



# The State Bar of California

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## FUND ACCOUNTING REVIEW

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*August 2015*



**William C. Statler**

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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

The State Bar of California  
**FUND ACCOUNTING REVIEW**

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# FUND ACCOUNTING REVIEW

## REPORT PURPOSE

The purpose of this report is to provide an independent, third-party assessment of the State Bar's use of fund accounting in appropriately segregating earmarked resources. State Bar Board members have asked for an assessment of whether the State Bar should make greater use of fund accounting in managing resources that should potentially be tracked with greater segregation from the General Fund.

In making this assessment, the report's workscope includes:

- An overview of general accepted accounting principles regarding fund accounting.
- The State Bar's current practices for internal and external financial reporting and budgeting.
- Any other matters that came to my attention in the course of my review.
- Recommendations for change, if any.

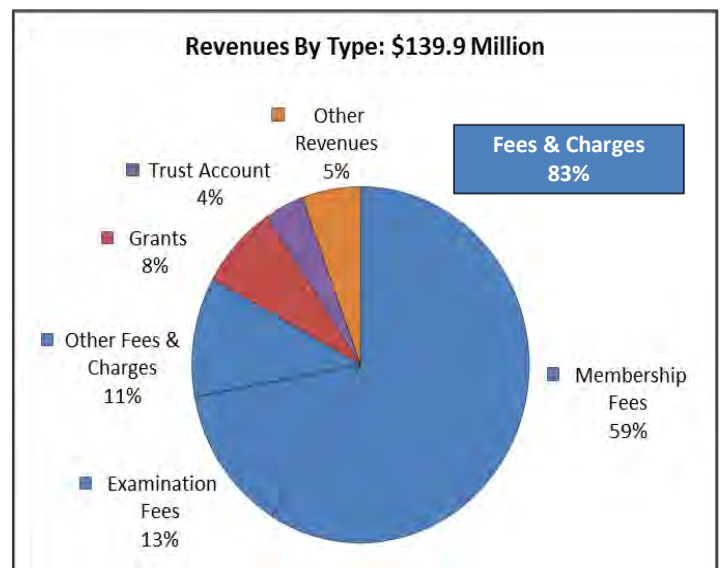
The workscope and assessment methodology are further described in Appendix A.

## KEY FINDINGS

### State Bar Appropriately Uses Fund Accounting

The State Bar is appropriately using fund accounting in accordance with generally accepted accounting principles (GAAP) in recording and presenting its financial transactions. As set forth in its audited financial statements for 2014, the State Bar accounts for its activities using twenty-three Program Funds. While not required under GAAP in fairly presenting the State Bar's fiscal condition and results of financial operations, the State Bar's audited financial statements include supplemental schedules showing the net position for each of these funds (an excerpt from the 2014 audited financial statements briefly describing each fund is provided in Appendix B).

The State Bar appropriately accounts for its financial operations as *enterprise funds*. As discussed in Appendix C, state and local government operations that are run similar to businesses in the private sector and provide services to users where the costs are fully (or largely) recovered through fees or charges for those services should be accounted for in this manner. As shown in the sidebar chart, 83% of the State Bar's revenues in 2014 were generated from fees and



charges. Accordingly, accounting for its financial operations as enterprise funds is the appropriate basis of accounting for the State Bar (an opinion shared by the State Bar’s independent auditors, Moss Adams).

However, as discussed in Appendix C, this can result in some misunderstandings about financial reporting for the State Bar compared with financial reporting for typical “governmental” services like police, fire, streets, parks, libraries, courts, public health and social services. For example, under GAAP, financial statements for these types of services are typically accounted for as “Governmental Funds,” and budget versus actual comparisons for them are presented in the audited financial statements. However, for enterprise funds, this type of comparison is not provided under GAAP in the audited financial statements.

Moreover, it is not required that individual fund information be provided in audited financial statements for agencies like the State Bar; however, in the interest of transparency and full disclosure, the State Bar includes this information in its audited financial statements as supplemental information.

***Interfund Transactions and Reserves.*** While the State Bar is appropriately using fund accounting in accordance with GAAP, two related but separate issues surfaced as concerns as part of this review: interfund transactions (transfers and loans) and reserves. These are discussed below under “Other Matters that Surfaced During the Review.”

## External and Internal Financial Reporting and Budgeting Practices

***External Financial Reporting.*** As noted above, the State Bar accounts for its financial operation on an enterprise fund basis in accordance with GAAP. The State Bar received an unqualified (“clean”) opinion on its 2014 basic financial statements, with the auditors stating that:

*In our opinions, the financial statements ... present fairly, in all material respects, the respective financial positions ... of the State Bar ... in accordance with accounting principles generally accepted in the United States of America.*

Regarding the supplemental schedules showing net position for individual funds, the auditors also state that:

*In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as whole.*

### Who sets “GAAP” for state and local governments?

Established in 1984, the Governmental Accounting Standards Board (GASB) is the independent, authoritative source for setting generally accepted accounting principles (GAAP) for state and local governments in the United States.

The GASB is not a government entity; it is an operating component of the not-for-profit Financial Accounting Foundation (which through its other operating entity, the Financial Accounting Standards Board, sets GAAP for private sector organizations).

Accordingly, it is not mandatory that state and local governments follow GAAP nor “illegal” if they do not; however, it is not possible to get a “clean” audit opinion regarding the fairness of financial statements without preparing them in accordance with GAAP.

## FUND ACCOUNTING REVIEW

***Internal Financial Reporting.*** The State Bar provides periodic interim financial reports to the Planning and Budget Committee and Board, using a format initiated in March 2015 that shows financial results of operations at the fund and cost center level and budget versus actual information for the General Fund. The recent mid-year budget review also provided end-of-year projections and proposed budget amendments.

***Budget Practices.*** The State Bar prepares budgets at the fund and cost center level. The most recent budget document entitled “2016 Final Proposed Budget” was submitted to the Board in March 2015.

<http://calbar.ca.gov/LinkClick.aspx?fileticket=O59F-uPEcso%3d&tabid=224&mid=1534>

This document provides an excellent description of programs, resource allocations, funding sources and staffing levels and costs. However, the Board has asked for added cost center information in the future; and it does not include a Budget Message that provides a financial overview, outlines key issues facing the State Bar and how the Budget responds to them. On the other hand, there are several budget-related agenda reports that do provide a narrative overview and assessment of the State Bar’s budget.

As discussed below under Recommendations, with some additions and modifications, the State Bar has in place the foundation for an excellent budget document that meets the high industry standards set by the California Society of Municipal Finance Officers (CSMFO) and the Government Finance Officers Association of the United States and Canada (GFOA).

In managing the Budget after adoption, along with Board adopted policies, the State Bar has established internal procedures for ongoing budget monitoring and review.

### **Other Matters that Surfaced During the Review**

#### ***Interfund Transactions***

Under GAAP, state and local governments should have compelling reasons for establishing separate funds, with the goal of creating only those the needed based on external restrictions or significant policy concerns. And if there is a need for a separate accounting of funds, then interfund transactions (transfers and loans) should be typically be limited.

That said, there is a role for interfund transfers and loans. However, these should be clearly identified, the reason for them clearly stated and the amount and purpose approved by the Board, either in the Budget or other formal approval process.

Significant concerns with past interfund transactions surfaced during the course of this review from Board members and staff (as they had in a recent State audit). In response to these concerns, the State Bar approved a comprehensive policy regarding interfund transfer and loans at its July 24, 2015 Board meeting, which is provided in Appendix D.

#### ***Reserves***

Concerns with the State Bar’s reserves – both that they may too low or too high – also surfaced in the course of this review. The Planning and Budget Committee has been focused

## FUND ACCOUNTING REVIEW

on this issue for the past year; and a recent State audit also noted concerns with the level of the State Bar's reserves.

Significant work has been completed in addressing this concern, including a comprehensive analysis of the State Bar's reserves (Appendix E), which was presented to the Board at its July 24, 2015 meeting. The report provides a summary of revenues, expenditures and working capital (reserves) for all of the State Bar's funds based on the 2014 audited financial statements. It assesses the State Bar's current reserves, methodological issues under generally accepted accounting principles, key principles for effective reserve policies and recommended next steps, which include:

- **Define reserves.** In accordance with best practices, define reserves as working capital (current assets less current liabilities). Within reserves, better define which funds are "restricted" under generally accepted accounting principles and categorize reserves within each fund using the framework of GASB Statement No. 54 in doing so.
- **Identify commitments.** It is likely that there are outstanding commitments in many of the funds for programs or projects approved in prior years which are carried forward into the new year; encumbrances (unfilled purchase orders at prior year-end); and outstanding contractual obligations. These should be identified and placed in the "committed" reserve category. It is also likely that there are adopted plans for the use of some reserves. These should also be shown as committed.
- **Prepare structured reserve analysis.** Prepare a structured analysis of reserve requirements for all of the State Bar's Program Funds using "best practices."
- **Finalize other reserve policies.** This includes identifying when it is appropriate to go below target levels and policies for restoring the reserve when this occurs.
- **Assess need for funds.** Assess whether all of the State Bar's program funds are needed. While usually created with the goal of improving accountability, the proliferation of funds often makes an agency's financial position and fiscal operations more confusing and less transparent. This is reinforced by GAAP, which states that agencies should not establish more funds than required.

As part of this effort, the team formed to develop a comprehensive reserve policy composed of Dina Goldman, Christine Wong, Justin Ewert and Bill Statler has conceptually developed three Program Fund categories: Restricted Funds, Special Revenue Funds and the General Fund. This approach will not only simplify accounting, but by focusing on meaningful resource restrictions and earmarking, it will improve accountability, transparency and understandability. Assignment of current Program Funds within these three categories will be developed as an integral part of the comprehensive reserve policy

The team plans to draft a comprehensive reserve policy for review by the Planning and Budget Committee in September 2015 (most likely via teleconference), with Board approval planned for the October 2015 meeting.

### *More Policy Focused Budget Document*

With \$140 million in revenues and almost 600 employees, the State Bar is a sophisticated, complex organization. Other similar “enterprise fund” governmental agencies in California with reputations for being well-managed prepare budget documents in accordance with the CSMFO and GFOA criteria for excellence. For example, the San Diego County Water Authority, after adjusting for water purchases, is very similar in scope to the State Bar; and like the State Bar, is largely staffed by professionals. Below is a link to its most recent Budget:

<http://www.sdcwa.org/sites/default/files/files/finance-investor/Budget/Budget1617.pdf>

The Water Authority’s Budget includes a Budget Message that highlights key financial issues, significant accomplishments in the past year and major goals and projects for the coming year; and most importantly, the linkage between goals and resources in the Budget. It also includes descriptions of its operating programs and resource allocations, capital improvement plan, staffing information, key fiscal policies and financial summaries.

As noted above, the State Bar has a solid foundation in place for preparing a Budget that meets industry “best practices.” Both the CSMFO and GFOA have award programs that recognize excellence in preparing budget documents based clearly identified criteria. The following are links to their programs:

CSMFO: <http://www.csmfo.org/about/programs/budget-awards>

GFOA: <http://www.gfoa.org/budgetaward>

Even if the State Bar decides not to submit its budget for review under these award programs, preparing its budget with the “checklist” in mind will result in a stronger, more transparent document that links goals with resources in accordance with industry “best practices.” (The CSMFO checklist is provided in Appendix F.1 and the GFOA’s is provided in Appendix F.2.)

### *Preparation of Comprehensive Annual Financial Report (CAFR)*

The State Bar prepares “Basic Financial Statements” as part of its annual independent audit. As noted above, this meets GAAP requirements and the State Bar receives a “clean” audit opinion regarding its financial statements. Moreover, the State Bar’s audited financial statements include supplemental schedules for each of its finds, which is greater disclosure beyond what GAAP requires.

That said, many progressive governmental agencies prepare a “Comprehensive Annual Financial Report” (CAFR) that goes beyond the minimum required “basic financial statements” and includes a transmittal memorandum discussing key results and future outlook, supplemental schedules and long-term fiscal trends (typically ten years) such as revenues, expenditures and debt obligations.

While not required under GAAP, many enterprise-fund agencies include budget and actual comparisons in their CAFR as supplemental information as well. Again, the Water

## FUND ACCOUNTING REVIEW

Authority's CAFR provides a good example of what the State Bar should consider moving towards. Below is a link to the Water Authority's most recent CAFR:

[http://www.sdcwa.org/sites/default/files/files/finance-investor/CAFR/CAFR2014\\_FINAL.pdf](http://www.sdcwa.org/sites/default/files/files/finance-investor/CAFR/CAFR2014_FINAL.pdf)

Again, both the CSMFO and GFOA have award programs that recognize excellence in financial reporting based on clearly identified criteria. The following are links to their programs:

CSMFO: <http://www.csmfo.org/about/programs/cafr-awards>

GFOA: <http://www.gfoa.org/coa>

Even if the State Bar decides not to submit its financial statements for review under these award programs, preparing them with the CSMFO/GFOA criteria in mind will result in greater transparency in presenting the State Bar's financial results of operations in accordance with industry "best practices."

### RECOMMENDATIONS

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#### **Use of Fund Accounting**

The State Bar is appropriately using fund accounting in accordance with generally accepted accounting principles (GAAP) in recording and presenting its financial transactions. According, there are no specific recommendations on this focused issue. However, as part of the comprehensive reserve analysis underway, the State Bar should consider whether all of its program funds are needed and consolidate them where appropriate.

#### **Interfund Transactions**

As discussed above, during the course of this review, this issue has been fully addressed, resulting in the Board's adoption of a comprehensive policy on interfund transfers and loans.

#### **Reserves**

Development of comprehensive reserve policy is underway and planned for Board approval in October 2015. Work on the reserve policy should continue in accordance with the tasks and schedule that have already been identified.

#### **Budget**

The State Bar should strongly consider preparing its Budget document in accordance with CSMFO and GFOA excellence criteria.



## Financial Reporting

**Annual Reporting.** As previously recommended by the State Bar Treasurer, the State Bar should strongly consider preparing its audited financial statements as a Comprehensive Annual Financial Report in accordance with CSMFO and GFOA excellence criteria. The State Bar should also consider including budget versus actual comparisons in the CAFR’s supplemental schedules. Once the reserve policy has been adopted, the State Bar should also consider including supplemental schedules that show changes in reserves and ending position for the year.

**Interim Reporting.** Along with the detail currently provided, the State Bar should consider including some “punchy narrative” that summarizes in a reader-friendly fashion how the State Bar is doing financially, any challenges ahead and strategies for addressing them.

## SUMMARY

This report was prepared to assess the State Bar’s use of fund accounting in appropriately segregating earmarked resources. It concludes that the State Bar is appropriately using fund accounting in accordance with generally accepted accounting principles in recording and presenting its financial transactions.

It also surfaced “other matters,” most notably concerns regarding interfund transactions and reserves. Concurrent with work on this fund accounting assessment, interfund transfers and loans have been addressed via the Board’s adoption of a comprehensive policy on this matter in July 2015; and significant progress has been made in developing a comprehensive reserve policy for the Board’s consideration in October 2015.

I appreciate the opportunity to serve the State Bar and its 250,000 members in making this assessment, as well as working closely with State Bar staff on the interfund transfer and loans policy and development of a comprehensive reserve policy.

## APPENDIX

- A. Workscope and Methodology
- B. Summary of State Bar Funds (Excerpt from Audited Financial Statements)
- C. Overview of Fund Accounting Principles
- D. Interfund Loans and Transfers Policy
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  - 1. California Society of Municipal Finance Officers
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- G. Consultant Qualifications



## WORKSCOPE AND METHODOLOGY

As summarized below, the approved workscope included four key tasks in reviewing the State Bar's use of fund accounting.

### 1. Project Kick-Off/ Data Gathering and Review

- a. Finalized workscope and schedule.
- b. Gathered and reviewed key financial and organizational documents, including 2015 Budget, 2014 audited financial statements, fiscal policies, financial procedures and interim financial reports.
- c. Researched generally accepted accounting principles (GAAP), including Governmental Accounting Standards Board Statements 34 and 54 and Government Finance Officers Association of the United States and Canada "best practices."

### 2. Key Stakeholder Interviews

Interviewed key stakeholders, including:

- a. Board of Trustees Officers: Heather Linn Rosing, Vice-President/Past Treasurer, Planning and Budget Committee Chair; Michael Colantuono, Treasurer, Planning and Budget Committee Vice-Chair, Audit Committee Chair
- b. State Bar Staff: Robert Hawley, Interim Chief Executive Officer; Lawrence Yee, Interim General Counsel; Sam Quan, Interim Chief Financial Officer; Christine Wong, Director of Finance; Francisco Gomez, Managing Director Planning and Administration
- c. Independent Auditors: Moss Adams (Mary Case, James Lanzarotta)

### 3. Assessment and Draft Report

- a. Based on review of key fiscal report and documents, GAAP and "best practices" research, financial operations and practices, and stakeholder interviews, prepared and distributed draft report to key staff via email. The report included:
  - Overview of general accepted accounting principles regarding fund accounting.
  - The State Bar's current practice for internal and external financial reporting and budgeting.
  - Recommendations for change, if any.
  - Any other matters that came to my attention in the course of my review.

### 4. Prepared and Issued Final Report

Incorporated any changes from Task 3 and issued final plan in electronic format (Word, Excel and Adobe Acrobat as appropriate).

**THE STATE BAR OF CALIFORNIA  
SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2014**

**PROGRAM FUND DESCRIPTIONS**

**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.

**Benefit Reserve Fund**—The Benefit Reserve Fund accounts for resources set aside by the State Bar to fund the future costs of post-employment benefits other than pensions. Resources in this fund are provided by other State Bar funds in proportion to their salary expenditures.

**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. Its primary source of resources is provided through rental income from tenants under various lease agreements.

**Building Special Assessment Fund**—The State Bar fee bill for 2009, AB 3049, was approved in 2008 by the Assembly to add a \$10 building assessment fee to the base fee with other assessments. This additional fee was authorized for five years and will fund the State Bar's facilities in southern California, either with new rental space or construction or purchase of a new building. To meet the requirements of AB 3049, in November 2012, the State Bar purchased real property located at 845 South Figueroa Street in Los Angeles. In 2014, the entire fund balance in the Building Special Assessment Fund was transferred to the LA Facility Fund to finance the building improvements.

**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 \$100,000 per application for reimbursement on any one transaction, as prescribed by the Board of Trustees. Obligations are accrued in the statement of net positions based on final approved applications by the Client Security Fund Commission. This fund is replenished through annual assessments of \$40 per active member and \$10 per inactive member.

**Elimination of Bias and Bar Relations Fund**—The Elimination of Bias and Bar Relations 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.

**THE STATE BAR OF CALIFORNIA  
SUPPLEMENTARY INFORMATION (Continued)  
YEAR ENDED DECEMBER 31, 2014**

**PROGRAM FUND DESCRIPTIONS (Continued)**

In 2005, the Uniform Civil Fees and Standard Fee Schedule Act (AB 145) was approved by the Legislature and the Governor. The Act established a new distribution of \$4.80 per filing to the Equal Access Fund. These revenues were collected by the trial courts starting in January 2006 to fund grants to 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.

**Information Technology Special Assessment Fund**—The Information Technology Special Assessment Fund is used to upgrade the information technology system, including purchasing and maintenance costs of 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, which sunsetted after December 31, 2013.

**Justice Gap Fund**—The Justice Gap Fund is used to help close the justice gap for needy Californians by voluntary donations to legal aid, pursuant to AB 2301. Members may contribute more or less than the recommended donation or elect to make no donation.

**L.A. Facilities Fund**—Assembly Bill 3049 set an additional \$10 special assessment fee beginning with the 2009 billing cycle and sunseting by December 31, 2013. Fees collected under this provision were used to finance the construction, purchase, or lease of a facility in southern California upon the expiration of the State Bar's existing lease of a facility in Los Angeles in January 2014. In November 2012, the State Bar purchased a real property located at 845 South Figueroa Street in Los Angeles. This L.A. Facilities Fund was set up to account for all the activities related to this property.

**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. This fund is replenished through annual assessments of \$10 per active member and \$5 per inactive member.

**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.

In 2014, \$30 of the membership dues authorized pursuant to Section 6140.03 of the State Bar Act is allocated to the Temporary Emergency Legal Services Voluntary Assistance Option. Under the legislation, members may elect to reduce their fees by this amount if they choose not to support the activities authorized under this bill. The funding associated with the \$30 optional fee will be directed to the State Bar's Legal Services Trust Fund Program for distribution to nonprofit organizations that provide free civil legal services to low-income Californians.

**THE STATE BAR OF CALIFORNIA  
SUPPLEMENTARY INFORMATION (Continued)  
YEAR ENDED DECEMBER 31, 2014**

**PROGRAM FUND DESCRIPTIONS (Continued)**

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

**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. Fund balance at year end 2014 is approximately \$6.4 million, includes \$4.6 million restricted cash for a security pledged with Bank of America for the L.A. building mortgage loan issued in November 2012.

**State Bar Access and Education Foundation Fund**—The State Bar Access and Education Foundation (the Foundation), a nonprofit public benefit corporation, conducts activities that are charitable and educational on behalf of the State Bar. The Foundation is governed by a Board of Directors that consists of the Executive Director, Deputy Executive Director and Assistant Secretary. The State Bar provides administrative services to the Foundation. Because its financial and operational relationship with the State Bar is closely integrated, the Foundation is included in the State Bar's financial statements as a blended component unit.

**Sections Fund**—The Sections Fund accounts for the activities of sixteen sections, which consist 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.

**Support and Administration Fund**—The Support and Administration 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, except for buildings which are accounted for in the Building Fund. Capital 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 capital assets is transferred to the Fixed Assets Fund.

## OVERVIEW OF FUND ACCOUNTING PRINCIPLES

Under generally accepted accounting principles (GAAP) for state and local governments, there are three main fund types: Governmental, Proprietary and Fiduciary.

- **Governmental Funds** account for what we typically think of as “governmental services:” police, fire, streets, parks, libraries, courts, public health and social services. These are accounted for on a modified accrual basis of accounting; and their financial condition (assets less liabilities) is measured by “fund balance,” which is most analogous to what is referred to as “reserves.” Governmental funds include the General Fund, Special Revenue Funds, Capital Project Funds and Debt Service Funds (as well as rarely used “Permanent Funds” in most agencies, where only the investment earnings on an endowment are available to provide services, such as a perpetual care cemetery). As discussed below, under GAAP the State Bar does not have any “Governmental Funds.”
- **Proprietary Funds** are those used for local and state government operations that are run similar to businesses in the private sector and provide services to users where the costs are fully (or largely) recovered through fees or charges for those services. There are two types: Enterprise Funds, where services are provided to external users; and Internal Service Funds, where internal services like finance and information technology are provided to the organization.

These types of funds are accounted for on a full accrual basis of accounting. Their financial condition is measured by “net assets” (referenced as “net position” in the State Bar’s audited financial statements): all assets less all liabilities. This is not analogous to “fund balance” in the Governmental Funds, since it includes long-term liabilities, like bonds and compensated absences; and long-term assets like land, buildings and equipment. For this reason, working capital, which focuses on current assets and liabilities, is closest (although not exactly the same) to the concept of “fund balance” in the Governmental Funds; and as such, closest to the concept of “reserves” in a budgetary policy context.

In accordance with GAAP, the State Bar accounts for all of its program activities as enterprise funds.

- **Fiduciary Funds** are used to account for money held for another party that cannot be used for the government’s operations, such as pensions and other post-employment benefits (like retiree health care). The State Bar maintains one fiduciary fund to account for prefunding of retiree health care benefits.

## AGENDA ITEM

146 JULY 2015

**DATE:** July 13, 2015

**TO:** Members, Planning and Budget Committee  
Members, Board of Trustees

**FROM:** Lawrence C. Yee, Acting General Counsel  
Dina E. Goldman, Acting Chief Assistant General Counsel

**SUBJECT:** Interfund Transfers and Loans Policy

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### EXECUTIVE SUMMARY

As required by Business and Professions Code section 6145(b), the California State Auditor conducted a performance audit of the State Bar of California and released its report in June. The report included a recommendation that the State Bar implement policies and procedures to restrict its ability to transfer money between funds that this Board or state law has designated for specific purposes. This item proposes a policy that provides procedures and restrictions for transfers and loans between State Bar funds.

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### BACKGROUND

As required by Business and Professions Code section 6145(b), the California State Auditor conducted a performance audit of the State Bar of California and released its report in June. The report included the following recommendation:

*To ensure that it spends revenues from the membership fee appropriately, the State Bar needs to implement policies and procedures to restrict its ability to transfer money between funds that its board or state law has designated for specific purposes.*

The Bar has 24 funds in addition to its general fund. Each of these funds is restricted for specific uses and purposes by statute, Rule of Court, State Bar Rule, or board resolution.

### DISCUSSION

The Bar obtained the services of a consultant with expertise in governmental and municipal accounting who developed a policy that will require transfers between funds to be clearly set forth in a budget or budget amendment approved by the Board. The policy also requires transfers to be supported by findings that demonstrate a clear nexus between the purpose of the transferring fund and the reason for the transfer to a different fund. The policy also provides requirements for interfund loans. It provides that the CFO may approve temporary interfund

loans for cash flow purposes that are expected to be resolved within 60 days. Other interfund loans may be approved by the Board, based on a clear set of findings. Loans between funds that are not fully repaid within one year will not be recorded as loans, but rather interfund transfers.

The complete proposed policy which will be a new section in Tab 17, Article 1 of the Board Book, appears as Attachment A to this item. This item proposes that the Board adopt the proposed policy.

**FISCAL/PERSONNEL IMPACT**

N/A

**RULE AMENDMENTS**

N/A

**BOARD BOOK IMPACT**

Tab 17, Article 1, New Section 4, Page 13 of 19

**BOARD COMMITTEE RECOMMENDATIONS**

The Planning and Budget Committee recommends that the Board of Trustees approve the following resolution:

**RESOLVED**, that the Board of Trustees approve the proposed Interfund Transfers and Loans Policy attached as Attachment A and direct staff to update the Board Book accordingly.

**ATTACHMENT(S) LIST**

- A. Interfund Transfers and Loans Policy



## ATTACHMENT A

### Section 4 Interfund Transfers and Loans Policy

To achieve important financial management objectives, the State Bar has established various funds to account for resources the use of which should be restricted to certain activities as listed in Section 3. Accordingly, each fund exists as a separate financing entity from all other funds, with its own funding sources, expenditures and net financial position (assets less liabilities).

This policy covers two types of interfund transactions: transfers and loans.

1. **Transfers** move financial resources from one fund to another. While there is no change in the State Bar's overall financial position, interfund transfers result in reduced net assets in one fund and increased net assets in another.
2. **Interfund loans**, which are usually made for temporary cash flow reasons, do not result in a change in net assets for either the lending or the borrowing fund: each is net asset neutral. From a financial condition perspective, the lending fund has simply traded cash for an interfund receivable from the borrowing fund; and the borrowing fund has offset the cash it received from the lending fund with an interfund payable.

In summary, interfund transfers result in a change in net assets in the affected funds; interfund borrowings do not, as the intent is to repay in the loan in the near term.

#### Interfund Transfers

Any transfers between funds must be clearly set forth in an adopted budget or budget amendment formally approved by the Board. Staff is then authorized to make transfers in an amount not to exceed the authorized limit. All interfund transfers must be supported by findings that demonstrate a clear nexus between the purpose of the transferring fund and the reason for the transfer of its funds to another. These findings may be set forth in the budget document, agenda reports, resolutions or other formal reports that are presented to the Board upon its review and approval of interfund transfers.

#### Interfund Loans

From time to time, interfund borrowings may be appropriate; however, these should be limited and subject to the following criteria to ensure that the fiduciary purposes of the lending and borrowing funds are met:

1. The Chief Financial Officer is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 60 days. While there may be others, the most typical use of interfund borrowing under this circumstance is for grant programs, where costs are typically incurred before grant funds are received. However, in this case, the funds are typically received shortly after they are requested.
2. All other interfund borrowings for cash flow or other purposes require case-by-case approval by the Board. The reason for the interfund loan and repayment terms

shall be clearly set forth in findings via the budget document, agenda reports, resolutions or other formal reports that are presented to the Board upon its approval of the interfund loan. After approval, staff is authorized to make the interfund loan in an amount not to exceed the authorized limit.

3. Any loans between funds not expected to be fully repaid within one fiscal year will not be recorded as interfund borrowings: they will be recorded as interfund transfers that affect net assets of the affected funds. However, underlying documentation is still required in such cases noting that the intent is for repayment of the transfer, including the repayment terms and conditions. The purpose of this “change in net assets” approach is to ensure fiscal transparency and accountability; and to guard against the perception that interfund loans are used to mask underlying fund deficits.

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## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

# MEMORANDUM

July 7, 2015

TO: State Bar of California, Budget and Planning Committee

FROM: Bill Statler *W.C. Statler*

SUBJECT: STATE BAR RESERVE ANALYSIS

Heather Rosing, Chair of the Planning and Budget Committee, requested that I work with State Bar staff in preparing a summary of reserves for all of the State Bar's funds, with the goal of developing a justification for each balance. While the presenting issue is to respond to a recent State audit, the Planning and Budget Committee has already been working this year on developing comprehensive reserve policies.

Attached is a summary of revenues, expenditures and changes in working capital for all of the State Bar's funds, based on 2014 audited financial statements. It does this by organizing the State's 23 operating program funds into three broad categories:

- General Fund
- Externally Restricted Funds
- Internal Management Funds

The classification of the two "special fund" types is preliminary at this point and is based solely on the 2014 audited financial statements, which identify eleven funds as restricted due to enabling legislation (this is subject to change pending further review). The other eleven funds appear to have been established by the State Bar for internal management purposes in segregating resources in helping match specific revenues with expenditures.

In presenting the State Bar's reserves in an understandable fashion, Table 1 presents a consolidation of the three fund types. Tables 2 and 3 then present the individual funds, with consolidated totals that flow to Table 1.

## FINDINGS

The schedules provide an excellent starting point for assessing the State Bar's fiscal situation and for beginning to develop meaningful reserve policies.

As reflected in Table 1, the ratio of working capital (“reserves:” see side bar discussion) to revenues compare as follows:

*Note: Reserve ratios to revenues is often a more useful metric than operating expenditures, since it is typically risks related to revenues that reserves are intended to mitigate, rather than expenditures; moreover, operating costs are not readily identifiable in the State Bar’s financial statements in separating them from debt service and capital expenditures.*

**General Fund.** The ratio is 4.6%, slightly higher than the State Bar’s target minimum of 3.8% (on a slightly different basis of operating expenditures). While an empirical approach to setting the “right amount” is discussed below, the fact is that by industry standards, a 3.8% target is very low.

For example, the Government Finance Officers’ Association of the United States and Canada (GFOA) recommends a minimum reserve of 16.7% (60 days cash flow) as the minimum target even in the most fiscally healthy and resilient government agencies.

**All Funds.** For the State Bar as whole, the ratio is 35.6%. For many government agencies in California, this is in line with their minimum reserve policies. As discussed below, the “right amount” depends on the risks uniquely facing each agency that it is trying to mitigate via its reserves.

## CLASSIFYING RESERVES

The Governmental Accounting Standards Board (GASB) is the authoritative body responsible for determining GAAP for state and local governments in the United States.

### What Are Reserves?

While this term is widely used in governmental budget and fiscal policy contexts, it has no meaning (and is not referenced anywhere) under generally accepted accounting principles (GAAP) for state and local governments in the United States. As discussed below, given that the State Bar uses enterprise fund accounting for its fiscal operations, working capital (current assets less current liabilities) is the financial measure that most closely matches what is typically meant by “reserves.” Accordingly, this is the measure for reserves used in Tables 1 to 3.

#### Measuring Financial Condition: Fund Type Matters.

Under GAAP, there are three main fund types: Governmental, Proprietary and Fiduciary.

**Governmental Funds** account for what we typically think of as “governmental services:” police, fire, streets, parks, libraries, courts, public health and social services. These are accounted for on a modified accrual basis of accounting; and their financial condition (assets less liabilities) is measured by “fund balance” – which is most analogous to what is referred to as “reserves.” Governmental funds include the General Fund, Special Revenue Funds, Capital Project Funds and Debt Service Funds (as well as rarely used “Permanent Funds” in most agencies, where only the investment earnings on an endowment are available to provide services, such as a perpetual care cemetery). As discussed below, under GAAP the State Bar does not have any “Governmental Funds.”

**Proprietary Funds** are those used for local and state government operations that are run similar to businesses in the private sector and provide services to users where the costs are fully (or largely) recovered through fees or charges for those services. There are two types: Enterprise Funds, where services are provide to external users; and Internal Service Funds, where internal services like finance and information technology are provided to the organization.

These types of funds are accounted for on a full accrual basis of accounting. Their financial condition is measured by “net assets” (referenced as “net position” in the State Bar’s audited financial statements): all assets less all liabilities. This not analogous to “fund balance” in the Government Funds, since it includes long-term liabilities, like bonds and compensated absences; and long-term assets like land, buildings and equipment. For this reason, working capital, which focuses on current assets and liabilities, is closest (although not exactly the same) to the concept of “fund balance” in the Governmental Funds; and as such, closest to the concept of “reserves” in a budgetary policy context. However, as discussed below, there are other measures for enterprise fund “reserves” used by other agencies.

In accordance with GAAP, the State Bar accounts for all of its program activities as enterprise funds.

**Fiduciary Funds** are used to account for money held for another party that cannot be used for the government’s operations, such as pensions and other post-employment benefits (like retiree health care). The State Bar maintains one fiduciary fund to account for prefunding of retiree health care benefits. Since it is not used to directly provide program services, it is not included in Tables 1 to 3.

## Governmental Funds

Under GASB Statement No. 54 adopted in 2009, fund balance for Governmental Funds should be classified into five components:

- ***Non-Spendable.*** Amounts that are not in spendable form, such prepaid items or inventories.
- ***Restricted.*** Amounts subject to externally enforceable restrictions imposed by outside third parties.
- ***Committed.*** Amounts whose use is constrained internally by the agency itself for specific purposes set by the governing body.
- ***Assigned.*** Amounts intended for specific purposes as determined by the governing body or others it has formally designated.
- ***Unassigned.*** Residual classification of spendable amounts available for other purposes.

Outstanding obligations such as contract balances or encumbrances could be accounted for in any of these five classifications. For most agencies, reserve policies for Governmental Funds typically address the unrestricted fund balance (committed, assigned and unassigned).

## Enterprise Funds

For enterprise funds, there are no similar GAAP classifications for “net position:” the categories above are only applicable to Governmental Funds. Instead, net position (net assets) is classified into three components:

- Invested in capital assets, net of related debt
- Restricted externally by creditors, laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted: the balance of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

None of these categories are particularly useful in setting reserve policies for enterprise funds. That said, while GASB 54 only applies to governmental funds, the concepts are useful from a budgetary perspective for the enterprise funds. (Unlike the governmental funds, “budget-to-actual” comparisons are not required reporting for enterprise funds under GAAP.) Accordingly, the following GASB 54-based classifications are used in showing reserves in Tables 1 to 3.

- Restricted balances are based on classifications set forth in the State Bar’s 2014 audited financial statements.
- Assignments are based on the draft March 2015 reserve policies.
- While there are no balances reflected as “committed” at this point, this will be a useful classification for outstanding contractual commitments, encumbrances and long-term plans.

- Unassigned reserves are the balance remaining after restricted and assigned balances.

Within this framework, unassigned reserves are less than 1% of revenues in the General Fund (\$617,000); and about 7.5% for all unrestricted special funds combined (\$10.5 million). This is very modest; and if likely committed funds were identified, the unassigned balance would undoubtedly be even smaller.

## SETTING RESERVE POLICIES

Effective reserve policies have five key components:

- **Define what reserves are.** For the Governmental Funds, this is typically defined as unrestricted fund balance, with targets often specifically set in the committed, assigned or unassigned categories. For enterprise funds, working capital is the financial measurement focus that is most analogous to fund balance, with its focus on current assets and liabilities (although it is not the same measure – albeit still a close one – due primarily to its slightly different treatment of debt service related transactions). This is the recommended practice by the GFOA ([www.gfoa.org/determining-appropriate-levels-working-capital-enterprise-funds](http://www.gfoa.org/determining-appropriate-levels-working-capital-enterprise-funds)).

That said, some enterprise fund-only agencies (like water districts) have defined reserves as their cash balances.

While easily measured and closer to fund balance than “net position,” this ignores important other current assets and liabilities, such as receivables, accounts payable and interfund loans, as well as commitments for contract balances and encumbrances. Accordingly, this may be too narrow a measure.

Other agencies have defined reserves as working capital less the current portion of long-term debt. Whatever the measure, it should be clear and easy to discern from audited financial statements in determining where the agency stands compared with its policy minimum target.

It should also be clear that reserve targets are net of funding requirements for programs or projects approved in prior years that are carried forward into the new year; debt service reserve requirements; commitments for encumbrances; and other restrictions, commitments or assignments required by contractual obligations, state law or generally accepted accounting principles.

- **Have an empirical basis for setting the target.** Most reserve policies set the minimum policy target as a percentage of either operating expenditures (in some cases, all expenditures, including capital outlays and debt service) or revenues. (As noted above, while most reserve policies in other agencies are based on operating expenditures, setting the ratio based on revenues may be a better measure for the State Bar.) In those cases where there is a discrete goal (such as a debt service reserve), the target may be set a fixed dollar amount.

### Why Are Reserves Important?

Strong reserves do not mean fiscal strength: this comes from the structural, ongoing ability of revenues to meet service and related expenditures.

Instead, reserves are a risk management tool: How much can things go differently than you thought they would before you have to take corrective action?

For agencies that have a high tolerance for risk, and are willing to lay-off employees within two weeks if adverse revenue or expenditure circumstances quickly surface, low reserve levels are appropriate; for those with lower risk tolerances, higher reserve levels are needed.

Regardless of the “metric,” the policy should have an empirical basis for setting the amount. Until recently, other than a general understanding of why reserves are needed (such as economic uncertainties, unexpected operating or capital needs, disaster response and cash flow needs), there was not a generally accepted framework for assessing reserve needs.

However, the GFOA recently developed an excellent framework for assessing an agency’s reserve needs in a structured fashion based on eight risk factors. As outlined below, these factors have been developed primarily for general purpose local agencies like cities and counties; nonetheless, they assess many of the same fiscal risks faced by the State Bar:

1. ***Vulnerability to extreme events and public safety concerns.*** Major extreme events the agency could reasonably be subject to and the likelihood and potential magnitude of loss for each event.
2. ***Revenue source stability.*** Volatility of each major revenue source based on factors such as past experience and trends with that revenue, characteristics of the tax or rate payers, state or federal revenue takeaways and economic factors.
3. ***Expenditure volatility.*** Spikes in expenditures, usually arising from special, non-recurring circumstances such as lawsuits; critical special projects without a funding source; or new state or federal spending requirements and unfunded mandates.
4. ***Leverage.*** Common examples include pensions, unfunded asset maintenance and debt: is the source of leverage very large? Does it have an off-setting funding source or asset?
5. ***Liquidity (cash flow).*** Intra-period cash imbalances, such as key revenues that are only received at a few major points during the year; or large expenditures that occur early in the year.
6. ***Other funds.*** Are there other funds that have a significant dependence on the General Fund?
7. ***Growth.*** Is significant growth a realistic possibility in the next three to five years? This includes assessing likely potential marginal costs associated with serving new growth compared with marginal revenues, and resulting gaps.
8. ***Capital projects.*** Are there high priority projects without a funding source, where reserves may be looked to as a funding source?

Depending on the results of this assessment, the GFOA methodology provides recommended targets ranging from a minimum of 16.7% of expenditures (60 days cash flow) to circumstances where more than 35% might be warranted. As noted above, the State Bar’s policy of 3.8% for the General Fund (two weeks cash flow) is far below the recommended minimum.

The GFOA assessment methodology is on its web site at: [www.gfoa.org/financial-policy-examples-general-fund-reserves](http://www.gfoa.org/financial-policy-examples-general-fund-reserves).

- **Set reserve policies for all applicable funds.** While a reserve policy for all funds may not be needed, they should be established for all funds where it makes budgetary sense and significant reserve balances are likely.
- **Identify when it is appropriate to draw down on reserves below policy levels.** Reserves are often referred to as “rainy day funds,” so it should be appropriate to use reserves when it rains – but only when it rains unexpectedly. There is a certain amount of rain that can be expected every year, and this should be addressed through the operating budget, not reserves. (See the side bar for sample policy on using reserves.)
- **Compare policy to actual and set strategy for returning to policy levels when reserves fall below minimum target amounts.** Reserve policies should be included in budget documents, identify projected ending reserves and note whether these are in compliance with reserve policies. Where reserves are less than policy targets, the policy should set forth the strategy for restoring reserves to policy levels. (See the side bar for sample policy on restoring reserves to policy levels.)

#### Sample Policy for Reserve Use

Circumstances where taking reserves below policy levels would be appropriate include responding to the risks that reserves are intended to mitigate, such as:

- Meeting cash flow needs during the fiscal year.
- Closing a projected *short term* revenue-expenditure gap.
- Responding to unexpected expenditure requirements or revenue shortfalls.
- Making investments in human resources, technology, liability reductions, revenue base improvements, productivity improvements and other strategies that will strengthen State Bar revenues or reduce future costs.
- Where a forecast shows an ongoing structural gap, providing a strategic bridge to the future.

On the other hand, the State Bar should avoid using reserves to fund ongoing costs or projected systemic “gaps.” Stated simply, reserves can only be used once, so their use should be restricted to one-time (or short-term) uses.

#### Sample Reserve Restoration Policy

Whenever reserves fall below policy targets, the State Bar will strive to restore them to policy levels within three years. As revenues versus expenditures improve, the State Bar will allocate at least half to reserve restoration, with the balance available to fund outstanding liabilities, asset replacements, service levels restoration, new operating programs or capital improvement projects.

## Assessing the State Bar’s Current and Draft Policies

### Background

In November 2013, the State Bar adopted a minimum reserve policy in the General Fund of 3.8% of operating expenditures. Two-thirds of amounts above this target should be allocated to facilities maintenance and improvement projects and one-third to technology improvements. In March 2015, staff drafted additional reserve policies for the Howard Building Fund (15% to 20% of operating costs); Technology Improvement Fund (10% to 15% of operating costs); Public Protection Fund (\$6.5 million); and Los Angeles Facilities Fund (20% of operating costs by December 2019).

### *How do the State Bar’s current and draft policies compare with the five key components for effective policies?*

- **Defining what reserves are.** The State Bar’s current and draft policies need to be clearer on this. (In fact, they refer several times to “fund balance,” which does not exist in enterprise funds, and thus not in the State Bar’s funds, either.)



- **Having an empirical basis for setting the target.** They do not include any empirical analysis for the target levels. As noted above, 3.8% in the General Fund is far below generally accepted minimums. The GFOA framework would be an excellent starting point for performing this type of analysis.
- **Setting reserve policies for all applicable funds.** The current and draft policies only address five of 23 funds: already-approved policies for the General Fund and draft policies for the Howard Building Fund, Technology Improvement Fund, Public Protection Fund and Los Angeles Facilities Fund. However, based on the reserve levels in the other funds, which range from 9% in the Lawyer’s Assistance Fund to 330% in the Howard Building Fund (and over 100% in several other funds), reserve policies are needed for virtually all of the State Bar’s funds.
- **Identify when it is appropriate to draw down on reserves below policy levels.** The draft policies address this issue. However, as noted in the sample above, this could be strengthened with even clearer policy direction.
- **Set strategy for returning to policy levels when reserves fall below minimum target amounts.** The draft policies also address this issue. However, as noted in the sample above, this could be strengthened, especially with the difficulty that might be encountered in trying to resolve any shortfall restoration in one year.

## NEXT STEPS

I recommend the following near and longer term actions:

### ① Near Term

Complete the following before responding to the State audit:

- **Define reserves.** In accordance with best practices, I recommend using working capital. Within reserves, categorize them using the GASB 54 framework.
- **Identify commitments.** It is likely that there are “current” outstanding commitments in many of the funds for programs or projects approved in prior years which are carried forward into the new year; encumbrances (unfilled purchase orders at prior year-end); and outstanding contractual obligations. These should be identified and placed in the “committed” reserve category. It is also likely that there are adopted plans for the use of some reserves. These should also be shown as committed. This will reduce “unassigned” balances and further justify the State Bar’s reserve levels.
- **Justify current balances.** State that on its surface, even without the follow-on analysis recommended below, 4.5% for the General Fund and 35% for all funds combined is reasonable.

### ② Longer Term

Commit to doing the following within 90 days:

**State Bar Reserve Analysis**

- Prepare a structured analysis of reserve requirements for all of the State Bar’s operating funds using “best practices” and compare this to actual results for 2014. I am confident that a strong case can be made for current reserve levels.
- Finalize other policies (such as when it is appropriate to go below target levels and restoring the reserve when this occurs).
- Assess whether all of the “internal management funds” are needed. While usually created with the goal of improving accountability, the proliferation of funds often makes an agency’s financial position and fiscal operations more confusing and less transparent. This is reinforced by GAAP, which states agencies should not establish more funds than required.

**ATTACHMENTS**

Table 1. All Program Funds Combined

Table 2. Externally Restricted Funds Combined

Table 3. Internal Management Funds Combined



The State Bar of California  
Revenues, Expenditures and Changes in Working Capital (1)  
Fiscal Year Ending December 31, 2014

<b>Table 1. All Program Funds Combined (In Thousands of Dollars)</b>				
	Program Funds			Total
	General	External Restrict	Internal Mgmnt	
<b>Revenues</b>				
Membership Fees	65,077	15,171	2,139	82,387
Examination Fees		-	18,577	18,577
Continuing Education	1,361	1,672	946	3,979
Rents & Leases		1,432	455	1,887
Grants		10,396	314	10,710
Trust Account		5,226	-	5,226
Other Special Fees		11,252	-	11,252
Other Revenues	1,601	1,917	2,462	5,980
<b>Total Revenues</b>	<b>68,039</b>	<b>47,066</b>	<b>24,893</b>	<b>139,998</b>
<b>Expenditures</b>				
Discipline & Adjudications	53,455	-	-	53,455
Examination		-	18,835	18,835
Grants		16,826	-	16,826
Law Practices (Sections)		8,208	-	8,208
CSF Applications		8,546	-	8,546
Communications	1,920	-	-	1,920
Administration of Justice	802	-	-	802
Governance	2,008	-	-	2,008
Administration of Profession	2,924	-	-	2,924
Program Development	2,046	-	-	2,046
General Administration	2,203	9,404	5,970	17,577
<b>Total Expenditures</b>	<b>65,358</b>	<b>42,984</b>	<b>24,805</b>	<b>133,147</b>
<b>Other Sources (Uses)</b>				
Transfers In	550	7,394	8,391	16,335
Transfers Out	(3,063)	(8,371)	(4,901)	(16,335)
<b>Total Sources (Uses)</b>	<b>(2,513)</b>	<b>(977)</b>	<b>3,490</b>	<b>-</b>
<b>Total Sources Over (Under) Uses</b>	<b>168</b>	<b>3,105</b>	<b>3,578</b>	<b>6,851</b>
<b>Working Capital, Beginning of Year</b>	<b>2,933</b>	<b>27,257</b>	<b>12,901</b>	<b>43,091</b>
<b>Working Capital, End of Year</b>				
Restricted (1)		30,362	4,610	34,972
Committed		-	-	-
Assigned (2)	2,484	-	1,956	4,440
Unassigned	617	-	9,913	10,530
<b>Total Working Capital, End of Year</b>	<b>\$3,101</b>	<b>\$30,362</b>	<b>\$16,479</b>	<b>\$49,942</b>

1. Based on 2014 Audited Financial Statements

2. Based on draft reserve policy, March 2015

The State Bar of California  
Revenues, Expenditures and Changes in Working Capital (1)  
Fiscal Year Ending December 31, 2014

Table 2. Externally Restricted Funds (In Thousands of Dollars)													
	Program Funds												Total
	Legal Services	Legis Activity	Elimin of Bias	Client Security	IT Assmnt	Building Assmnt	Howard Building	Equal Access	Justice Gap	Legal Speclzn	Sections		
Revenues													
Membership Fees	5,022	782	800	7,582	5	9	2		969				15,171
Examination Fees													-
Continuing Education			8							29	1,635		1,672
Rents & Leases							1,432						1,432
Grants			4					10,392					10,396
Trust Account	5,226												5,226
Other Special Fees								3,806		2,019	5,427		11,252
Other Revenues	11	1	2	28	6		7	495	2	9	1,356		1,917
<b>Total Revenues</b>	<b>10,259</b>	<b>783</b>	<b>814</b>	<b>7,610</b>	<b>11</b>	<b>9</b>	<b>1,441</b>	<b>14,693</b>	<b>971</b>	<b>2,057</b>	<b>8,418</b>		<b>47,066</b>
Expenditures													
Discipline & Adjudications Examination													-
Grants	4,806							12,020					16,826
Law Practices (Sections)											8,208		8,208
CSF Applications				8,546									8,546
Communications													-
Administration of Justice Governance													-
Administration of Profession													-
Program Development													-
General Administration	2,428	599	1,051	2,427			2,247	(650)	1	1,301			9,404
<b>Total Expenditures</b>	<b>7,234</b>	<b>599</b>	<b>1,051</b>	<b>10,973</b>	<b>-</b>	<b>-</b>	<b>2,247</b>	<b>11,370</b>	<b>1</b>	<b>1,301</b>	<b>8,208</b>		<b>42,984</b>
Other Sources (Uses)													
Transfers In	1,069	52	782	4	1,000		2,000			2,481	6		7,394
Transfers Out			(1)	(1)	(3,500)	(9)	(3,778)		(1,069)	(2)	(11)		(8,371)
<b>Total Sources (Uses)</b>	<b>1,069</b>	<b>52</b>	<b>781</b>	<b>3</b>	<b>(2,500)</b>	<b>(9)</b>	<b>(1,778)</b>	<b>-</b>	<b>(1,069)</b>	<b>2,479</b>	<b>(5)</b>		<b>(977)</b>
<b>Total Sources Over (Under) Uses</b>	<b>4,094</b>	<b>236</b>	<b>544</b>	<b>(3,360)</b>	<b>(2,489)</b>	<b>-</b>	<b>(2,584)</b>	<b>3,323</b>	<b>(99)</b>	<b>3,235</b>	<b>205</b>		<b>3,105</b>
Working Capital, Beginning of Year	526	226	313	5,592	3,700	-	7,378	416	407	1,248	7,451		27,257
Working Capital, End of Year													
Restricted (1)	4,620	462	857	2,232	1,211	-	4,794	3,739	308	4,483	7,656		30,362
Committed													-
Assigned (2)													-
Unassigned	-	-	-	-	-	-	-	-	-	-	-		-
<b>Total Working Capital, End of Year</b>	<b>4,620</b>	<b>462</b>	<b>857</b>	<b>2,232</b>	<b>1,211</b>	<b>-</b>	<b>4,794</b>	<b>3,739</b>	<b>308</b>	<b>4,483</b>	<b>7,656</b>		<b>30,362</b>

1. Based on 2014 Audited Financial Statements

2. Based on draft reserve policy, March 2015

The State Bar of California  
Revenues, Expenditures and Changes in Working Capital (1)  
Fiscal Year Ending December 31, 2014

Table 3. Internal Management Funds (In Thousands of Dollars)														
	Program Funds													Total
	Annual Meeting	Legal Ed/Dev	LA Facilities	Public Protctn	SB Edc/ Access	Support/ Admin	Tech Imprv	Fixed Assets	Admssn	Lawyers Asstnce	Grants			
Revenues														
Membership Fees									145	1,994				
Examination Fees									18,577					
Continuing Education	663								283					
Rents & Leases			455											
Grants					5						309			
Trust Account														
Other Special Fees														
Other Revenues	115	1,727	(1)	5		6	6		598	6				
<b>Total Revenues</b>	<b>778</b>	<b>1,727</b>	<b>454</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>-</b>	<b>19,603</b>	<b>2,000</b>	<b>309</b>		<b>24,893</b>	
Expenditures														
Discipline & Adjudications Examination											18,835			
Grants														
Law Practices (Sections)														
CSF Applications														
Communications														
Administration of Justice Governance														
Administration of Profession														
Program Development														
General Administration	945	541	662			(221)	456	1,139	834	1,563	51		5,970	
<b>Total Expenditures</b>	<b>945</b>	<b>541</b>	<b>662</b>	<b>-</b>	<b>-</b>	<b>(221)</b>	<b>456</b>	<b>1,139</b>	<b>19,669</b>	<b>1,563</b>	<b>51</b>		<b>24,805</b>	
Other Sources (Uses)														
Transfers In	293	3,449	8			1	3,500	1,139		1			8,391	
Transfers Out		(774)	(3,716)			(171)	(235)		(1)	(4)			(4,901)	
<b>Total Sources (Uses)</b>	<b>293</b>	<b>2,675</b>	<b>(3,708)</b>	<b>-</b>	<b>-</b>	<b>(170)</b>	<b>3,265</b>	<b>1,139</b>	<b>(1)</b>	<b>(3)</b>	<b>-</b>		<b>3,490</b>	
<b>Total Sources Over (Under) Uses</b>	<b>126</b>	<b>3,861</b>	<b>(3,916)</b>	<b>5</b>	<b>5</b>	<b>57</b>	<b>2,815</b>	<b>-</b>	<b>(67)</b>	<b>434</b>	<b>258</b>		<b>3,578</b>	
Working Capital, Beginning of Year	(12)	730	(1,591)	6,493	(19)	131	1,780	-	3,750	1,409	230		12,901	
Working Capital, End of Year														
Restricted (1)				4,610									4,610	
Committed													-	
Assigned (2)				1,888			68						1,956	
Unassigned	114	4,591	(5,507)	-	(14)	188	4,527	-	3,683	1,843	488	-	9,913	
<b>Total Working Capital, End of Year</b>	<b>114</b>	<b>4,591</b>	<b>(5,507)</b>	<b>6,498</b>	<b>(14)</b>	<b>188</b>	<b>4,595</b>	<b>-</b>	<b>3,683</b>	<b>1,843</b>	<b>488</b>	<b>-</b>	<b>16,479</b>	

1. Based on 2014 Audited Financial Statements
2. Based on draft reserve policy, March 2015

CSMFO BUDGET CRITERIA

SECTION A - MERITORIOUS BUDGET AWARD EVALUATION FORM FOR OPERATING BUDGET (Required For All Awards\*)

<u>Item</u>	Item is found on page numbers:	Points Awarded*	Points Possible*
1. Is there a table of contents? Are document's pages numbered?	_____	_____	1
2. Does budget contain transmittal letter/budget message?	_____	_____	1
3. Does letter/message highlight policy/economic/legislative issues facing the jurisdiction and recommend actions to resolve these issues?	_____	_____	1
4. Does letter/message highlight major changes in budget from current year regarding service and/or funding levels?	_____	_____	1
5. Does letter/message highlight major organization priorities and their funding sources?	_____	_____	1
6. Is the basis for budgeting described?	_____	_____	1
7. Is the jurisdiction's Prop 4 (Gann) Appropriation Limit included? <i>Not applicable for Special Districts. (Reviewer: Award point for Special District Application)</i>	_____	_____	1
8. Is the budget process explained?	_____	_____	1
9. Is a jurisdiction-wide organization chart included?	_____	_____	1
10. Is the basis for assumptions for key revenue estimates described?	_____	_____	1
11. Does budget include at least the General Fund, special revenue funds, and enterprise funds of the jurisdiction, and a listing of all other funds used in the jurisdiction (such as internal service, debt service, capital project, etc.funds)?	_____	_____	1
12. Is there a summary schedule of revenue, by fund, and does it display at least the <b>proposed budget</b> year(s) and the two prior years?	_____	_____	1
13. Is there a summary schedule of expenditures, by fund, and does it display at least the <b>proposed budget</b> year(s) and the two prior years?	_____	_____	1
14. Is there a summary schedule of expenditures, by department, organization, program or function, and does it display at least the <b>proposed budget</b> year(s) and the two prior years?	_____	_____	1
15. Is there a fund balance summary schedule, by fund, showing changes from the projected beginning balances through the end of the budget year(s)?	_____	_____	1
16. Do the budget detail pages <b>describe</b> the department, organization, program or function in question?	_____	_____	1
17. Does the budget describe the level of budget control exercised by the jurisdiction and is that level included in the budget document?	_____	_____	1
18. Is there a summary of personnel (headcount) by organization, fund or department for the <b>proposed budget</b> year(s) and the prior year?	_____	_____	1
19. Is the budget clearly enough <b>organized and presented</b> as a document? (Reviewer: This is not a beauty contest -- is it understandable, overall?)	_____	_____	1
20. Do the budget numbers and format appear to be <b>accurate and consistent</b> throughout the document? (Reviewer: Does it all "hang together" technically?)	_____	_____	1
<b>Total Score:</b>	_____	<b>20</b>	

\*One point will be awarded for each "yes" answer for questions 1-20. To qualify for either the **Meritorious** or the **Excellence in Budgeting Awards**, ALL items in this section **MUST** be included in your document and you must be awarded the total 20 points.

**SECTION B- EXCELLENCE IN BUDGETING AWARD EVALUATION FORM FOR OPERATING BUDGET (Requires 50 Points\*)**

Item	Item is found on page numbers:	Points Awarded*	Points Possible*
1. Does the document display an effective use of graphics, artwork and charts? (Reviewer: Look for scope, clarity and originality.)	_____	_____	8
2. Is there an in-depth description of revenue sources and basis for estimates? (Reviewer: Look for comprehensiveness beyond A10.)	_____	_____	6
3. Does document include a jurisdiction profile; review of community demographics, location, economy? (Reviewer: Based on comprehensiveness.)	_____	_____	6
4. Does document include actual budget adoption resolutions/ordinances enacted by Council/Board?	_____	_____	1
5. Are implications of Prop 4 limit discussed and/or future trends analyzed? Not applicable for Special Districts (Reviewer: Look for more than just the calculation for cities – Award points for Special District Applicants)	_____	_____	3
6. Does document demonstrate the use of cost accounting or allocated costs?	_____	_____	4
7. Is there a description of financial/budget policies, which govern finance or budget development such as for reserves, debt management, CIP, revenue projections? (Reviewer: Based on comprehensiveness.)	_____	_____	6
8. Are there additional prior year revenue, expenditure, & organization detail schedules included beyond A12, 13, and 14? (1 pt per year, max. 2 pts).	_____	_____	2
9. Are there additional future years of forecasted revenue, expenditure and organization detail schedules included? (1 point per year beyond budget year, maximum of 5 points).	_____	_____	5
10. Is there additional budget detail highlighting recent accomplishments? (Reviewer: Based on scope and clarity.)	_____	_____	4
11. Is there additional budget detail describing budget year goals for organization/ program?	_____	_____	4
12. Is there additional budget detail identifying performance measures such as workload and/or efficiency or effectiveness indicators?	_____	_____	6
13. Are performance measures directly linked to stated goals?	_____	_____	4
14. Is personnel/staffing level(s) listed for each detail budget level (department, function, division, program)?	_____	_____	1
15. Are departmental organizational charts included in the document?	_____	_____	1
16. Is there a description of staffing level changes compared to prior year?	_____	_____	1
17. Is there a discussion of employee compensation and benefits included?	_____	_____	1
18. Is there a description of budgeted debt obligations included?	_____	_____	2
19. Is there a list of acronyms used and are the acronyms defined?	_____	_____	1
20. Is there a glossary of terms included in the document?	_____	_____	1
21. Does document include financial trend indicators and the associated analysis? (Reviewer: Number of points depend on scope of analysis and number of years analyzed, and use of per capita or constant dollar analyses.)	_____	_____	5
22. Is there a comparison of financial status to other jurisdictions?	_____	_____	2
23. Does document display exceptional format clarity & presentation effectiveness?	_____	_____	6

**Total Score: 80**

\*You must have the 20 points from Section A AND at least 50 points in Section B, for a total of 70, to receive an Excellence in Budgeting Award.



**GFOA Detailed Criteria Location Guide  
Distinguished Budget Presentation Awards Program**

Name of Entity: \_\_\_\_\_

State/Province: \_\_\_\_\_

First Submission? Yes  No

Cite specific page references on the lines in response to each question.

**Introduction and Overview**

#C1. **Mandatory:** The document shall include a table of contents that makes it easier to locate information in the document.

**\* Table of Contents**

1. Is a comprehensive table of contents provided? \_\_\_\_\_
2. Are all pages in the document numbered or otherwise identified? \_\_\_\_\_
3. Do the page number references in the budget or electronic table of contents agree with the related page numbers in the budget or electronic submission? \_\_\_\_\_

#P1: The document should include a coherent statement of organization-wide, strategic goals and strategies that address long-term concerns and issues.

**Strategic Goals and Strategies**

1. Are non-financial policies/goals included? \_\_\_\_\_
2. Are these policies/goals included together in the Budget Message or in another section that is separate from the departmental sections? \_\_\_\_\_
3. Are other planning processes discussed? \_\_\_\_\_

#P2: The document should describe the entity's short-term factors that influence the decisions made in the development of the budget for the upcoming year.

**Short-term organization factors**

1. Are short-term factors addressed? \_\_\_\_\_
2. Does the document discuss how the short-term factors guided the development of the annual budget? \_\_\_\_\_
3. Is a summary of service level changes presented? \_\_\_\_\_

#P3. **Mandatory:** The document shall include a budget message that articulates priorities and issues for the upcoming year. The message should describe significant changes in priorities from the current year and explain the factors that led to those changes. The message may take one of several forms (*e.g., transmittal letter, budget summary section*).

**\* Priorities and Issues**

1. Does the message highlight the principal issues facing the governing body in developing the budget (*e.g., policy issues, economic factors, regulatory, and legislative challenges*)? \_\_\_\_\_
2. Does the message describe the action to be taken to address these issues? \_\_\_\_\_
3. Does the message explain how the priorities for the budget year differ from the priorities of the current year? \_\_\_\_\_
4. Is the message comprehensive enough to address the entire entity? \_\_\_\_\_

#C2. **Mandatory:** The document should provide an overview of significant budgetary items and trends. An overview should be presented within the budget document either in a separate section (*e.g., executive summary*) or integrated within the transmittal letter or as a separate budget-in-brief document.

**\* Budget Overview**

1. Is an overview contained in the budget message/transmittal letter, executive summary, or in a separate budget-in-brief document? \_\_\_\_\_
2. Is summary information on significant budgetary items conveyed in an easy to read format? \_\_\_\_\_
3. Is summary information on budgetary trends provided? \_\_\_\_\_





**Financial Structure, Policy, and Process**

#O1. **Mandatory:** The document shall include an organization chart(s) for the entire entity.

**\*Organization Chart**

1. Is an organization chart provided which shows the entire entity? \_\_\_\_\_  
\_\_\_\_\_

#F1: The document should include and describe all funds that are subject to appropriation.

**Fund Descriptions and Fund Structure**

1. Is a narrative or graphic overview of the entity's budgetary fund structure included in the document? \_\_\_\_\_
2. Does the document indicate which funds are appropriated? (Other funds for which financial plans are prepared also may be included in the document.) \_\_\_\_\_
3. Does the document include a description of each individual major fund included within the document? \_\_\_\_\_
4. If additional or fewer funds are included in the audited financial statements, does the document indicate this fact? \_\_\_\_\_

#O2: The document should provide narrative, tables, schedules, or matrices to show the relationship between functional units, major funds, and nonmajor funds in the aggregate.

**Department/Fund Relationship**

1. Is the relationship between the entity's functional units, major funds, and nonmajor funds in the aggregate explained or illustrated? \_\_\_\_\_  
\_\_\_\_\_

#F2: The document shall explain the basis of budgeting for all funds, whether cash, modified accrual, or some other statutory basis.

**Basis of Budgeting**

1. Is the basis of budgeting defined (eg., *modified accrual, cash, or accrual*) for all funds included in the document? \_\_\_\_\_
2. If the basis of budgeting is the same as the basis of accounting used in the entity's audited financial statements, is that fact clearly stated? \_\_\_\_\_
3. If the basis of budgeting is not the same as the basis of accounting used in the entity's audited financial statements, are the differences described? \_\_\_\_\_  
\_\_\_\_\_

#P4. **Mandatory:** The document should include a coherent statement of entity-wide long-term financial policies.

**\* Financial Policies**

1. Is there a summary of financial policies and goals? \_\_\_\_\_  
\_\_\_\_\_
2. Do the financial policies include the entity's definition of a balanced budget? \_\_\_\_\_  
\_\_\_\_\_
3. Are all financial policies presented in one place? \_\_\_\_\_  
\_\_\_\_\_

#P5. **Mandatory:** The document shall describe the process for preparing, reviewing, and adopting the budget for the coming fiscal year. It also should describe the procedures for amending the budget after adoption.

**\* Budget Process**

1. Is a description of the process used to develop, review, and adopt the budget included in the document? \_\_\_\_\_
2. Is a budget calendar provided to supplement (not replace) the narrative information on the budget process? \_\_\_\_\_
3. Is a discussion of how the budget is amended provided in the budget document available to the public (including the budgetary level of control)? \_\_\_\_\_  
\_\_\_\_\_



**Financial Summaries**

#F3. **Mandatory:** The document shall present a summary of major revenues and expenditures, as well as other financing sources and uses, to provide an overview of the total resources budgeted by the organization.

**\* Consolidated  
Financial  
Schedule**

1. Does the document include an overview of revenues and other financing sources and expenditures and other financing uses of all appropriated funds? \_\_\_\_\_
2. Are revenues and other financing sources and expenditures and other financing uses presented either (1) together in a single schedule OR (2) in separate but adjacent/sequential schedules OR (3) in a matrix? \_\_\_\_\_
3. Are revenues presented by major type in this schedule (e.g., property taxes, intergovernmental, sales taxes, fees and charges)? \_\_\_\_\_
4. Are expenditures presented by function, organizational unit, or object in this schedule? (For funds other than the main operating fund of the entity, a presentation by fund normally would satisfy this requirement.) \_\_\_\_\_

#F4. **Mandatory:** The document must include summaries of revenues and other financing sources, and of expenditures and other financing uses for the prior year actual, the current year budget and/or estimated current year actual, and the proposed budget year.

**\* Three/(Four)  
Year  
Consolidated  
and Fund  
Financial  
Schedules**

1. For annual budgets, are revenues and other financing sources and expenditures and other financing uses for the prior year, the current year, and the budget year presented together on the same schedule(s) or on schedules presented on adjacent/sequential pages? \_\_\_\_\_
2. Is this information presented for the appropriated funds in total (or for the entity as a whole if no appropriated funds are included)? \_\_\_\_\_
3. Is this information also presented at a minimum for each major fund and for other (i.e. nonmajor) funds in the aggregate (or for each significant fund and other funds in the aggregate if no appropriated funds are included)? \_\_\_\_\_
4. For biennial budgets, are revenues and other financing sources and expenditures and other financing uses for the prior year, the current year, and both budget years presented together on the same schedule(s) or on separate schedules presented on adjacent/sequential pages? \_\_\_\_\_

#F5. **Mandatory:** The document shall include projected changes in fund balances, as defined by the entity in the document, for appropriated governmental funds included in the budget presentation (fund equity if no governmental funds are included in the document).

**\* Fund  
Balance**

1. Does the document include the entity's definition of "fund balance" (or of "fund equity" if no governmental funds are included in the entity - frequently the noncapital portion of net assets)? \_\_\_\_\_
2. Is the fund balance (equity) information presented for the budget year? \_\_\_\_\_
3. Is there a schedule showing (1) beginning fund balances, (2) increases and decreases in total fund balances (reported separately), and (3) ending fund balances for appropriated governmental funds? \_\_\_\_\_
4. Is this information presented at a minimum for each major fund and for nonmajor governmental funds in the aggregate? \_\_\_\_\_
5. If fund balances of any major fund or the nonmajor funds in the aggregate are anticipated to increase or decline by more than 10%, does the document include a discussion of the causes and/or consequences of these changes in fund balance? \_\_\_\_\_
6. If an entity has no governmental funds, is the change in the fund equity presented for (1) the entity as a whole, (2) the main operating fund, and (3) each significant fund? \_\_\_\_\_
7. If an entity has no governmental funds and the fund equity of any significant fund or other funds in the aggregate is anticipated to change by more than 10%, does the document include a discussion of the causes \_\_\_\_\_



and/or consequences of any change in fund equity that is greater than 10% in either a significant fund or other funds in the aggregate? \_\_\_\_\_

8. For biennial budgets is the change in fund equity presented separately for both years of the biennium? \_\_\_\_\_  
 \_\_\_\_\_

#F6. **Mandatory:** The document shall describe major revenue sources, explain the underlying assumptions for the revenue estimates, and discuss significant revenue trends.

**\* Revenues**

1. Are individual revenue sources described? \_\_\_\_\_  
 \_\_\_\_\_
2. Do the revenue sources that are described represent at least 75 percent of the total revenues of all appropriated funds? \_\_\_\_\_
3. Are the methods used to estimate revenues for the budget year described (*e.g., trend analysis, estimates from another government or consulting firm*)? \_\_\_\_\_  
 \_\_\_\_\_
4. If revenues are projected based on trend information, are both those trends and the underlying assumptions adequately described? \_\_\_\_\_  
 \_\_\_\_\_

#F7: The document should explain long-range financial plans and its affect upon the budget and the budget process.

**Long-range  
Financial  
Plans**

1. Are long-range financial plans identified? \_\_\_\_\_  
 \_\_\_\_\_
2. Do your long-range financial plans extend out at least two years beyond the budget year?  
 \_\_\_\_\_
3. Is there a concise explanation or illustration of the linkage between the entity's long-range financial plans and strategic goals? \_\_\_\_\_  
 \_\_\_\_\_

**Capital and Debt**

#F8. **Mandatory:** The document should include budgeted capital expenditures, whether authorized in the operating budget or in a separate capital budget.

**\* Capital  
Expenditures**

1. Does the document define "capital expenditures"? \_\_\_\_\_  
 \_\_\_\_\_
2. Does the document indicate the total dollar amount of capital expenditures for the budget year (both budget years for biennial budgets)? \_\_\_\_\_  
 \_\_\_\_\_
3. Are significant nonrecurring capital expenditures described along with dollar amounts? (Information in a separate CIP document does not satisfy this criterion.) \_\_\_\_\_  
 \_\_\_\_\_
4. If the entity has no significant nonrecurring capital expenditures, is that fact clearly stated in the document?  
 \_\_\_\_\_

#F9: The document should describe if and to what extent significant nonrecurring capital investments will affect the entity's current and future operating budget and the services that the entity provides.

**Impact of  
Capital  
Investments on  
Operating  
Budget**

1. Are anticipated operating costs associated with significant nonrecurring capital investments described and quantified (*e.g., additional personnel costs, additional maintenance costs, or additional utility costs*)? (Information in a separate CIP document does not satisfy this criterion.) \_\_\_\_\_  
 \_\_\_\_\_
2. Are anticipated savings or revenues expected to result from significant nonrecurring capital investments described and quantified (*e.g., reduced utility costs, lower maintenance costs*)? \_\_\_\_\_  
 \_\_\_\_\_



#F10. **Mandatory:** The document shall include financial data on current debt obligations, describe the relationship between current debt levels and legal debt limits, and explain the effects of existing debt levels on current operations.

**\* Debt**

1. If the entity has legal debt limits:
  - Are debt limits described? \_\_\_\_\_
  - Are the amounts of debt limits expressed in terms of total dollars, millage rates or percentages of assessed value? \_\_\_\_\_
  - Are the amounts of debt subject to debt limits identified in the same terms used to describe the debt limits themselves? \_\_\_\_\_
2. If the entity has no legal debt limits, is that fact clearly stated within the budget document? \_\_\_\_\_
3. If the entity does not have and does not intend to issue debt, is that fact clearly stated? \_\_\_\_\_
4. Is the amount of principal and interest payments for the budget year (two years for biennial budgets) shown for each major fund (for appropriated funds), for each significant unappropriated fund and for other funds in the aggregate? \_\_\_\_\_

**Departmental Information**

#O3. **Mandatory:** A schedule or summary table of personnel or position counts for prior, current and budgeted years shall be provided.

**\* Position Summary Schedule**

1. Is a summary table of position counts provided for the entire entity? \_\_\_\_\_
2. Does the table include the prior year, the current year, and budget year position counts? \_\_\_\_\_
3. Are changes in staffing levels for the budget year explained? \_\_\_\_\_
4. If there are no changes in staffing levels, is that item noted? \_\_\_\_\_

#O4. **Mandatory:** The document shall describe activities, services or functions carried out by organizational units.

**\* Department Descriptions**

1. Does the document clearly present the organizational units (*e.g., divisions, departments, offices, agencies, or programs*)? \_\_\_\_\_
2. Does the document provide descriptions of each organizational unit? \_\_\_\_\_

#O5: The document should include clearly stated goals and objectives of organizational units (*e.g., departments, divisions, offices or programs*).

**Unit Goals and Objectives**

1. Are unit goals and objectives identified? \_\_\_\_\_
2. Are unit goals clearly linked to the overall goals of the entity? \_\_\_\_\_
3. Are objectives quantifiable? \_\_\_\_\_
4. Are timeframes on objectives noted? \_\_\_\_\_

#O6: The document should provide objective measures of progress toward accomplishing the government's mission as well as goals and objectives for specific units and programs.

**Performance Measures**

1. Are performance data for individual departments included in the document? \_\_\_\_\_
2. Are performance data directly related to the stated goals and objectives of the unit? \_\_\_\_\_
3. Do performance measures focus on results and accomplishments (*e.g., output measures, efficiency and effectiveness measures*) rather than inputs (*e.g., dollars spent*)? \_\_\_\_\_



**Document-wide Criteria**

#C3: The document should include statistical and supplemental data that describe the organization, its community, and population. It should also furnish other pertinent background information related to the services provided.

**Statistical/  
Supplemental  
Section**

1. Is statistical information that defines the community included in the document (*e.g., population, composition of population, land area, and average household income*)? \_\_\_\_\_
2. Is supplemental information on the local economy included in the document (*e.g., major industries, top taxpayers, employment levels, and comparisons to other local communities*)? \_\_\_\_\_
3. Is other pertinent information on the community (*e.g., local history, location, public safety, education, culture, recreation, transportation, healthcare, utilities, and governmental structure*) included in the document? \_\_\_\_\_

#C4: A glossary should be included for any terminology (including abbreviations and acronyms) that is not readily understandable to a reasonably informed lay reader.

**Glossary**

1. Is a glossary that defines technical terms related to finance and accounting, as well as non-financial terms related to the entity, included in the document? \_\_\_\_\_
2. Are acronyms or abbreviations used in the document defined in the glossary? \_\_\_\_\_
3. Is the glossary written in non-technical language? \_\_\_\_\_

#C5: Charts and graphs should be used, where appropriate, to highlight financial and statistical information. Narrative interpretation should be provided when the messages conveyed by the graphs are not self-evident.

**Charts and  
Graphs**

1. Are charts and graphs used in the document to convey essential information (*e.g., key policies, trends, choices and impacts*)? \_\_\_\_\_
2. Do the graphics supplement the information contained in the narratives? \_\_\_\_\_

#C6: The document should be produced and formatted in such a way as to enhance its understanding by the average reader. It should be attractive, consistent, and oriented to the reader's needs.

**Understand-  
ability and  
Usability**

1. Is page formatting consistent? \_\_\_\_\_
2. Are the main sections of the document easily identifiable? \_\_\_\_\_
3. Is the level of detail appropriate? \_\_\_\_\_
4. Are text, tables, and graphs legible? \_\_\_\_\_
5. Are budget numbers in the document accurate and consistent throughout the document? \_\_\_\_\_

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bstatler@pacbell.net  
www.bstatler.com

## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

### QUALIFICATIONS SUMMARY

Bill Statler has extensive experience in strategic planning, organizational review and policy analysis as well as a broad range of financial management practices, which have received state and national recognition for excellence in financial planning and reporting. His work ranges from San Luis Obispo (the city that Oprah calls the “Happiest City in America”) to volunteer service helping the troubled City of Bell reform their government.

#### Senior Management Experience

Over 30 years of senior municipal financial management experience, which included serving as the Director of Finance & Information Technology/City Treasurer for the City of San Luis Obispo for 22 years and as Finance Officer for the City of Simi Valley for 10 years before that.

Under his leadership, the City of San Luis Obispo received national recognition for its financial planning and reporting systems, including:

- Award for Distinguished Budget Presentation from the Government Finance Officers Association of the United States and Canada (GFOA), with special recognition as an outstanding policy document, financial plan and communications device. *San Luis Obispo is one of only a handful of cities in the nation to receive this special recognition.*
- Awards for excellence in budgeting from the California Society of Municipal Finance Officers (CSMFO) in all four of its award budget categories: innovation, public communications, operating budgeting and capital budgeting. Again, *San Luis Obispo is among a handful of cities in the State to earn recognition in all four of these categories.*
- Awards for excellence in financial reporting from both the GFOA and CSMFO for the City’s comprehensive annual financial reports.
- Recognition of the City’s financial management policies as “best practices” by the National Advisory Council on State and Local Budgeting.

The financial strategies, policies and programs he developed and implemented resulted in strengthened community services and an aggressive program of infrastructure and facility improvements, while at the same time preserving the City’s long-term fiscal health.

## Consultant Services

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### *Strategic Plans, Fiscal Forecasts and Long-Term Financial Plans*

- Strategic Planning: City of Monrovia (in collaboration with HSM Team)
- Council Goal-Setting: City of Willits (in collaboration with the HSM Team)
- Council Goal-Setting and Long-Term Financial Plan: City of Bell
- Long-Term Financial Plan: City of Salinas
- Long-Term Financial Plan: City of Camarillo
- Long-Term Financial Plan: City of Pismo Beach
- Long-Term Financial Plan: Bear Valley Community Services District

### *Organizational Analysis and Policy Advice*

- Pro Bono Financial Management Transition Team and Policy Advice: City of Bell
- Preparation for Possible Revenue Ballot Measure: City of Monterey
- Financial Assessment: City of Guadalupe
- Financial Condition Assessment: City of Grover Beach
- General Fund Reserve Policy: City of Lompoc
- General Fund Reserve Policy: City of Willits
- Benchmark Analysis: City of Capitola
- Financial Management Improvements: City of Capitola
- Organizational Review: City of Willits (in collaboration with the HSM Team)
- Finance Division Organizational Review: Sacramento Metropolitan Fire District
- Finance Department Organizational Review: City of Ceres (in collaboration with Management Partners)

### *Interim Finance Director*

- City of Monterey
- San Diego County Water Authority
- City of Capitola

### *Other Financial Management Services*

- Revenue Options Study: City of Greenfield
- Revenue Options Study: City of Pismo Beach
- Cost Allocation Plan: City of Greenfield (In Progress)
- Cost Allocation Plan Review: City of Ukiah
- Cost Allocation Plan: City of Guadalupe
- Cost Allocation Plan: City of Port Hueneme
- Cost Allocation Plan: City of Grover Beach
- Water and Sewer Rate Review: Avila Beach Community Services District
- Water and Sewer Rate Review: City of Grover Beach
- Joint Solid Waste Rate Review of Proposed Rates from South County Sanitary Company: Cities of Arroyo Grande, Grover Beach, Pismo Beach and Oceano Community Services District

## Professional Leadership

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- Member, Board of Directors, League of California Cities (League): 2008 to 2010
- Member, California Committee on Municipal Accounting: 2007 to 2010
- Budget and Fiscal Policy Committee Member, Government Finance Officers Association of the United States and Canada (GFOA): 2005 to 2009

- President, League Fiscal Officers Department: 2002 and 2003
- President, California Society of Municipal Finance Officers (CSMFO): 2001-02
- Member, Board of Directors, CSMFO: 1997 to 2001
- Chair, CSMFO Task Force on “GASB 34” Implementation
- Fiscal Officers Representative on League Policy Committees: Community Services, Administrative Services and Environmental Quality: 1992 to 1998
- Chair, Vice-Chair and Senior Advisor for CSMFO Committees: Technology, Treasury and Debt Management, Career Development, Professional and Technical Standards and Annual Seminar Committees: 1995 to 2010
- Member, League Proposition 218 Implementation Guide Task Force
- Chair, CSMFO Central Coast Chapter Chair: 1994 to 1996

### **Trainer**

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- League of California Cities
- Institute for Local Government
- California Debt and Investment Advisory Commission
- Government Finance Officers Association of the United States and Canada
- California Society of Municipal Finance Officers
- Municipal Management Assistants of Southern California and Northern California
- National Federation of Municipal Analysts
- Probation Business Manager’s Association
- Humboldt County
- California Association of Local Agency Formation Commissions

#### Topics included:

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| • Long-Term Financial Planning  | • Debt Management   |
| • The Power of Fiscal Policies  | • Transparency in Financial Management: Meaningful Community Engagement in the Budget Process |
| • Financial Analysis and Reporting  | • Financial Management for Non-Financial Managers   |
| • Fiscal Health Contingency Planning  | • Preparing for Successful Revenue Ballot Measures  |
| • Effective Project Management  | • Integrating Goal-Setting and the Budget Process   |
| • Providing Great Customer Service in Internal Service Organizations: The Strategic Edge                      | • Multi-Year Budgeting  |
| • Strategies for Downsizing Finance Departments in Tough Fiscal Times   | • Financial Management for Elected Officials  |
| • Telling Your Fiscal Story: Tips on Making Effective Presentations   | • 12-Step Program for Recovery from Fiscal Distress   |
| • What Happened in the City of Bell and What We Can Learn from It   | • Strategies for Strengthening Organizational Effectiveness                                   |
| • The Power of Effective Meetings in Achieving Your Organization’s Goals: Smart Uses of Electronic Scheduling |   |



## Publications

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- [Planning for Fiscal Recovery](#), Government Finance Review, February 2014
- [Guide to Local Government Finance in California](#), Solano Press, July 2012 (Co-Author)
- [Managing Debt Capacity: Taking a Policy-Based Approach to Protecting Long-Term Fiscal Health](#), Government Finance Review, August 2011
- [Fees in a Post-Proposition 218 World](#), League of California Cities, City Attorney's Department Spring Conference, May 2010
- [Municipal Fiscal Health Contingency Planning](#), Western City Magazine, November 2009
- [Understanding the Basics of County and City Revenue](#), Institute for Local Government, 2008 (Contributor)
- [The California Municipal Revenue Sources Handbook](#), League of California Cities, 2014 (Contributor: Chapter 8, "Cost Recovery")
- [Financial Management for Elected Officials](#), Institute for Local Government, 2007 (Contributor)
- [Getting the Most Out of Your City's Current Revenues: Sound Fiscal Policies Ensure Higher Cost Recovery for Cities](#), Western City Magazine, November 2003
- [Local Government Revenue Diversification, Fiscal Balance/Fiscal Share and Sustainability](#), Institute for Local Government, November 2002
- [Why Is GASB 34 Such a Big Deal?](#), Western City Magazine, November 2000
- [Understanding Sales Tax Issues](#), Western Cities Magazine, June 1997
- [Proposition 218 Implementation Guide](#), League of California Cities, 1997 (Contributor)

## Honors and Awards

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- Cal-ICMA Ethical Hero Award (for service to the City of Bell)
- CSMFO Distinguished Service Award for Dedicated Service and Outstanding Contribution to the Municipal Finance Profession
- National Advisory Council on State and Local Government Budgeting: Recommended Best Practice (Fiscal Policies: User Fee Cost Recovery)
- GFOA Award for Distinguished Budget Presentation: Special Recognition as an Outstanding Policy Document, Financial Plan and Communications Device
- CSMFO Awards for Excellence in Operating Budget, Capital Improvement Plan, Budget Communication and Innovation in Budgeting
- GFOA Award of Achievement for Excellence in Financial Reporting
- CSMFO Certificate of Award for Outstanding Financial Reporting

- National Management Association Silver Knight Award for Leadership and Management Excellence
- American Institute of Planners Award for Innovation in Planning
- Graduated with Honors, University of California at Santa Barbara

Visit my web site for additional information at [www.bstatler.com](http://www.bstatler.com)

