



The State Bar *of California*

Title of Report: 2022 Financial Statement and Independent Auditor's Report
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The State Bar of California is submitting its 2022 Financial Statement and Independent Auditor's Report to the Chief Justice of California, and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145. This financial statement is certified under oath by the Chief Financial Officer of the State Bar.

This report consists of an independent auditor's report, management's discussion and analysis, the basic financial statements, the notes to the basic financial statements, and the required supplementary information. The basic financial statements provide information and understanding of the State Bar's Enterprise Fund.

This report is based on an audit conducted by an independent auditor for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's financial statements as a whole. In the auditor's opinion, the State Bar's financial statements present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

In addition, the management's discussion and analysis section of the financial statements presents the highlights of financial activities and financial position of the State Bar. The analysis is designed to provide readers with information that the State Bar's management believes to be necessary to an understanding of its financial condition, changes in financial condition, and results of operations.

The full report is available at: <https://www.calbar.ca.gov/About-Us/Our-Mission/Protecting-the-Public/Reports> Public/Reports.

A printed copy of the report may be obtained by calling 415-538-2000.



The State Bar *of California*

2022 Financial Statements and Independent Auditor's Report

**Years Ended December 31, 2022 and 2021 and Supplementary
Information Year Ended December 31, 2022**

April 28, 2023

THE STATE BAR OF CALIFORNIA
Financial Statements
Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

To the Board of Trustees
The State Bar of California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the State Bar of California (State Bar) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the State Bar's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the State Bar, as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State Bar, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 3 to the financial statements, effective as of January 1, 2021, the State Bar adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The State Bar's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar's ability to continue as a going concern for twelve months beyond the financial state date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of State Bar's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, the schedule of plan contributions – pension, the schedule of changes in net OPEB liability and related ratios, and the schedule of contributions – OPEB Plan, collectively identified as Required Supplementary Information in the accompanying table of contents, be presented to supplement the basic financial statements.

Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar's basic financial statements. The combining schedules of Program Funds, collectively identified as Supplementary Information in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules of Program Funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023 on our consideration of the State Bar's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Bar's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini E O'Connell LEP". The signature is written in a cursive, flowing style.

Walnut Creek, California

April 28, 2023

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THE STATE BAR OF CALIFORNIA
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2022 and 2021

Introduction

Management's Discussion and Analysis ("MD&A") is presented as a supplement to the financial statements and is based on currently known facts, decisions, and conditions that existed as of the date of the report of independent auditors. This discussion and analysis presents the highlights of financial activities and financial position for the State Bar of California ("State Bar"). The analysis is designed to provide readers with information that the State Bar's management believes to be necessary to obtain an understanding of its financial condition, changes in financial condition, and results of operations. It is intended to help readers see the State Bar through the eyes of management. It is further designed to provide context for the financial statements and information about the State Bar's operations and cash flows. Certain 2021 and 2020 amounts have been reclassified to conform to the 2022 presentation.

The State Bar of California

Created by the state legislature in 1927, the State Bar is a public corporation within the judicial branch of government, serving as an arm of the California Supreme Court. In 1960, California voters approved a ballot measure adding the State Bar as an entity in the State Constitution. The State Bar's programs are financed primarily by fees paid by attorneys and applicants to practice law. At the end of 2022, the State Bar had approximately 287,200 licensees, an increase of 1.7% compared to 282,400 licensees in 2021.

Licensing fees for 2022 and 2021 were allocated to the following funds:

	2022		2021	
	Active Fee	Inactive Fee	Active Fee	Inactive Fee
General Fund - Attorney Licensing	\$ 388	\$ 90	\$ 388	\$ 90
General Fund-Discipline Activity	25	25	25	25
Legal Services Trust Fund	45	45	45	45
Legislative Activity Fund	5	5	5	5
Elimination of Bias Fund	2	2	2	2
Client Security Fund	40	10	40	10
Lawyers Assistance Program Fund	10	5	10	5
Total	<u>\$ 515</u>	<u>\$ 182</u>	<u>\$ 515</u>	<u>\$ 182</u>

The State Bar's licensing fees are set annually by the State Legislature. The assessment level reflected full support for the State Bar's core discipline functions but not other programs and activities. The 2022 statutorily approved annual fee remained unchanged at \$388 from 2021.

Financial Statement Overview

The State Bar's financial report consists of MD&A, the financial statements, the notes to the financial statements, and the required and other supplementary information. The financial statements provide information and understanding of the State Bar's Enterprise. The financial statements and related information are organized in this report as follows:

The Statement of Net Position – presents the financial position of the State Bar at the end of the fiscal year. The statement reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the difference as net position. The net position section is displayed in three components: net investment in capital assets; restricted; and unrestricted. Changes in net position over time are an indicator of whether the financial condition of the organization is improving or declining.

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The Statement of Revenues, Expenses, and Changes in Net Position – discloses the sources of revenues, the expenses by programs, and the impact on net position for the State Bar.

The Statement of Cash Flows – reflects the sources and uses of cash for the State Bar using the direct method which includes a reconciliation of operating income or loss to net cash provided by or used in operating activities.

Notes to the Financial Statements – provides integral information needed to explain the basis for the financial statement presentation and numbers used with the basic financial statements.

Required Supplementary Information – presents schedule of changes in net pension liability and related ratios, schedule of plan contributions – pension, schedule of changes in net OPEB liability (asset) and related ratios, and schedule of contributions – OPEB Plan.

Other Supplementary Information – presents financial information by programs.

Financial Highlights

The following is a summary comparison of the State Bar's Statements of Net Position as of December 31, 2022, 2021, and 2020:

	2022	Restated 2021 *	2020
Cash, cash equivalents, and investments	\$ 155,941,040	\$ 144,069,219	\$ 117,634,753
Restricted cash, cash equivalents, and investments	9,287,909	15,172,463	2,501,761
Other assets	31,114,201	23,936,909	6,765,605
Capital assets, net	99,136,637	103,628,056	106,060,821
Deferred outflows of resources	37,885,114	12,163,713	14,705,033
Total assets and deferred outflows of resources	<u>333,364,901</u>	<u>298,970,360</u>	<u>247,667,973</u>
Current liabilities	76,022,506	67,026,336	41,491,016
Noncurrent liabilities	32,817,998	35,846,115	21,709,494
Net OPEB liability	7,393,303	7,617,010	11,616,834
Net pension liability	81,349,352	21,343,799	77,697,797
Deferred inflows of resources	21,733,662	60,366,341	2,676,079
Total liabilities and deferred inflows of resources	<u>219,316,821</u>	<u>192,199,601</u>	<u>155,191,220</u>
Net position			
Net investments in capital assets	75,520,878	83,786,375	85,958,927
Restricted for:			
Enabling legislation	85,013,835	66,020,083	60,962,604
Other restrictions	509,945	593,340	3,083,970
Unrestricted	(46,996,578)	(43,629,040)	(57,528,748)
Total net position	<u>\$ 114,048,080</u>	<u>\$ 106,770,758</u>	<u>\$ 92,476,753</u>

*Restated due to the implementation of GASB 87 – *Leases*

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Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2022 and 2021

Fiscal Year 2022 Compared to Fiscal Year 2021

Assets and Deferred Outflows of Resources – As of December 31, 2022, the State Bar's total assets and deferred outflows of resources were \$333.4 million, up by \$34.4 million or 11.5% compared to \$299.0 million last year. The increase is primarily due to the \$25.7 million increase in deferred outflows of resources related to pension and other postemployment benefits (OPEB) items and the \$11.9 million increase in unrestricted cash and investments associated with unearned revenues. Other changes include a \$10.3 million increase in accounts receivables resulted from higher trust amount revenues; offset by a decrease of \$5.9 million in restricted cash and investments due to spending of loan proceeds on various capital projects, a decrease of \$0.2 million in other current assets and a decrease of \$4.5 million in capital assets.

Deferred outflows of resources consisted of actuarially determined deferred outflows of resources as it relates to both pension reporting under Governmental Accounting Standards Board (GASB) Statement No. 68 (GASB 68) and other postemployment benefits reporting under GASB Statement No. 75 (GASB 75). As of December 31, 2022, the deferred outflows of resources were \$37.9 million, increased by \$25.7 million compared to \$12.2 million last year. See accompanying notes 9 and 10 to the financial statements for additional information.

Liabilities and Deferred Inflows of Resources – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned revenues collected in advance, grants payable, loans payable, lease liabilities, net OPEB liability, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68, GASB 75 and GASB Statement No. 87 - *Leases* (GASB 87). As of December 31, 2022, State Bar's total liabilities and deferred inflows of resources were \$219.3 million, increased by \$27.1 million or 14.1% compared to \$192.2 million last year. The increase is primarily due to a \$60.0 million increase in net pension liability based on pension actuarial valuation and investment losses in the pension plan. Other changes include a \$1.8 million increase in accounts payable and other liabilities, a \$7.1 million increase in unearned fees collected in advance, a \$0.3 million increase in noncurrent portion of the compensated absences, a \$2.6 million increase in deferred inflows of resources related to OPEB; partially offset by a \$2.7 million decrease in loans payable, a \$0.5 million decrease in lease liabilities, a \$0.2 million decrease in net OPEB liability, a \$38.2 million decrease in deferred inflows of resources related to pension and a \$3.1 million decrease in deferred inflows of resources related to leases.

The State Bar's total pension liability as of December 31, 2022 was \$463.2 million and the plan fiduciary net position was \$381.9 million resulting in a net pension liability of \$81.3 million, or 17.56% of the total pension liability. Compared to the \$21.3 million net pension liability in 2021, the 2022 net pension liability increased by \$60.0 million or 281.1%.

Deferred inflows of resources as of December 31, 2022 were \$21.7 million, representing a decrease of \$38.7 million compared to the restated amount of \$60.4 million last year. This balance consisted of actuarially determined deferred inflows of resources related to pension under GASB 68 and OPEB under GASB 75, and the deferred inflows of resources related to leases under GASB 87. See accompanying notes 8, 9 and 10 to the financial statements for additional information.

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Net Position – The State Bar's total net position as of December 31, 2022 was \$114.0 million, up by \$7.2 million or 6.8% compared to the restated amount of \$106.8 million in 2021. The increase represented the excess of revenues over expenses from various programs. The components of net position are:

Restricted Net Position – The part of net position that is subject to internal constraints and external constraints imposed by grantors, law through constitutional provisions or enabling legislation increased by \$18.9 million or 28.4% from \$66.6 million in 2021 to \$85.5 million in 2022. The increase is primary due to the \$19.0 million increase in enabling legislation and offset by the \$0.1 million decrease in other restrictions.

Net Investments in Capital Assets – The part of net position that consists of capital assets, net of accumulated depreciation, amortization, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets decreased by \$8.3 million or 9.9% from \$83.8 million in 2021 to \$75.5 million in 2022. The net decrease is primarily due to loan repayments, and depreciation and amortization of capital assets.

Unrestricted Net Position – The part of net position that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2022, the unrestricted net position was negative \$47.0 million, a decrease of \$3.4 million or 7.7% compared to \$43.6 million negative unrestricted net position in 2021. The change is substantially due to the change in net pension liability attributed to actual earnings are lower than expected on pension plan investments.

Fiscal Year 2021 Compared to Fiscal Year 2020

Assets and Deferred Outflows of Resources – As of December 31, 2021, the State Bar's total assets and deferred outflows of resources were \$299.0 million, up by \$51.3 million or 20.7% compared to \$247.7 million last year. The increase is primarily due to a \$38.3 million increase in cash and cash equivalents associated with the unearned revenues and grants received in advance and lower operating expenses in 2021. Other changes include an increase of \$19.4 million in lease receivable and lease asset due to the implementation of GASB 87 as of 2021, an increase of \$12.7 million in Restricted cash and investments due to the new loan proceeds received in 2021 which are restricted for specific capital projects; offset by a decrease of \$11.9 million in unrestricted investments, a decrease of \$2.5 million in deferred outflows of resources from pension and other postemployment benefits (OPEB) items, a decrease of \$0.5 million in accounts and other receivables, a decrease of \$0.4 million in other current assets and a decrease of \$3.8 million in capital assets.

Deferred outflows of resources consisted of actuarially determined deferred outflows of resources as it relates to both pension reporting under GASB 68 and other postemployment benefits reporting under GASB 75. As of December 31, 2021, the deferred outflows of resources were \$12.2 million, decreased by \$2.5 million compared to \$14.7 million last year. See accompanying notes 9 and 10 to the financial statements for additional information.

Liabilities and Deferred Inflows of Resources – The State Bar's total liabilities and deferred inflows of resources consisted of accounts payable to vendors, unearned revenues collected in advance, grants payable, loans payable, net OPEB liability, net pension liability, employee vacation and sick leave accruals and deferred inflows of resources from GASB 68 and GASB 75 items. As of December 31, 2021, State Bar's total liabilities and deferred inflows of resources were \$192.2 million, increased by \$37.0 million or 23.8% compared to \$155.2 million last year. The increase is primarily due to \$18.7 million increase in lease liability and deferred inflows of resources from leases due to the implementation of GASB 87 as of 2021,

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a \$40.3 million increase in deferred inflows of resources from pension and OPEB items, a \$22.0 million increase in unearned revenues collected in advance, a \$13.6 million increase in loans payables, a \$2.3 million increase in accounts payable and other liabilities, and \$0.5 million increase in noncurrent portion of compensated absences; partially offset by a \$56.4 million decrease in net pension liability and \$4.0 million in net OPEB liability.

The State Bar's total pension liability as of December 31, 2021 was \$439.9 million and the plan fiduciary net position was \$418.6 million resulting in a net pension liability of \$21.3 million, or 4.9% of the total pension liability. Compared to the \$77.7 million net pension liability in 2020, the 2021 net pension liability decreased by \$56.4 million or 72.5%.

Deferred inflows of resources as of December 31, 2021 were \$60.4 million, representing an increase of \$57.7 million compared to \$2.7 million last year. This balance consisted of deferred inflows from leases as a result of GASB 87 implementation, actuarially determined deferred inflows of resources as it relates to pension under GASB 68 and other postemployment benefits under GASB 75. See accompanying notes 9 and 10 to the financial statements for additional information for pension and OPEB, respectively.

Net Position – The State Bar's total net position as of December 31, 2021 was \$106.8 million, up by \$14.3 million or 15.5% compared to \$92.5 million in 2020. The increase represented the excess of revenues over expenses from various programs. The components of net position are:

Restricted Net Position – The part of net position that is subject to internal constraints and external constraints imposed by grantors, law through constitutional provisions or enabling legislation increased by \$2.6 million or 4.0% from \$64.0 million in 2020 to \$66.6 million in 2021. The increase is primary due to a \$5.1 million increase in enabling legislation and offset by a \$2.5 million decrease in other restrictions.

Net Investments in Capital Assets – The part of net position that consists of capital assets, net of accumulated depreciation, outstanding balances of borrowings that are attributable to the acquisition, construction, and improvement of those assets decreased by \$2.2 million or 2.5% from \$86.0 million in 2020 to \$83.8 million in 2021. The net decrease is primarily due to loan repayments and depreciation of capital assets.

Unrestricted Net Position – The part of net position that are used for day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. As of December 31, 2021, the unrestricted net position was negative \$43.6 million, an increase of \$13.9 million or 24.2% compared to \$57.5 million negative unrestricted net position in 2020. The change is substantially due to the unallocated pension gain and the decrease in OPEB expenses.

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Statements of Revenues and Expenses

Following is a summary comparison of the State Bar's statements of revenues and expenses for the years ended December 31, 2022, 2021, and 2020:

	2022	Restated 2021 *	2020
OPERATING REVENUES			
Program revenues	\$ 293,009,434	\$ 184,414,210	\$ 181,058,075
Other revenue	1,695,396	1,494,224	2,927,488
Unallocated Pension gain	432,080	15,379,467	-
Total operating revenues	<u>295,136,910</u>	<u>201,287,901</u>	<u>183,985,563</u>
OPERATING EXPENSES			
Program expenses	277,927,038	177,616,101	217,230,472
Unallocated Pension expense	-	-	3,338,775
General and administration	12,635,206	12,456,372	21,452,203
Total operating expenses	<u>290,562,244</u>	<u>190,072,473</u>	<u>242,021,450</u>
OPERATING INCOME (LOSS)	4,574,666	11,215,428	(58,035,887)
NONOPERATING REVENUES	2,702,656	3,078,577	5,972,361
CHANGE IN NET POSITION	<u>7,277,322</u>	<u>14,294,005</u>	<u>(52,063,526)</u>
NET POSITION—beginning of year	<u>106,770,758</u>	<u>92,476,753</u>	<u>144,540,279</u>
NET POSITION—end of year	<u>\$ 114,048,080</u>	<u>\$ 106,770,758</u>	<u>\$ 92,476,753</u>

*Restated due to the implementation of GASB 87 – *Leases*

Fiscal Year 2022 Compared to Fiscal Year 2021

Operating and NonOperating Revenues – For the year ended December 31, 2022, the State Bar's total operating and net non-operating revenues were \$297.8 million, up by \$93.4 million or 45.7% compared to \$204.4 million in 2021. The increase is due largely to a \$75.1 million increase in grant revenue from Equal Access and Partnership grants, Homeless Prevention (HP) III grant and California Housing Finance Agency (CalHFA) grant; a \$31.5 million increase in trust account revenue due to increase in trust account deposits and higher interest earnings, a \$2.6 million increase in licensing fees; partially offset by a significant decrease in unallocated pension gain of \$14.9 million in 2022.

Operating Expenses – For the year ended December 31, 2022, the State Bar's total operating expenses were \$290.6 million, an increase of \$100.5 million or 52.9% from \$190.1 million last year. The increase is substantially due to a \$86.5 million increase in grants associated with more grant revenues distributed in 2022, an increase of \$6.7 million in exam related expenses due to the return of in person examinations, an increase of \$7.1 million in various program expenses primarily from increased personnel costs, and a \$0.2 million slight increase in general and administration expense.

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**Operating Expenses by
Natural Classification**

	2022	Restated 2021*	Increase (Decrease)
Personnel cost	\$ 87,722,285	\$ 83,504,579	\$ 4,217,706
Employer pension contribution	12,493,665	11,554,237	939,428
Unallocated Pension Gain	(432,080)	(15,379,467)	(14,947,387)
Grant expense	147,657,448	61,133,150	86,524,298
Professional and outside Services	16,914,157	9,736,017	7,178,140
Examination	5,002,441	3,812,807	1,189,634
CSF Disbursement	3,788,619	5,626,406	(1,837,787)
Building operations	5,977,566	5,442,400	535,166
Other	11,006,063	9,262,877	1,743,186
Total expenses by natural classification	290,130,164	174,693,006	85,542,384
Add: Pension gain	432,080	15,379,467	14,947,387
Total operating expenses	<u>\$ 290,562,244</u>	<u>\$ 190,072,473</u>	<u>\$ 100,489,771</u>

*Restated due to the implementation of GASB 87 - *Leases*

Operating Expenses by natural classification

Personnel costs were \$87.7 million in 2022, an increase of \$4.2 million from \$83.5 million last year. The increase is related to a cost-of-living adjustment (COLA), higher OPEB expenses and new positions. Employer pension contributions were \$12.5 million, an increase of \$0.9 million from \$11.6 million due to a higher unfunded actuarial liability. Grant expenses increased by \$86.5 million from \$61.1 million in the prior year due to the significant increases in grant disbursements in 2022. Professional and outside services were \$16.9 million, a \$7.2 million increase from the prior year, mainly due to higher expenses related to outsourcing parts of the Bar Examination administration, legal services and information technology (IT) consulting, and temporary outside support services. Disbursements from CSF were \$3.8 million in 2022, a decrease of \$1.8 million from \$5.6 million the prior year due to fewer cases being eligible for payment. The reduction of \$15.0 million in unallocated pension gain in 2022 was due to the recognition of differences between actual and expected investment earnings for the pension plan. The actual earnings are lower than expected on the pension plan investments. Other expenses, which include supplies, travel and training, depreciation of capital assets, amortization of leased equipment and other miscellaneous expenses, increased by \$1.7 million from \$9.3 million the prior year primarily due to higher spending on travel, training, supplies, software licensing and maintenance costs.

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating and NonOperating Revenues – For the year ended December 31, 2021, the State Bar's total operating and net non-operating revenues were \$204.4 million, up by \$14.4 million or 7.6% compared to \$190.0 million in 2020. The increase is due largely to a \$13.9 million increase in grant revenue; a \$15.4 million unallocated pension gain, offset by a \$6.3 million decrease in licensing fees due to the temporary fee increase in 2020; \$3.8 million decrease in trust account revenue because of falling rates; a 2.9 million decrease in exam application fees due to a drop-in applicants; and a \$2.6 million decrease in investment income because of falling rates and investment fair value adjustments.

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Years Ended December 31, 2022 and 2021

Operating Expenses – For fiscal year 2021, the State Bar's total operating expenses were \$190.1 million, a decrease of \$51.9 million or 21.4% from \$242.0 million last year. The decrease is due largely to an \$8.9 million decrease in general and administration expense due to the State Bar amending the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank and file employees effective January 1, 2020 (see note 10); a decrease of \$3.3 million in unallocated pension expense resulted from the investment earnings in the pension plan and a \$39.7 million decrease in program expenses primarily attributed to a \$30.9 million decrease in grants expense due to less grant revenues distributed in 2021 and a \$7.4 million decrease in Client Security Fund (the "CSF") due to a reduction in payouts in 2021.

Economic Factors Facing the State Bar

On October 8, 2021, the Governor signed Senate Bill 211, the 2022 licensing fee legislation. The bill recognizes the importance of the State Bar's mission of public protection, furthering access to legal services, and increasing diversity and inclusion in the legal profession. The bill kept the licensing fee the same in 2022. The State Bar continued to receive additional funding to support technology investments and capital maintenance.

On February 25, 2022, the Board of Trustees approved the 2022 Budget. The budget supports the State Bar's new five-year Strategic Plan and reflects its commitment to protecting the public, increasing access to legal services, and increasing diversity and inclusion in the legal profession. The 2022 Final Budget has total revenue of \$244.3 million with expenses of \$256.8 million. The primary driver for the revenue increase was the Homeless Prevention III grant in addition to larger Equal Access and Partnership grants. The 2022 General Fund budget projects \$91.1 million in revenue with total expenses and indirect charges of \$95 million. General Fund expenses exceed revenues by approximately \$3.9 million, bringing operating reserves to \$14.1 million. The State Bar has had deficit spending the last two couple years and will also be in deficit spending into 2023. This reflects the unfortunate reality of a structural General Fund operating deficit, a shrinking General Fund reserve, and no scheduled attorney license fee increases to improve that fund. As a result of these factors, the State Bar will need to take appropriate and significant cost-cutting measures in future years.

Capital Assets and Debt Administration

Capital assets consist of land, work in progress, buildings, building improvements, equipment and software, furniture and fixtures, and lease assets. Capital assets are partially owned by the State Bar and others are leased. Capital assets, net of depreciation, decreased by \$4.0 million (3.9%) as of December 31, 2022, primarily due to the continued depreciation of existing assets. Capitalization of additional capital improvement, equipment, and software costs in 2022 were less than depreciation of existing assets. Major capital asset additions in 2022 included work in progress for the elevator modernization project, emergency generator project, and the case management system enhancement.

Lease assets, net of amortization, were first recorded in 2021 due to the implementation of GASB 87 - *Leases*. Total lease asset decreased by \$0.5 million from \$1.3 million in 2021 to \$0.8 million in 2022 due to the associated amortization.

Loans payables held by the State Bar are for the purpose of financing the building and building improvements of the San Francisco building, refinancing the costs of purchasing real property of the Los Angeles building and various Information Technology capital projects. Loans payables decreased by \$2.7 million (8.1%) as of December 31, 2022 due to repayments of the existing loans. See Note 7 for additional information.

THE STATE BAR OF CALIFORNIA
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2022 and 2021

Lease liabilities were first measured and recorded in 2021 as a result of the GASB 87 implementation. The lease liabilities are calculated as the present value of payments the State Bar expects to make during the lease term, including any contract renewal options reasonably certain to be exercised. Lease liabilities decreased by \$0.5 million (38.4%) as of December 31, 2022 due to lease payments made in 2022 for office space, laptops, and other office equipment. See Note 8 for additional information.

Financial Contact

The State Bar's financial statements are designed to present readers with a general overview of the State Bar's finances and to demonstrate the State Bar's accountability. If you have any questions about the report or need additional financial information, please contact the Office of Finance at finance@calbar.ca.gov.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Statements of Net Position
As of December 31, 2022 and 2021

	2022	Restated 2021*
ASSETS		
Current assets		
Cash and cash equivalents	\$ 133,357,937	\$ 123,458,148
Investments	22,583,103	20,611,071
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,889,585 in 2022 and \$1,867,889 in 2021	13,564,552	3,264,204
Lease receivable	2,452,532	3,022,678
Other current assets	2,385,274	2,614,593
Total current assets	<u>174,343,398</u>	<u>152,970,694</u>
Noncurrent assets		
Restricted cash	9,287,909	3,172,743
Restricted Investments	-	11,999,720
Lease receivable	12,711,843	15,035,433
Capital assets		
Nondepreciable	22,075,451	19,778,580
Depreciable, net	76,232,257	82,512,244
Lease asset, net	828,929	1,337,232
Total noncurrent assets	<u>121,136,389</u>	<u>133,835,952</u>
Total assets	<u>295,479,787</u>	<u>286,806,646</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension items	30,143,693	7,881,618
Other postemployment benefits items	7,741,421	4,282,095
Total deferred outflows of resources	<u>37,885,114</u>	<u>12,163,713</u>
Total assets and deferred outflows of resources	<u>333,364,901</u>	<u>298,970,359</u>
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities	14,645,296	12,839,871
Unearned fees collected in advance	58,072,098	50,973,216
Loans payable	2,789,746	2,718,583
Lease liabilities	515,366	494,665
Total current liabilities	<u>76,022,506</u>	<u>67,026,335</u>
Noncurrent liabilities		
Loans payable	28,219,244	31,008,990
Lease liabilities	276,540	791,906
Compensated absences	4,322,214	4,045,220
Net OPEB liability	7,393,303	7,617,010
Net pension liability	81,349,352	21,343,799
Total noncurrent liabilities	<u>121,560,653</u>	<u>64,806,925</u>
Total liabilities	<u>197,583,159</u>	<u>131,833,260</u>
DEFERRED INFLOWS OF RESOURCES		
Leases	14,342,822	17,436,319
Pension items	2,042,039	40,217,597
Other postemployment benefits items	5,348,801	2,712,425
Total deferred inflows of resources	<u>21,733,662</u>	<u>60,366,341</u>
Total liabilities and deferred inflows of resources	<u>219,316,821</u>	<u>192,199,601</u>
NET POSITION		
Net investments in capital assets	75,520,878	83,786,375
Restricted for:		
Enabling legislation	85,013,835	66,020,083
Other restrictions	509,945	593,340
Unrestricted	(46,996,578)	(43,629,040)
Total net position	<u>\$ 114,048,080</u>	<u>\$ 106,770,758</u>

*Restated due to the implementation of GASB 87 - *Leases*

See accompanying notes to the Financial Statements.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	Restated 2021*
OPERATING REVENUES		
Licensee fees and donations	\$ 106,636,644	\$ 104,070,688
Examination application fees	17,095,587	17,262,838
Trust account revenue	54,073,155	22,526,029
Seminar/workshop revenue	4,800	3,375
Legal specialization fees	2,134,926	2,264,062
Law corporation registration fees	1,764,913	1,808,170
Continuing legal education fees	627,468	681,344
Grant revenue	105,464,040	30,315,704
EAF AB145 filing fee revenue	5,207,901	5,482,000
Other revenue	1,695,396	1,494,224
Unallocated Pension gain	432,080	15,379,467
Total operating revenues	<u>295,136,910</u>	<u>201,287,901</u>
OPERATING EXPENSES		
Chief Trial Counsel	64,172,241	59,124,212
State Bar Court	14,568,706	13,739,100
Attorney Regulation and Consumer Resources	6,842,945	5,968,145
Professional Competence	3,875,951	3,292,881
Probation	1,901,694	1,762,906
Mandatory Fee Arbitration	203,022	44,409
Judicial Evaluation	887,611	250,065
Center on Access to Justice	628,533	1,020,819
Communications	1,554,811	976,725
Governance	3,617,124	3,437,857
Lawyer Assistance Program	2,348,679	2,291,940
Client Security Fund	4,864,559	6,407,813
Admissions	25,449,913	18,782,655
Grants	147,011,249	60,516,574
General and administration	12,635,206	12,456,372
Total operating expenses	<u>290,562,244</u>	<u>190,072,473</u>
OPERATING INCOME	4,574,666	11,215,428
NONOPERATING REVENUES AND EXPENSES		
Interest and investment income	380,307	489,960
Rental income	3,116,852	3,296,901
Interest expenses on loans and leases	(794,503)	(708,284)
Total nonoperating revenues and expenses	<u>2,702,656</u>	<u>3,078,577</u>
CHANGE IN NET POSITION	7,277,322	14,294,005
NET POSITION—beginning of year	<u>106,770,758</u>	<u>92,476,753</u>
NET POSITION—end of year	<u>\$ 114,048,080</u>	<u>\$ 106,770,758</u>

*Restated due to the implementation of GASB 87 – Leases

See accompanying notes to the Financial Statements.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	Restated 2021*
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from members, applicants, grants, and other professionals	\$ 292,436,790	\$ 208,442,674
Payments to suppliers and service providers	(205,527,259)	(110,525,283)
Payments to employees	(76,489,137)	(71,407,028)
Net cash provided by operating activities	<u>10,420,394</u>	<u>26,510,363</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	29,246,760	111,343,536
Purchases of investments	(19,515,843)	(111,965,296)
Interest received from investments	373,407	509,471
Cash received from rental incomes	3,480,444	3,133,009
Net cash provided by investing activities	<u>13,584,768</u>	<u>3,020,720</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(3,965,686)	(2,911,599)
Payment of obligations under loan agreement	(2,718,583)	(1,693,321)
Proceeds from loan agreement	-	15,319,000
Lease principal payments	(494,665)	(544,233)
Lease interest payments	(21,574)	(18,238)
Interest paid on debt	(789,699)	(682,165)
Net cash provided by (used in) capital and related financing activities	<u>(7,990,207)</u>	<u>9,469,444</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>16,014,955</u>	<u>39,000,527</u>
CASH AND CASH EQUIVALENTS—Beginning of year	<u>126,630,891</u>	<u>87,630,364</u>
CASH AND CASH EQUIVALENTS—End of year	<u><u>\$ 142,645,846</u></u>	<u><u>\$ 126,630,891</u></u>

See accompanying Notes to the Financial Statements.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 4,574,666	\$ 11,215,428
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,226,941	7,175,168
Loss on disposals of capital assets	1,230,164	-
Changes in assets and liabilities:		
Net pension liability	60,005,553	(56,353,998)
Deferred outflows and inflows of resources related to pension items	(60,437,633)	40,974,532
Net OPEB liability	(223,707)	(3,999,824)
Deferred outflows and inflows of resources related to OPEB items	(822,950)	1,820,731
Accounts and other receivables	(10,386,750)	539,642
Other current assets	56,040	386,873
Accounts payable and other liabilities	2,099,188	2,757,214
Unearned revenues collected in advance	7,098,882	21,994,597
Net cash provided by operating activities	<u>\$ 10,420,394</u>	<u>\$ 26,510,363</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO THE STATEMENTS OF NET POSITION

Cash and cash equivalents	133,357,937	123,458,148
Restricted cash	9,287,909	3,172,743
Total cash and cash equivalents	<u>\$ 142,645,846</u>	<u>\$ 126,630,891</u>

Noncash transaction:

Loan refunding	\$ -	\$ 5,251,573
Acquisition through lease financing	-	199,492

*Restated due to the implementation of GASB 87 –Leases

See accompanying Notes to the Financial Statements.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

1. DESCRIPTION OF ENTITY

The State Bar of California (“State Bar”) is a public corporation established by the California Legislature on July 29, 1927. In 1960, a constitutional amendment was approved, which added the State Bar as a constitutional agency in the judicial branch of government. Licensing by the State Bar is required in order to practice law in the State of California (“State”). The State Bar’s activities relate primarily to admission, discipline, and regulation of attorneys, and to other programs that enhance lawyer ethics and competence or improve the quality of legal service and the justice system. The State Bar has engaged in such functions as administering the bar examination, formulating rules of professional conduct, disciplining licensees for misconduct, administering mandated continuing legal education requirements, administering other regulatory provisions affecting the profession or the practice of law, studying and recommending changes in legislation, cooperating with the Judicial Council, and providing various licensee services.

The State Bar is governed by a 13-member Board of Trustees. Five attorneys are appointed by the California Supreme Court and serve four-year terms. Two attorneys are appointed by the Legislature, one by the Senate Committee on Rules and one by the Speaker of the Assembly. Six “public” or nonattorney members also serve. Four appointed by the Governor, and one by the Senate Committee on Rules and one by the Speaker of the Assembly. The Board is charged with the executive functions of the State Bar. Among other things it has the responsibility for fiscal policy, exercising contractual powers and administering the affairs of the State Bar through its chosen Executive Director.

2. BASIS OF PRESENTATION

The financial statements, providing information of the State Bar, have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”). The State Bar reports its financial activities as one consolidated enterprise fund. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the related cash flows.

The accounts of the State Bar are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund net position, revenues and expenses. The State Bar’s funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Revenues and expenses are tracked by funding source in 14 sub-funds, as described below:

General Fund – The General Fund accounts for resources that are generally available for State Bar purposes, subject to budget priorities set by the Board.

S.F. Tenant Improvement Fund – The Tenant Improvement Fund was established to support the tenant improvement work at the State Bar’s 180 Howard Street location. The State Bar secured a \$10 million dollar loan in 2016 to provide funding for tenant improvements. This fund was closed in 2022 and all balances have been moved to the General Fund as of January 1, 2022.

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.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

2. BASIS OF PRESENTATION (Continued)

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

Client Security Fund – The Client Security Fund maintains funds from which licensees' 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 position based on final approved applications by the Client Security Fund Commission. For 2022 and 2021 bill years, this fund is replenished through annual assessments of \$40 per active member and \$10 per inactive member.

Elimination of Bias Fund – The Elimination of Bias Fund (formerly Elimination of Bias and Bar Relations) supports certain programs similar to those once undertaken by Access & Inclusion, Program Development, and Bar Relations Offices. In the 2022 and 2021 bill years, the deduction for the remaining Elimination of Bias program remained at \$2 by the Board of Trustees.

Equal Access Fund – Since 1999, the California Budget Act has included funds to provide free legal services in civil matters for indigent Californians. The funds are in the budget of the State Judicial Council for grants to be administered by the State Bar's Legal Services Trust Fund Commission through the Equal Access fund. The Administrative Office of the Courts contracts with the State Bar for the administration of these funds, which currently consist of grants to approximately 100 nonprofit legal aid organizations and reimburses the State Bar for its administrative expenses.

In 2005, the Uniform Civil Fees and Standard Fee Schedule Act (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.

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 from active licensees.

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. Licensees may contribute more or less than the recommended donation or elect to make no donation.

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 licensees 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 licensee and \$5 per inactive licensee.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

2. BASIS OF PRESENTATION (Continued)

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 licensees electing to support these activities.

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 administrative costs, the remainder is to be distributed as grants. In addition, the Trust Fund is supplemented by an increase in the annual fee mandated by Section 6140.03 of the Business and Professions Code. Section 6140.3 allocated \$45 of the licensee fee to the Trust Fund. Under the legislation, licensees may elect to reduce their fees by this amount if they choose not to support the activities authorized under this bill.

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 licensing fees.

Bank Settlement Fund – In March 2016, the State Bar’s Legal Services Trust Fund (LSTF) Program received a \$44.8 million bank settlement grant award as a result of a settlement between the U.S. Department of Justice and Bank of America. A separate program fund is established to track future grant distribution activities.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State Bar conform to accounting principles generally accepted in the United States of America as applicable to government units. The following is a summary of the significant accounting policies:

Cash and Cash Equivalents – Cash and cash equivalents includes all cash and liquid investments with initial maturity of three months or less at the date of purchase. Cash equivalents consisted of demand deposit accounts, money market accounts, and deposits in the California Local Agency Investment Fund (LAIF).

Grant Revenues and Donations – The Legal Services Trust Fund Program administers three funds: Interest on Lawyers’ Trust Accounts, the state Equal Access Fund (“EAF”) and the Justice Gap Fund. These funds are granted to nonprofit organizations that provide free civil legal services to low-income Californians. The Legal Services Trust Fund receives interest on attorney-client trust accounts. Revenue is recognized as income when earned, and grant expense is recognized in the period in which the Legal Services Trust Fund Commission awards the grants. EAF receives grants from the State Judicial Council. Grant revenue and corresponding expense are recognized as income and expense in the year to which the grants apply, based on the grant contracts. The Justice Gap Fund receives contributions from licensees. Revenue is recognized as income when received.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments – The State of California’s statutes and the State Bar’s investment policy authorize the State Bar to invest its cash surplus in U.S. Treasury obligations, obligations of U.S. agencies, bankers’ acceptances, collateralized bank deposits, negotiable certificates of deposit, commercial paper, repurchase agreements secured by U.S. Treasury or agency obligations, reverse repurchase agreements, corporate bonds, medium term notes, and mortgage-backed securities. Investment transactions are recorded on the trade date, and all investments are reported at estimated fair value. The fair value represents the amount the State Bar could reasonably expect to receive for an investment in a current sale between a willing buyer and seller. The fair value of investments is obtained by using quotations from independent published sources.

Restricted Cash, cash equivalents and investments – The State Bar’s loan proceeds from the loan agreement with Sterling Bank are to be used for specified capital projects. The proceeds, which are currently invested in cash equivalents and investments, have been classified as restricted cash and restricted investments.

Capital Assets – Capital assets are stated at cost, net of accumulated depreciation, determined using the straight-line method over the estimated useful lives of forty years for buildings, ten years for furniture and fixtures, and four to seven years for equipment and software. Leasehold improvements and equipment acquired under capital leases are amortized over the shorter of the term of the lease or its useful life. The State Bar’s policy is to capitalize acquisitions of capital assets with a useful life greater than one year and a cost of \$5,000 or more. Lease assets, net of amortization, are part of capital assets. The lease materiality threshold for the State Bar is \$10,000.

Unearned Fees Collected in Advance – Unearned fees collected in advance are recognized as income when earned. Accordingly, fees are recorded as revenue in the year to which the fees apply. Fees received but not yet earned are recorded as unearned fees collected in advance in the accompanying statements of net position.

Operating Revenues and Expenses – Operating revenues and expenses consist primarily of income earned or expenses incurred related to admission, discipline and regulation of attorneys, and other programs that enhance lawyer ethics and competence or improve the quality of legal services and the justice system. All other amounts are considered nonoperating. Expenses incurred for purposes for which restricted and unrestricted assets are available are first satisfied with restricted assets, to the extent available.

The State Bar allocates indirect costs to its various programs and projects. The indirect costs are comprised of both operating and capital costs. The reimbursement of indirect costs could cause a negative expense at the program level in the circumstance that the capital component of the indirect cost reimbursement exceeds the operating costs incurred by the fund acquiring the capital additions.

Nonoperating Revenues and Expenses – Nonoperating revenues and expenses consist of investment income, realized and unrealized gains or losses on investments, rental income, and interest expense on loan.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts and Other Receivables – Accounts and other receivables consist of rental income receivable and State Bar Journal display advertising income receivable. Revenue is recognized as income when earned in the period to which the revenue applies.

Compensated Absences – Compensated absences reports earned but unused vacation and sick leave benefits. State Bar employees have a vested interest in accrued compensated absences.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension and Other Postemployment Benefits (OPEB) – For purposes of measuring the net pension liability and net OPEB liability (asset), deferred outflows/inflows of resources related to pension and OPEB, and pension and OPEB expenses, information about the fiduciary net position of the State Bar's pension and OPEB plans and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) and the California Employer's Retiree Benefit Trust Fund Program (CERBT), respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. CalPERS plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

Client Security Fund ("CSF") Application – CSF application liabilities are determined in accordance with Business and Professions Code section 6140.5. This section authorizes the State Bar to establish the CSF to "relieve or mitigate pecuniary losses caused by the dishonest conduct of those active licensees of the bar." Payment from CSF is completely discretionary. The State Bar is free to prescribe applicable regulations and conditions for payments and no applicant to the program has any right to payment. In 2012, the State Bar conducted a legal analysis of CSF and the governing rules of the program and determined that when a CSF application is finally approved by the Committee, it will be recognized as an outstanding obligation in the State Bar's financial statement. Application reimbursements in the CSF were approximately \$3.8 million and \$5.6 million as of December 31, 2022 and 2021, respectively.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Position – Restricted net position reflects the net position that is subject to constraints either (1) externally imposed by creditors, grantors, contributors, trust agreements, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Restricted net position was \$85.5 million as of December 31, 2022, of which \$ 85.0 million was restricted by enabling legislation; and \$66.6 million as of December 31, 2021, of which \$66.0 million was restricted by enabling legislation.

Net Investments in Capital Assets – Net investments in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted Net Position – Unrestricted net position includes all resources for which management or the Board of Trustees holds discretion over their use in advancement of the State Bar’s objectives. Unrestricted Net Position was negative \$47.0 million as of December 31, 2022, and negative \$43.6 million as of December 31, 2021.

Reserve Policy – The State Bar’s Reserve Policy requires it to maintain a working capital (current assets less current liabilities) balance that equates to two months or a level of 17 percent of operating expenses for all non-grant funds. Funds subject to the policy are the General Fund, Legislative Activities Fund, Elimination of Bias Fund, Lawyer Assistance Program Fund, Legal Specialization Fund, Client Security Fund, and Admissions Fund. Whenever reserve levels surpass 30 percent, for a consecutive six-month period, a reserve spend-down plan shall occur in accordance with the principles stated in the Reserve Policy. For purposes of the Minimum Reserve Target, operating expenses of the Client Security Fund shall exclude application payouts.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Leases – Leases are defined as contracts that convey controls of the right to use other entity’s nonfinancial assets as specified in the contract for a period of time in exchange or exchange-like transactions. The State Bar is a lessee and lessor for various leases of building and equipment.

For short-terms leases with a term of 12 months or less at lease commencement and leases with variable payments without a minimum and not fixed in substance, the State Bar recognizes lease revenues as a lessor or lease expenses as a lessee based on the provisions of the lease agreements.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

For all other leases (i.e. those that are not short-term), the State Bar recognizes the lease liabilities and intangible right-to-use lease assets as a lessee and recognizes lease receivables and deferred inflow of resources as a lessor.

Measurement of Lessee Amounts

The State Bar's lease liability is measured at the present value of future minimum lease payments expected to be made during the lease term less any lease incentives received, or lease incentives reasonably expected to be received. The lease liability is reduced by the principal portion of the lease payments made subsequently and recognize an outflow of resources (for example, expense) for interest on the liability. The leased asset is measured as the initial amount of the lease liability and is subsequently amortized on a straight-line basis over the lease term.

Measurement of Lessor Amounts

The State Bar's lease receivable is measured at the present value of lease payments expected to be received during the lease term less any lease incentives. The lease receivable is reduced by the principal portion of the lease payments collected subsequently. The deferred inflow of resources related to leases is initially measured as the amount of lease receivable plus any payments received at or before the lease term that relate to future periods. The lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflow of resources on a straight-line basis over the lease term.

Estimates and Judgments

Key estimates and judgments include how the State Bar determines (a) lease terms, and (b) the discount rate used to calculate the present value of the expected lease payments.

Lease Term

The lease term included the noncancellable period of the lease, plus any additional periods covered by either lessee or lessors' unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which is it reasonably certain not to be exercised.

Discount Rates

The State Bar generally uses its estimated incremental borrowing rate (IBR) as the discount rate for leases unless the rate is implicit in the lease. The State Bar is the lessor in both San Francisco and Los Angeles buildings. The fair market values of both buildings were not determined at the GASB 87 implementation date, as such, the actual loan interest rates from the most recent building financing are used for the lessor interest rates. The State Bar applied 2.76% to the San Francisco building lessor leases and 2.3% to one Los Angeles building lessor lease.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The IBR for leases is based on the rate of interest the State Bar would need to pay it if it borrowed an amount equal to the lease payments under similar terms at the commencement or remeasurement date. For the existing lessee leases, no interest rates are explicitly stated in the lease agreements. The State Bar lessee IBR was established using the 30-day average Federal Reserve Bank of New York Secured Overnight Financing Rate (SOFR) of 0.08% as of January 4, 2021 (earliest information available for 2021) plus 175 basis points (1.75%). The rate of 1.83% was determined to be used as the IBR. All existing State Bar lessee leases originated in 2021 or prior and the IBR of 1.83% was applied as the discount rate in the measurement of lease receivables in 2021, as restated.

Presentation in Statement of Net Position

Lease assets are reported in both current and non-current assets. Lease liabilities are reported with current and long-term liabilities in the statement of net position.

Effects of New Pronouncements - During the year ended December 31, 2022, the State Bar implemented the following GASB Statement:

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87 – *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The State Bar implemented this statement in 2022. As a result of this implementation, the cumulative effect of applying this statement in 2021 is as follows:

	Beginning Balance as of 1/1/2021	FY2021 Activities	Total
Lease Receivable - Current	\$ 2,063,894	\$ 958,784	\$ 3,022,678
Lease Receivable – Long Term	17,201,430	(2,165,997)	15,035,433
Interest Receivable – GASB 87	-	39,707	39,707
Right-of-use lease assets	1,631,312	199,492	1,830,804
Accumulated amortization	-	(493,572)	(493,572)
Deferred inflow of resources	(19,265,325)	1,829,006	(17,436,319)
Accrued interest payable	-	(7,881)	(7,881)
Lease liability - Current	(484,028)	(10,637)	(494,665)
Lease Liability – Long Term	(1,147,284)	355,378	(791,906)
Revenues	-	(661,501)	(661,501)
Expenses	-	(42,779)	(42,779)
Change to Net Position	\$ -	\$ (704,280)	\$ (704,280)

THE STATE BAR OF CALIFORNIA
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. This statement will enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The State Bar implemented this statement in 2022, which did not have a significant impact on its financial statements.

GASB Statement No. 93 – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This statement will provide guidance to some governments that have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) - most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The State Bar implemented this statement in 2022, which did not have a significant impact on its financial statements.

GASB Statement No. 97 – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – and amended of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This Statement clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84 and enhances the accounting and financial reporting of IRS Code section 457 plans that meet the definition of a pension plan. The State Bar implemented this statement in 2022, which did not have a significant impact on its financial statements.

GASB Statement No. 99 – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. This statement addresses the requirements related to the extension of the use of the London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The State Bar implemented these requirements in 2022, which did not have a significant impact on its financial statements.

The State Bar is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement will improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). GASB 94 is effective for the State Bar’s year ending December 31, 2023.

GASB Statement No. 96 – In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement establishes standards of accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by a government. GASB 96 is effective for the State Bar’s year ending December 31, 2023.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 99 – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The requirements related to leases, public-private partnerships (PPPs), and SBITAs are effective for the State Bar’s year ending December 31, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for the State Bar’s year ending December 31, 2024.

GASB Statement No. 100 – In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections. GASB 100 is effective for the State Bar’s year ending December 31, 2024.

GASB Statement No. 101 – In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This statement updates the recognition and measurement guidance for compensated absences. GASB 101 is effective for the State Bar’s year ending December 31, 2024.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments as of December 31, 2022 and 2021 are classified in the financial statements as follows:

	2022	2021
Cash and cash equivalents	\$ 133,357,937	\$ 123,458,148
Investments	22,583,103	20,611,071
Restricted cash	9,287,909	3,172,743
Restricted investments	-	11,999,720
Totals	<u>\$ 165,228,949</u>	<u>\$ 159,241,682</u>

Cash and Cash Equivalents – Cash and cash equivalents are generally considered short-term, highly liquid investments with maturity of three months or less from the purchase date. As of December 31, 2022, the carrying amount of the State Bar’s unrestricted deposits is \$133,357,937 and the bank balance is \$137,060,403. As of December 31, 2021, the carrying amount of the State Bar’s unrestricted deposits is \$123,458,148 and the bank balance is \$125,248,611. At December 31, 2022 and 2021, the State Bar had restricted deposits held by the bank in the amount of \$9,287,909 and \$3,172,743, respectively. The difference between the carrying amount and the bank balance represents outstanding checks and deposits in transit. The State Bar’s deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation and the balance in excess of \$250,000 is fully collateralized per Government Code.

As of December 31, 2022, the PMIA balance is \$199.6 billion, of which 97.71% is invested in nonderivative financial products with 2.29 % in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$27.7 billion, and the State Bar’s investment in LAIF is \$74.0 million. The average maturity of PMIA investments is 287 days as of December 31, 2022. As of December 31, 2021, the PMIA balance is \$181.4 billion, of which 98.37% is invested in nonderivative financial products with 1.63% in structured notes and asset-backed securities. The total amount invested by all public agencies in LAIF is \$36.3 billion, and the State Bar’s investment in LAIF is \$74.8 million. The average maturity of PMIA investments is 340 days as of December 31, 2021.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The State Bar’s pooled cash and cash equivalents at December 31, 2022 and 2021 is composed of:

	2022	2021
LAIF	\$ 73,995,648	\$ 74,845,293
Other Cash	59,362,289	48,612,855
Restricted cash	9,287,909	3,172,743
Total	<u>\$ 142,645,846</u>	<u>\$ 126,630,891</u>

Investments – It is the investment policy of the State Bar to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the State Bar and conforming to all State statutes governing the investment of public funds and all resolutions of the Board of Trustees. The State Bar invests a substantial portion of its funds in fixed income securities, which limits the State Bar’s exposure to most types of risk. Investment of funds is governed by the State Bar’s investment policy, as discussed under note 3.

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk, interest rate risk, and credit risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Fair Value of Investments – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. The three levels of this hierarchy are:

Level 1 – Quoted prices active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market actively and that are significant to the fair value of the assets or liabilities.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The fair value measurements of investments for December 31, 2022 and 2021 are as follows:

Description	12/31/2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Government agencies	\$ 14,630,230	\$ -	\$ 14,630,230	\$ -
Municipal bond	1,216,000	-	1,216,000	-
Corporate bonds	1,624,204	-	1,624,204	-
Commercial paper	4,886,553	4,886,553	-	-
Common stock	226,116	226,116	-	-
Total investments measured at fair value	<u>\$ 22,583,103</u>	<u>\$ 5,112,669</u>	<u>\$ 17,470,434</u>	<u>\$ -</u>

Description	12/31/2021	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Government agencies	\$ 9,664,215	\$ -	\$ 9,664,215	\$ -
Municipal bond	4,328,853	-	4,328,853	-
Corporate bonds	6,420,754	-	6,420,754	-
Commercial paper	11,999,720	11,999,720	-	-
Common stock	197,249	197,249	-	-
Total investments measured at fair value	<u>\$ 32,610,791</u>	<u>\$ 12,196,969</u>	<u>\$ 20,413,822</u>	<u>\$ -</u>

Common stock and commercial paper are classified in Level 1 and valued using prices quoted in active markets for those securities. Government agencies securities are classified in Level 2 and valued using quoted prices for identical securities in markets that are not active. Corporate bonds and municipal bonds are classified in Level 2 and valued using quoted prices for similar securities in active markets.

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The California Government Code and the State Bar’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments; however, the California Government Code requires that a financial institution secure deposit made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state laws (unless so waived by the governmental unit).

The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

THE STATE BAR OF CALIFORNIA
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Years Ended December 31, 2022 and 2021

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Concentration of Credit Risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the State Bar to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. The investment policy of the State Bar contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total State Bar's investments subject to concentration of credit risk at December 31, 2022 and 2021, are as follows:

Issuer	Investment Type	2022 Fair Value	Percentage of Portfolio
Federal Home Loan Bank	U.S government agencies	\$ 14,630,230	64.8%
Riverside California Unified School District	Municipal Bonds	1,216,000	5.4%
Toyota Motor Credit Corp	Corporate Bonds	1,624,204	7.2%
MUFG Bank LTD/New York	Commercial Paper	4,886,553	21.6%

Issuer	Investment Type	2021 Fair Value	Percentage of Portfolio
Federal Home Loan Bank	U.S government agencies	\$ 6,626,295	20.3%
Federal Home Loan Mortgage Corp	U.S government agencies	3,037,920	9.3%
State of California	Municipal Bonds	3,051,541	9.4%
Apple Inc	Corporate Bonds	3,242,456	9.9%
Toyota Motor Credit Corp	Corporate Bonds	3,178,298	9.7%
Toyota Credit de Puerto Rico Corporation	Commercial Paper	11,999,720	36.8%

THE STATE BAR OF CALIFORNIA
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4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The terms of a debt investment may cause its fair value to be highly sensitive to changes in interest rates. Fixed income security investments subject to interest rate risk at December 31, 2022 and 2021, are as follows:

	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>	<u>Weighted Average Maturity (Years)</u>
December 31, 2022			
U.S. Government agencies	\$ 14,630,230	65.4%	1.0
Municipal Bonds	1,216,000	5.4%	1.1
Corporate Bonds	1,624,204	7.3%	0.0
Commerical Paper	4,886,553	21.9%	0.5
	<u>\$ 22,356,987</u>	<u>100.0%</u>	
	<u>Fair Value</u>	<u>Fair Value as a Percentage of Fixed Income Securities</u>	<u>Weighted Average Maturity (Years)</u>
December 31, 2021			
U.S. Government agencies	\$ 9,664,215	29.8%	0.7
Municipal Bonds	4,328,853	13.4%	0.8
Corporate Bonds	6,420,754	19.8%	0.6
Commerical Paper	11,999,720	37.0%	0.0
	<u>\$ 32,413,542</u>	<u>100.0%</u>	

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the State Bar's investment policy limit the State Bar's investment in commercial paper to the rating of P-1 or better by Moody's Investors Service, or A-1 or higher by Standard & Poor's; corporate bonds to the rating of A by Moody's Investors Service or Standards & Poor's; and mutual funds to institutions rated within the top two ratings of a nationally recognized rating service. No limits are placed on U.S. government agency securities.

Fixed income securities investments that are subject to credit risk at December 31, 2022 and 2021, are as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Fair Value</u>	<u>Fair Value As of a % of Fixed Income Securities</u>	<u>Fair Value</u>	<u>Fair Value As of a % of Fixed Income Securities</u>
S&P's Rating				
AA+	4,844,159	21.7%	12,906,671	39.8%
AA-	1,216,000	5.4%	4,328,853	13.4%
A+	1,624,204	7.3%	3,178,298	9.8%
A-1	4,886,553	21.9%	-	0.0%
N/A	9,786,071	43.8%	11,999,720	37.0%
Total fixed income securities	<u>\$ 22,356,987</u>	<u>100.0%</u>	<u>\$ 32,413,542</u>	<u>100.0%</u>

THE STATE BAR OF CALIFORNIA
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5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2022 and 2021, are as follows:

	Balance January 1, 2022	Increases	Decreases	Balance December 31, 2022
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Work in progress	240,965	2,296,871	-	2,537,836
Total capital assets, not being depreciated	<u>19,778,580</u>	<u>2,296,871</u>	<u>-</u>	<u>22,075,451</u>
Capital assets, being depreciated:				
Buildings and leasehold improvements	95,806,385	393,655	(1,239,746)	94,960,294
180 Howard Tenant Improvements	15,330,940	-	-	15,330,940
Equipment and software	20,214,658	1,275,160	-	21,489,818
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	<u>136,864,082</u>	<u>1,668,815</u>	<u>(1,239,746)</u>	<u>137,293,151</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(32,036,214)	(3,700,759)	9,582	(35,727,391)
180 Howard Tenant Improvements	(4,227,207)	(8,062)	-	(4,235,269)
Equipment and software	(13,343,660)	(2,626,146)	-	(15,969,806)
Furniture and fixtures	(4,744,757)	(383,671)	-	(5,128,428)
Total accumulated depreciation	<u>(54,351,838)</u>	<u>(6,718,638)</u>	<u>9,582</u>	<u>(61,060,894)</u>
Total capital assets, being depreciated, net	<u>82,512,244</u>	<u>(5,049,823)</u>	<u>(1,230,164)</u>	<u>76,232,257</u>
Right-to-use assets, being amortized: (Note 8)				
Right-to-use lease assets	1,830,804	-	-	1,830,804
Less accumulated amortization	(493,572)	(508,303)	-	(1,001,875)
Total right-to-use assets, being amortized, net	<u>1,337,232</u>	<u>(508,303)</u>	<u>-</u>	<u>828,929</u>
Total capital assets, being depreciated or amortized, net	<u>\$ 103,628,056</u>	<u>\$ (3,261,255)</u>	<u>\$ (1,230,164)</u>	<u>\$ 99,136,637</u>

	Balance January 1, 2021*	Increases	Decreases	Balance December 31, 2021
Capital assets, not being depreciated:				
Land	\$ 19,537,615	\$ -	\$ -	\$ 19,537,615
Work in progress	-	240,965	-	240,965
Total capital assets, not being depreciated	<u>19,537,615</u>	<u>240,965</u>	<u>-</u>	<u>19,778,580</u>
Capital assets, being depreciated:				
Buildings and leasehold improvements	93,135,751	2,670,634	-	95,806,385
180 Howard Tenant Improvements	15,330,940	-	-	15,330,940
Equipment and software	20,214,658	-	-	20,214,658
Furniture and fixtures	5,512,099	-	-	5,512,099
Total capital assets, being depreciated	<u>134,193,448</u>	<u>2,670,634</u>	<u>-</u>	<u>136,864,082</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	(28,413,286)	(3,622,928)	-	(32,036,214)
180 Howard Tenant Improvements	(4,215,115)	(12,092)	-	(4,227,207)
Equipment and software	(10,680,755)	(2,662,905)	-	(13,343,660)
Furniture and fixtures	(4,361,086)	(383,671)	-	(4,744,757)
Total accumulated depreciation	<u>(47,670,242)</u>	<u>(6,681,596)</u>	<u>-</u>	<u>(54,351,838)</u>
Total capital assets, being depreciated, net	<u>86,523,206</u>	<u>(4,010,962)</u>	<u>-</u>	<u>82,512,244</u>
Right-to-use assets, being amortized: (Note 8)				
Right-to-use lease assets	1,631,312	199,492	-	1,830,804
Less accumulated amortization	-	(493,572)	-	(493,572)
Total right-to-use assets, being amortized, net	<u>1,631,312</u>	<u>(294,080)</u>	<u>-</u>	<u>1,337,232</u>
Total capital assets, being depreciated or amortized, net	<u>\$ 107,692,133</u>	<u>\$ (4,064,077)</u>	<u>\$ -</u>	<u>\$ 103,628,056</u>

*Beginning balance adjusted due to the implementation of GASB No. 87 – Leases

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5. CAPITAL ASSETS (Continued)

Depreciation expense for the years ended December 31, 2022 and 2021 was \$6,718,638 and \$6,681,596, respectively. Amortization expense for right-to-use assets for the years ended December 31, 2022 and 2021 was \$508,303 and \$493,572 respectively.

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

At December 31, 2022 and 2021, accounts payable and other current liabilities consisted of the following:

	<u>2022</u>	<u>2021* (Restated)</u>
Accounts Payable	\$ 6,879,077	\$ 7,090,416
Compensated absences, current portion	2,881,476	2,696,814
Other liabilities	4,884,743	3,052,641
Total accounts payable and other liabilities	<u>\$ 14,645,296</u>	<u>\$ 12,839,871</u>

*Restated due to the implementation of GASB 87 - *Leases*

Obligations that are due within a year are presented as current liabilities in the statements of net position. Compensated absences include noncurrent portions that are due beyond one year. The table below provides additional information for these balances:

	<u>Balance</u> <u>January 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2022</u>	<u>Amount</u> <u>Due Within One Year</u>
Compensated absences	\$ 6,742,034	\$ 6,546,489	\$ (6,084,833)	\$ 7,203,690	\$ 2,881,476

	<u>Balance</u> <u>January 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2021</u>	<u>Amount</u> <u>Due Within One Year</u>
Compensated absences	\$ 5,943,967	\$ 5,652,168	\$ (4,854,101)	\$ 6,742,034	\$ 2,696,814

7. LOANS PAYABLE

On April 22, 2016, the State Bar entered into a Real Estate Loan Agreement in the amount of \$10,000,000 with Bank of America, N.A. for the purpose of financing the costs of Tenant Improvement located at 180 Howard Street, San Francisco. On August 12, 2021, the State Bar entered into a new Loan Agreement in the amount of \$20,570,573 with Sterling National Bank for the purpose of paying off the Bank of America Loan and financing capital improvement and IT projects costs located at 180 Howard Street, San Francisco. The Loan Agreement consisted of a taxable loan for \$7,489,773, which was partially used to pay off the Bank of America Loan, due on September 30, 2031, and a tax-exempt loan for \$13,080,800 due on September 30, 2036. The taxable loan bears a rate of 2.76% per year and the tax-exempt loan bears a rate of 2.30% per year. As of December 31, 2022 and 2021, the outstanding loan balance of the San Francisco loan was \$18,582,990 and \$20,490,573, respectively.

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7. LOANS PAYABLE (Continued)

On October 1, 2020, the State Bar refinanced its Bank of America Loan Agreement and entered into a new Loan Agreement in the amount of \$14,197,000 with Sterling National Bank for the purpose of refinancing the costs of purchasing real property located at 845 South Figueroa Street, Los Angeles. The loan bears a tax-exempt fixed rate of 2.3% per year and is due on December 30, 2035, with a quarterly payment of approximately \$277,000. As of December 31, 2022 and 2021, the outstanding loan balance was \$12,426,000 and \$13,237,000, respectively.

	<u>San Francisco</u>	<u>Los Angeles</u>	<u>Total</u>
Term loan as of December 31, 2021	\$ 20,490,573	\$ 13,237,000	\$ 33,727,573
Repayments	<u>(1,907,583)</u>	<u>(811,000)</u>	<u>(2,718,583)</u>
Balance as of December 31, 2022	<u>\$ 18,582,990</u>	<u>\$ 12,426,000</u>	<u>\$ 31,008,990</u>
Current loan payable	1,959,746	830,000	2,789,746
Noncurrent loan payable	<u>16,623,244</u>	<u>11,596,000</u>	<u>28,219,244</u>
Balance as of December 31, 2022	<u>\$ 18,582,990</u>	<u>\$ 12,426,000</u>	<u>\$ 31,008,990</u>
Term loan as of December 31, 2020	\$ 5,904,894	\$ 14,197,000	\$ 20,101,894
Additions	20,570,573	-	20,570,573
Repayments	<u>(5,984,894)</u>	<u>(960,000)</u>	<u>(6,944,894)</u>
Balance as of December 31, 2021	<u>\$ 20,490,573</u>	<u>\$ 13,237,000</u>	<u>\$ 33,727,573</u>
Current loan payable	1,907,583	811,000	2,718,583
Noncurrent loan payable	<u>18,582,990</u>	<u>12,426,000</u>	<u>31,008,990</u>
Balance as of December 31, 2021	<u>\$ 20,490,573</u>	<u>\$ 13,237,000</u>	<u>\$ 33,727,573</u>

THE STATE BAR OF CALIFORNIA
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7. LOANS PAYABLE (Continued)

The annual repayment schedule as of December 31, 2022, is as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>
2023	\$ 2,789,746	\$ 718,712
2024	2,858,884	649,328
2025	2,160,057	585,288
2026	2,212,246	532,940
2027	2,265,243	479,323
Thereafter	<u>18,722,814</u>	<u>1,877,103</u>
Total	<u>\$ 31,008,990</u>	<u>\$ 4,842,693</u>

Loan Covenant, Events of Default, Termination Events and Acceleration Clauses - The State Bar relies on rental revenue and unrestricted revenue to make base rental payments in order to fulfill its debt service obligations. If events of default occur, the Bank may do one or more of the following without prior notice: declare that an Event of Default has occurred, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately. If a Default or Event of Default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under the loan agreement. In addition, if any Event of Default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with the loan agreement, as well as all rights and remedies available at law or in equity.

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8. LEASES

State Bar as Lessee

The State has entered into long-term leases for office space, laptops, and office equipment. The terms for these leases range from 3 to 7 years.

A summary of intangible right-to-use lease activities for the years ended December 31, 2022 and 2021, are as follows:

	Balance				Balance
	January 1, 2022	Additions	Remeasurements	Deductions	December 31, 2022
Right-to-use assets:					
Building	\$ 421,110	\$ -	\$ -	\$ -	\$ 421,110
Equipment	1,409,694	-	-	-	1,409,694
Total lease assets	<u>1,830,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,830,804</u>
Less accumulated amortization:					
Right-to-use assets:					
Building	(95,346)	(95,346)	-	-	(190,692)
Equipment	(398,226)	(412,957)	-	-	(811,183)
Total accumulated amortization	<u>(493,572)</u>	<u>(508,303)</u>	<u>-</u>	<u>-</u>	<u>(1,001,875)</u>
Total lease assets, net	<u>\$ 1,337,232</u>	<u>\$ (508,303)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 828,929</u>

	Balance				Balance
	January 1, 2021*	Additions	Remeasurements	Deductions	December 31, 2021
Right-to-use assets:					
Building	\$ 421,110	\$ -	\$ -	\$ -	\$ 421,110
Equipment	1,210,202	199,492	-	-	1,409,694
Total lease assets	<u>1,631,312</u>	<u>199,492</u>	<u>-</u>	<u>-</u>	<u>1,830,804</u>
Less accumulated amortization:					
Right-to-use assets:					
Building	-	(95,346)	-	-	(95,346)
Equipment	-	(398,226)	-	-	(398,226)
Total accumulated amortization	<u>-</u>	<u>(493,572)</u>	<u>-</u>	<u>-</u>	<u>(493,572)</u>
Total lease assets, net	<u>\$ 1,631,312</u>	<u>\$ (294,080)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,337,232</u>

*Beginning balance adjusted due to the implementation of GASB No. 87 – *Leases*

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8. LEASES (Continued)

A summary of changes in the related lease liabilities for the years ended December 31, 2022 and 2021 is as follows:

	<u>Balance</u> <u>January 1, 2022</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2022</u>	<u>Amounts due</u> <u>within one year</u>
Lease Liabilities	\$ 1,286,571	\$ -	\$ -	\$ (494,665)	\$ 791,906	\$ 515,366

	<u>Balance</u> <u>January 1, 2021*</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>Balance</u> <u>December 31, 2021</u>	<u>Amounts due</u> <u>within one year</u>
Lease Liabilities	\$ 1,631,312	\$ 199,492	\$ -	\$ (544,233)	\$ 1,286,571	\$ 494,665

*Beginning balance adjusted due to the implementation of GASB No. 87 – *Leases*

Future annual lease payments as of the year ended December 31, 2022 are as follows:

Year ending December 31:	<u>Principal</u> <u>amount</u>	<u>Interest</u> <u>amount</u>	<u>Total</u>
2023	\$ 515,366	\$ 12,329	\$ 527,695
2024	225,468	3,031	228,499
2025	51,072	263	51,336
Total	791,906	<u>\$ 15,624</u>	<u>\$ 807,530</u>
Less: Current Portion	(515,366)		
Long-term portion as of December 31, 2022	<u>\$ 276,540</u>		

Variable Lease Payments - Variable lease payments based on usage, market rate and not considered fixed in substance are excluded from the measurement of the lease liabilities. They are recognized as lease expenses in the period incurred. The amounts recognized as expenses for variable lease payments and not included in the measurement of the lease liabilities were \$338,400 for both years ended December 31, 2022 and 2021.

State Bar as Lessor

The State Bar leases certain space of its San Francisco and Los Angeles buildings as office and retail spaces to various tenants. The terms for these leases vary and range from 1 to 20 years.

Total lease revenue and interest revenue recognized under GASB 87 during the year ended December 31, 2022 and December 31, 2021 were \$3,674,473 and \$3,486,745, respectively.

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8. LEASES (Continued)

Variable lease payments including percentage of gross sales without minimum amounts were excluded from the measurement of lease receivables and were recognized as revenues when earned. The amounts recognized as revenues for variable lease payments not included in the measurement of the lease receivables were \$36,057 and \$2,004 during the years ended December 31, 2022 and 2021, respectively.

Principal and interest requirements to maturity for the lease receivable for the year ended December 31, 2022 are as follows:

Year ended December 31:	Principal amount	Interest amount	Total
2023	\$ 2,452,532	\$ 368,050	\$ 2,820,582
2024	1,807,667	307,233	2,114,900
2025	1,602,086	264,340	1,866,426
2026	1,645,020	221,185	1,866,206
2027	1,696,078	177,053	1,873,131
2028-2032	5,566,032	295,674	5,861,706
2033	394,960	4,175	399,135
Total	15,164,375	<u>\$ 1,637,711</u>	<u>\$ 16,802,087</u>
Less: Current Portion	(2,452,532)		
Long-term portion as of December 31, 2022	<u>\$ 12,711,843</u>		

9. PENSION PLAN

Plan Description – The State Bar’s defined benefit plan, the Miscellaneous Plan of the State Bar of California (“Plan”), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating entities within the State of California. All fulltime State Bar employees must participate in the Plan. Benefits vest after five years of service. Benefit provisions under the Plan are established by State statute. The State Bar has contracted with CalPERS for employee retirement benefits since the 1950’s. Amendments to the Plan are authorized by resolution of the Board of Trustees. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members who are hired prior to January 1, 2013, with five years of total service are eligible to retire at age 50 and members who were hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52. As of June 30, 2021, the most recent information available, the State Bar’s pension plan included 570 active employees, 462 inactive employees entitled to but not yet receiving benefits, and 595 inactive employees or beneficiaries currently receiving benefits. All members are eligible for non-duty disability benefits after 10 years of service.

THE STATE BAR OF CALIFORNIA
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9. PENSION PLAN (Continued)

The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The State Bar has the right to modify the pension plan provisions prospectively at its discretion.

The Plan's provisions and benefits in effect at December 31, 2022 and 2021, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	7.25%
Required employer contribution rates - 7/1/2019 to 6/30/2020	17.72%	17.72%
Required employer contribution rates - 7/1/2020 to 6/30/2021	19.176%	19.176%
Required employer contribution rates - 7/1/2021 to 6/30/2022	20.30%	20.30%
Required employer contribution rates - 7/1/2022 to 12/31/2022	19.85%	19.85%

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The State Bar of California is required to contribute the difference between the actuarially determined rate and the contribution of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan member contribution requirements are classified as plan member contributions.

Net Pension Liability – The net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. For the year ended December 31, 2022, the total pension liability for the Plan is measured as of June 30, 2022, using an annual actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022 using standard procedures. For the year ended December 31, 2021, the total pension liability for the Plan is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021 using standard procedures.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
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9. PENSION PLAN (Continued)

Actuarial assumptions – A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2022 and 2021 are as follows:

Valuation Date	June 30, 2021	June 30, 2020
Measurement Date	June 30, 2022	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost	
Actuarial Assumptions:		
Discount Rate	6.90%	7.15%
Inflation	2.30%	2.50%
Payroll Growth	2.80%	2.75%
Projected Salary Increase	Varies by entry age and service	
Post Retirement Benefit Increase	(1)	
Mortality	Derived using CalPERS' membership data for all Funds (2)	

- (1) During measurement period 2022, the lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter. During measurement period 2021, the lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter.
- (2) The mortality table used was developed based on CalPERS-specific data. As of June 30, 2022, the probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. As of June 30, 2021, the probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from November 2021 and December 2017 that can be found on the CalPERS website.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of the CalPERS 2021 experience study for the period 2000 to 2019, including changes to the rates of decrement, salary increase rates and economic assumptions. The actuarial assumptions used in the June 30, 2020 valuation were based on the results of the CalPERS 2017 experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the experience study can be found on the CalPERS website.

Changes in Assumptions – During measurement period 2021, the discount rate was reduced from 7.15% to 6.90%, inflation rate was reduced from 2.50% to 2.30%, and payroll growth was increased from 2.75% to 2.80%. Demographic assumptions and inflation rate assumption were changed in accordance with the 2021 CalPERS experience Study and Review of Actuarial Assumptions.

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9. PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability for the Plan as of June 30, 2022 was 6.90 percent and 7.15 percent as of June 30, 2021. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building - block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long- term market return expectations. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The expected real rates of return by asset class for the actuarial valuation of June 30, 2021 are as follows:

Asset Class	Assumed asset Allocation	Real return (a), (b)
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00	3.84
Private Equity	13.00	7.28
Treasury	5.00	0.27
Mortgage-backed securities	5.00	0.50
Investment Grade Corporates	10.00	1.56
High Yield	5.00	2.27
Emerging Market Debt	5.00	2.48
Private Debt	5.00	3.57
Real Assets	15.00	3.21
Leverage	-5.00	-0.59
Total	100%	

(a) An expected inflation of 2.30% used for this period.

(b) Figures are based on the 2021 Asset Liability Management study.

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9. PENSION PLAN (Continued)

The long-term expected real rates of return by asset class and the target allocation adopted by the CalPERS Board for the actuarial valuation of June 30, 2020 are as follows:

Asset Class (a)	Current Strategic Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Public Equity	50.00%	4.80%	5.98%
Global fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the System's ACFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.00% used for this period.
- (c) An expected inflation of 2.92% used for this period.

Changes in the Net Pension Liability – The changes in the Net Pension Liability for the Plan for the year ended December 31, 2022 and 2021 are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2021	\$ 439,966,442	\$ 418,622,643	\$ 21,343,799
Changes in the year:			
Service cost	10,414,335	-	10,414,335
Interest on the total pension liability	30,276,187	-	30,276,187
Changes of Assumptions	5,602,752	-	5,602,752
Differences between actual and expected experience	(933,412)	-	(933,412)
Contribution - employer	-	12,140,925	(12,140,925)
Contribution - employee	-	4,655,824	(4,655,824)
Net investment income	-	(31,181,663)	31,181,663
Administrative expenses	-	(260,777)	260,777
Benefit payments, including refunds of employee contributions	(22,115,270)	(22,115,270)	-
Net changes	23,244,592	(36,760,961)	60,005,553
Balance at June 30, 2022	\$ 463,211,034	\$ 381,861,682	\$ 81,349,352

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9. PENSION PLAN (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2020	\$ 424,776,808	\$ 347,079,011	\$ 77,697,797
Changes in the year:			
Service cost	9,507,566	-	9,507,566
Interest on the total pension liability	29,737,918	-	29,737,918
Differences between actual and expected experience	(3,175,437)	-	(3,175,437)
Contribution - employer	-	10,953,471	(10,953,471)
Contribution - employee	-	4,372,707	(4,372,707)
Net investment income	-	77,444,578	(77,444,578)
Administrative expenses	-	(346,711)	346,711
Benefit payments, including refunds of employee contributions	(20,880,413)	(20,880,413)	-
Net changes	15,189,634	71,543,632	(56,353,998)
Balance at June 30, 2021	\$ 439,966,442	\$ 418,622,643	\$ 21,343,799

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – The State Bar recognized pension expense of \$12,012,240 for the year ended December 31, 2022 and pension gain of \$1,506,111 for the year ended December 31, 2021. Deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 4,088,495	\$ -
Differences between actual and expected experience	366,772	(2,042,039)
Contributions made after the measurement date: June 30, 2022	6,239,549	-
Net differences between projected and actual earning on plan investments	19,448,877	-
Total	\$ 30,143,693	\$ (2,042,039)

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9. PENSION PLAN (Continued)

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 1,945,464	\$ (2,268,169)
Contributions made after the measurement date: June 30, 2021	5,936,154	-
Net differences between projected and actual earning on plan investments	-	(37,949,428)
Total	<u>\$ 7,881,618</u>	<u>\$ (40,217,597)</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic manner. As of December 31, 2022 and 2021, the State Bar reported \$6,239,549 and \$5,936,154, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction related to net pension liability in the year ending December 31, 2023 and 2022, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension as of December 31, 2022 will be recognized as pension expense as follows:

<u>Year Ending December 31</u>	
2023	\$ 3,957,718
2024	3,659,726
2025	2,276,267
2026	11,968,394
Total	<u>\$ 21,862,105</u>

Sensitivity of the Net Pension Liability – The following present the net pension liability of the State Bar, calculated using the discount rate for each Plan, as well as what the Local Government’s net pension would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage higher than the measurement date discount rate:

	1% Decrease 5.90%	Current Discount Rate 6.90%	1% Increase 7.90%
As of December 31, 2022			
Plan's net pension liability	\$ 140,964,080	\$ 81,349,352	\$ 31,864,486
As of December 31, 2021			
Plan's net pension liability	\$ 77,112,979	\$ 21,343,799	\$ (25,076,884)

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10. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”)

Plan Description – The State Bar administers an agent multiple-employer defined benefit Post-Retirement Welfare Benefits Plan for Employees (“OPEB Plan”). The OPEB Plan provides postretirement health care benefits for its eligible employees. Under the provisions of the OPEB Plan, a committee (“Committee”) was established to operate and administer the OPEB Plan in accordance with the terms of the OPEB Plan. The Committee is composed of the Chair of the Board of Trustees and the Executive Director, or their designees.

For executive staff employed as of August 19, 2006, eligibility requires 15 years of services to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires 15 years of service to the State Bar as a regular employee, with at least the last ten years of service preceding retirement as an executive staff employee. The employee must also elect to receive retirement benefits effective within 120 days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age.

Additional funding for retiree health benefits was included in Senate Bill 176 (SB176), which was requested by the State Bar and signed by the Governor on October 9, 2019. The approval for providing equitable health benefits was based on the recommendation of the State Auditor and the Assembly Judiciary Committee. On July 9, 2019, the Committee passed an amended version of Senate Bill 176 that included an increase to the annual licensing fee for 2020. In the analysis, the Committee recommended that the active fee should be increased by \$17 to support retiree health benefits for the State Bar. The State Bar has the right to modify plan provisions prospectively at its discretion.

On an ongoing basis, the State Bar makes annual transfers to the CERBT to pay its Actuarially Determined Contribution as determined by the State Bar’s actuary. CalPERS issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERBT financial report, which may be obtained from CalPERS website.

On January 27, 2018, the State Bar Board of Trustees approved the extension of postemployment benefits to non-executive staff. The statutory Public Employees’ Medical & Hospital Care Act (“PEMHCA”) retiree minimum is currently set at \$149 per month for 2022, but is adjusted by CalPERS on an annual basis. As of 2022, the State Bar contributes \$149 per month toward eligible retirees’ purchase of medical insurance coverage. The State Bar may, however, at its sole discretion and as part of its annual budgeting process, adjust upward the amount it contributes towards eligible retirees’ purchase of medical insurance coverage beyond the statutory PEMHCA minimum. As of December 31, 2022, the OPEB Plan included 563 active participants and 162 retirees receiving benefits.

Effective January 1, 2020, the State Bar amended the Retiree Health Benefits Plan for non-executive staff to provide parity and equitable benefits for rank and file employees. The fiscal impact of the plan change was \$23,750,838 and is reported within General and Administration in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. On April 16, 2020, an Amended and Restated Plan was adopted by the Board of Trustees.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

10. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)

The State Bar contracts with CalPERS for health coverage and provides lifetime health coverage for eligible retirees. The portion of medical premiums paid by the State Bar depends on when an employee was hired, whether they were classified as executives, and the number of years of service at retirement.

The State Bar pays the full cost of retiree health coverage for Executive employees hired before January 1, 2018. The State Bar pays 80% of the cost of the premium for the plan and tier in which the retiree enrolls when the Executive employee is hired or promoted on or after January 1, 2018.

Non-executive employees retiring with a CalPERS pension would be eligible to enroll in the CalPERS Health Plan. The State Bar would be required to pay the statutory minimum and the retiree would be required to pay the difference in plan premium.

The State Bar pays monthly vision plan premiums for Executives who are eligible for the Vision coverage in the amount of \$16.70, \$24.23, and \$43.45 for retiree, couple, and family, respectively.

Net OPEB Liability (Asset) and assumptions: The net OPEB liability (asset) for the OPEB Plan is measured as the total OPEB liability, less the OPEB plan’s fiduciary net position. For the year ended December 31, 2022 and 2021, the total OPEB liability for the OPEB Plan is measured as of June 30, 2022 and 2021, respectively, using an annual actuarial valuation as of January 1, 2022 and 2020, respectively.

The total OPEB liability in the January 1, 2022 and 2020 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.50%
Healthcare Trend Rate	Trend assumption based on the "Getzen" model developed by the Society of Actuaries. Assumed the vision cost would increase at an annual rate of 3.00% for January 1, 2022 and 2020 valuations. Assumed the PEMCHA minimum contribution would grow with general medical inflation. The minimum amount is \$149 per month for calendar year 2022 and \$151 for 2023 and assumed the medical CPI increase at an annual rate of 4.00% in 2024, 3.75% in 2025, 3.50% in 2026 and 3.25% in 2027 and after, for January 1, 2022 valuation. Assumed the medical CPI increase at an annual rate of 3.00% for January 1, 2020 valuation.
Mortality	CalPERS Mortality rates projected generationally using 80 percent of scale MP-2020.

For the actuarial valuation as of January 1, 2022, the healthcare trend rate for vision will increase at a rate of 3.00% per year, no change from the prior full valuation. PEMCHA minimum contribution is \$149 per month for calendar year 2022 and \$151 for 2023. It will increase by 4.00% in 2024, 3.75% in 2025, 3.50% in 2026 and 3.25% in 2027 and after.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

10. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class for the actuarial valuation of January 1, 2022 are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Expected Arithmetic Normal Return (30 yrs)</u>
Global Equity	23%	7.55%
U.S. Fixed Income	51%	5.67%
Treasury Inflation-Protected Securities	9%	3.67%
Real Estate Investment Trusts	14%	7.42%
Commodities	3%	4.92%
Total	<u>100%</u>	

Expected Geometric Return (30 yrs) - 6.12%

The discount rate used to measure the total OPEB liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that the State Bar’s contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

10. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)

Changes in the Net OPEB Liability (Asset): The changes in the net OPEB liability (asset) of the OPEB Plan, measured as of June 30, 2022 and 2021 are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2021	\$ 45,289,136	\$ 37,672,126	\$ 7,617,010
Changes in the year:			
Service cost	2,686,342	-	2,686,342
Interest on the total OPEB liability	2,835,237	-	2,835,237
Differences between actual and experience with regard to or demographic factors	(3,420,777)	-	(3,420,777)
Changes in assumptions	(1,896,095)	-	(1,896,095)
Benefit payments	(1,464,372)	(1,464,372)	-
Contributions from employer	-	4,967,372	(4,967,372)
Net investment income	-	(4,519,803)	4,519,803
Administrative expenses	-	(19,155)	19,155
Net changes	(1,259,665)	(1,035,958)	(223,707)
Balance at June 30, 2022	\$ 44,029,471	\$ 36,636,168	\$ 7,393,303

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2020	\$ 41,436,040	\$ 29,819,206	\$ 11,616,834
Changes in the year:			
Service cost	2,534,285	-	2,534,285
Interest on the total OPEB liability	2,600,287	-	2,600,287
Benefit payments	(1,281,476)	(1,281,476)	-
Contributions from employer	-	4,941,476	(4,941,476)
Net investment income	-	4,209,476	(4,209,476)
Administrative expenses	-	(16,556)	16,556
Net changes	3,853,096	7,852,920	(3,999,824)
Balance at June 30, 2021	\$ 45,289,136	\$ 37,672,126	\$ 7,617,010

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

10. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate: The following presents the net OPEB liability of the State Bar, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00 percent) or 1-percentage-point higher (7.00 percent) than the current discount rate:

	1% Decrease in Discount Rate 5.00%	Current Discount Rate 6.00%	1% Increase in Discount Rate 7.00%
Net OPEB Liability (NOL) for December 31, 2022	\$ 13,117,157	\$ 7,393,303	\$ 2,577,502
Net OPEB Liability (NOL) for December 31, 2021	\$ 13,886,948	\$ 7,617,010	\$ 2,408,547

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate: The following presents the net OPEB liability of the State Bar, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rates that is 1-percentage-point lower or 1- percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Cost Trend Rate 5.00%	Current in Healthcare Cost Trend Rate 6.00%	1% Increase in Healthcare Cost Trend Rate 7.00%
Net OPEB Liability (NOL) for December 31, 2022	\$ 1,495,059	\$ 7,393,303	\$ 14,689,694
Net OPEB Liability (NOL) for December 31, 2021	\$ 948,385	\$ 7,617,010	\$ 15,952,041

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - Most changes in the net OPEB liability are included in OPEB expense in the year of change, including changes resulting from current-period service cost, interest on the total OPEB liability, changes in benefit terms, and projected earnings on the OPEB plan’s investments. Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in the future as OPEB expense. OPEB expense for the years ended December 31, 2022 and 2021 was \$3,397,423 and \$2,693,711, respectively.

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

10. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) (Continued)

As of the year ended December 31, 2022, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ 178,411	\$ (3,037,282)
Changes of assumptions	-	(2,311,519)
Net difference between projected and actual earnings	4,012,453	-
Contributions made subsequent to measurement date	3,550,557	-
Total	<u>\$ 7,741,421</u>	<u>\$ (5,348,801)</u>

As of fiscal year ended December 31, 2021, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ 208,246	\$ -
Changes of assumptions	-	(733,006)
Net difference between projected and actual earnings	-	(1,979,419)
Contributions made subsequent to measurement date	4,073,849	-
Total	<u>\$ 4,282,095</u>	<u>\$ (2,712,425)</u>

At December 31, 2022 and 2021, the State Bar reported \$3,550,557 and \$4,073,849, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to the net OPEB liability during the fiscal year ending December 31, 2023 and 2022, respectively. Other amounts reported as deferred inflows of resources related to OPEB as of December 31, 2022 will be recognized as OPEB expense as follows:

Year Ending December 31,	Deferred (Inflows) and Outflows of Resources
2023	\$ 155,095
2024	224,149
2025	242,859
2026	705,382
2027	(671,242)
Thereafter	(1,814,180)
Total	<u><u>\$ (1,157,937)</u></u>

THE STATE BAR OF CALIFORNIA
Business-Type Activity – Enterprise Fund
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

11. RISK MANAGEMENT

The State Bar is exposed to various risks of loss, including those related to property loss or damage, torts, errors and omissions, employee theft, and workers' compensation. The State Bar has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

12. COMMITMENTS AND CONTINGENCIES

Litigation – The State Bar is a defendant in various lawsuits. It is management's opinion, based on the advice of legal counsel, that the outcome of these matters will not have a material adverse effect on the financial position and results of operations of the State Bar. The outcome of certain lawsuits and tort claims related to disciplinary actions against licensees, attorney malpractice, and employee wrongful termination and discrimination is considered indeterminable and the range of possible loss is uncertain. As such, no provision has been recorded in the financial statements as of December 31, 2022 and 2021.

Major Projects – As of December 31, 2022, the State Bar had contracts and purchase order commitments for major projects of approximately \$7.2 million. Those commitments consist of \$1.4 million for the Elevator Modernization project, \$3.5 million for the Emergency Generator project, \$0.7 million for ongoing ERP system support and licensing, \$0.7 million for leasing of laptops, \$0.4 million for IT hardware upgrade, \$0.3 million for cloud-based electronic IT solution, and \$0.2 million for Case Management System enhancement project.

13. SUBSEQUENT EVENT

After December 31, 2022, and before the issuance of financial statements dated April 28, 2023, the State Bar has evaluated subsequent events and determined that there have been no events that have occurred that would require adjustments to our disclosures in the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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THE STATE BAR OF CALIFORNIA
Schedules of Changes in Net Pension Liability and Related Ratios (Unaudited)
As of December 31, 2022
Last 10 Years*

Measurement Period Ended June 30	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
TOTAL PENSION LIABILITY					
Service Cost	\$ 10,414,335	\$ 9,507,566	\$ 8,917,807	\$ 8,457,483	\$ 8,413,051
Interest on total pension liability	30,276,187	29,737,918	28,675,153	27,203,790	25,675,376
Differences between expected and actual experience	(933,412)	(3,175,437)	3,117,562	4,632,331	(3,317,028)
Changes in assumptions	5,602,752	-	-	-	(11,012,926)
Benefit payments, including refunds of employee contributions	<u>(22,115,270)</u>	<u>(20,880,413)</u>	<u>(18,816,672)</u>	<u>(18,044,328)</u>	<u>(16,688,769)</u>
Net change in total pension liability	23,244,592	15,189,634	21,893,850	22,249,276	3,069,704
Total pension liability - beginning	<u>439,966,442</u>	<u>424,776,808</u>	<u>402,882,958</u>	<u>380,633,682</u>	<u>377,563,978</u>
Total pension liability - ending	<u>\$ 463,211,034</u>	<u>\$ 439,966,442</u>	<u>\$ 424,776,808</u>	<u>\$ 402,882,958</u>	<u>\$ 380,633,682</u>
PLAN FIDUCIARY NET POSITION					
Contributions - employer	\$ 12,140,925	\$ 10,953,471	\$ 9,733,180	\$ 8,155,168	\$ 6,191,049
Contributions - employee	4,655,824	4,372,707	4,418,214	3,793,577	3,726,557
Net investment income	(31,181,663)	77,444,578	16,489,470	20,781,606	25,383,692
Benefit payments, including refunds of employee contributions	(22,115,270)	(20,880,413)	(18,816,672)	(18,044,328)	(16,688,769)
Net Plan to Plan Resource Movement	-	-	-	745	(745)
Administrative expenses	(260,777)	(346,711)	(473,294)	(229,266)	(473,766)
Other Miscellaneous Income/(Expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(899,690)</u>
Net change in plan fiduciary net position	(36,760,961)	71,543,632	11,350,898	14,457,502	17,238,328
Plan fiduciary net position - beginning	<u>418,622,643</u>	<u>347,079,011</u>	<u>335,728,113</u>	<u>321,270,611</u>	<u>304,032,283</u>
Plan fiduciary net position - ending	<u>\$ 381,861,682</u>	<u>\$ 418,622,643</u>	<u>\$ 347,079,011</u>	<u>\$ 335,728,113</u>	<u>\$ 321,270,611</u>
Net pension liability - ending	<u>\$ 81,349,352</u>	<u>\$ 21,343,799</u>	<u>\$ 77,697,797</u>	<u>\$ 67,154,845</u>	<u>\$ 59,363,071</u>
Plan fiduciary net position as a percentage of the total pension liability	82.44%	95.15%	81.71%	83.33%	84.40%
Covered - employee payroll	\$ 61,659,769	\$ 58,652,475	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071

THE STATE BAR OF CALIFORNIA
Schedules of Changes in Net Pension Liability and Related Ratios (Unaudited)
As of December 31, 2022
Last 10 Years*

Measurement Period Ended June 30	2017	2016	2015	2014
TOTAL PENSION LIABILITY				
Service Cost	\$ 8,895,961	\$ 7,565,782	\$ 7,286,606	\$ 7,138,657
Interest on total pension liability	25,355,446	24,173,396	22,279,424	20,821,887
Differences between expected and actual experience	(1,780,377)	6,742,939	1,619,738	-
Changes in assumptions	21,023,063	-	(5,466,470)	-
Benefit payments, including refunds of employee contributions	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net change in total pension liability	39,771,961	26,169,361	14,650,568	17,871,937
Total pension liability - beginning	337,792,017	311,622,656	296,972,088	279,100,151
Total pension liability - ending	<u>\$ 377,563,978</u>	<u>\$ 337,792,017</u>	<u>\$ 311,622,656</u>	<u>\$ 296,972,088</u>
PLAN FIDUCIARY NET POSITION				
Contributions - employer	\$ 5,519,957	\$ 4,864,102	\$ 4,167,567	\$ 4,166,043
Contributions - employee	3,697,300	3,437,015	3,387,652	3,262,781
Net investment income	31,072,914	1,591,381	6,203,991	41,450,031
Benefit payments, including refunds of employee contributions	(13,722,132)	(12,312,756)	(11,068,730)	(10,088,607)
Net Plan to Plan Resource Movement	-	-	-	-
Administrative expenses	(410,263)	(170,929)	(316,734)	-
Other Miscellaneous Income/(Expense)	-	-	-	-
Net change in plan fiduciary net position	26,157,776	(2,591,187)	2,373,746	38,790,248
Plan fiduciary net position - beginning	277,874,507	280,465,694	278,091,948	239,301,700
Plan fiduciary net position - ending	<u>\$ 304,032,283</u>	<u>\$ 277,874,507</u>	<u>\$ 280,465,694</u>	<u>\$ 278,091,948</u>
Net pension liability - ending	<u>\$ 73,531,695</u>	<u>\$ 59,917,510</u>	<u>\$ 31,156,962</u>	<u>\$ 18,880,140</u>
Plan fiduciary net position as a percentage of the total pension liability	80.52%	82.26%	90.00%	93.64%
Covered - employee payroll	\$ 50,889,313	\$ 48,452,015	\$ 4,659,082	\$ 43,282,954

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2021 valuation date. This applies for voluntary benefit changes as well as any offers of two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50% to 7.65%. There was no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65% to 7.15%. During measurement period 2018, the demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no change in assumptions during measurement period 2019 and 2020. During measurement period 2021, the discount rate was reduced from 7.15% to 6.90%. Demographic assumptions and inflation rate assumptions were changed in accordance with the 2021 CalPERS experience Study and Review of Actuarial Assumptions.

Other Miscellaneous Expenses: During Fiscal Year 2017-18, as a result of GASB Statement No. 75, *Accounting and Financial reporting for Postemployment Benefit Plans Other than Pension* (GASB 75), CalPERS reported its proportionate share of activity relate to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

*Year 2014 was the first year of implementation of GASB Statement No. 68, therefore only nine years of information is shown.

THE STATE BAR OF CALIFORNIA
Schedule of Plan Contributions - Pension (Unaudited)
As of December 31, 2022
Last 10 Years *

For the Year Ended June 30	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 12,140,925	\$ 10,953,471	\$ 9,733,180	\$ 8,155,168	\$ 6,191,049	\$ 5,519,957	\$ 4,864,102	\$ 4,167,567	\$ 4,166,043
Contributions in relation to the actuarially determined contributions	(12,140,925)	(10,953,471)	(9,733,180)	(8,155,168)	(6,191,049)	(5,519,957)	(4,864,102)	(4,167,567)	(4,166,043)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 61,659,769	\$ 58,652,475	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071	\$ 50,889,313	\$ 48,452,015	\$ 46,082,759	\$ 43,282,954
Contributions as a percentage of covered-employee payroll	10.85%	18.68%	17.98%	16.20%	12.50%	10.85%	10.04%	9.04%	9.63%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contributions for the year ended June 30, 2022 was derived from the June 30, 2019 funding valuation report.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level percent of payroll
Asset Valuation Method	Fair Value of Assets
Inflation	2.5%
Payroll Growth	2.75%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.00% net of pension plan investment and administrative expenses, includes inflation
Retirement Age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.

*Year 2014 was the first year of implementation of GASB Statement No. 68, therefore only nine years of information is shown.

THE STATE BAR OF CALIFORNIA
Schedules of Changes in Net OPEB Liability (Asset) and Related Ratios (Unaudited)
As of December 31, 2022
Last 10 Years*

Measurement Period Ended June 30	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 2,686,342	\$ 2,534,285	\$ 580,569	\$ 547,707	\$ 489,826
Interest on total OPEB liability	2,835,237	2,600,287	1,071,758	1,043,546	1,611,348
Differences between actual and expected experience	(3,420,777)	-	267,916	-	-
Changes of assumptions	(1,896,095)	-	(943,036)	-	-
Changes of benefit terms	-	-	23,750,838	-	(10,325,826)
Benefits payments, including refunds of employee contributions	(1,464,372)	(1,281,476)	(1,133,033)	(1,172,820)	(1,418,516)
Net change in total OPEB liability	(1,259,665)	3,853,096	23,595,012	418,433	(9,643,168)
Total OPEB liability - beginning	45,289,136	41,436,040	17,841,028	17,422,595	27,065,763
Total OPEB liability - ending	44,029,471	45,289,136	41,436,040	17,841,028	17,422,595
Plan fiduciary net position					
Contributions - Employer	4,967,372	4,941,476	1,133,033	1,922,820	2,168,516
Net investment income	(4,519,803)	4,209,476	1,776,547	1,892,678	1,111,880
Benefits payments, including refunds of employee contributions	(1,464,372)	(1,281,476)	(1,133,033)	(1,172,820)	(1,418,516)
Administrative expense	(19,155)	(16,556)	(14,162)	(12,821)	(12,109)
Net change in plan fiduciary net position	(1,035,958)	7,852,920	1,762,385	2,629,857	1,849,771
Plan fiduciary net position - beginning	37,672,126	29,819,206	28,056,821	25,426,964	23,577,193
Plan fiduciary net position - ending	36,636,168	37,672,126	29,819,206	28,056,821	25,426,964
Plan net OPEB liability (asset) - ending	\$ 7,393,303	\$ 7,617,010	\$ 11,616,834	\$ (10,215,793)	\$ (8,004,369)
Plan fiduciary net position as a percentage of the total OPEB liability	83.2%	83.2%	72.0%	157.3%	145.9%
Covered-employee payroll	\$ 61,659,769	\$ 58,652,475	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071
Plan net OPEB (Asset) as a percentage of covered-employee payroll	11.99%	12.99%	21.45%	-20.30%	-16.16%

Notes to Schedule:

Changes in assumptions – During Measurement Period 2020, the healthcare trend rate for vision and PEMCHA minimum contribution decreased from 3.25% to 3.00%. During Measurement Period 2022, PEMCHA minimum contribution is changed to \$149 per month for calendar year 2022 and \$151 for 2023, and increase by 4.00% in 2024, 3.75% in 2025, 3.50% in 2026 and 3.25% in 2027 and after.

Changes in benefit terms - During Measurement Period 2018, the State Bar transitioned its health coverage to CalPERS health. Effective January 1, 2020, the State Bar updated the post-employment retiree health benefits for confidential, non-executive represented, judges and executive employees resulting in a \$23.8 million change.

*Year 2018 was the first year implementation of GASB Statement No. 75, therefore only five years of information is shown.

THE STATE BAR OF CALIFORNIA
Schedules of Contribution - OPEB Plan (Unaudited)
As of December 31, 2022
Last 10 Years *

	2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 2,915,000	\$ 3,503,000	\$ 3,660,000	\$ -	\$ -
Contributions	4,158,533	4,623,159	4,603,702	1,150,166	2,179,258
Contribution deficiency (excess)	<u>\$ (1,243,533)</u>	<u>\$ (1,120,159)</u>	<u>\$ (943,702)</u>	<u>\$ (1,150,166)</u>	<u>\$ (2,179,258)</u>
Covered payroll (measurement period ended June 30)	\$ 61,659,769	\$ 58,652,475	\$ 54,145,762	\$ 50,333,174	\$ 49,538,071
Contribution as a percentage of covered-employee payroll	6.7%	7.9%	8.5%	2.3%	4.4%

Notes to Schedule

The actuarial methods and assumptions used to set the actuarially determined contribution for the year ended December 31, 2022 was derived from the January 1, 2022 actuarial valuation as follows:

Actuarial Cost Method	Entry Age Normal, Level Percentage of Payroll
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.50%
Healthcare Trend Rate	Trend assumption based on the "Getzen" model developed by the Society of Actuaries. Assumed the vision cost would increase at an annual rate of 3.00% for January 1, 2022 and 2020 valuations. Assumed the PEMCHA minimum contribution would grow with general medical inflation. The minimum amount is \$149 per month for calendar year 2022 and \$151 for 2023 and assumed the medical CPI increase at an annual rate of 4.00% in 2024, 3.75% in 2025, 3.50% in 2026 and 3.25% in 2027 and after, for January 1, 2022 valuation. Assumed the medical CPI increase at an annual rate of 3.00% for January 1, 2020 valuation.
Mortality	CalPERS Mortality rates projected generationally using 80 percent of scale MP-2020.

* Year 2018 was the first year implementation of GASB Statement No. 75, therefore only five years of information is shown.

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SUPPLEMENTARY INFORMATION

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THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Net Position
December 31, 2022

	General Fund	SF Tenant Improvement	Admissions	Grants	Client Security
ASSETS					
Current assets					
Cash and cash equivalents	\$ 20,303,761	\$ -	\$ 9,186,746	\$ 28,264,117	\$ 9,438,548
Investments	22,583,103	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,889,585 in 2022	1,121,772	-	-	340,981	-
Lease receivable	2,452,532	-	-	-	-
Other current assets	2,367,046	-	3,261	-	-
Total current assets	48,828,214	-	9,190,007	28,605,098	9,438,548
Noncurrent assets					
Restricted cash	9,287,909	-	-	-	-
Lease receivable	12,711,843	-	-	-	-
Capital assets:					
Nondepreciable	22,075,451	-	-	-	-
Depreciable, net	76,232,257	-	-	-	-
Lease assets, net	828,929	-	-	-	-
Total noncurrent assets	121,136,389	-	-	-	-
Total assets	169,964,603	-	9,190,007	28,605,098	9,438,548
DEFERRED OUTFLOWS OF RESOURCES					
Pension items	30,143,693	-	-	-	-
Other postemployment benefits items	7,741,421	-	-	-	-
Total deferred outflows of resources	37,885,114	-	-	-	-
Total assets and deferred outflows of resources	207,849,717	-	9,190,007	28,605,098	9,438,548
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	13,257,449	-	231,084	4,246	62,834
Unearned fees collected in advance	19,959,096	-	4,714,275	28,084,538	1,903,520
Loans payable	2,789,746	-	-	-	-
Lease liability	515,366	-	-	-	-
Total current liabilities	36,521,657	-	4,945,359	28,088,784	1,966,354
Noncurrent liabilities					
Loans payable	28,219,244	-	-	-	-
Lease liability	276,540	-	-	-	-
Compensated absences	3,775,799	-	346,627	6,369	94,250
Net OPEB liability	7,393,303	-	-	-	-
Net pension liability	81,349,352	-	-	-	-
Total noncurrent liabilities	121,014,238	-	346,627	6,369	94,250
Total liabilities	157,535,895	-	5,291,986	28,095,153	2,060,604
DEFERRED INFLOWS OF RESOURCES					
Leases	14,342,822	-	-	-	-
Pension items	2,042,039	-	-	-	-
Other postemployment benefits items	5,348,801	-	-	-	-
Total deferred inflows of resources	21,733,662	-	-	-	-
Total liabilities and deferred inflows of resources	179,269,557	-	5,291,986	28,095,153	2,060,604
NET POSITION					
Net investments in capital assets	75,520,878	-	-	-	-
Restricted for:					
Enabling legislation	-	-	3,898,021	-	7,377,944
Other restrictions	-	-	-	509,945	-
Unrestricted	(46,940,718)	-	-	-	-
Total net position	\$ 28,580,160	\$ -	\$ 3,898,021	\$ 509,945	\$ 7,377,944

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Net Position
December 31, 2022

	Elimination of Bias	Equal Access	Information Technology Special Assessment	Justice Gap Fund	Lawyers Assistance Program
ASSETS					
Current assets					
Cash and cash equivalents	\$ 52,780	\$ 2,885,373	\$ -	\$ 4,184,536	\$ 1,864,530
Investments	-	-	-	-	-
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,889,585 in 2022	-	944,849	-	-	-
Lease receivable	-	-	-	-	-
Other current assets	-	-	-	-	14,967
Total current assets	<u>52,780</u>	<u>3,830,222</u>	<u>-</u>	<u>4,184,536</u>	<u>1,879,497</u>
Noncurrent assets					
Restricted cash	-	-	-	-	-
Lease receivable	-	-	-	-	-
Capital assets:					
Nondepreciable	-	-	-	-	-
Depreciable, net	-	-	-	-	-
Lease assets, net	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>52,780</u>	<u>3,830,222</u>	<u>-</u>	<u>4,184,536</u>	<u>1,879,497</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension items	-	-	-	-	-
Other postemployment benefits items	-	-	-	-	-
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>52,780</u>	<u>3,830,222</u>	<u>-</u>	<u>4,184,536</u>	<u>1,879,497</u>
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	10,402	777,509	-	-	17,111
Unearned fees collected in advance	82,635	116,760	-	284,921	501,296
Loans payable	-	-	-	-	-
Lease liability	-	-	-	-	-
Total current liabilities	<u>93,037</u>	<u>894,269</u>	<u>-</u>	<u>284,921</u>	<u>518,407</u>
Noncurrent liabilities					
Loans payable	-	-	-	-	-
Lease liability	-	-	-	-	-
Compensated absences	15,603	13,439	-	-	25,666
Net OPEB liability	-	-	-	-	-
Net pension liability	-	-	-	-	-
Total noncurrent liabilities	<u>15,603</u>	<u>13,439</u>	<u>-</u>	<u>-</u>	<u>25,666</u>
Total liabilities	<u>108,640</u>	<u>907,708</u>	<u>-</u>	<u>284,921</u>	<u>544,073</u>
DEFERRED INFLOWS OF RESOURCES					
Leases	-	-	-	-	-
Pension items	-	-	-	-	-
Other postemployment benefits items	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>108,640</u>	<u>907,708</u>	<u>-</u>	<u>284,921</u>	<u>544,073</u>
NET POSITION					
Net investments in capital assets	-	-	-	-	-
Restricted for:					
Enabling legislation	-	2,922,514	-	3,899,615	1,335,424
Other restrictions	-	-	-	-	-
Unrestricted	(55,860)	-	-	-	-
Total net position	<u>\$ (55,860)</u>	<u>\$ 2,922,514</u>	<u>\$ -</u>	<u>\$ 3,899,615</u>	<u>\$ 1,335,424</u>

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Net Position
December 31, 2022

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Grand Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 485,837	\$ 44,269,452	\$ 7,440,731	\$ 4,981,526	\$ 133,357,937
Investments	-	-	-	-	22,583,103
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,889,585 in 2022	-	11,156,950	-	-	13,564,552
Lease receivable	-	-	-	-	2,452,532
Other current assets	-	-	-	-	2,385,274
Total current assets	485,837	55,426,402	7,440,731	4,981,526	174,343,398
Noncurrent assets					
Restricted cash	-	-	-	-	9,287,909
Lease receivable	-	-	-	-	12,711,843
Capital assets:					
Nondepreciable	-	-	-	-	22,075,451
Depreciable, net	-	-	-	-	76,232,257
Lease assets, net	-	-	-	-	828,929
Total noncurrent assets	-	-	-	-	121,136,389
Total assets	485,837	55,426,402	7,440,731	4,981,526	295,479,787
DEFERRED OUTFLOWS OF RESOURCES					
Pension items	-	-	-	-	30,143,693
Other postemployment benefits items	-	-	-	-	7,741,421
Total deferred outflows of resources	-	-	-	-	37,885,114
Total assets and deferred outflows of resources	485,837	55,426,402	7,440,731	4,981,526	333,364,901
LIABILITIES					
Current liabilities					
Accounts payable and other liabilities	1,505	44,083	9,402	229,671	14,645,296
Unearned fees collected in advance	20,240	1,798,461	606,356	-	58,072,098
Loans payable	-	-	-	-	2,789,746
Lease liability	-	-	-	-	515,366
Total current liabilities	21,745	1,842,544	615,758	229,671	76,022,506
Noncurrent liabilities					
Loans payable	-	-	-	-	28,219,244
Lease liability	-	-	-	-	276,540
Compensated absences	2,257	26,526	14,103	1,575	4,322,214
Net OPEB liability	-	-	-	-	7,393,303
Net pension liability	-	-	-	-	81,349,352
Total noncurrent liabilities	2,257	26,526	14,103	1,575	121,560,653
Total liabilities	24,002	1,869,070	629,861	231,246	197,583,159
DEFERRED INFLOWS OF RESOURCES					
Leases	-	-	-	-	14,342,822
Pension items	-	-	-	-	2,042,039
Other postemployment benefits items	-	-	-	-	5,348,801
Total deferred inflows of resources	-	-	-	-	21,733,662
Total liabilities and deferred inflows of resources	24,002	1,869,070	629,861	231,246	219,316,821
NET POSITION					
Net investments in capital assets	-	-	-	-	75,520,878
Restricted for:					
Enabling legislation	461,835	53,557,332	6,810,870	4,750,280	85,013,835
Other restrictions	-	-	-	-	509,945
Unrestricted	-	-	-	-	(46,996,578)
Total net position	\$ 461,835	\$ 53,557,332	\$ 6,810,870	\$ 4,750,280	\$ 114,048,080

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

	General Fund	SF Tenant Improvement	Admissions	Grants	Client Security
OPERATING REVENUES					
Licensee fees and donations	\$ 85,692,845	\$ -	\$ 925,026	\$ -	\$ 8,231,941
Examination application fees	-	-	17,095,587	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	4,800	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	1,764,913	-	-	-	-
Continuing legal education fees	618,974	-	-	-	-
Grant revenue	-	-	-	40,392,184	-
EAF AB145 filing fee revenue	-	-	-	-	-
Other revenue	790,529	-	752,339	-	89,792
Unallocated Pension gain	432,080	-	-	-	-
Total operating revenues	89,304,141	-	18,772,952	40,392,184	8,321,733
OPERATING EXPENSES					
Chief Trial Counsel	64,172,241	-	-	-	-
State Bar Court	14,568,706	-	-	-	-
Attorney Regulation and Consumer Resources	6,842,945	-	-	-	-
Professional Competence	3,875,951	-	-	-	-
Probation	1,901,694	-	-	-	-
Mandatory Fee Arbitration	203,022	-	-	-	-
Judicial Evaluation	887,611	-	-	-	-
Center on Access to Justice	628,533	-	-	-	-
Communications	1,554,811	-	-	-	-
Governance	3,617,124	-	-	-	-
Lawyer Assistance Program	-	-	-	-	-
Client Security Fund	-	-	-	-	4,864,559
Admissions	-	-	25,449,913	-	-
Grants	-	-	-	39,545,666	-
General and administration	5,119,580	-	-	619,467	-
Total operating expenses	103,372,218	-	25,449,913	40,165,133	4,864,559
OPERATING INCOME (LOSS)	(14,068,077)	-	(6,676,961)	227,051	3,457,174
NONOPERATING REVENUES AND EXPENSES					
Interest and investment income	160,452	-	27,846	-	6,867
Rental income	3,116,852	-	-	-	-
Interest expenses on loans and leases	(789,121)	-	-	-	-
Total nonoperating revenues and expenses	2,488,183	-	27,846	-	6,867
INCOME/(LOSS) BEFORE TRANSFERS	(11,579,894)	-	(6,649,115)	227,051	3,464,041
Transfer in	62,924	1,128,845	-	-	5,480
Transfer out	(1,189,049)	-	(101,389)	-	(1,852)
CHANGE IN NET POSITION	(12,706,019)	1,128,845	(6,750,504)	227,051	3,467,669
NET POSITION—beginning of year	41,286,179	(1,128,845)	10,648,525	282,894	3,910,275
NET POSITION—end of year	\$ 28,580,160	\$ -	\$ 3,898,021	\$ 509,945	\$ 7,377,944

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

	Elimination of Bias	Equal Access	Information Technology Special Assessment	Justice Gap Fund	Lawyers Assistance Program
OPERATING REVENUES					
Licensee fees and donations	\$ 324,708	\$ -	\$ -	\$ 1,405,822	\$ 2,153,739
Examination application fees	-	-	-	-	-
Trust account revenue	-	-	-	-	-
Seminar/workshop revenue	-	-	-	-	-
Legal specialization fees	-	-	-	-	-
Law corporation registration fees	-	-	-	-	-
Continuing legal education fees	-	-	-	-	-
Grant revenue	-	65,071,856	-	-	-
EAF AB145 filing fee revenue	-	5,207,901	-	-	-
Other revenue	-	-	-	-	-
Unallocated Pension gain	-	-	-	-	-
Total operating revenues	324,708	70,279,757	-	1,405,822	2,153,739
OPERATING EXPENSES					
Chief Trial Counsel	-	-	-	-	-
State Bar Court	-	-	-	-	-
Attorney Regulation and Consumer Resources	-	-	-	-	-
Professional Competence	-	-	-	-	-
Probation	-	-	-	-	-
Mandatory Fee Arbitration	-	-	-	-	-
Judicial Evaluation	-	-	-	-	-
Center on Access to Justice	-	-	-	-	-
Communications	-	-	-	-	-
Governance	-	-	-	-	-
Lawyer Assistance Program	-	-	-	-	2,348,679
Client Security Fund	-	-	-	-	-
Admissions	-	-	-	-	-
Grants	-	69,778,965	-	-	-
General and administration	691,744	1,140,336	-	10,862	-
Total operating expenses	691,744	70,919,301	-	10,862	2,348,679
OPERATING INCOME (LOSS)	(367,036)	(639,544)	-	1,394,960	(194,940)
NONOPERATING REVENUES AND EXPENSES					
Interest and investment income	730	29,003	-	6,414	7,477
Rental income	-	-	-	-	-
Interest expenses on loans and leases	-	-	-	-	(5,382)
Total nonoperating revenues and expenses	730	29,003	-	6,414	2,095
INCOME/(LOSS) BEFORE TRANSFERS	(366,306)	(610,541)	-	1,401,374	(192,845)
Transfer in	-	-	-	-	1,395
Transfer out	-	-	(6,224)	(1,000,000)	-
CHANGE IN NET POSITION	(366,306)	(610,541)	(6,224)	401,374	(191,450)
NET POSITION—beginning of year	310,446	3,533,055	6,224	3,498,241	1,526,874
NET POSITION—end of year	\$ (55,860)	\$ 2,922,514	\$ -	\$ 3,899,615	\$ 1,335,424

THE STATE BAR OF CALIFORNIA
Supplementary Information
Program Funds Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

	Legislative Activities	Legal Services Trust	Legal Specialization	Bank Settlement	Interfunds Eliminations	Grand Total
OPERATING REVENUES						
Licensee fees and donations	\$ 753,490	\$ 7,149,073	\$ -	\$ -	\$ -	\$ 106,636,644
Examination application fees	-	-	-	-	-	17,095,587
Trust account revenue	-	54,073,155	-	-	-	54,073,155
Seminar/workshop revenue	-	-	-	-	-	4,800
Legal specialization fees	-	-	2,134,926	-	-	2,134,926
Law corporation registration fees	-	-	-	-	-	1,764,913
Continuing legal education fees	-	-	8,494	-	-	627,468
Grant revenue	-	-	-	-	-	105,464,040
EAF AB145 filing fee revenue	-	-	-	-	-	5,207,901
Other revenue	-	-	62,736	-	-	1,695,396
Unallocated Pension gain	-	-	-	-	-	432,080
Total operating revenues	753,490	61,222,228	2,206,156	-	-	295,136,910
OPERATING EXPENSES						
Chief Trial Counsel	-	-	-	-	-	64,172,241
State Bar Court	-	-	-	-	-	14,568,706
Attorney Regulation and Consumer Resources	-	-	-	-	-	6,842,945
Professional Competence	-	-	-	-	-	3,875,951
Probation	-	-	-	-	-	1,901,694
Mandatory Fee Arbitration	-	-	-	-	-	203,022
Judicial Evaluation	-	-	-	-	-	887,611
Center on Access to Justice	-	-	-	-	-	628,533
Communications	-	-	-	-	-	1,554,811
Governance	-	-	-	-	-	3,617,124
Lawyer Assistance Program	-	-	-	-	-	2,348,679
Client Security Fund	-	-	-	-	-	4,864,559
Admissions	-	-	-	-	-	25,449,913
Grants	-	35,414,534	-	2,272,084	-	147,011,249
General and administration	589,546	2,436,119	1,868,904	158,648	-	12,635,206
Total operating expenses	589,546	37,850,653	1,868,904	2,430,732	-	290,562,244
OPERATING INCOME (LOSS)	163,944	23,371,575	337,252	(2,430,732)	-	4,574,666
NONOPERATING REVENUES AND EXPENSES						
Interest and investment income	1,335	89,223	9,822	41,138	-	380,307
Rental income	-	-	-	-	-	3,116,852
Interest expenses on loans and leases	-	-	-	-	-	(794,503)
Total nonoperating revenues and expenses	1,335	89,223	9,822	41,138	-	2,702,656
INCOME/(LOSS) BEFORE TRANSFERS	165,279	23,460,798	347,074	(2,389,594)	-	7,277,322
Transfer in	-	1,000,000	100,000	-	(2,298,644)	-
Transfer out	-	(130)	-	-	2,298,644	-
CHANGE IN NET POSITION	165,279	24,460,668	447,074	(2,389,594)	-	7,277,322
NET POSITION—beginning of year	296,556	29,096,664	6,363,796	7,139,874	-	106,770,758
NET POSITION—end of year	\$ 461,835	\$ 53,557,332	\$ 6,810,870	\$ 4,750,280	\$ -	\$ 114,048,080



The State Bar of California

Statement of Expenditures of Mandatory Fees and Independent Accountant's Report Year Ended December 31, 2022

April 28, 2023



Independent Accountant's Report

To the Boards of Trustees
State Bar of California

We have examined the State Bar of California's (State Bar) compliance with the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar of California cannot use mandatory fees paid by its licensees for political or ideological activities not related to regulation of the legal profession or improvement of quality of legal services in California, for the year ended December 31, 2022. The expenditures of mandatory fees for the year ended December 31, 2022 is included in the accompanying Statement of Expenditures of Mandatory Fees (Statement) and related notes. Management of the State Bar is responsible for the State Bar's compliance with the specified requirements. Our responsibility is to express an opinion on the State Bar's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the State Bar complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the State Bar complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the State Bar's compliance with specified requirements.

In our opinion, the State Bar complied, in all material respects, with the United States Supreme Court's decision in *Keller v. State Bar of California* (1990) 496 U.S. 1, which held that the State Bar of California cannot use mandatory fees paid by its licensees for political or ideological activities not related to regulation of the legal profession or improvement of quality of legal services in California, for the year ended December 31, 2022.

Walnut Creek, California
April 28, 2023

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees
Year Ended December 31, 2022

	<u>Dollar Amount</u>	<u>Percentage of Total Program Expenses</u>
CHARGEABLE EXPENSES AND RELATED		
PROGRAM REVENUES:		
Chief Trial Counsel	\$ 64,172,241	65.30%
State Bar Court	14,568,706	14.82%
Client Security Fund	4,864,559	4.95%
Attorney Regulation and Consumer Resources	6,842,945	6.96%
Professional Competence	3,875,951	3.94%
Lawyer Assistance Program	2,348,679	2.39%
Probation	1,901,694	1.94%
Center on Access to Justice	628,533	0.64%
Communications	1,554,811	1.58%
Judicial Evaluation	887,611	0.90%
Mandatory Fee Arbitration	203,022	0.21%
Program Revenues	<u>(3,572,484)</u>	<u>-3.64%</u>
Total chargeable program expenses	<u>\$ 98,276,267</u>	<u>100.0%</u>

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

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees
Year Ended December 31, 2022

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting – To ensure observance of limitations and restrictions placed on the use of resources available to the State Bar, the accounts of the State Bar are maintained in accordance with the accrual basis of accounting using principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Accounting principles generally accepted in the United States of America are applied by the State Bar in conformance with pronouncements of the Governmental Accounting Standards Board. Amounts in the Statement of Expenditures of Mandatory Fees (“Statement”) were derived from the State Bar’s audited 2022 financial statements.

Use of Estimates – The preparation of the Statement requires management to make estimates and assumptions related to the amounts of chargeable expenditures during year. Actual results could differ from those estimates.

2. BASIS OF PRESENTATION

The accompanying Statement was prepared for the purpose of showing the allocation of certain expenditures into chargeable and non-chargeable categories. Although derived from the State Bar’s audited 2022 financial statements, the Statement is not a substitute for the financial statements, nor is it intended to be a complete presentation of the State Bar’s revenues and expenses in conformity with accounting principles generally accepted in the United States of America. Amounts reported in the Statement can be agreed to amounts reported in the State Bar’s financial statements.

The State Bar Act sets the amount of the annual fees that the State Bar may charge lawyers for the license to practice law in California. The amount of the annual fee, however, is subject to certain adjustments. The United States Supreme Court in *Keller v. State Bar of California*, 496 U.S. 1 (1990) (“*Keller*”) held that the State Bar could not require California lawyers to pay, as mandatory fees, the expense of the State Bar’s political or ideological activity that was not necessarily or reasonably related to the State Bar’s purpose of regulating the legal profession or improving the quality of legal services. The Statement provides a basis of determination for the mandatory fees that each licensee must pay in order to practice law in California. It describes and separates programs and activities that are “chargeable” and “non-chargeable” to licensees under the *Keller* standard. In calculating the chargeable and non-chargeable expenditures, absolute precision is not expected nor required pursuant to *Keller*, at 16, citing to procedural requirements outlined in *Chicago Teachers v. Hudson*, 475 U.S. 292, 310 (1986). Expenses included in the Statement are derived from expenses included in the General Fund (except for program costs funded by filing fees or other fees), Client Security Fund, and the Lawyers Assistance Program Fund of the State Bar.

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2022

2. BASIS OF PRESENTATION (Continued)

Since January 1, 2000, amendments to the State Bar Act have provided each licensee with the option of deducting \$5 from the annual licensing fee for lobbying and related activities outside of the parameters established in *Keller* (Cal. Bus. & Prof. Code §6140.05). In addition to these changes, in 2001, the Board of Trustees provided licensees the option of an additional \$2 deduction from annual fees for the Elimination of Bias program. Although some or all of these programs and activities may be chargeable under the criteria in *Keller*, the Board of Trustees has elected to make them optional in their entirety.

Since January 1, 2000, the amount of expenses that the State Bar may incur for legislative activity outside of the parameters of *Keller* was restricted by statute to the total revenue collected from those licensees electing to pay the \$5 and not take the deduction from the annual fee under Cal. Bus. & Prof. Code §6140.05. Instead of categorizing its programs as within or outside of *Keller*, the State Bar has elected to restrict the expenses of all of its legislative activity to voluntary funds. Similarly, the State Bar has a \$2 deduction for activities under the Elimination of Bias program and limited its funding to voluntary fees paid by licensees not taking this deduction. Licensees who do not wish to support either the State Bar's Legislative Activities or its Elimination of Bias program can deduct the amounts from their annual fees. As a result, no part of the mandatory annual fees that a lawyer must pay as a condition of practicing law are used to fund non-chargeable expenses. Therefore, for purposes of the Statement, there are no non-chargeable expenses for mandatory licensing fees for the year ended December 31, 2022.

3. DESCRIPTION OF CHARGEABLE PROGRAMS

The following is a listing of the major expenses that the State Bar has categorized as chargeable, including a description of the programs or activities performed by category. The classification of a program expense as chargeable was based on the standards in *Keller* that have been applied to determine whether an expense was necessarily or reasonably incurred for the purpose of regulating the legal profession or improving the quality of legal services available to the people of the State of California. Non-chargeable expenses, as stated above, were funded by voluntary fees paid at the option of licensees. Determining which State Bar programs and activities are chargeable and non-chargeable requires that judgments be made by the State Bar.

a. *Chief Trial Counsel*

The Office of the Chief Trial Counsel receives, reviews, and analyzes incoming communications which relate to disciplinary inquiries and complaints against attorneys. It investigates allegations of unethical and unprofessional conduct against attorneys who may have violated provisions of the State Bar Act, Rules of Professional Conduct, or other standards of professional conduct. It prosecutes attorneys in formal disciplinary hearings in the State Bar Court for violations of the State Bar Act or Rules of Professional Conduct. Activities include, as appropriate, the preparation of formal disciplinary pleadings, conduct of formal and informal discovery, and representation of the State Bar as Trial Examiners in the actual hearings and subsequent review proceedings. (Bus. & Prof. Code §6043, 6044, 6049, 6077, 6078, 6092.5 et seq.)

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2022

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

b. *State Bar Court*

The State Bar Court adjudicates formal disciplinary matters resulting in the final imposition of discipline or, in certain instances involving suspension or disbarment, the recommendation of discipline to the California Supreme Court. (Bus. & Prof. Code §6086.5, 6086.65; Cal. Rules of Court, rules 9.13, 9.16, 9.18)

c. *Client Security Fund*

The Client Security Fund receives, evaluates, and processes applications made by persons who have suffered monetary losses due to dishonest conduct of lawyers, and authorizes recovery to eligible clients out of funds collected for this purpose. (Bus. & Prof. Code §6140.5.)

d. *Attorney Regulations and Consumer Resources*

The Office of Attorney Regulations and Consumer Resources maintains the Court's roll of attorneys admitted to the practice of law by the court. It also bills and collects fees, costs, and penalties imposed on licensed attorneys, including reimbursements to the Client Security Fund and disciplinary costs. It also keeps track of all licensees of the Bar, including any record of discipline, and answers inquiries from courts, other governmental agencies, other states, and the public.

e. *Professional Competence*

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

f. *Lawyer Assistance Program*

The Lawyer Assistance Program provides an alternative to the traditional State Bar disciplinary mechanism, with the goal of identifying and rehabilitating attorneys with impairment due to abuse of drugs or alcohol, or due to mental illness. The Office of the Lawyer Assistance Program adopts reasonable rules and regulations as may be necessary or advisable for the purpose of implementing and operating the Lawyer Assistance program. (Bus. & Prof. Code §6231.)

g. *Probation*

The Office of Probation ("OP") monitors disciplined attorneys who have been ordered to comply with probation or reproof conditions pursuant to orders issued by the California Supreme Court and/or the State Bar Court. The OP also monitors cases where conditions have been imposed pursuant to Business and Professions Code, section 6007(h). Once these orders or agreements become effective, the OP establishes its own case files to maintain a record of compliance or non-compliance for each attorney.

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2022

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

OP staff monitor participating attorneys' compliance. The monitoring requires OP staff to contact the attorney being monitored and third parties such as former clients, service providers, and other departments of the State Bar. OP staff provides timely information to the attorney, Office of Chief Trial Counsel, and State Bar Court regarding non-compliance and are available to testify regarding such under oath in court.

h. *Center on Access to Justice*

This program addresses the development of policy and initiatives in collaboration with other institutions working to expand access to justice for low-income Californians (e.g. Judicial Council; legal services entities; local, state and national organizations such as the American Bar Association and National Legal Aid and Defender Association).

Programs that affect the public's access to justice fall within the exclusive preserve of the judicial branch. (See Superior Court v. Mendocino, supra (1996) 13 Cal.4th at 66.)

i. *Communications*

The State Bar's Office of Communications and Stakeholder Engagement is responsible for ensuring that the general public and the legal community are informed about the State Bar's public protection role and know how to access the Bar's services and resources. The Office is tasked with conveying critical information to Californians about how to protect themselves from attorney misconduct and what to do if that happens, including by filing complaints against attorneys or seeking compensation for harm through the Client Security Fund. A major emphasis is on activities that reach the public in California to ensure they know how to access the resources of the State Bar's attorney discipline system, as well as to help attorneys understand their ethical obligations.

The Office of Communications and Stakeholder Engagement provides important updates for attorneys licensed in California regarding rules and ethics guiding the profession, as well as ongoing education to improve competence. This office provides information about how to find a lawyer and information about access to legal services for low-income Californians.

j. *Judicial Evaluation*

The Commission on Judicial Nominees Evaluation, established pursuant to Government Code section 12011.5, is the State Bar agency which evaluates all candidates who are under consideration for a judicial appointment by the Governor. The mission of the Commission is to assist the Governor in the judicial selection process and thereby to promote a California judiciary of quality and integrity by providing independent, comprehensive, accurate, and fair evaluations of candidates for judicial appointment and nomination.

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2022

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

As stated in *Hoffman v. State Bar of California* (2003) 113 Cal.App.4th 630, 635 (2003), the State Bar has the “constitutional responsibility, along with the Chief Justice of the Supreme Court and the houses of the Legislature, to appoint a specified number of licensees to the Judicial Council. (Cal. Const., art. VI, § 6.) Through the appropriate committee, the association is also required by statute to evaluate potential appointees for judicial office and report its recommendation to the Governor. (Gov.Code, § 12011.5, subds.(a), (c).) No candidate may be appointed until the State Bar has so reported, or the time for reporting has elapsed. (Id. at subd. (k).)” Having a strong judiciary evaluation system promotes public protection by helping ensure a fair legal system.

k. *Mandatory Fee Arbitration*

The Fee Arbitration Program (Business and Prof. Code § 6200 et seq.) provides for resolution of fee disputes between attorneys and clients. It is mandatory for the lawyer if the client requests arbitration. Most complaints come to the program independently of the Office of Trial Counsel's Intake Unit, and the availability of this service almost certainly prevents the filing of additional disciplinary complaints. Maintaining a program that decreases the number of additional complaints assists the disciplinary system in processing those cases that cannot otherwise be handled. Although it may be argued that the arbitration program is not necessarily an indispensable part of an attorney disciplinary process, the California Supreme Court has held it is a valuable and justifiable component of a comprehensive disciplinary system. (*In re Attorney Discipline System*, 19 Cal. 4th 582, 622 (199).)

1. *General Fund Allocated Support Service* – General and administrative expenses are incurred to provide staff and operational support to all programs and activities of the State Bar including, but not limited to: human resources; finance; licensee billing; information technology; procurement; building maintenance; general services; legal counsel; the formulation, implementation, and administration of policies through the Board of Trustees and the Office of the Executive Director. The “Indirect Costs/Overhead Allocation” is the share of the administrative costs that are charged to the restricted fund programs for the support provided, using the methodology of the State of California for apportioning and recouping administrative support cost provided by the State’s general fund to its special fund programs.

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2022

3. DESCRIPTION OF CHARGEABLE PROGRAMS (Continued)

The 2022 State Bar indirect cost allocation to chargeable programs is summarized below:

General Counsel	\$ 4,864,838
Finance	2,421,813
Member Billing	799,800
Human Resources	1,882,800
Recruitment & Retention	1,326,400
General Services - Los Angeles	5,309,944
General Services - San Francisco	6,172,170
Building	1,736,600
Information Technology	12,933,058
Governance	3,912,960
OPEB	<u>3,649,000</u>
Indirect Cost Pool	45,009,383
Less: Overhead Allocation Charged to Other Programs	<u>(10,665,192)</u>
Overhead Allocation to Chargeable Program	<u><u>\$ 34,344,191</u></u>

The amount of the Overhead Allocation to Chargeable Programs is included in the various Chargeable Program expenses on the Statement of Expenditures of Mandatory Fees.

- m. *Program Revenues* – Program revenues related to chargeable expenses from the General Fund, Building Fund, Client Security Fund, Lawyers Assistance Fund, and the Support and Administration Fund of the State Bar are held to fund the related program expenses. Other revenues include charges by the State Bar to the California Lawyers Association (CLA) for administrative and support services in the annual collect of member dues. Program revenues for 2022 are comprised of:

Law Corporation Registration Fees	\$ 1,764,913
Continuing Legal Education Fees	618,974
Seminar/Workshop Revenue	4,800
Other	<u>1,183,797</u>
Total	<u><u>\$ 3,572,484</u></u>

THE STATE BAR OF CALIFORNIA
Statement of Expenditures of Mandatory Fees (Continued)
Year Ended December 31, 2022

4. OPTIONAL DEDUCTIONS

The State Bar sets an amount that attorneys are not required to pay and may deduct from the annual licensing fees. These deductions were \$52 for active and inactive attorneys. This amount included \$5 fixed by the court for legislative, \$2 for elimination of bias and \$45 set by the court for the Legal Services Voluntary Assistance Option for both active and inactive attorneys.

These deductions are allowed for the following activities:

a. *Lobbying*

Attorneys who do not want to fund lobbying and other legislative activity may deduct \$5. (Bus. & Prof. Code §6140.05.)

b. *Elimination of Bias*

Attorneys who do not want to fund programs that address concerns of access and bias in the legal profession and the justice system may deduct \$2. (*Keller v. State Bar of California* (1990) 496 U.S. 1.)

c. *Legal Services Voluntary Assistance Option*

Attorneys who do not want to support nonprofit organizations that provide free legal services to persons of limited means may deduct \$45. (Bus. & Prof. Code §6140.03.)