(423)	18,533	1,195,391	118,974,014
<b>OPERATING INCOME (LOSS)</b>	28,553	163,063	2,363,258	(116,223)	(81,621)		324,530	209,063	(18,533)	(1,195,391)	5,634,339
<b>NONOPERATING REVENUES:</b>											
Investment income	33,235	31,523	341,810	104,240	50,057	266,041	318,460	84,570	16,328		4,346,750
Rental income								1,263			955,318
Loss on Disposal of Capital Assets										(1,029)	(1,029)
Total nonoperating revenues	33,235	31,523	341,810	104,240	50,057	266,041	318,460	85,833	16,328	(1,029)	5,301,039
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	61,788	194,586	2,705,068	(11,983)	(31,564)	266,041	642,990	294,896	(2,205)	(1,196,420)	10,935,378
<b>NET ASSETS—Beginning of year</b>	346,381	521,697	2,472,341	1,841,127	809,703	5,560,531	4,174,324	(119,803)	491,165	20,021,495	63,917,508
<b>INTERFUND TRANSFERS</b>	(36,000)							(158,443)	(172,032)	2,647,527	-
<b>NET ASSETS—End of year</b>	\$ 372,169	\$ 716,283	\$ 5,177,409	\$ 1,829,144	\$ 778,139	\$ 5,826,572	\$ 4,817,314	\$ 16,650	\$ 316,928	\$ 21,472,602	\$ 74,852,886

(Continued)

Appendix B1  
**Itemized Cost Proposal**  
 The State Bar of California

**2007**

Services: **Financial Statement Audit**  
 Period: January 1 to December 31

**Statement of Chargeable & Nonchargeable Expenses**  
 January 1 to December 31

Professional Svs	Quoted Hours	Standard Hourly Rates	Subtotal
Partners			\$ -
Managers			\$ -
Supervisory Staff			\$ -
Staff			\$ -
Other (specify)			\$ -
<b>Services Subtotal</b>	0		\$ -

Quoted Hours	Standard Hourly Rates	Subtotal
		\$ -
		\$ -
		\$ -
		\$ -
		\$ -
0		\$ -

Expenses	
Meal per diems	
Lodging	
Transportation	
Other (specify)	
<b>Expenses Subtotal</b>	\$ -

		\$ -

**Totals:** \$ - \$ -

**Total All-inclusive Maximum Price for Year:** \$ -

Appendix B2  
**Itemized Cost Proposal**  
 The State Bar of California

**2008**

Services: **Financial Statement Audit**  
 Period: January 1 to December 31

**Statement of Chargeable & Nonchargeable Expenses**  
 January 1 to December 31

Professional Svs	Quoted Hours	Standard Hourly Rates	Subtotal
Partners			\$ -
Managers			\$ -
Supervisory Staff			\$ -
Staff			\$ -
Other (specify)			\$ -
<b>Services Subtotal</b>	0		\$ -

Quoted Hours	Standard Hourly Rates	Subtotal
		\$ -
		\$ -
		\$ -
		\$ -
		\$ -
0		\$ -

Expenses	
Meal per diems	
Lodging	
Transportation	
Other (specify)	
<b>Expenses Subtotal</b>	\$ -

	\$ -

**Totals:** \$ - \$ -

**Total All-inclusive Maximum Price for Year:** \$ -

Appendix B3  
**Itemized Cost Proposal**  
 The State Bar of California

**2009**

Services: **Financial Statement Audit**  
 Period: January 1 to December 31

**Statement of Chargeable & Nonchargeable Expenses**  
 January 1 to December 31

Professional Svs	Quoted Hours	Standard Hourly Rates	Subtotal
Partners			\$ -
Managers			\$ -
Supervisory Staff			\$ -
Staff			\$ -
Other (specify)			\$ -
<b>Services Subtotal</b>	0		\$ -

Quoted Hours	Standard Hourly Rates	Subtotal
		\$ -
		\$ -
		\$ -
		\$ -
		\$ -
0		\$ -

Expenses	
Meal per diems	
Lodging	
Transportation	
Other (specify)	
<b>Expenses Subtotal</b>	\$ -

	\$ -

**Totals:** \$ - \$ -

**Total All-inclusive Maximum Price for Year:** \$ -

Appendix B4  
**Itemized Cost Proposal**  
 The State Bar of California

# 2010

Services: **Financial Statement Audit**  
 Period: January 1 to December 31

**Statement of Chargeable & Nonchargeable Expenses**  
 January 1 to December 31

Professional Svs	Quoted Hours	Standard Hourly Rates	Subtotal
Partners			\$ -
Managers			\$ -
Supervisory Staff			\$ -
Staff			\$ -
Other (specify)			\$ -
<b>Services Subtotal</b>	0		\$ -

Quoted Hours	Standard Hourly Rates	Subtotal
		\$ -
		\$ -
		\$ -
		\$ -
		\$ -
0		\$ -

Expenses	
Meal per diems	
Lodging	
Transportation	
Other (specify)	
<b>Expenses Subtotal</b>	\$ -

	\$ -

**Totals:** \$ - \$ -

**Total All-inclusive Maximum Price for Year:** \$ -

Appendix B5  
**Itemized Cost Proposal**  
 The State Bar of California

# 2011

Services: **Financial Statement Audit**  
 Period: January 1 to December 31

**Statement of Chargable & Nonchargeable Expenses**  
 January 1 to December 31

Professional Svcs	Quoted Hours	Standard Hourly Rates	Subtotal
Partners			\$ -
Managers			\$ -
Supervisory Staff			\$ -
Staff			\$ -
Other (specify)			\$ -
<b>Services Subtotal</b>	0		\$ -

Quoted Hours	Standard Hourly Rates	Subtotal
		\$ -
		\$ -
		\$ -
		\$ -
		\$ -
0		\$ -

Expenses	
Meal per diems	
Lodging	
Transportation	
Other (specify)	
<b>Expenses Subtotal</b>	\$ -

	\$ -

**Totals:** \$ - \$ -

**Total All-inclusive Maximum Price for Year:** \$ -

# THE STATE BAR OF CALIFORNIA TRAVEL and BUSINESS-RELATED EXPENSE POLICY

Revised January 1, 2007

## **I. GENERAL PRINCIPLES**

A. Except as noted otherwise, this Travel and Business-Related Expense Policy applies to all persons who seek reimbursement for travel and business-related expenses incurred in conducting State Bar business.

B. State Bar representatives who do not have a Purchasing Card (Pcard) must use their personal funds for travel expenses and request reimbursement at the conclusion of the trip in conformity with this policy.

C. As a general rule, travelers are urged to travel economically. However, in the application of this general rule, extenuating circumstances such as the best economic use of the traveler's time may be taken into consideration in selecting transport, accommodation and other travel means.

D. There will be no reimbursement for the expenses of a spouse or guest who accompanies a traveler on State Bar business.

E. No traveler will be reimbursed for travel expenses other than their own even if the traveler paid for another State Bar representative's expenses. Travelers are responsible for their own travel expenses.

F. Except where noted otherwise, only when a person is on Travel Status is s/he eligible to seek travel reimbursement; charge travel expenses to a State Bar Pcard; or request a travel advance as stated in this policy.

G. A person is on Travel Status when, in the course of performing duties for the State Bar, s/he travels to one or more destinations that are at least thirty miles (one way) from the person's primary workplace.

## **II. TRAVEL EXPENSE REPORTING**

A. An Expense Report form furnished by the State Bar must be timely filed with appropriate receipts to request expense reimbursement (see Appendix A).

## **B. Documentation Guidelines**

1. Approvals: A member of the Board of Governors, Section and committee members, and other volunteer's Expense Report must be reviewed and, if correct, signed by the staff liaison or Executive Staff manager assigned to the relevant volunteer activity who has approval authority.

2. Receipts for air travel fares, car rentals, lodging and any expense in excess of \$25.00 must be attached to the Expense Report.

3. Deadlines: The deadline for submitting an Expense Report to an approval authority is 30 calendar days after the traveler incurs the expense. Expense Reports submitted after 60 calendar days shall not be processed for payment unless approved for late payment by the Executive Director or designee.

## **III. AIR TRAVEL**

A. The State Bar is eligible for California State government discounted rates on airfare (see Appendix B).

B. Travelers must use the State of California contracted rates for all travel in excess of \$250 for a round trip fare unless prior approval is obtained. For round-trip flights under \$250, travelers may use their discretion to determine whether to use the State program or to book tickets directly with the airline.

C. Compensation for air travel will be limited to the cost of a coach/economy fare. The cost of any accommodation upgrade, in any class, will be deemed a personal expense chargeable to the traveler.

D. Travelers are to use the lowest airfares available without regard to the accrual of personal frequent flyer miles.

## **IV. AUTOMOBILE TRAVEL**

### **A. Personal Automobile**

Travelers required to use a personal automobile to conduct State Bar business will

be reimbursed for mileage at the Internal Revenue Service approved rate regardless of whether Travel Status requirements are met, consistent with the following guidelines:

#### B. Personal Auto Mileage Reimbursement Guidelines

1. Reimbursable mileage is incurred when a traveler leaves the location of his/her primary workplace on State Bar business and returns to that same location.
2. Reimbursable mileage is incurred when a traveler does not report to his/her primary workplace during the work day because of State Bar business. Reimbursement will be for that mileage in excess of normal commute round trip mileage between home and the primary workplace.
3. Reimbursable mileage is incurred while conducting State Bar business while on the way to or from home or from the primary workplace. Reimbursement will be for that mileage in excess of normal commute round trip mileage between home and the primary workplace.
4. If you elect to drive rather than fly to conduct State Bar business, you must choose the most economical form of transportation and not request mileage reimbursement in excess of what comparable airfare would have cost.

#### C. Taxi Service

Actual cost including customary gratuity will be reimbursed when a less expensive service is not suitable. When taxi service is required to conduct State Bar business away from the individual's primary workplace, the State Bar will reimburse the expense in conformity with the terms and guidelines of the Travel and Business-Related Expense Policy regardless of whether the Travel Status requirements are met.

#### D. Car Rental

Reimbursement for car rentals will be made where it is a justified economical use of the traveler's time in light of the necessities incident to the particular trip.

When a rental car is required to conduct State Bar business away from the individual's primary workplace, the State Bar will reimburse the expense in conformity with the terms and

guidelines of this policy regardless of whether the Travel Status requirements are met.

#### E. Car Rental Guidelines

1. As a general rule, when renting a car, economy models should be requested taking advantage of the rental car company's available discounts.
2. The State Bar may contract with one or more rental car agencies in order to receive preferential rates. State Bar travelers are encouraged to take advantage of these arrangements when they are available.
3. When there is no contract with a car rental agency, travelers are to assure competitive rates are obtained.
4. Alternatives to rental cars should be evaluated based on cost and time. In some cases, it is less expensive and more convenient to use cab service, hotel shuttle or public transportation.
5. The State Bar carries insurance that covers travelers when renting a vehicle while on State Bar business. Thus, travelers can waive the collision and liability coverage offered by rental agencies when traveling on State Bar business.
6. In the event the traveler rents a vehicle to be used for combined business and personal use, the traveler will not be covered by the State Bar's insurance when the car is used for personal purposes. To assure the traveler's personal liability is addressed in such circumstances, travelers are encouraged to obtain the appropriate insurance for the period the traveler is using the car for personal purposes.
7. Individuals are responsible for any car rental charges, fuel, insurance charges and liability while on personal business. The State Bar is not responsible for any costs, injuries or damages caused as a result of a rental car used for personal purposes.
8. Whenever practical, travelers should return cars with a full tank of gas to avoid excessive refueling charges by car rental companies. Car rental companies offer a Fuel Purchase Option that allows for the purchase of a full tank of gas allowing the car to be returned with an empty tank. This option may be cost-

efficient but should be used only if the car will be driven enough to exhaust a full tank of fuel.

9. Compliance with the rental car agency agreement is the responsibility of the traveler who signs the rental agreement. Please be aware of provisions in the rental agreement that prohibits any other person from driving the car.

10. In the event of an accident, follow these steps:

- Attend to any medical issues.
- Report to appropriate law enforcement agencies immediately.
- Consult the rental contract and follow its instructions.
- Promptly submit an accident report to the State Bar's Manager, Insurance Programs.

#### F. Tolls and Parking

Tolls and parking fees incurred by travelers using a personal automobile or rental car on State Bar business are reimbursable expenses and must be identified as such on Expense Reports under auto expenses. When travel is required to conduct State Bar business away from the individual's primary workplace, the State Bar will reimburse tolls and parking expenses in conformity with the terms and guidelines of this policy regardless of whether the Travel Status requirements are met.

G. Parking tickets and traffic fines incurred by travelers shall not be reimbursed.

### V. LODGING

A. When lodging away from home is required to conduct State Bar business and Travel Status is not invoked, the State Bar will reimburse lodging expenses at the authorized rates and in conformity with the terms and guidelines of this policy regardless of whether the Travel Status requirements are met (see Appendix C).

B. Individuals engaged as speakers for State Bar sponsored programs may be reimbursed for the actual cost of a standard single accommodation hotel room consistent with authorized rates.

#### C. Lodging Guidelines

1. Reimbursement for lodging expenses will be made for the actual expense of single

accommodations, up to the maximum authorized rates. Contract or government rates should be requested at the time reservations are made. The State Bar qualifies for the State government rates and negotiates favorable contract rates with various hotels (see Appendix D).

2. Lodging expenses in excess of the current authorized lodging rates shall not be reimbursed unless a prior contracted group rate arrangement has been made with the hotel by the State Bar or unless expressly authorized by the Executive Director or designee. This must be confirmed in writing by attaching a memo that provides all of the appropriate information, including name of meeting event, dates of stay, name and address of hotel, hotel rate per night.

3. If the Expense Report is submitted without the necessary approval memo and the lodging rate is in excess of the authorized rate, reimbursement will be made for only the authorized maximum hotel rate for that city.

4. The State Bar covers the cost of the hotel room and business related telephone calls, parking, and business center expenses. Travelers are responsible for covering their personal incidental expenses including personal telephone calls, room service and mini-bar items.

5. Any charges resulting from failure to cancel lodging reservations are not the responsibility of the State Bar unless the reason for failure to cancel in time is business-related or due to an unavoidable personal emergency and a statement of same is included on the Expense Report.

6. Reasonable tips in connection with the handling of bags, valet service, and accommodation maid service are reimbursable expenses.

### VI. MEALS

#### A. Travel Status Meal Per Diem Guidelines

1. Individuals on Travel Status will be entitled to their own meal expenses up to the maximum amount allowed under the authorized per diem meal rates (Appendix C). Payment will be made only for the traveler's own expenses. One person may not use State Bar resources to pay for the meals of other

travelers. Each traveler is responsible for his/her own travel and meal expenses.

2. If the cost of a meal exceeds the approved per diem rates, only the amount of the per diem rate will be paid by the State Bar.

3. Eligibility for meal per diems is based on the time(s) during which an individual is on Travel Status. The following guidelines apply:

Breakfast: Travel status before 7:00 a.m.

Lunch: Travel status at 12:30 p.m.

Dinner: Travel status after 7:00 p.m.

4. The meal per diem may not be claimed when a meal is otherwise provided at State Bar expense (e.g., a State Bar catered lunch).

5. Tips for restaurant service are considered to be part of the per diem rate and are not reimbursable beyond the per diem rate.

#### B. Non Travel Status Meal Per Diem Guidelines

1. The cost of business-related meal expenses may be compensated when an individual is not on Travel Status if the meal was work related and in conditions beyond the individual's control. Examples include:

An individual is not on Travel Status but is required by the State Bar to staff or attend an off-site meeting or function where a meal is required under circumstances beyond the employee's control. This includes staffing the bar examination.

An individual is not on Travel Status but is required by the State Bar to attend off-site training where a meal is required under circumstances beyond the employee's control.

An individual is not on Travel Status but is required by the State Bar to stay overnight away from home during authorized meal times.

2. A travel Expense Report should be used to report these expenses. The report must include the purpose of each business-related meal and the conditions that justify payment.

3. The above standards governing travel status meals (VI.A.1. through 6, rates, tips,

etc.) apply to non-travel status meal reimbursement, except for the requirement of being on travel status.

4. Meal reimbursement is not allowed where State Bar representatives are not on Travel Status and have a meal together incidental to a State Bar function they are attending or staffing.

5. In situations where an individual is dining and/or hosting a meal for one or more other individuals in the furtherance of State Bar business, the costs of such, including those of the guest(s), may be reimbursable beyond the established meal rates in accordance with the State Bar's Business Expense Account procedures set forth in Section IX below.

#### C. Catered Meals Guidelines

1. Refreshments and/or meals may be catered at State Bar expense at State Bar meetings and events provided that the attendees are not exclusively State Bar employees and the subject matter of the event is not routine internal State Bar business or staff meetings. Individuals (including members of the Board of Governors, committee members, and State Bar employees) attending such activities as part of their duties are entitled to partake of the catered meal, regardless of whether they are on Travel Status. Meal per diem rates do not apply when a catered meal is provided.

2. In certain circumstances, a State Bar meeting or function may occur in which the cost of a meal or refreshments is included in the registration fee or is to be reimbursed by attendees individually. The State Bar is to be invoiced for such events by the service providers and will pay the invoice out of the registration fees or the individual reimbursements collected. It is the obligation of the State Bar office sponsoring the event to keep accurate records for auditing purposes showing that the registration fees or individual contributions cover the meal or refreshment costs.

#### D. Alcoholic Beverages

Alcoholic beverages are not paid for nor reimbursed by the State Bar.

**VII. TELECOMMUNICATIONS & INCIDENTALS**

A. Reimbursement is provided for reasonable expenses incurred in making business-related telephone calls and limited calls to the individual's home resulting from the requirements of business. As long as the calls are required by State Bar business, the State Bar will reimburse these expenses in conformity with the terms and guidelines of the Travel and Business-Related Expense Policy regardless of whether the Travel Status requirements are met.

B. Expenses incurred incidental to State Bar business such as copying costs, remote internet connection fees, facsimile costs and other expenses required to conduct State Bar business, will be reimbursed in conformity with the terms and guidelines of the Travel and Business-Related Expense Policy regardless of whether the Travel Status requirements are met.

**VIII. EXPENSE ADVANCES**

A. Travelers may, under exceptional circumstances, request temporary travel advances. In order to be processed, such requests must be signed according to the same procedure as for Expense Reports and submitted to the Finance Department at least three full work days before the funds are needed.

B. The amount of the advance will be based on the nature and requirements of the trip, but shall not exceed \$250 per day.

C. All advances must be repaid or offset by Expense Reports within the 30-day deadline for submission of reports as noted above.

D. Additional advances will not be made when a prior advance is outstanding.

**APPENDIX C**

**THE STATE BAR OF CALIFORNIA  
TRAVEL AND BUSINESS-RELATED EXPENSE POLICY  
AUTHORIZED RATES  
Effective January 1, 2007**

**LODGING:**

(excluding taxes effective 1/1/2007)

San Francisco	\$205.00
Los Angeles	\$130.00
San Diego	\$150.00
Sacramento	\$150.00
All other areas	\$150.00

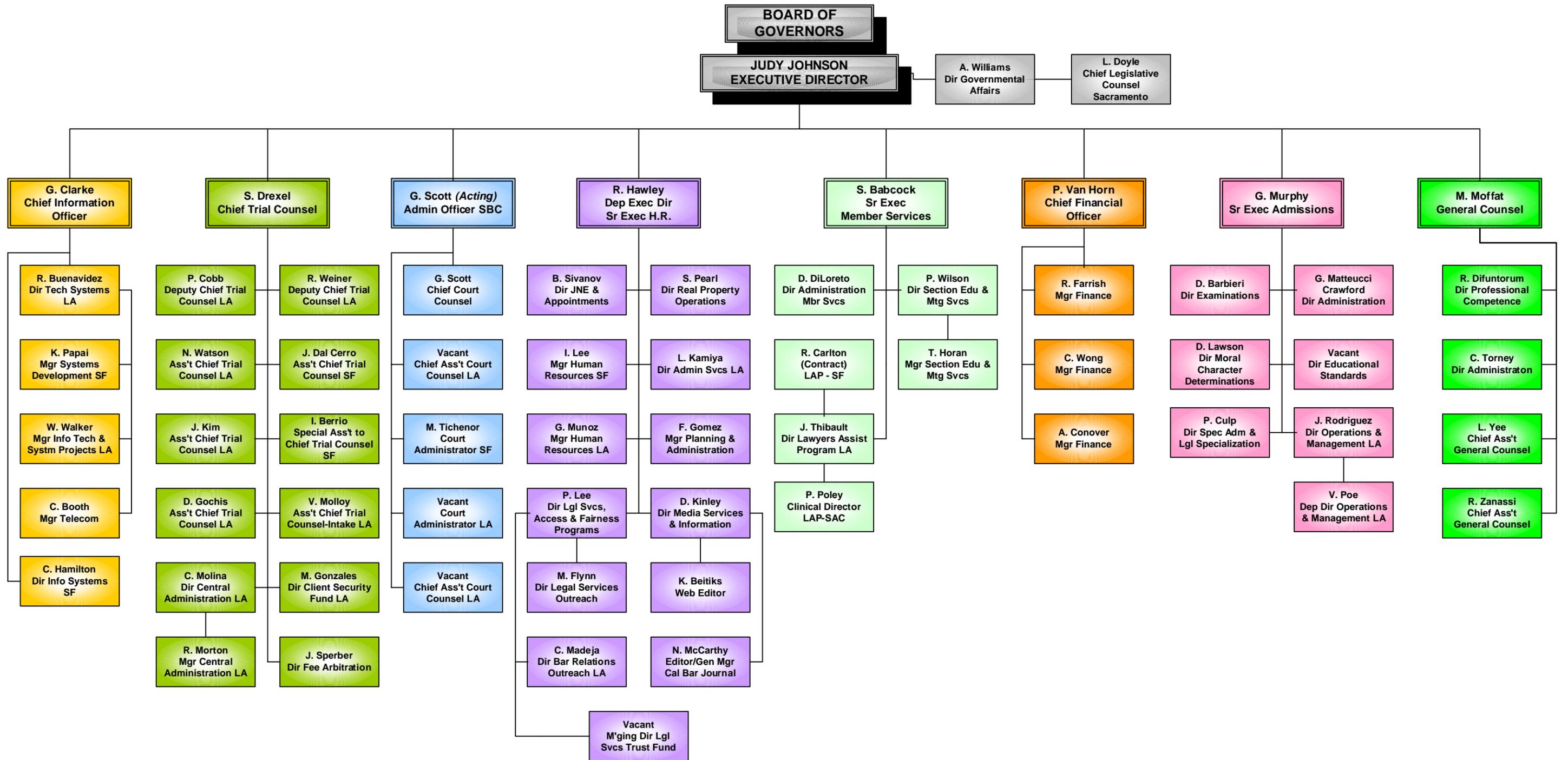
**MEALS:**

Breakfast	\$ 6.00
Lunch	\$10.00
Dinner	\$18.00

**MILEAGE:**

Up to December 31, 2006, the mileage reimbursement rate is 44.5¢. Effective January 1, 2007, the mileage reimbursement rate is 48.5¢. The mileage reimbursement rate will be adjusted annually to mirror the reimbursement rate established by the U.S. Internal Revenue Service for business related reimbursement. These rates are imbedded in the formulas of the online Expense Report and will be adjusted on the effective date of any rate change.

# THE STATE BAR OF CALIFORNIA EXECUTIVE ORGANIZATION



# **THE STATE BAR OF CALIFORNIA**

**Statement of Chargeable and Nonchargeable  
Expenses for the Year Ended December 31, 2004  
and Independent Auditors' Report**



Deloitte & Touche LLP  
Suite 400  
2868 Prospect Park Dr.  
Rancho Cordova, CA 95670-6065  
USA  
Tel: +1 916 288 3100  
Fax: +1 916 288 3131  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

Board of Governors  
The State Bar of California  
San Francisco, California

We have audited the accompanying Statement of Chargeable and Nonchargeable Expenses (the "Statement") of The State Bar of California (the "State Bar") for the year ended December 31, 2004. This Statement is the responsibility of the State Bar management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement was prepared for the purpose of showing the allocation of certain expenses into chargeable and nonchargeable categories as described in Note 2 to the Statement and is not intended to be a complete presentation of the State Bar's revenues and expenses in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such Statement presents fairly, in all material respects, the chargeable and nonchargeable expenses of the State Bar for the year ended December 31, 2004, on the basis of presentation described in Note 2.

This report is intended solely for the information and use of the Board of Governors, management of the State Bar, and members of the State Bar as defined in Note 1 to the Statement, and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLP*

April 22, 2005

# THE STATE BAR OF CALIFORNIA

## STATEMENT OF CHARGEABLE AND NONCHARGEABLE EXPENSES YEAR ENDED DECEMBER 31, 2004

	Dollar Amount	Percentage of Total Program Expenses
<b>CHARGEABLE EXPENSES AND RELATED PROGRAM REVENUE (Note 2):</b>		
Discipline	\$ 44,996,672	90.08%
Administration of justice	458,454	0.92
Lawyer assistance program	1,404,163	2.81
Competence	1,935,308	3.87
Program development	<u>1,156,378</u>	<u>2.32</u>
Total chargeable program expenses	49,950,975	100.00%
Allocated administrative overhead	8,985,890	
Program revenue	<u>(4,384,831)</u>	
Net chargeable expenses	<u>54,552,034</u>	
<b>NONCHARGEABLE EXPENSES AND RELATED PROGRAM REVENUE (Note 2)</b>		
	<u>-</u>	
<b>TOTAL NET CHARGEABLE AND NONCHARGEABLE EXPENSES</b>	<u>\$ 54,552,034</u>	

See notes to Statement of Chargeable and Nonchargeable Expenses.

## THE STATE BAR OF CALIFORNIA

### NOTES TO STATEMENT OF CHARGEABLE AND NONCHARGEABLE EXPENSES YEAR ENDED DECEMBER 31, 2004

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#### 1. SIGNIFICANT ACCOUNTING POLICIES

**Description of Entity** - The State Bar of California (the "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.

**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 Chargeable and Nonchargeable Expenses (the "Statement") were derived from the State Bar's audited 2004 financial statements.

**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 chargeable and nonchargeable expenses during the reporting period.

#### 2. BASIS OF PRESENTATION

The accompanying Statement was prepared for the purpose of showing the allocation of certain expenses into chargeable and nonchargeable categories. Although derived from the State Bar's audited 2004 financial statements, the Statement is not a substitute for the financial statements, nor is intended to be a complete presentation of the State Bar's revenues and expenses in conformity with accounting principles generally accepted in the United States of America.

The State Bar Act sets the annual membership fee for members of the State Bar. The amount of the annual membership fee, however, is subject to certain adjustments. The United States Supreme Court in *Keller v. State Bar of California*, 496 U.S. 1 (1990) ("*Keller*") held that the State Bar could not use mandatory membership fees paid by an objecting member to fund political or ideological activity that was not necessarily or reasonably related to the State Bar's purpose of regulating the legal profession or improving the quality of legal services. The Statement provides the basis for the membership fee. It describes and separates the "chargeable" expenses, which a member must pay as part of the annual membership fees, and the "nonchargeable" expenses, if any, which a member is not required to pay. In calculating the chargeable and nonchargeable expenses, absolute precision is not expected nor required pursuant to *Chicago Teachers v. Hudson*, 475 U.S. 292, 308 (1986). Expenses included in the Statement are derived from expenses included in the general fund (except program costs funded by filing or other fees), the building fund, client security fund, the lawyers assistance fund, and the support and administration fund of the State Bar. Program revenue included in the Statement represents convention

income, continuing legal education fees, *CalBar Journal* revenues, and other program revenues that are used to fund the related program expenses.

Since January 1, 2000, amendments to the State Bar Act have provided each member with the option of deducting \$5 from the annual membership fee for lobbying and related activities outside of the parameters established in *Keller*. (Cal. Bus. & Prof. Code §6140.05.) The amendments also have prohibited the State Bar from funding the activities of its Conference of Delegates and Bar sections with mandatory membership fees. (Cal. Bus. & Prof. Code § 6031.5.) In October 2002, the activities of the Conference of Delegates were assumed by an independently incorporated successor entity, the Conference of Delegates of California Bar Associations (“CDCBA”). An amendment to Cal. Bus & Prof. Code §6031.5 allowed the collection of voluntary fees or donations to the CDCBA. In addition to these changes, in 2001, the Board of Governors provided members the option of an additional \$5 deduction from membership fees for certain other programs. Although reasonable persons may disagree whether some of these programs and activities may be chargeable under the criteria in *Keller*, the Board of Governors has elected to make them optional in their entirety.

Commencing January 1, 2000, the amount of expenses that the State Bar could incur for legislative activity outside of the parameters of *Keller* was restricted by statute to the total revenue collected from those members electing to pay the \$5 deduction under Cal. Bus. & Prof. Code § 6140.05. Instead of categorizing its programs as within or outside of *Keller*, the State Bar has elected to restrict the expenses of all of its legislative activity to voluntary funds and continues to do so today. Similarly, the funding of certain other programs is now limited to voluntary fees. Accordingly, all such expenses will be funded by restricted funds composed of voluntary fees, paid at the option of members. Members who do not wish to support these activities may deduct the amounts from their annual membership fees. As a result, no mandatory fees are used to fund nonchargeable expenses. Therefore, for purposes of the Statement, there are no nonchargeable expenses for mandatory membership fees for the year ended December 31, 2004.

The following is a listing of the major expenses that the State Bar has categorized as chargeable, including a description of the programs or activities performed by category. The classification of a program or expense as chargeable was based on the standards in *Keller* that have been applied to determine whether an expense was 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 of California. Nonchargeable expenses, as stated above, were funded by voluntary fees paid at the option of members. Determining which State Bar programs and activities are chargeable and nonchargeable requires that judgments be made by the State Bar.

**Description of Categories - Chargeable Programs**

**Discipline** - The purpose of the Discipline program is to protect the public by regulating the conduct of California lawyers.

- a. **Enforcement**  
Receive, review and analyze incoming communications which relate to disciplinary inquiries and complaints against attorneys. Investigate allegations of unethical and unprofessional conduct against attorneys who may have violated provisions of the State Bar Act, Rules of Professional Conduct or other standards of professional conduct. Prosecute attorneys in formal disciplinary hearings in the State Bar Court for violations of the State Bar Act or Rules of Professional Conduct. Activities include, as appropriate, the preparation of formal disciplinary pleadings, conduct of formal and informal discovery, and representation of the State Bar as Trial Examiners in the actual hearings and subsequent review proceedings. (Bus. & Prof. Code §§6043, 6044, 6049, 6077, 6078, 6092.5 et seq.) \$ 30,273,425
  - b. **State Bar Court**  
Adjudicate formal disciplinary matters resulting in the final imposition of discipline or, in certain instances involving suspension or disbarment, the recommendation of discipline to the California Supreme Court. (Bus. & Prof. Code §§6086.5, 6086.6; Cal. Rules of Court, rules 952, 953, 954.) 7,112,605
  - c. **Client Security Fund**  
Receive, evaluate and process applications made to the Fund by persons who have suffered monetary losses due to dishonest conduct of lawyers and authorize recovery to eligible clients out of funds collected for this purpose. (Bus. & Prof. Code §6140.5.) 6,990,609
  - d. **Fee Arbitration**  
Administer a statewide program for arbitrating fee and cost disputes, and arbitrate those disputes that are not within the jurisdiction of an approved local bar association program. (Bus. & Prof. Code §6200.) 620,033
- \$ 44,996,672

**Administration of Justice** - The purposes of the Administration of Justice program are: (1) to administer the work of the Commission on Judicial Nominees Evaluation ("JNE") as mandated by Government Code Section 12011.5; (2) to improve the quality and delivery of legal services available to the people of the State; and (3) to aid in the advancement of the science of jurisprudence and improvement of the administration of justice. This program provides specialized professional advice, analysis, studies and information to the judicial, legislative, and executive branches of government. Except JNE, the State Bar has elected to fund its other administration of justice activities with the voluntary legislative activities fund or other voluntary fees.

- a. **Commission on Judicial Nominees Evaluation**  
Evaluate and report to the Governor's office on the qualifications of judicial candidates whose names have been submitted by the Governor. (Gov. Code §12011.5.) \$ 458,454

**Lawyer Assistance Program** - The purpose of the Lawyer Assistance Program is to provide an alternative to the traditional State Bar disciplinary mechanism, with the goal of the program being the identification and rehabilitation of attorneys with impairment due to abuse of drugs or alcohol, or due to mental illness.

- a. **Lawyer Assistance**  
Oversee the operation of the Lawyer Assistance Program and adopt reasonable rules and regulations as may be necessary or advisable for the purpose of implementing and operating the Program. (Bus. & Prof. Code §§6231.) \$ 1,404,163

*Competence* - The purposes of the Competence program are (1) to provide and promote statewide competence education and (2) to assist others in providing and promoting statewide competence education programs.

a. *Professional Competence, Planning and Development*

Maintain and improve the standards of the legal profession to enhance attorney competence through: (1) promulgating and strengthening professional standards to protect the public; (2) assisting members to comply voluntarily with such standards (e.g., Ethics Hotline, California Compendium on Professional Responsibility, Lawyers Personal Assistance Program); and (3) planning and development of programs to enhance attorney competence. (Bus. & Prof. Code §§ 6076, 6077.)

\$ 1,935,308

*Program Development* - The purpose of the Program Development program is to provide assistance in the delivery of civil legal services to the public, by working with legal services providers and bar associations to provide a variety of public service programs, including: pro bono legal services programs, lawyer referral services, pro per clinics, community based resolution centers and programs to improve access to the courts. The program also provides limited staff support to the California Young Lawyers' Association and to the Standing Committee on Delivery of Legal Services.

*Legal Services Access*

Provide technical assistance and support to bar associations and legal services programs to develop or expand the availability of legal services to low- and middle-income people in the State. Program development activity focuses on promoting pro bono publico efforts, lawyer referral services ("LRS") and dispute resolution programs.

\$ 1,110,102

*California Young Lawyers Association*

Foster a greater understanding of, and encourage interest among, recently admitted and young lawyers in the programs and activities of the State Bar. Provide a forum for the exchange of ideas in order to assist the State Bar in its programs. (Bus. & Prof. Code §§6013, 6013.4.)

46,276

\$ 1,156,378

*Allocated Administrative Overhead* - General and administrative expenses are incurred to provide staff and operational support to all programs and activities of the State Bar in the following areas: human resources; finance; financial planning and analysis; data processing operations and development; printing; word processing; purchasing; membership records and certification; member billing and elections; building management; law library and archives; mail; legal counsel and advice; and the formulation, implementation and administration of policies through the Board of Governors and Executive Offices. The "Overhead/Interfund Allocation/Intrafund Allocation" is the share of the administrative costs that are charged to the restricted fund programs for the support provided, using the methodology of the State of California for apportioning and recouping administrative support cost provided by the State's general fund to its special fund programs.

General and administrative expenses are allocated based upon the ratio of the program's expenditures to total program expenditures paid by mandatory dues.

Communications	\$ 2,600,061
Executive Offices	3,747,592
General Counsel	2,857,437
Office of Finance	3,120,291
Office of Human Resources	1,254,987
Office of Administrative Support - Los Angeles	1,179,633
Office of Support Services - San Francisco	1,002,803
Member Records	470,496
Information Technology	4,281,462
Office of Real Property (includes lease space cost)	1,768,479
Overhead/Interfund Allocation/Intrafund Allocation	(15,260,031)
Building Fund	<u>1,962,680</u>
 Total	 <u>\$ 8,985,890</u>

**3. OPTIONAL DEDUCTIONS**

The State Bar has determined that an amount up to \$10 may be deducted from the membership fees. This amount includes the \$5 set by the California Legislature for legislative and related activities and \$5 fixed by the Board of Governors of the State Bar for the optional programs.

The deduction is allocated to the following activities:

a. Lobbying

Members may deduct the \$5 from the annual membership fee which would otherwise fund legislative proposals that improve the administration of justice, but are outside the parameters of *Keller*. Legislative activity by the State Bar is limited by statute to the amount paid by members who elect not to take the deduction. Bus. & Prof. Code §6140.05.

b. Other Optional Programs

Members may deduct the remaining \$5 from the annual membership fee which would otherwise fund the elimination of bias and bar relations programs to eliminate bias in the judicial system and legal profession and to increase participation of attorneys who have been underrepresented in the administration and government of the State Bar's programs and activities, such as women, ethnic minority, gay, lesbian and disabled attorneys, and will not fund the cost of communicating and maintaining relations with local bars and other voluntary associations.

\* \* \* \* \*