



*Communication with Those
Charged with Governance*

The State Bar of California

December 31, 2017

Communication with Those Charged with Governance

To the Board of Trustees
The State Bar of California

We have audited the financial statements of The State Bar of California (“State Bar”) as of and for the year ended December 31, 2017, and have issued our report thereon dated April 27, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement contract amended on January 26, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of State Bar’s internal control over financial reporting. Accordingly, we considered State Bar’s internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our audit contract amended on January 26, 2018 and the audit planning meeting with your Audit Committee on January 16, 2018.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by State Bar are described in Note 3 to the financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during 2017. We noted no transactions entered into by the State Bar during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimated liability for the defined pension benefits is actuarially determined using assumptions on the long-term rate of return on pension plan assets, the discount rate used to determine the present value of benefit obligations and the rate of compensation increases. These assumptions were provided by management from California Public Employees' Retirement System ("CalPERS") and management of the State Bar concurs with the assumptions. The estimate has been computed using a method that is acceptable under the guidelines set forth in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and Financial Reporting for Pensions*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, and GASB Statement No. 73, *Accounting and financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB 67 and 68*.
- Management's estimated liability for the other postemployment benefits ("OPEB") is based on the annual required contribution of the employer, an amount that is actuarially determined. The management of State Bar concurs with the assumptions. The estimate has been computed using a method that is acceptable under the guidelines set forth in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.
- Management's estimates of the useful lives of capital assets are based on the intended use and are deemed reasonable.

Actual results could differ from these estimates. In accordance with accounting principles generally accepted in the United States of America, any change in these estimates is reflected in the financial statements in the year of change.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are:

- Disclosure of changes in the pension liability, and pension expense in Note 8 to the financial statements.
- Disclosure of pension in Note 8 regarding the actuarial assumptions utilized in determining the State Bar's net pension liability.
- Disclosure of OPEB in Note 9 regarding the actuarial assumptions utilized in determining the State Bar's net obligation. Note 9 also describes the funded status and funding progress of the OPEB obligation.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated April 27, 2018.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the State Bar's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the State Bar's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Moss Adams LLP

San Francisco, California
April 27, 2018



THE STATE BAR OF CALIFORNIA

OFFICE OF FINANCE

April 27, 2018

Moss Adams LLP
101 Second Street, Suite 900
San Francisco, CA 94105

We are providing this letter in connection with your audits of the financial statements of State Bar of California ("State Bar"), which comprise the statements of net position and the related statements of revenues, expenses, and changes in net position and statements of cash flows as of December 31, 2017 and 2016 and for the years then ended and the related notes to the financial statements for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than \$215,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit contract dated January 14, 2014, and as modified by the Second Amendment of the agreement dated January 26, 2018 for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware in accordance with U.S. GAAP. We are aware of no related parties affecting the entity's financial statements.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. We are aware of no such instances affecting the entity's financial statements.
8. We have reviewed all recently released accounting pronouncements and have evaluated those that may have any effect on the State Bar in the current and subsequent periods and disclosed as appropriate in the financial statements.
9. The State Bar has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

10. The following have been properly recorded or disclosed in the financial statements:
 - a. Guarantees, whether written or oral, under which the State Bar is contingently liable. We are aware of no guarantees affecting the entity's financial statements.
 - b. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with Government Accounting Standards Board ("GASB") Codification Section C50, *Claims and Judgments*. Significant estimates are estimates at the statement of net position date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
11. The State Bar has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make The State Bar vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements. We understand that concentrations include individual or group concentrations of contributors, members, lenders, fund-raising events, licenses or other rights, or operating areas or markets. We further understand that severe impact means a significant financially disruptive effect on the normal functioning of the State Bar.
12. We acknowledge our responsibility for presenting the Management's Discussion and Analysis and Supplemental Pension and Postretirement Benefit Information, as required by GASB Codification 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, in accordance with accounting principles generally accepted in the United States of America and we believe the Management's Discussion and Analysis and Supplemental Pension Information are measured and presented in accordance with the prescribed guidelines. The methods of measurement and presentation of the Management's Discussion and Analysis and Supplemental Pension and Postretirement Benefit information have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the required supplementary information.
13. We agree with the findings of specialists in evaluating the liabilities for pension costs, health benefits, workers' compensation, and professional liability expenses and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
14. We believe that the actuarial assumptions and methods used to measure pension and post-retirement medical liabilities and costs for financial accounting purposes are appropriate in the circumstances.
15. Pension plan contribution was authorized and the contribution is within accordance of the plan documents as of December 31, 2017 and 2016.
16. We acknowledge our responsibility for presenting the program funds descriptions, program funds schedule of net position, and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with such accounting principles. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the program funds descriptions, program funds schedule of net position, and program funds schedule of revenues, expenses, and changes in net position, presented as supplementary information, not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon. We understand that audited financial statements are deemed to be readily available if a third party user can obtain the audited financial statements without any further action by us. For example, financial statements on our Web site may be considered readily available, but being available upon request is not considered readily available.

Information Provided

17. We have provided you with:

- a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - b. Minutes of the meetings of board of trustees and committees of trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared;
 - c. Additional information that you have requested from us for the purpose of the audit;
 - d. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
18. All transactions have been properly recorded in the accounting records and are reflected in the financial statements.
19. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
20. We have disclosed to you that we are not aware of any information regarding fraud or suspected fraud that affects the entity and involves—
 - a. Board of Trustees,
 - b. Management,
 - c. Employees who have significant roles in internal control, or
 - d. Others when the fraud could have a material effect on the financial statements.
21. We have disclosed to you all information that we are aware of regarding allegations of fraud or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
22. There are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. We are aware of no such instances affecting the entity's financial statements.
23. State Bar has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed to you and reported in the financial statements.
24. State Bar has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
25. We provided complete and accurate data to the California Public Employees' Retirement System (CalPERS) Actuarial Office for their use in the actuarial valuation of the State Bar's pension plan at CalPERS.
26. We provided complete and accurate data to our postretirement benefit plan actuaries, for their use in the actuarial valuation of the State Bar's postretirement benefit plan.
27. We have classified net position as net investments in capital assets, restricted for enabling legislation, restricted for other restrictions, and unrestricted; based on our assessment of the levels of constraints and restriction due to third parties or enabling legislation.
28. We have adequately and appropriately reported any resources with restrictions either on the financial statements, or appropriately disclosed them in the notes to the financial statements.
29. We have adequately and appropriately reported all significant covenants, agreements, commitments, and pledged assets or revenues in relations to its loans payable and capital leases.
30. The State Bar is in compliance with all provisions and covenants under its debt agreements.
31. We did not receive any membership dues that were restricted for long-term purposes.
32. We have appropriately classified all cash and investments as current or restricted on the financial statements.
33. We have appropriately recorded unearned revenue as of December 31, 2017 and 2016, and have appropriately recognized revenue for the years ended December 31, 2017 and 2016.
34. We acknowledge our investment policy is to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the State Bar, and conforming to all state of California statutes governing the investment of public funds and all resolutions of the Board of Trustees. The State Bar invests a substantial portion of its funds in fixed income securities, which limits the State Bar's exposure to most types of risk.
35. We have appropriately classified restricted cash for debt reserve fund as noncurrent as of December 31, 2017 and 2016, due to the nature of the fund.

36. We are responsible for recording investments in accordance with generally accepted accounting principles, for maintaining internal control over investments, and for establishing valuation methodologies that are appropriate.
37. We have provided to you all documents and board approvals related to fund accounting and inter-fund transfers and we believe our procedures and operations are in accordance with such approvals.
38. Based on management's assessment and discussions with CALPERS, the State Bar OPEB Plan is a "single employer plan", while our CalPERS Pension Plan is an "agent multiple employer plan.
39. We have ensured that the amount assessed by the State Bar for providing services, including collections, to Sections is reimbursed at the costs of providing them.
40. We have ensured that mandatory membership dues are not used to fund the Sections.
41. We have ensured that the amounts assessed by the State Bar from providing services, including collections to Conference of Delegates of California Bar Associations, are reimbursed at the costs of providing them.
42. We have ensured the mandatory membership dues are not used to fund any successor entity to the Conference of Delegates of California Bar Associations.
43. We have not used mandatory membership fees paid by our members for political or ideological activities not related to the regulation of the legal profession or improvement of the quality of legal services in the State of California.
44. The State Bar Access and Education Foundation, previously included as a blended component in the financial statements of the State Bar was dissolved in March 2016. This has been properly reflected and disclosed in the financial statements.
45. In regards to the Client Security Fund ("CSF"), there are 3,431 applications pending for processing as of December 31, 2017, in the amount of \$52.3 million, and for December 31, 2016, there were 4,253 pending applications in the amount of \$50.9 million. As of December 31, 2017 and 2016, estimated application payout amounts were \$6.3 million and \$23.5 million, respectively, based on a rolling average of 24 months' historical applications payout ratio of 4.6% in 2017 and 46.2% in 2016. Cash and investments available for application reimbursement in the CSF were approximately \$3.1 million and \$1.4 million as of December 31, 2017 and 2016 respectively.
46. In regards to the CSF, the State Bar's liability is complete for all applications that have met the criteria for accrual as of December 31, 2017 and 2016, respectively.
47. Restricted net position was \$98.7 million as of December 31, 2017, of which \$79.2 million was restricted by enabling legislation; and \$102.1 million as of December 31, 2016, of which \$81.6 million was restricted by enabling legislation.
48. As of December 31, 2017, the PMIA balance was \$74.3 billion, of which 96.4% is invested in non-derivative financial products with 1.1% in structured notes and 2.5% in asset-backed securities. The total amount invested by all public agencies in LAIF was \$21.2 billion, and the State Bar's investment in LAIF was \$64.3 million. The average maturity of PMIA investments was 186 days as of December 31, 2017. As of December 31, 2016, the PMIA balance was \$73.7 billion, of which 97.3% is invested in non-derivative financial products with 0.5% in structured notes and 2.2% in asset-backed securities. The total amount invested by all public agencies in LAIF was \$21.6 billion, and the State Bar's investment in LAIF was \$43.9 million. The average maturity of PMIA investments was 171 days as of December 31, 2016.
49. It is the investment policy of the State Bar to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the State Bar, and conforming to all state of California statutes governing the investment of public funds and all resolutions of the Board of Trustees. The State Bar invests a substantial portion of its funds in fixed income securities, which limits the State Bar's exposure to most types of risk.
50. For executive staff employed as of August 19, 2006, eligibility requires fifteen years of services to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires fifteen years of service to the State Bar as a regular employee, with at least the last ten years of service preceding retirement as an executive staff employee. The employee must also elect to receive retirement benefits effective within one hundred twenty days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age. The OPEB Plan included 49 and 54 active executive staff employees as of December 31, 2016 and 2015, respectively, and 69 and 62 retirees and beneficiaries received benefits as of December 31, 2016 and 2015, respectively. The State Bar has the right to modify plan provisions prospectively at its discretion.

51. Annual required contributions for the year ended December 31, 2017 and 2016, were based on the actuarial valuation as of June 30, 2016. The actuarial methods and significant assumptions used in both actuarial valuations are the same unless otherwise specified. The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees. In determining the annual required contribution, the unfunded actuarial accrued liability is amortized on an open basis as a level dollar amount over 30 years.
52. The actuarial valuation as of June 30, 2017, assumed a 6.0% rate of return and an annual vision cost trend rate of 4.0%. The medical cost trend rate started at 9.0% in calendar year 2016, to an ultimate rate of 4.25% in 2073 and beyond. The actuarial valuation as of June 30, 2015, assumed a 6.0% rate of return and an annual vision cost trend rate of 4.0%. The medical cost trend rate started at 4.0% in calendar year 2016, to an ultimate rate of 4.5% in 2070 and beyond.
53. The State Bar is exposed to various risks of loss, including those related to property loss or damage, torts, errors and omissions, employee theft, and workers' compensation. The State Bar has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The State Bar's Office of General Services and Office of General Counsel review risks to which the State Bar is exposed and ensure that sufficient insurance coverage is in place.

Sincerely,



Leah Wilson, Executive Director



Kevin Harper, Interim Chief Financial Officer



Olivier Fleweller, Interim Controller

