

Information about your 2015 membership fees

Statement of Expenditures of Mandatory Membership Fees

Under *Keller v. State Bar of California*, 496 U.S. 1 (1990), the State Bar may constitutionally use mandatory membership fees to fund activities germane to the State's interest in regulating the legal profession and improving the quality of legal services; it may not, however, under the First Amendment, use mandatory dues to support activities of an ideological or political nature which fall outside of those areas of activity. To permit members to gauge the propriety under *Keller* of the annual membership fee that they are charged and must pay, the State Bar must provide an explanation of the programs and activities funded by the annual membership fee. *Keller*, 496 U.S. 17, citing *Teachers v. Hudson*, 475 U.S. 292 (1986). The Statement of Expenditures of Mandatory Membership Fees for 2013 and Independent Auditors' Report below has been prepared to comply with this requirement under *Keller*.

Deductions

Members of the State Bar are not required to pay and may deduct five dollars from their annual dues if they do not wish to support lobbying and related activities of the State Bar. Cal. Bus. & Prof. Code § 6140.05. The State Bar limits the amount that it may spend on lobbying activities to the sum paid by those members who do not take the five dollar deduction. In addition, members are also not required to pay for the State Bar's activities under its Bar Relations and Elimination of Bias program and members may deduct five dollars if they do not wish to support those activities. Expenditures for these activities are restricted to the voluntary payments made by those members not taking the deduction or to other voluntary sources. Also in 2015, \$40 of the membership fee will be allocated to support nonprofit organizations that provide free legal services to persons of limited means; those members electing not to support those activities may deduct the \$40 from the annual dues. Cal. Bus. & Prof. Code § 6140.03.

State Bar Sections

Members may join and support Sections of the State Bar through the payment of voluntary fees, and no portion of mandatory dues is used to support activities of the Sections. Cal. Bus. & Prof. Code § 6031.5(a). The annual audit of the State Bar includes an examination of the receipts and expenditures of the State Bar and its Sections to assure compliance with this restriction. Cal. Bus. & Prof. Code § 6145(a). These expenses have been excluded from the mandatory dues charged to members.

Keller challenge

After reviewing the Statement of Expenditures of Mandatory Membership Fees for 2013 and Independent Auditors' Report and the information provided here, a member may object and challenge the amount of membership fees that must be paid for 2015 in a hearing before an independent decision maker. A member's challenge must be submitted on the [Challenge to Mandatory Membership Fees Form](#). Instructions and procedures are included with the form. A challenger must complete, sign, and submit the [Form](#) by the due date for payment of the annual membership fee; ***the challenge must be accompanied with timely and full payment of the 2015 membership fee less only the deductions for the State Bar's Legislative Activities and the Bar Relations & Elimination of Bias programs. Any challenge and payment must be postmarked or delivered by Monday, February 2, 2015, to:***

SECRETARY
THE STATE BAR OF CALIFORNIA
180 HOWARD STREET
SAN FRANCISCO, CALIFORNIA 94105-1639

Upon receipt of a timely and proper challenge, the State Bar will place the disputed amount of the challenger's mandatory dues in an interest-bearing escrow account. At its next regularly scheduled meeting following the deadline or as soon thereafter as the matter may be considered, the Board of Governors will decide whether to provide an additional deduction to the challenger or to submit the dispute for expeditious arbitration before an impartial arbitrator. If the dispute is submitted for arbitration, the Board may consolidate all challenges. The challenger(s) and the State Bar by agreement may select an impartial arbitrator. In consolidated challenges, the arbitrator may be selected by an agreement between the State Bar and 75 percent of the challengers. If there is no agreement on an impartial arbitrator within 30 days following the decision to arbitrate, an impartial arbitrator will be appointed by the American Arbitration Association. The arbitration will be heard at the San Francisco office of the State Bar. The proceedings are informal, and the State Bar will have the burden to show that the disputed activities are germane to the State Bar's purposes of regulating the legal profession or improving the quality of legal services. The challenger(s) will be given an opportunity to present their own evidence and to present written arguments in support of their challenge(s). The arbitrator will issue a written decision and any award.



THE STATE BAR OF CALIFORNIA

Statement of Expenditures of
Mandatory Membership Fees and
Independent Auditor's Report

Year Ended December 31, 2013

MOSS-ADAMS_{LLP}

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Board of Trustees
State Bar of California

REPORT OF INDEPENDENT AUDITORS

Report on the Financial Statement

We have audited the accompanying Statement of Expenditures of Mandatory Membership Fees of the State Bar of California ("State Bar") for the year ended December 31, 2013. The Statement is the responsibility of the State Bar's management.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Keller* standard, as described in Note 2 of the financial statement; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial 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 financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the chargeable and nonchargeable expenses of the State Bar for the year ended December 31, 2013, on the basis of presentation in accordance with the *Keller* standard, as described in Note 2 of the financial statement.

Emphasis of Matter

We draw attention to Note 2 to the financial statement, which describes that the accompanying financial statement was prepared to show the allocation of certain expenses into chargeable and nonchargeable categories pursuant to a ruling by the California Supreme Court referred to as the *Keller* standard, 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. Our opinion is not modified with respect to this matter.

Restriction of Use

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

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
April 29, 2014

THE STATE BAR OF CALIFORNIA
STATEMENT OF EXPENDITURES OF MANDATORY MEMBERSHIP FEES
YEAR ENDED DECEMBER 31, 2013

	<u>Dollar Amount</u>	<u>Percentage of Total Program Expenses</u>
CHARGEABLE EXPENSES AND RELATED		
PROGRAM REVENUE:		
Discipline	\$ 48,440,050	87.4%
Administration of justice	572,408	1.0%
Administration of the profession	2,153,613	3.9%
Lawyer assistance program	1,437,674	2.6%
Competence	1,601,636	2.9%
Program development	<u>1,226,847</u>	<u>2.2%</u>
Total chargeable program expenses	55,432,228	<u>100.0%</u>
IT special assessment fund	4,144,730	
Building special assessment fund	10,302,468	
Allocated administrative overhead	27,928,866	
Program revenue	<u>(5,445,034)</u>	
Net chargeable expenses	<u>92,363,258</u>	
NONCHARGEABLE EXPENSES AND RELATED		
PROGRAM REVENUE	<u>-</u>	
TOTAL NET CHARGEABLE EXPENSES	<u>\$ 92,363,258</u>	

See accompanying notes to the statement of expenditures of mandatory membership fees.

**THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF EXPENDITURES OF
MANDATORY MEMBERSHIP FEES
YEAR ENDED DECEMBER 31, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES

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

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 Expenditures of Mandatory Membership Fees (“Statement”) were derived from the State Bar’s audited 2013 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 2013 financial statements, the Statement is not a substitute for the financial statements, nor is it intended to be a complete presentation of the State Bar’s revenues and expenses in conformity with accounting principles generally accepted in the United States of America. Amounts reported in the Statement can be reconciled with amounts reported in the financial statements.

The State Bar Act sets the amount of the annual membership fee that the State Bar may charge lawyers for the license to practice law in California. 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 require California lawyers to pay, as mandatory membership fees, the expense of the State Bar’s 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 a basis of determination for the mandatory membership fees that each bar member must pay in order to practice law in California. It describes and separates programs and activities that are “chargeable” and “nonchargeable” to members under the *Keller* standard. In calculating the chargeable and nonchargeable expenses, absolute precision is not expected nor required pursuant to *Keller*, at 16, citing to procedural requirements outlined in *Chicago Teachers v. Hudson*, 475 U.S. 292, 310 (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 program 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.

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF EXPENDITURES OF
MANDATORY MEMBERSHIP FEES (Continued)
YEAR ENDED DECEMBER 31, 2013

2. BASIS OF PRESENTATION (Continued)

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). In addition to these changes, in 2001, the Board of Trustees 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 Trustees has elected to make them optional in their entirety.

Since January 1, 2000, the amount of expenses that the State Bar may 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 and not take the deduction from the annual membership fee 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. Similarly, the State Bar has a \$5 deduction for activities under the State Bar's Bar Relations and Elimination of Bias program and limited its funding to voluntary fees paid by members not taking this deduction. Members who do not wish to support either the State Bar's legislative activities or its Bar Relations and Elimination of Bias program can deduct the amounts from their annual membership fees. As a result, no part of the mandatory membership fees that a lawyer must pay as a condition of practicing law 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, 2013.

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 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.

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF EXPENDITURES OF
MANDATORY MEMBERSHIP FEES (Continued)
YEAR ENDED DECEMBER 31, 2013

2. BASIS OF PRESENTATION (Continued)

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.)

\$ 27,709,830

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, 6086.65; Cal. Rules of Court, rules 9.13, 9.16, 9.18)

7,108,017

c. *Client Security Fund*

Receive, evaluate and process applications made to the Client Security 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)

13,018,726

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 et seq.)

603,477

\$ 48,440,050

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF EXPENDITURES OF
MANDATORY MEMBERSHIP FEES (Continued)
YEAR ENDED DECEMBER 31, 2013

2. BASIS OF PRESENTATION (Continued)

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 §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. Only JNE is funded by mandatory membership fees. The State Bar funds 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)

\$ 572,408

Administration of the Profession – The purposes of the Administration of the Profession program are: (1) maintaining the official membership records and the roll of California attorneys required under Business and Professions Code §6002.1 and California Rules of Court rule 9.6; (2) administering the family and child support requirements as applied to licensed California lawyers under Family Code §17520 and California Rules of Court rule 9.22; (3) administering the “one-stop” member call center to respond to member questions; and (4) administering the requirements of the multi-jurisdiction practice program for the limited practice of law in California by out-of-state attorneys under California Rules of Court rules 9.45-9.48.

a. *Administration of the Profession*

Maintain and administer the official membership records and the roll of California attorneys as may be necessary or advisable for the purpose of implementing and operating the Administration of the Profession program. (Bus. & Prof. Code §6002.1; Cal. Rules of Court, rules 9.6, 9.22, 9.45-9.48; Family Code §17520)

\$ 2,153,613

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 Lawyer Assistance program. (Bus. & Prof. Code §6231)

\$ 1,437,674

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF EXPENDITURES OF
MANDATORY MEMBERSHIP FEES (Continued)
YEAR ENDED DECEMBER 31, 2013

2. BASIS OF PRESENTATION (Continued)

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)

\$ 1,601,636

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.

a. *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.

\$ 1,133,373

b. *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.

93,474

\$ 1,226,847

Building Special Assessment Fund – The State Bar is authorized to add a \$10 building assessment fee to the base fee with other assessments. (Bus. & Prof. Code §6140.3(a)) This additional fee collected between 2009 and 2013 will fund new facilities for the State Bar in Southern California in 2014 when the lease on its existing facilities expires. (Bus & Prof. Code §6140.3(b))

\$ 10,302,468

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF EXPENDITURES OF
MANDATORY MEMBERSHIP FEES (Continued)
YEAR ENDED DECEMBER 31, 2013

2. BASIS OF PRESENTATION (Continued)

Information Technology Special Assessment Fund – The Information Technology Special Assessment Fund is used to upgrade the information technology system, including purchasing and maintenance costs and both computer hardware and software. This fund is supported by a special assessment fee of \$10 and is part of annual membership fees to all active members. (Bus. & Prof. Code §6140.35)

\$ 4,144,730

Allocated Administrative Overhead – General and administrative expenses are incurred to provide staff and operational support to all programs and activities of the State Bar including, but not limited to: human resources; planning, budget, billing, accounting and other finance support; printing; information technology, purchasing and procurement; maintaining official records of the State Bar and its membership; communications, including publication of discipline reports and MCLE self-study pages in the California Bar Journal; building management; law library and archives; mail; legal counsel and advice; and the formulation, implementation and administration of policies through the Board of Trustees and the 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 among the following offices based upon the ratio of the program’s expenses to total program expenses paid by mandatory dues.

Executive Offices	\$ 1,994,998
General Counsel	4,030,251
Office of Finance	4,316,928
Office of Human Resources	1,379,065
Office of Administrative Support - Los Angeles	5,329,834
Office of Support Services - San Francisco	3,205,366
Information Technology	5,485,722
Office of Real Property (includes lease space cost)	1,178,864
Building Fund	5,302,928
Communications	1,111,198
Overhead/Interfund Allocation/Intrafund Allocation	<u>(5,406,288)</u>
Total	<u>\$ 27,928,866</u>

THE STATE BAR OF CALIFORNIA
NOTES TO THE STATEMENT OF EXPENDITURES OF
MANDATORY MEMBERSHIP FEES (Continued)
YEAR ENDED DECEMBER 31, 2013

2. BASIS OF PRESENTATION (Continued)

Program Revenue – Program revenue related to chargeable expenses from the General Fund, Building Fund, Client Security Fund, Lawyers Assistance Fund and the Support and Administration Fund of the State Bar.

CalBar Journal revenue	\$ 104,131
Law corporation registration fees	788,302
Continuing legal education fees	1,470,984
Interfund Transfer from Legal Specilization to LA Building Fund	2,480,000
Other	<u>601,617</u>
Total	<u><u>\$ 5,445,034</u></u>

3. OPTIONAL DEDUCTIONS

The State Bar sets an amount that members are not required to pay and may deduct from the annual membership fees. In 2013, these deductions were in an amount up to \$30. This amount included \$5 fixed by the California Legislature for legislative and related activities, the \$5 fixed by the State Bar's governing board for the optional programs in bar relations and the elimination of bias, and \$20 set by the Legislature for the Temporary Emergency Legal Services Voluntary Assistance Option. These deductions are allocated to the following activities:

a. Lobbying

Members may deduct the \$5 from the annual membership fee which would otherwise fund the State Bar's consideration of legislative measures (including proposals that improve the administration of justice, that may be outside the parameters of *Keller*) and related activities. All legislative activity by the State Bar is limited by statute and by action of its governing board to the amount paid by members who elect not to take the deduction. (Bus. & Prof. Code §6140.05)

b. Bar Relations and Elimination of Bias Programs

Members may deduct \$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.

c. Temporary Emergency Legal Service Voluntary Assistance Option

In 2013, members may deduct \$20 from the annual membership fee which would otherwise fund the Legal Service Trust Fund Program to support nonprofit organizations that provide free civil legal services to low-income Californians. This allocation, is in effect until January 1, 2014, and as of that date is repealed, unless, the Legislature deletes or extends that "sunset" date. (Bus. & Prof. Code §6140.01)