THE STATE BAR OF CALIFORNIA

Report to the Board of Trustees

Year Ended December 31, 2012

THE STATE BAR OF CALIFORNIA

Report to the Board of Trustees
Year Ended December 31, 2012

Table of Contents

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

Board of Trustees
State Bar of California
San Francisco, California

We have audited the financial statements of the business-type activity and the Trust for Post-Retirement Welfare Benefit Plan for Executive Staff Employees of the State Bar of California (State Bar) as of and for the year ended December 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Professional auditing standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our Audit Plan to you dated March 7, 2013. Professional standards also require that we communicate to you other information related to our audit as discussed in the Required Communications section.

In planning and performing our audit of the State Bar's basic financial statements in accordance with auditing standards generally accepted in the United States of America, we considered the State Bar's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Bar's internal control. Accordingly, we do not express an opinion on the effectiveness of the State Bar's internal control.

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

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

We have provided a status of our prior year recommendation in the Status of Prior Year Recommendation section.

We would like to thank State Bar management and staff for the courtesy and cooperation extended to us during the course of our engagement.

The accompanying communications and recommendation are intended solely for the information and use of the Board of Trustees, State Bar management, and others within the State Bar and are not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
April 29, 2013

REQUIRED COMMUNICATIONS

I. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State Bar are described in Note 3 to the financial statements. The State Bar implemented GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In addition, as described in Note 4 to the financial statements, management evaluated its accounting treatment of Client Security Fund payments and restated its net positions as of January 1, 2011. We noted no transactions entered into by the State Bar during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

a) Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable assets;
b) Accrual of compensated absences; and
c) Actuarial data of the pension and other postemployment benefits plans.

Management's estimates were based on the following:

a) Useful lives for depreciable assets were determined based on the nature of the capital asset. The State Bar uses the straight-line method of depreciation.
b) Compensated absences are based on unused employees sick leave and vacation and the employees' pay rates at year-end.
c) The actuarial pension and other postemployment benefits data, including the funded status and required contributions of the plans, is based on actuarial calculations performed by the California Public Employees' Retirement System (CalPERS) and the City's independent actuary, respectively.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were pension benefits, other postemployment benefits, and contingencies. The disclosures of pension benefits and postemployment benefits in Note 9 and Note 10 to the financial statements, respectively, are based on actuarial valuations. The disclosure of contingencies in Note 12 to the financial statements is based on management and legal counsel judgment about the ultimate outcome of claims.

The financial statement disclosures are neutral, consistent, and clear.

REQUIRED COMMUNICATIONS (Continued)

II. Difficulties Encountered in Performing the Audit

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

III. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

IV. 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.

V. Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 29, 2013.

VI. Management Consultations 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.

VII. Other 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.

VIII. Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

CURRENT YEAR RECOMMENDATION

None reported.

STATUS OF PRIOR YEAR RECOMMENDATION

Reference	**2011-01 Termination of Employee IT Access** *Significant Deficiency*
Observation	In 2011, the State Bar had 89 employee resignations, terminations, and retirements. We reviewed a sample of five former employees and four employees whose access to the State Bar's informational systems were not removed timely. We recommended that management revisit and strengthen the monitoring aspect of the State Bar's existing procedures for applications access removal.
Corrective Action	State Bar Management held a training session for all department managers to review and emphasize each department manager's role in the employee termination procedures. In addition, beginning in May 2012, the Office of Human Resources will provide a terminated employee report to the Office of Information Technology after every payroll period. The Office of Information Technology will review the terminated employee report to ensure that access for all terminated employees is disabled in a timely manner.
Status of Corrective Action	Implemented.